A STUDY OF INDUSTRIAL WAGE REPLACEMENT POLICIES FOR TIME NOT WORKED BY HOURLY EMPLOYEES DUE TO ACCIDENT OR ILLNESS

A THESIS SUBMITTED TO THE FACULTY OF THE DIVISION OF BUSINESS AND ECONOMICS IN CANDIDACY FOR THE DEGREE OF MASTER OF SCIENCE BUSINESS ADMINISTRATION

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APPROVED by thesis committee

major adviser
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CHAPTER I

INTRODUCTION

The Problem

Formal and widespread commitment by employers to some replacement of wages lost by employees due to sickness or accident dates back to 1908 and the first Workmen’s Compensation legislation. "In many respects workmen’s compensation bears the scars of the fact that it was a pioneer social insurance program."

The public attitude toward social security legislation was different then than it is now. Provisioning of the laws with the prerogative of the employers to choose method of financing programs stemmed from the early desire to proceed with caution and to hedge the program with various safeguards designed to secure public acceptance and to curb misgivings on the part of employers. Program financing alternatives were and are (1) State Fund, (2) private carrier, and (3) self-insurance.

Workers’ desire for more economic security than was required by law, and recognition by the employer of the desirability to satisfy this need tended to move many employers toward the private carrier

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method of financing workmen's compensation and the temporary disability insurance programs. Many employers who carry insurance through state funds have supplemented with other wage replacement programs. Thus, there has developed a widespread variance in methodology, terminology and extent of security provided. Misunderstanding, confusion, and ignorance of how much industry has exceeded minimal requirements has logically followed. Discussions with employers, representatives of the Merchants and Manufacturers Association in Los Angeles, and the professoriate, all bear out this fact.

**Hypothesis**

Industry in Southern California, as exemplified by selected firms, has exceeded minimum legal requirements to a major extent in providing hourly employees with pay for time not worked due to accident or illness.

**Definitions**

*Legal Requirements:* The State of California requirements on Workmen's Compensation and Unemployment Compensation Disability Benefits as prescribed in the State of California Labor Code and the State of California Unemployment Insurance Code respectively. Both publications are dated September 18, 1959 and reflect the law and statutes effective as of the date of publications.

*Major Extent:* Benefits costing three times those required as legal minimums.
Pay: Dollar remuneration in total or a percentage of compensation normally received for services rendered, but not performed.

Hourly Employees: Non-exempt employees as defined by the Fair Labor Standards Act (Federal Wage-Hour Law) and the Walsh-Healy Public Contracts Act.

Importance of the Study

Role of the State.—The role of the State as leader in obtaining pay for workers for time not worked due to accident or illness appears to be the dominant force. Most of the books, articles and research papers available on the subject discuss the various states or a specific state as the primary focal point. It should be noted, however, that almost all of the publications are published and financed by a governmental agency. Educational institutions, Chamber of Commerce of the United States, Merchants and Manufacturers Association, National Industrial Conference Board, various labor organization journals such as the AFL-CIO "Collective Bargaining Report", and others, treat the subject only generally under the title of fringe benefits. Since most of the published information specifically written about the subject of this paper is published by governmental agencies, it could be considered natural that they would be preoccupied with the governmental systems operative in the area. The one notable exception is the United States Department of Labor Bulletin 212\(^2\) which recommends standards for work-connected

disability with the assistance of the American College of Surgeons, American Medical Association, International Association of Industrial Accident Boards and Commissions, Council of State Governments, and others.

The role of the State as the dominant force in terms of cost to the employer is no longer true. This is a common myth held by many employers. The widespread existence of this myth becomes apparent when the State Legislature increases benefits under one of the two basic wage replacement laws.3 Employers tend to resist increased benefits for many reasons, the main one being increased cost to them with the resulting adverse effect on their ability to operate a healthy enterprise. Actually, the cost of Workmen's Compensation to California industry, as a percentage of payroll, is substantially the same today as it was 40 years ago.4

The cost to employers for benefits that replace employees' lost wages have increased over the last 40 years. The basic hypothesis of this paper is that the increase has been threefold. State laws which once caused the dominant cost of this type of employee benefit now account for only approximately one-fourth of the total package. However, State guaranteed benefits should still be considered the base because:

3California, Labor Code, (Sacramento: Documents Section, Printing Division; 1961) and California, Unemployment Insurance Code, (Sacramento: Documents Section, Printing Division, 1961).

A substantial portion of the work force is covered primarily by these benefits with few supplements, (2) The benefits transcend the individual employer thus providing a more secure base for the employee, (3) They also provide society a satisfactory method of fulfilling its felt responsibility for the economic and social consequences resulting from work-connected injuries and disabilities.

