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Workers Compensation Experience Rating and the Incidence of Workplace Injuries

JONATHAN GRUBER

Key Findings and Policy Implications

This project report examines the effects of experience rating within the Workers Compensation (WC) program. The project uses data from a major WC insurer to model the impact of experience rating on firm behavior.

- The primary approaches presented in the report are based on a "forward-looking" model of firm behavior which assumes firms have a sufficient understanding of experience rating and the EMOD formula. The hypothesis tested was that firms for which the marginal impact of a claim was higher would adjust their practices in order to reduce claim frequency or severity, thereby preventing a potential increase to their insurance premiums.

- The results were inconclusive. Observed estimates were highly sensitive to controls and sample composition, and data limitations hindered the "forward-looking" analytic strategies. Ultimately, the assumptions necessary to test the hypothesis are suspect and the highly sensitive results fail to provide any conclusive evidence on how the marginal impact of a WC claim affects claim frequency or severity.

The aim in studying experience rating in the Workers Compensation program was to provide insights into the potential impact of employer incentives in reducing DI applications.

JONATHAN GRUBER is Ford Professor of Economics at MIT, Director of the NBER's Program on Health Care, and an NBER Research Associate.

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