

cent, stock insurers have steadily increased their proportion of the business

Self-insurers

In all jurisdictions (except Nevada, North Dakota, Puerto Rico, Texas, the Virgin Islands, and Wyoming), employers are permitted under certain conditions to self-insure workmen's compensation. Although most jurisdictions reported 200 or fewer self-insurers, self-insured employers in 1970 paid 14.1 percent of the workmen's compensation benefits.

Self-insurance is becoming popular among those who qualify. In 1960 self-insurers paid only 12.4 percent of the benefits. Most states report an increase also in the number of self-insurers. Possible explanations are increasing cost consciousness, sales activities of agencies who seek to manage self-insurance programs, and the business merger movement which increases the size of firms and their ability to self-insure.

Self-insurance is attractive primarily because it may be less costly than insurance. An insurance premium is designed to pay the losses and expenses of the insurer and provide a margin for profit or contingencies. The self-insurer hopes to save money on the loss or the expense and profit components of the premium.

The loss component equals the average loss the insurer expects the employer and others like him to experience. If the employer is so much better than the average employer in his class that his expected loss may be less, he would save money by self-insuring. In the short run, however, the loss experience may differ substantially from the expected loss. Indeed the loss in a single year might be catastrophic. The larger the number of employees, the less the risk of fluctuation in annual losses. For most employers, the risk is such that self-insurance is out of the question. For others, the comparison between actual and expected loss is an important consideration.

By self-insuring, the employer can save that part of the premium charged to cover selling expenses, some general administration expenses, and profits. There may also be savings on loss prevention and loss adjustment services even though these services must still be performed.

Other considerations include the relative quality of the safety and claims services provided by insurers, by management service organizations, and by employers themselves, by tax factors, and by the opportunity cost of paying an insurer a premium instead of paying losses and expenses as they occur.

Cost Levels and Allocation

Workmen's compensation costs and other costs of industrial accidents impose a burden on industry, workers, and society generally. The magnitude of these costs and their distribution have important economic implications and pose several critical issues of policy.

Cost levels

Workmen's compensation in 1970 cost employers almost \$5 billion or more than \$1.13 per \$100 of payroll. These costs include the premiums paid to private insurers on state funds and the benefits and administrative costs paid by self-insurers. Other employer costs of industrial accidents or the losses to employees not covered by workmen's compensation are not available.

Variation over time. Costs per \$100 of payroll were less in 1970 than in 1940, but have increased since the late fifties. The 1970 dollar costs were 11.6 times the 1940 costs, 4.8 times the 1950 costs, and 2.4 times the 1960 costs.

Variation among industries. In its 1969 sample survey of employee benefits, the Chamber of Commerce of the United States found that workmen's compensation costs were 0.9 percent of gross payroll. In manufacturing industries the costs were 1.2 percent, in non-manufacturing industries 0.5 percent. These rates ranged from 0.1 percent for insurance companies to 1.8 percent for primary metal industries.

A 1970 sample survey by the Bureau of Labor Statistics found workmen's compensation costs equal to 0.9 percent of gross payroll plus employer payments for legally required insurance programs and employee benefit plans. In manufacturing, compensation costs were 0.8 percent, in nonmanufacturing, 0.9 percent. The percentage for office workers