The statement of a company executive that "Fringe benefits have become an accepted part of the cost of doing business" is indicative of the significance that benefit programs have assumed in recent years. The benefit plans that a company may adopt soon represent a fairly fixed portion of labor cost, yet "there is evidence that the benefit plans are growing more rapidly than the understanding of these plans by employers, employees, and the public".

If, as suggested, the role of the State is mythical, then attention must be focused on; what are these other benefits? what do they cost? what are the forces that tend to create them? what controls can be developed by the individual business enterprise to maximize benefits to the employee per unit of cost to the employer?

Fringe Benefit Trend.—The number and cost of employee benefit plans

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are growing rapidly. Fringe benefit growth, during recent years, has substantially improved employee well-being, and has also increased the cost of doing business. The Chamber of Commerce of the United States conducts a biennial survey on fringe benefits. In 1961, out of the 1120 reporting companies, 91 had participated in the survey regularly since 1947. These 91 companies reported fringe benefits amounting to 14.7 percent of payroll in 1947 and 26.4 percent in 1961.

The following is a summary of the generally accepted forces that have increased wage replacement benefits.

1. Two World Wars causing labor scarcity and general competition in the labor market.

2. Unions—The National Labor Relations Board ruled in 1949 that employers must bargain with unions on fringe benefits.

3. Tax laws allowing fringe benefit cost to be an immediately deductible item for the employer and permitting generally favorable treatment for the employee (sick pay deductions, no tax on insurance premiums, etc.).

4. Urbanization—severed family ties result in increased desire for security.

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7 Ibid.


Higher average age of work force increases pressure on the employer to stabilize wages.

Productivity gains resulting in money being available for benefits.

The fringe benefit trend does not indicate any reversal, and since the forces that have caused this trend are still active, it can be assumed that benefits to replace wages lost as a result of sickness or accident will continue to rise. The Chamber of Commerce report indicates the general upward trend is acting in this area of fringe benefits as in others. Interviews of personnel of selected firms frequently indicated recently established benefits, recent increases in existing benefits or current consideration of new benefits in the area of replacement of lost wages.

Personnel Research.—Cecil Goode, in his book titled "Personnel Research Frontiers", discusses the need for research activity in the area of fringe benefits. He defines personnel research as a "systematic study of problems for the purpose of extending knowledge which will lead to improved practices or confirmation of existing practices or hypothesis". Economists and employers should develop better understanding of fringe benefits since their average cost is over $1000 per employee per year.

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10 Chamber of Commerce, loc. cit.


12 Gray, loc. cit., p. 2.
Organization of Study and Report

In order to substantiate the hypothesis, it was necessary to examine sickness and accident wage replacement policies and programs of selected firms in Southern California.

The study confines itself to hourly employees and excludes various policies and programs for salaried office, clerical, supervisory and executive personnel, if these policies exclude the hourly non-exempt employee. The methodology of study and organization of the report divided into eight fairly distinctive phases as described in the following paragraphs.

1. The first phase was the development of a thorough understanding of the California State requirements which are the Workmen's Compensation portion of the California Labor Code and the Disability Compensation portion of the California Unemployment Insurance Code. Major considerations include benefit provisions, methods of financing, premium computations and disbursement of benefits.

2. The next phase was determination and classification, at least temporarily, of all benefits likely to be encountered that replace wages lost owing to sickness or accident. Workmen's Compensation disability payments, Unemployment Disability Compensation, sick leave programs, early retirement for disability, accidental death and dismemberment provisions within a group insurance plan,
and salary continuation plans are considered under the purview of the study. Other programs, such as life insurance, holiday pay, vacations, travel time, jury pay, severance pay and year-end bonuses were not considered as pay for time not worked due to sickness or accident.

3. A survey form was prepared to classify and record data collected during interviews with personnel at selected firms. The form would facilitate collating and condensing data for analysis. It was felt this approach would reduce spurious information to a minimum, and maximize both the quality and usefulness of the data collected. This type of survey approach was considered feasible since only 15 to 20 firms would be included. See Appendix "A" for survey form.

4. Before the survey form was considered satisfactory, it was tested on a firm picked at random from a list of potential firms to be surveyed. Needless to say, certain cogent revisions were made before the form was considered firm and ready for use in recording primary source data.

