

# **The Eroding Value of Workers Compensation Benefit Cap Levels**

**An updated report prepared for the  
Kansas Coalition for Workplace Safety**

**By**

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**September 8, 2008**

## The Declining Value of Workers Compensation Benefit Cap Levels

This report addresses the effect of price inflation on the purchasing power of Workers Compensation Benefits. Worker compensation benefits depend on factors such as the extent of a worker's wage level and the extent of his injuries. However, benefits are capped at fixed dollar amounts. Benefit caps are not adjusted on a regular basis. As each year goes by, the maximum allowable benefits go less and less far towards supporting an injured worker and her family.

In this report, we look at two possible methods of valuing maximum benefit caps. One approach looks at what could be purchased by a worker whose injuries and wages warrant compensation at one of the maximum benefit levels. How have price changes affected the purchasing power of a worker's payments? To complete this analysis, we examine several alternative price adjustment measures provided by the US Bureau of Labor Statistics (BLS)<sup>1</sup>. A second approach looks at wages; what would benefit caps look like today if they had grown by the same rate as Kansas average wages per employee?

### *Method 1: Purchasing Power Adjustment*

We all experience the impact of inflation in our daily lives. Inflation produces winners and losers; one couple may retire comfortably on the proceeds of a home that has risen in value. Another couple may drift into poverty as the purchasing power of a fixed pension erodes. Inflation hits hardest on those whose income or benefits are defined in fixed dollar terms that are not adjusted over time. People who depend on benefits that have been capped under Kansas Workers Compensation provisions are a good example of this hardest hit group.

### **How to measure changes in the value of a dollar**

When prices change, the purchasing power of a dollar changes accordingly. If people purchased only one good, say bread, measuring the purchasing power of a dollar would be easy: it simply would be the amount of bread that could be purchased with a dollar. But real people purchase an array of hundreds of goods and services. Furthermore, people purchase these goods and services in different proportions: for some people, gasoline is 20 percent of their weekly expenditures; for others it is only 5 percent. Hence there is no perfect measure of the value of a dollar or of the "cost of living."

However, the BLS calculates *approximations* of the cost of living, published as the often cited Consumer Price Index, or CPI. And in fact, there is not a single CPI, but rather several CPIs, each of which depends on the population group whose expenditure patterns are tracked.

Examples of price indexes include:

- all urban residents in the US (the most commonly used CPI)
- all urban wage earners and clerical workers in the US
- urban residents in the Midwest
- urban wage earners and clerical workers in the Midwest
- urban residents in the Kansas City Area (no other Kansas areas are included by BLS)
- urban wage earners and clerical workers in the Kansas City Area.

BLS price indexes are computed as the ratio between the weighted average of prices in the current time period to prices at some historical base time period (1982-1984 is used as the base for the CPI). By definition, the index is 100 in the base period. If the Consumer Price Index were 200 today, this would mean that prices on average had doubled since the base period. Inflation is calculated as the percentage change in a price index. Table 1 below shows several commonly used price indexes and the inflation that is computed from them.

**Table 1: Price Indexes and Inflation Rates**

Index Name	Index- July 1987	Index- July 1993	Index- July 2000	Index- July 2008	Inflation 1987- 2008	Inflation 1993- 2008	Inflation 2000- 2008
CPI-All Urban Consumers	113.8	144.4	172.8	220.0	93.3%	52.4%	27.3%
CPI-All Urban Consumers- Midwest	112.3	140.0	168.8	210.1	87.1%	50.1%	24.5%
CPI-All Urban Consumers- Kansas City	111.5	137.5	165.0	200.0	79.4%	45.5%	21.2%
CPI-Urban Wage Earners and Clerical Workers	112.7	142.1	169.4	216.3	91.9%	52.2%	27.7%
CPI-Urban Wage Earners and Clerical Workers-Midwest	110.4	137.2	165.1	206.0	86.6%	50.1%	24.8%
CPI-Urban Wage Earners and Clerical Workers-Kansas City	108.6	133.5	159.5	192.4	77.2%	44.1%	20.6%

Source: BLS. Calculations by PRI, University of Kansas

As can be seen in Table 1, all of the listed priced indexes follow the same general pattern. However, prices have risen less rapidly in Kansas City and in the Midwest than they have in the nation as a whole. Similarly, prices based on the expenditure patterns of wage earners and clerical workers have risen less rapidly than prices based on the expenditures of all urban consumers.

In the calculations that follow, we rely on the CPI for Kansas City wage earners and clerical workers. The definition of this group most closely matches the characteristics of those who may become eligible for Kansas Workers Compensation benefits. It would be straightforward to change our calculations to make use of a different index; however this would not change our overall conclusions.

### **Adjusting benefits for inflation**

Several workers compensation benefits are subject to a maximum capped level. Caps for total disability, partial disability, and temporary total disability have not been adjusted since 1987. The functional-only cap has been set at \$50,000 since 1993, and the death benefit cap has been set at its current level of \$250,000 since 2000.

