Connecticut's Hidden Job Costs:

Workers' Compensation and Unemployment Insurance

By Mark Gius, Ph.D.

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About the Author

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Letter from the Yankee Institute

Running a successful business in Connecticut is a challenge. The cost of doing business is high -- not just because of taxes -- but also because of factors like the price of energy, regulatory compliance costs, and labor laws.

This paper, written by Professor Mark Gius of Quinnipiac University, examines two other elements that make Connecticut a high-cost state: unemployment insurance and workers compensation insurance. Professor Gius offers historical context for why the programs exist, and compares Connecticut's systems to those of other states.

Regarding workers' compensation insurance, a 50-state survey of workers' compensation costs revealed that workers' compensation cost comparisons are difficult because of the differences between the risk profiles of various occupations. After accounting for those differences, however, Connecticut has the second-highest workers' compensation costs in the nation.

Another cost of doing business in the state is unemployment insurance, which is collected via a (largely regressive) tax levied on employers and workers. A 50-state comparison of state unemployment insurance regimes found that Connecticut's annual cost per covered employee was the 7th highest in the nation. What this paper makes clear -- measured through variety of metrics -- is that Connecticut's regulatory and legislative system routinely imposes higher than average costs on businesses operating within the state's borders.

Connecticut is struggling to add jobs. It has experienced the slowest job growth in the nation over the past 25 years. Examining the policy reasons for unwelcome fact should suggest solutions. The information and context provided by Professor Gius in this study serves as an important frame of reference for continuing discussions and necessary reform on the topic.

Introduction

The cost of hiring an employee is not limited to wages and benefits. Among other non-wage costs, employers in most states must purchase workers' compensation insurance and pay taxes into an unemployment insurance program. Both are meant to provide income protection to employees who are injured on the job or who lose employment through no fault of their own. Although these types of income protection are important to workers and their families, the costs of procuring these types of insurance may vary widely between states and can impose substantial financial burdens on employers, especially small businesses. The present study examines the impact of workers' compensation insurance and unemployment insurance on the employment cost structure of businesses in Connecticut.

Workers' Compensation Insurance

Workers' compensation insurance provides medical care and cash benefits for workers who are injured on the job, contract work-related illnesses, or die due to work-related injuries or illnesses. Before workers' compensation insurance was available, the only way an injured worker could be compensated for lost income or medical expenses was to file a tort lawsuit against the employer. Most employers used three common law defenses to avoid liability: the worker should have been aware of the hazard; the injury was caused by the negligence of a fellow worker; or the worker's own negligence contributed to the injury. Given these legal defenses, most lawsuits were unsuccessful. These types of lawsuits, however, created such discord between workers and employers that both parties wanted some type of reform, and both employers and workers in the early 20th century supported legislation creating workers' compensation insurance programs.

The first workers' compensation program in the United States was adopted in 1908 and covered federal employees. Most states enacted their own programs by 1920. Today, every state has its own workers' compensation program. There are separate programs that cover federal employees, harbor workers, and specific high-risk workers. With the exception of Texas, all states require private-sector employers to purchase workers' compensation insurance. Workers' compensation pays 100% of injury-related medical expenses and compensates workers for most of their lost wages. With a few exceptions, the cost of providing workers' compensation insurance is borne solely by employers. Employers purchase insurance from private insurers, from a state insurance fund, or they self-insure.

There are three broad types of workers' compensation cases: medical-only cases, temporary disability cases and permanent disability cases. Medical-only cases involve injuries or illnesses that are short-term in nature. Given that there are waiting periods for cash benefits, medical-only cases do not involve cash benefits because injured workers are only out of work for a limited period of time.

Temporary disability cases involve work-related injuries or illnesses that only affect the worker temporarily; most workers who receive this type of benefit fully recover and return to work. However, in these types of cases, workers receive some compensation for lost wages.