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For a monograph on preparing a fringe benefit survey form, see Michael T. Wermel and Geraldine M. Beideman, How to Determine the Total Cost of Your Employee Benefit Programs, Benefits and Insurance Research Center Publication Number 12, Industrial Relations Section, California Institute of Technology, (Pasadena: March 1960).
5. A study of the various plans in operation among selected firms was conducted. The objective to secure survey breadth was accomplished by obtaining data from firms in at least 6 different industrial groups. Data was collected from the following number of firms/industrial group: 2 Petroleum, 1 Banking, 1 Auto Manufacturer, 2 Utility, 1 Aerospace, 3 Electronic, 2 Insurance, 1 Steel, 2 Manufacturing and 1 Transportation.

6. The next phase was an evaluation to determine if the data and information collected to date could test the hypothesis. Summation of this phase included resolving some of the following questions and problems: Has sufficient information been attained? Reducing practices and terminology to as common a denominator as possible. Attaining additional information from selected firms and other sources as deemed necessary. Handling of the Administrative costs of fringe benefits. Treatment of costs when a firm self-insures Workmen's Compensation. That portion of the Workmen's Compensation premium germane to the study.

7. The various wage replacement benefits were reduced to cost per $100 of payroll. This denominator was selected because Workmen's Compensation premiums are computed on this basis, the prime State requirement affecting the employer. Benefits were divided into two categories,
those required by the state and those not required by the
state. Various statistics were tabulated for application
of quantitative and qualitative analytical techniques.

8. The last phase can be called the conclusion. An attempt
was made to develop truisms, correlations, trends and
deductions, and to substantiate the hypothesis by a
comparison of costs to employers as indicated by findings
from the selected firms.

Limitations of the Study

The number of firms selected might be considered a limiting
factor. The breadth and diversity of the firms selected were considered
adequate; however, substantial sectors of the labor force are not
covered. Examples of these sectors are agriculture, retailing and
craft labor, such as carpenters, bricklayers and electricians.

Since the primary thread of continuity of the study is cost, it
is most important to state some limitations and impurities of this yard-
stick in a fringe benefit study.14

1. The majority of firms surveyed did not have readily
available cost data in the specific quantitative and
qualitative categories necessary for the survey. It must
be assumed that some interviewees estimated, weighted,
or extrapolated cost figures in certain areas. A serious

14For a more complete monograph, see Bruce Lowell Mikesell, "Determination of Employee Costs", (Unpublished Master's Thesis, Division of Business and Economics, San Fernando Valley State College, June 1960).
12

effort was made to reduce this probability; however, there is a limitation to the extent that the interviewer may question the interviewee as to the validity and source of cost data offered.

2. Comparability of cost data between selected firms is considered a serious limitation due to the lack of uniform method of cost collection and accounting treatment. Comparison of firms within a mature industrial group are much more comparable. This is due to the tendency to evolve common techniques through association contact and mobility of management.

3. Expenditures, even when estimated or computed accurately, are not an adequate guide or measure of the amount of value to the employee. The amount of expenditures necessary to finance a given benefit is not the same from company to company, nor the same for a given company from year to year.

4. The cost of a benefit can be accurately known in the aggregate for the given firm; but prohibitive accounting costs preclude information on individual employees.

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Average cost per employee is not an acceptable criteria for certain applications because of the varying cost of the same benefit for different employees. At least six factors affect the cost of certain employee benefit plans: salary, age, sex, length of service, number of dependents, and length of time benefit has been in effect. 17

Bias on the part of interviewees can result in misinterpretations as well as a tendency to overstate/understate the cost of the various benefits. The tendency to overstate or understate can be dependent on the intended impact or ultimate use by the compiler. The most notable potential bias observed was that encountered by the Workmen’s Compensation self-insurer. Self-insurance vs premium payment and private carrier vs State Workmen’s Compensation Fund was noted to be very controversial.

Source of Data

Most of the data collected for this thesis can be termed primary in nature. Primary data is that data compiled through the interview and questionnaire method, in contrast to data compiled by other individuals or agencies.

Assistance and numerous personal interviews were granted by the Merchants and Manufacturers’ Association of Los Angeles. The author interviewed various officers of the selected firms and assisted in the

17Gray, loc. cit., p. 3.
generation of data and information through an explanation of, and assistance in completing, the survey form.

Information was obtained from representatives of various organizations such as the State Workmen's Compensation Insurance Fund, the California Inspection Rating Bureau, and the Travelers Insurance Company.

