

The return to work of injured workers: evidence from matched unemployment insurance and workers' compensation data

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Abstract

This study represents the first analysis of the return to work of an entire population of workers with job-related injuries. Duration estimates indicate that returning to the pre-injury employer is one of the main determinants of the speed of return to work. The worker's pre-injury employment history also plays a large role, while the elasticities of the economic incentives vary across injury lengths and model specifications. The length of time off work is an important determinant of the probability of being employed 1 year after the first return to work. Results do not differ by gender.

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1. Introduction²

In 1996, firms in the United States reported 6.2 million workplace injuries and illnesses, of which 2.8 million involved restricted work activity or at least 1 day lost from work

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² The original data used in this paper were provided by the Wisconsin Department of Workforce Development, Worker's Compensation Division and by the Wisconsin Unemployment Compensation Division. Unidentifiable records and STATA and LIMDEP programs are available from the authors.

(Bureau of Labor Statistics, 1997). Leigh et al. (1997) estimate the costs of these conditions to have been US\$171 billion in 1992.

For injured workers and their employers, the duration of time until return to work has important consequences. If return is delayed, workers can lose more than current earnings: skills and work habits depreciate when people are off work a long time, leading to a decline in future productivity and earnings. Long spells off work also can induce employers to find replacements to maintain continuity of production. In addition, they can stigmatize injured workers, making them less successful applicants for future jobs. For employers, early return to work is of value because they typically pay for long spells off work either directly (if self-insured) or with higher insurance premiums. Employers may also pay substantial adjustment costs to maintain activities in which the injured workers were employed.

This study differs from previous analyses of the factors leading to the return to work of injured workers in several ways. First, it examines an entire population of injured workers (all workers who suffered a lost-time injury in Wisconsin during 1989 or 1990), while previous research has been limited mainly to groups of workers who suffered specific injuries or received only specific types of workers' compensation benefits.³ Second, it makes use of data on the earnings histories of injured workers, permitting us to develop a better measure of the date of return to work. Third, it represents the first study that explores whether the use of after-tax (instead of pre-tax) earnings may change the magnitude of income replacement as an incentive to return to work. Fourth, it uses an instrumental-variables approach to derive a measure of post-injury wage offers, rather than assuming that pre-injury earnings adequately measure them. Finally, up to now, virtually, no research has been conducted to detect gender differences in the factors shaping return to work. Given the evidence (Kelsh and Sahl, 1996), documenting that women face a substantial risk of work related injury—partially as a consequence of their entrance into traditionally male jobs—this study aims to fill this gap in knowledge by developing an analysis by gender.

2. Literature review

The first important studies looking at the effect of illnesses or injuries on labor force participation were based on data concerning British workers (Fenn, 1981; Fenn and Vlachonikolis, 1986). Butler and Worrall (1985) published the first analysis of the effect of workers' compensation benefit levels on the duration of temporary disability benefit payments to injured workers. Since then, a handful of studies have further explored this issue. In this literature, some results are consistent across studies and serve as a useful reference point for our analysis.

The effects of changes in the level of benefits have traditionally been a focus of interest of economists. Research shows that an increase in the workers' compensation benefit level or in the replacement rate (measured by the ratio of weekly temporary

³ The only exception is the study by Cheadle et al. (1994) where the authors study a random sample of workers' compensation claims from Washington State.

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