Finally, permanent disability cases involve workers who are permanently impaired. These types of workers typically cannot return to work. There are relatively few permanent disability cases, but these cases account for almost 60% of all cash benefits paid. Most states impose limits on the total dollar amount of permanent disability benefits.

Regarding workers' compensation in Connecticut, the following information was obtained from Workers Compensation: Benefits, Coverage, and Costs, 2013 which was prepared by the National Academy of Social Insurance (NASI). According to this report, 1.623 million workers in Connecticut were covered by workers' compensation insurance. Connecticut does not have a state insurance fund. Employers either purchase insurance from a private company, or they self-insure. In 2013, 75.5% of benefits were paid from private insurance; the remainder were paid from self-insured accounts. Overall, $950 million in benefits were paid in 2013, 45.3% of which were medical benefits. Benefits paid per $100 of covered wages equaled 94 cents or less than 1%. This ratio cannot be compared across states for two reasons: wage rates vary widely, and some states have a riskier set of occupations than other states.

Regarding the cost of workers' compensation insurance, in Connecticut, the average employer cost for insurance per $100 of covered wages is $1.24. Once again, the average cost of insurance cannot be compared across states. Any meaningful comparison must take account of the varying types and riskiness of occupations in each state. Although the NASI report does not control for occupation type, another study does. The Oregon Workers' Compensation Premium Rate Ranking Survey takes into account state-level occupational classifications. In the latest survey (2014), Connecticut was ranked second in the nation in employer costs. Connecticut had an index rate of 2.87. In comparison, North Dakota (ranked 51st in the nation) had an index rate of 0.88. Connecticut's index rate is 155% of the median index rate. Hence, after accounting for differences in occupational classifications in the state labor force, the cost of workers' compensation insurance in Connecticut is 55% higher than the national median cost.

It must be noted, however, that individual employer costs may vary dramatically within a state and are based upon a variety of factors including the employer's experience rating, premium discounts, retrospective ratings, and dividends. Nonetheless, the cost of procuring workers' compensation insurance in Connecticut is much higher, on average, than the national average and should be of concern for those policymakers concerned about attracting and retaining businesses, especially small businesses, in Connecticut. Table 1 presents workers' compensation insurance benefit and cost data for all 50 states.

Table 1: Comparison of State-Level Workers' Compensation Benefits and Costs***

STATE	Benefits Paid per $100 of Covered Wages, 2013*	Employer Costs per $100 of Covered Wages, 2013*	Cost Index Rate, 2014	Cost Index as Percent of Median, 2014**
Alabama	$0.90	$1.15	1.81	97%
Alaska	$1.60	$2.58	2.68	145%
Arizona	$0.68	$0.99	1.60	86%
Arkansas	$0.49	$0.84	1.08	58%
California	$1.41	$1.95	3.48	188%
Colorado	$0.75	$1.03	1.50	81%
Connecticut	$0.94	$1.24	2.84	155%
Delaware	$1.14	$1.39	2.31	125%
Florida	$1.05	$1.41	1.82	98%
Georgia	$0.93	$1.25	1.75	95%
Hawaii	$1.05	$1.48	1.85	100%
Idaho	$1.12	$1.66	2.01	109%
Illinois	$1.00	$1.42	2.35	127%
Indiana	$0.58	$0.91	1.06	57%
Iowa	$1.12	$1.70	1.88	101%
Kansas	$0.72	$1.25	1.55	83%
Kentucky	$0.99	$1.20	1.51	82%
Louisiana	$1.07	$1.59	2.23	120%
Maine	$1.13	$1.42	2.15	116%
Maryland	$0.76	$1.12	1.64	88%
Massachusetts	$0.53	$0.74	1.17	63%
Michigan	$0.64	$1.00	1.68	91%
Minnesota	$0.81	$1.05	1.99	107%
Mississippi	$0.91	$1.39	1.59	85%
Missouri	$0.83	$1.16	1.98	107%
Montana	$1.59	$2.24	2.21	119%
Nebraska	$0.85	$1.37	1.78	96%
Nevada	$0.72	$1.00	1.26	68%