Various secondary sources are listed in the Bibliography.
CHAPTER II

CALIFORNIA STATE REQUIREMENTS

The State of California has two laws in effect that provide hourly employees with pay for time not worked due to sickness or accident. One, Workmen's Compensation, covers work-connected or occupational disability. The other, Unemployment Compensation Disability Insurance, covers a worker for mental or physical illness that prevents him from performing his regular or customary work. Unemployment Compensation Disability Insurance is often referred to as nonoccupational insurance since almost all California workers are covered by Workmen's Compensation\(^1\) and because an individual is not eligible for Unemployment Compensation Disability Insurance benefits while receiving benefits under the Workmen's Compensation Law.\(^2\)

\(^1\)California, Labor Code, (Sacramento: Documents Section, Printing Division; 1961), Article 3700, p. 174. Also, the State Compensation Insurance Fund's unpublished pamphlet "What You Should Know About Workmen's Compensation Insurance," n.n., n.d., n.p., states the following: Who must insure: (a) if you are conducting a business and have even one part-time employee; (b) all farm employers are required to insure. Employers not required to insure: (a) a household domestic servant who is employed for 52 hours a week or less by the employer; (b) a part-time gardener in connection with a private dwelling, who is employed for 44 hours a month or less by the employer; (c) employees engaged in work that has nothing to do with the trade, business or occupation of the employer's and which is to be completed in ten working days or less and at a total labor cost of less than $100.

\(^2\)California, Unemployment Insurance Code, (Sacramento: Documents Section, Printing Division, 1961), Article 2629, p. 116.
This chapter will outline the benefits, methods of financing and premium computation of the two laws. Following the outline will be a general discussion of how the benefits of the two California laws compare with those of other states.

**Workmen's Compensation**

**Benefits**

Workmen's Compensation benefits are divided into five main categories: Medical, Temporary Disability, Permanent Partial Disability, Permanent Total Disability, and Death.

Medical.—The California law provides for unlimited medical care in broad terms. Medical, surgical, and hospital treatment, including nursing, medicines, medical and surgical supplies, crutches and apparatus which is reasonably required to cure or relieve the injury, is provided. Medical care also includes x-rays, laboratory fees, medical reports, necessary expense to prove a contested claim, and occupational diseases. Medical care is required not only for the relief from injury and occupational disease, but for rehabilitation in order to restore the earning capacity of the injured as rapidly and as completely as possible. An employer, or his insurer, has full responsibility for furnishing all essential medical treatment. Typically, a local doctor or clinic is

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designated to provide care for the employee and is immediately available for emergencies. Standard forms are completed by the doctor or clinic and are forwarded to the insurer for reimbursement. The employee is not involved in the payment transaction.

Temporary Disability.—A disabled employee is entitled to a weekly payment for the time he is off work because of the effects of a work-connected injury. No payment is made for the first seven calendar days of disability unless injury causes disability extending beyond the forty-ninth day. However, if the injury causes hospitalization, the payments begin with the date of hospitalization. No payment is ever made for the day of injury. Payments are made one week in advance, i.e., on the eighth day of disability from the eighth through the fourteenth day.

Temporary disability payments or indemnity is payable: (1) for the time required to recover from an injury, or (2) until a condition is reached by the employee where further improvement is not to be anticipated. After the employee's condition has reached either stage, further temporary indemnity is not received. This is true even though the employee has not actually returned to work. However, the employee may be entitled to permanent partial or permanent total disability payments. Payment of temporary indemnity is limited to a period of 260 weeks.

The amount of weekly indemnity is based upon the employee's earnings at the time of injury. The weekly benefit is computed by multi-
plying the employee's weekly wage by 61.75 percent. The daily indemnity is computed by dividing this figure by seven. The maximum weekly indemnity payable for injuries sustained between September 11, 1957 and September 18, 1961, is $65; after September 18, 1961 it is $70. The minimum weekly indemnity payable is $20 and $25, respectively.

Permanent Partial Disability.—The economic loss to the employee due to permanent partial disability is more complex to compensate for than any other degree of disability. Permanent partial disability takes two principal forms. One involves cases in which amputations occur, either at the time of injury or subsequently because of the injury. The second involves less specific injuries that are more variable in their effects on the ability to work. Examples of injuries in this category are serious fractures, partial paralysis, back sprains and some occupational diseases.

Permanent partial disability cases frequently contain a period in which total disability is experienced. This period is referred to as a healing period. Indemnity payments in California include both total disability indemnity during the healing period, and subsequent indemnity based on the extent of the loss of earning capacity. In order to eliminate subjectiveness in evaluating individual cases with resulting inconsistencies, and in order to establish an orderly method of administering this part of the Workmen's Compensation Law, California has a comprehen-

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6Ibid., p. 47.  
7Reed, loc. cit., p. 110.
sive schedule to determine the percentage of permanent partial dis ability. The percentage is determined as early as possible after the injury is incurred. In establishing and revising the schedule, the California Industrial Accident Commission accounts for the "nature of the physical injury or disfigurement, the occupation of the injured employee, and his age at the time of such injury, consideration being given to the diminished ability of such injured employee to compete in an open labor market." 8

Indemnity payments for permanent partial disability are governed by the following major rules.