As can be seen in Table 2 below, substantial increases in Workers Compensation benefit caps would be necessary to bring the purchasing power of the benefits back to what they were when the caps were established. To put this in human terms, a worker in 1987 could have heated his home for a month, purchased 5 pounds each of bananas and hamburger, brought home 5 half-gallons of ice cream, and filled his car twice--all for under \$100<sup>2</sup>. Today, the heating bill alone would be over \$160. Not all prices have risen as rapidly as those for natural gas and fuel, but averaged over all of the goods a typical worker buys, prices are more than 77 percent higher than they were in 1987.

**Table 2: Capped (Maximum) Benefits Adjusted for Inflation as of July, 2008**

Capped Benefit	Maximum Amount (\$)	Date Last Adjusted	Inflation Based on KC CPI	Adjusted Amount (\$)
Permanent Total Disability	125,000	July, 1987	77.2%	221,455
Permanent Partial Disability	100,000	July, 1987	77.2%	177,164
Temporary Total Disability	100,000	July, 1987	77.2%	177,164
Functional Only	50,000	July, 1993	44.1%	72,060
Death	250,000	July, 2000	20.6%	301,567

Source: BLS. Calculations by PRI, University of Kansas

### ***Method 2: Average Wage Adjustment***

So far, we have examined the effect of consumer price changes on the value of Workers Compensation benefits. This section takes an alternative approach, asking “what would benefit caps look like if they had kept pace with average *wage* changes?” It is true that the single biggest factor behind changes in the average wage is price changes, so the price and wage approaches will give somewhat similar results. However, wage changes also reflect such factors as changes in productivity within industries, shifts of workers across industries, and collective bargaining agreements.

Each year, the Kansas Department of Labor<sup>3</sup> computes a statewide average weekly wage. This statewide average is used to peg maximum weekly Workers Compensation benefits—at two-thirds of the Kansas average wage per worker. But while wage growth is reflected in the growth of maximum weekly benefits, it does not affect benefit caps. As wages rise and caps remain constant, this means that many injured workers will reach their benefit caps in fewer weeks.

Table 3 below shows the adjustments that would be necessary in order for benefit caps to keep pace with the growth of wages in Kansas. We find that adjustments based on wage growth would be somewhat higher than adjustments based on changes in the Kansas City CPI, reflecting that wages have outpaced inflation in Kansas.

**Table 3: Benefits Caps Compared with Growth of Kansas Average Wages as of July, 2008**

Capped Benefit	Maximum Amount (\$)	Date Last Adjusted	Growth in Kansas Av. Wage through 2008	Adjusted Amount (\$)
Permanent Total Disability	125,000	July, 1987	106.7%	258,324
Permanent Partial Disability	100,000	July, 1987	106.7%	206,659
Temporary Total Disability	100,000	July, 1987	106.7%	206,659
Functional Only	50,000	July, 1993	66.1%	83,030
Death	250,000	July, 2000	32.0%	283,250

Source: Wage data from Kansas Department of Labor (see endnote 3).  
Calculations by PRI, University of Kansas.

### **Summary**

We have examined the impact of fixed maximum benefit caps using two different methods. Under method 1, we used the CPI for wage earners and clerical workers for Kansas City to measure inflation. We found that benefits that were capped in 1987 would need to increase by about 77 percent to adjust for inflation; benefits that were capped in 1993 would need to increase by about 44 percent, and benefits capped in 2000 by about 21 percent.

Under method 2, we used data from the Kansas Department of Labor to measure changes in the average wage level. We estimated how much benefit caps would need to change in order to track wage growth. We found that benefits that were capped in 1987 would need to increase by about 107 percent to match wage growth; benefits that were capped in 1993 would need to increase by about 66 percent to match wage growth, and benefits capped in 2000 by about 32 percent.

The two methods differ somewhat in their exact dollar estimates. However, they both tell the same story—that maximum Workers Compensation benefits have eroded substantially over time.

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<sup>1</sup> Data for Consumer Price Indexes are published by the US Bureau of Labor Statistics and are available on the BLS Web site: <http://www.bls.gov/data/#prices> (09/08/2008).

<sup>2</sup> Data on prices for specific items are published by the US Bureau of Labor Statistics in its “Average Price Data” series. We used data for Kansas City where available and data for the Midwest Region otherwise. <http://www.bls.gov/data/#prices> (09/08/2008).

<sup>3</sup> Data on average wages are calculated by the Kansas Department of Labor. Historical data from 1993-2005 are published on the KDL website: [http://www.dol.ks.gov/WC/html/wccurrent\\_ALL.html](http://www.dol.ks.gov/WC/html/wccurrent_ALL.html) (02/08/2006). Additional historical data were received directly from KDL.