Table 1 (continued): Comparison of State-Level Workers' Compensation Benefits and Costs***

State	Benefits Paid per $100 of Covered Wages, 2013*	Employer Costs per $100 of Covered Wages, 2013*	Cost Index Rate, 2014	Cost Index as Percent of Median, 2014**
New Hampshire	$0.72	$1.22	2.18	118%
New Jersey	$1.00	$1.46	2.82	152%
New Mexico	$0.94	$1.44	1.99	108%
New York	$1.03	$1.50	2.75	148%
North Carolina	$0.97	$1.33	1.85	100%
North Dakota	$0.98	$1.81	0.88	47%
Ohio	$0.93	$1.00	1.74	94%
Oklahoma	$1.47	$2.24	2.55	137%
Oregon	$0.91	$1.18	1.37	74%
Pennsylvania	$1.11	$1.51	2.00	108%
Rhode Island	$0.77	$1.08	1.99	107%
South Carolina	$1.29	$1.83	2.00	108%
South Dakota	$0.66	$1.33	1.86	100%
Tennessee	$0.73	$1.16	1.95	105%
Texas	$0.40	$0.80	1.61	87%
Utah	$0.56	$0.94	1.31	71%
Vermont	$1.17	$1.90	2.33	125%
Virginia	$0.57	$0.81	1.17	63%
Washington	$1.57	$1.37	2.00	108%
West Virginia	$1.70	$1.73	1.37	74%
Wisconsin	$1.03	$1.72	1.92	104%
Wyoming	$1.58	$2.03	1.76	95%

Notes:
* These estimates of costs and benefits are not adjusted for state-level average wages or occupational classifications. They should not be used for interstate comparisons.
**A median value percentage of 100% indicates that the state's adjusted cost index is the median. The median is the middle value when all vales are arranged in ascending order. Median value percentages greater than 100% indicate that those states have cost indices greater than the median while median value percentages less than 100% indicate that those states have cost indices less than the median.
*** Data obtained from *Workers' Compensation: Benefits, Coverage, and Costs, 2013*, August 2015, National Academy of Social Insurance and the *Oregon Workers' Compensation Premium Rate Ranking Survey, 2014.*

Unemployment Insurance

Another social insurance program for workers is unemployment insurance. Unlike workers' compensation, however, unemployment insurance is not obtained through private insurers. Instead, taxes are collected from employers in order to fund the program. The basic program is run by the states, but the U.S. Department of Labor oversees it. In most states, unemployment insurance provides up to 26 weeks of benefits, replacing about half of lost wages on average. The average unemployment benefit is about $300 per week. States pay for the benefits; the federal government pays for the administrative costs of the program. For those states that are experiencing sustained levels of high unemployment, the Extended Benefits program provides an additional 13-20 weeks of benefits. The federal and state governments split the cost of that program.

Although the primary purpose of unemployment insurance is to provide a financial safety net for those workers who lose their jobs due to economic downturns, there is a secondary role for this program. Since the total level of unemployment insurance benefits tends to increase during an economic recession, this program acts like an automatic stabilizer, increasing worker incomes and thus stimulating economic activity without any additional legislative activity required. However, it is important to note that these increased benefits must be financed through higher levels of taxation. Hence, it is unclear if the overall net effect of unemployment insurance on the economy in general is expansionary, especially in the long run.

To qualify for unemployment insurance benefits, a person must satisfy the following criteria:

1. Employee lost job through no fault of their own
2. Must be available for work and must actively be seeking work
3. Must have earned at least a certain amount during a base period.

State specific criteria vary considerably. States are only required to structure programs such that they conform to these general criteria. Interestingly, fewer than half of unemployed workers receive unemployment insurance.

As noted earlier, the unemployment insurance program is funded by taxes that employers pay on behalf of their employees. Economists generally agree, however, that even though the statutory incidence of the tax is on the employers, employees actually pay the tax in the form of lower wages. The only workers for whom this does not apply are those workers earning the minimum wage. State taxes finance regular unemployment insurance benefits; the federal tax finances the administration of the state unemployment insurance programs.

The state unemployment tax is not levied on the employer's entire payroll but rather on an initial dollar amount (taxable wage base) of each employee's earnings. The federally-mandated minimum taxable wage base is $7,000 per employee. This minimum taxable wage base has not changed since 1983. States may have higher taxable wage bases. The median wage base is $12,000. Given this cap on taxable earnings, the unemployment insurance tax is regressive.

Regarding the tax rate applied to this taxable wage base, the tax rate varies by state and by employer. Employer's individual tax rates are based on the employer's history of laying off workers who then receive unemployment insurance benefits (experience rating). Employers with higher layoff rates pay higher tax rates. On average, however, the unemployment insurance tax rate at the state level was less than 1% of total wages paid in 2012, which translates into $489 per worker.

The federal unemployment insurance tax is not based on the employer's experience rating. Instead, the federal tax is 0.6% of the first $7,000 of each employees' earnings. For the vast majority of workers, the federal unemployment insurance tax is $42 per worker per year. Hence, on average, employers pay $531 per worker per year for unemployment insurance. As noted earlier, this tax is extremely regressive.

Table 2 presents state-level data on the funding of the unemployment insurance program. It is important to note that, similar to workers' compensation, there is not just one tax rate for unemployment compensation. Each employer has their own experience rating that affects the tax rate levied on the employer, based on factors such as previous claims. Interestingly, the Connecticut system can be stricter on new businesses, which often suffer an unfavorable rating despite not having claims on record. The data presented here does not consider individual employer experience ratings.

In comparing Connecticut unemployment insurance taxes to other states, several factors must be noted. First, Connecticut's wage base is $15,000, and its statutory tax rate varies from 1.9% to 6.8%. As can be seen from the data presented on Table 2, several states have much higher wages bases and much higher tax rates, especially statutory maximum tax rates. Washington State has the highest wage base ($42,100), and Wisconsin has the highest maximum statutory tax rate (12%). Second, regarding the average cost per covered employee, Connecticut's average cost ($609) is not the highest in the country; Rhode Island has the highest average cost ($714). Connecticut's average cost is 7th highest in the U.S. Finally, in looking at the cost per $100 of wages paid, Connecticut's cost is $0.91 per $100 of wages paid. Twelve states have per wage costs higher than Connecticut. Oregon has the highest per wage cost ($2.50). Hence, by any of the four metrics examined in this study, Connecticut's unemployment insurance tax is above average but is not the highest in the nation. Once again, individual employer unemployment insurance tax burden may vary dramatically. Nonetheless, Connecticut's unemployment insurance cost is above average.

From a public policy perspective, it is also worth noting that the overall health of the system is as much a concern as relative tax rates. An insolvent system leads to surcharges and federal penalties on employers, from which Connecticut already suffers. The question of solvency and governance should be addressed more thoroughly in the future, as the need to raise revenue through rate increases may potentially be alleviated through benefit reforms. Such reforms may include reducing the number of claimants or increasing the minimum earnings threshold, but regardless, further study is warranted.

Table 2: Comparison of State Unemployment Insurance Employer Costs* 2015

STATE	Taxable Wage Base	Statutory Tax Rate (min./max.)	Average Cost per Covered Employee	Cost per $100 of Wages Paid
Alabama	$8,000	0.95% / 7.1%	$193	$0.45
Alaska	$38,700	1% / 5.4%	$685	$1.62
Arizona	$7,000	0.03% / 7.79%	$207	$0.44
Arkansas	$12,000	0.9% / 6.8%	$354	$0.89
California	$7,000	1.5% / 6.2%	$443	$0.73
Colorado	$11,800	0.62% / 8.15%	$323	$0.59
Connecticut	$15,000	1.9% / 6.8%	$609	$0.91
Delaware	$18,500	0.30% / 8.2%	$386	$0.64
Florida	$7,000	0.24% / 5.4%	$190	$0.42
Georgia	$9,500	0.02% / 5.4%	$238	$0.48
Hawaii	$40,900	0.40% / 5.8%	$385	$0.90
Idaho	$36,000	0.45% / 5.4%	$315	$0.83
Illinois	$12,960	0.55% / 8.15%	$476	$0.85
Indiana	$9,500	0.51% / 7.54%	$276	$0.64
Iowa	$27,300	0% / 7.5%	$292	$0.68
Kansas	$12,000	0.07% / 7.4%	$365	$0.84
Kentucky	$9,900	1% / 10%	$361	$0.85
Louisiana	$7,700	0.10% / 6.2%	$155	$0.33
Maine	$12,000	0.74% / 6.86%	$328	$0.84
Maryland	$8,500	0.6% / 9%	$298	$0.55
Massachusetts	$15,000	0.73% / 11.13%	$491	$0.73
Michigan	$9,500	0.06% / 10.3%	$428	$0.87
Minnesota	$30,000	0.20% / 9.10%	$379	$0.70
Mississippi	$14,000	0.36% / 5.56%	$151	$0.42
Missouri	$13,000	0% / 9.75%	$274	$0.61
Montana	$29,500	0.02% / 6.12%	$396	$1.03
Nebraska	$9,000	0% / 5.4%	$130	$0.31
Nevada	$27,800	0.25% / 5.4%	$491	$1.12

Table 2 (continued): Comparison of State Unemployment Insurance Employer Costs* 2015

STATE	Taxable Wage Base	Statutory Tax Rate (min./max.)	Average Cost per Covered Employee	Cost per $100 of Wages Paid
New Hampshire	$14,000	0.05% / 6%	$151	$0.29
New Jersey	$32,000	1.2% / 7%	$709	$1.15
New Mexico	$23,400	0.33% / 6.4%	$522	$1.29
New York	$10,500	1.5% / 8.9%	$516	$0.73
North Carolina	$21,700	0.06% / 5.76%	$453	$0.01
North Dakota	$35,600	0.10% / 9.7%	$313	$0.58
Ohio	$9,000	0.3% / 8.6%	$269	$0.58
Oklahoma	$17,000	0.10% / 5.5%	$159	$1.13
Oregon	$35,700	1.5% / 5.4%	$696	$2.50
Pennsylvania	$9,000	2.8% / 10.89%	$627	$1.22
Rhode Island	$21,200	1.69% / 9.79%	$714	$1.48
South Carolina	$14,000	0.06% / 6.03%	$274	$0.67
South Dakota	$15,000	0% / 9.5%	$115	$0.30
Tennessee	$9,000	0.15% / 10%	$133	$0.29
Texas	$9,000	0.47% / 7.49%	$263	$0.47
Utah	$31,300	0.30% / 7.3%	$236	$0.54
Vermont	$16,400	1.3% / 8.4%	$637	$1.51
Virginia	$8,000	0.44% / 6.54%	$223	$0.42
Washington	$42,100	0.17% / 5.84%	$476	$0.85
West Virginia	$12,000	1.5% / 7.5%	$389	$0.97
Wisconsin	$14,000	0.27% / 12%	$466	$1.06
Wyoming	$24,700	0.27% / 10%	$339	$0.72

Notes:
*Data obtained from *Significant Measures of State Unemployment Insurance Tax Systems, 2015*, U.S. Department of Labor, Office of Unemployment Insurance, May 2016.

About Connecticut Can Work!

Connecticut Can Work! is a new initiative to develop and advance policies that will spur job creation and economic growth. Yankee Institute proposes reforms that will open up opportunity, allow employers to grow and ensure that those who succeed are welcome in our state.

CONNECTICUT CAN WORK!

The Yankee Institute for Public Policy

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