1. Any temporary disability indemnity received by the employee is in addition to any permanent partial disability indemnity due per the schedule mentioned above.

2. Any permanent partial disability indemnity due per the schedule is paid to the employee regardless of the fact that the employee may be working again.

3. The amount of weekly indemnity, except as modified by 5 below, is based upon the employee's earnings at the time of injury. The weekly benefit is computed by multiplying the employee's weekly earnings by 61.75 percent. The maximum and minimum weekly indemnity payable for injuries sustained after September 18, 1959, is $52.50 and $20.00, respectively.

4. The duration of the weekly indemnity is computed as four weeks for each one percent of disability as determined by the Industrial Accident Commission schedule. The maximum duration for permanent partial disability, therefore, is 396 weeks.

5. An indemnity payment is paid for life for partial disability that exceeds 70 percent. This indemnity commences at the conclusion of the indemnity in 4 above. The amount of this indemnity is computed by multiplying 1.5 percent of the average weekly earnings times the percentage of disability in excess of 60 percent. Refer to Table 1 "Workmen's Compensation Permanent Disability Indemnity Periods."  

Permanent Total Disability.—Provisions in the Workmen's Compensation Law for permanent total disability are the same as described for permanent partial disability. The only difference is between 99 and 100 percent permanent disability. This represents a difference of only four weeks' compensation at 65% of average weekly statutory earnings and a 1.5 percent difference in average weekly statutory earnings for the life indemnity. (Refer Table 1)

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9Ibid., Article 4658, p. 203

10Ibid., Article 4453, p. 195. Statutory earnings are computed by multiplying .95 times average weekly earnings.
TABLE 1
WORKMEN'S COMPENSATION PERMANENT DISABILITY INDEMNITY PERIODS

<table>
<thead>
<tr>
<th>Percentage of Permanent Disability Incurred</th>
<th>No. of Weeks For Which 65 Percent of Average Weekly Statutory Earnings Allowed</th>
<th>Percentage of Average Weekly Statutory Earnings Allowed For Remainder of Life After Period For Which 65 Percent of Average Weekly Earnings Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>40</td>
<td>0</td>
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<tr>
<td>20</td>
<td>80</td>
<td>0</td>
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<td>45</td>
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<tr>
<td>100</td>
<td>400</td>
<td>60</td>
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</tbody>
</table>

Malingering, as in permanent partial disability, is not encouraged. The employee is encouraged to obtain gainful employment without its necessarily resulting in his loss of indemnity payments. Petitions for change in a permanent disability award are received by the Industrial Accident Commission; however, loss of both eyes or the sight thereof and the loss of both hands or the use thereof are "conclusively presumed to be total in character." 11

Death.—The incidence of the loss from death differs from that resulting from other types of injuries in that it bears upon dependents and continues only during dependency. 12 Logically, the indemnity paid for

11Ibid., Article 4662, p. 204
12Reed, loc. cit., p. 65.
occupational death should vary with the size of the family and relationship of dependents. California provides a distinction in the amount of indemnity between partial dependency, total dependency and a surviving widow with one or more dependent minor children.\(^{13}\)

Indemnity payments for death are governed by the following major rules.\(^{14}\)

1. Any accrued and unpaid compensation is paid to the deceased's dependents or heirs. Unpaid compensation includes remuneration due from the employer and indemnity due from Workmen's Compensation disability.

2. Any temporary or permanent disability indemnity received by the deceased employee is in addition to any death indemnity due, i.e., if the injury did not result in death immediately, but caused a period of disability before death, disability indemnity payments are paid in addition to the death benefit.

3. The time limitation for eligibility for death benefits is one year after injury, or 240 weeks if following continuous disability.

4. A burial expense not exceeding $600 is provided for "reasonable" expenses for the burial of the deceased.

\(^{13}\)California, Labor Code, loc. cit., Article 4702, p. 204.

\(^{14}\)Ibid., Article 4700-4708, pp. 204-206.
5. The amount of death benefit in the case of total dependency is $17,500. If there is more than one total dependency, the benefit is divided equally. The amount of death benefit in the case of a surviving widow and one or more dependent minor children, is $20,500. In cases of partial dependency, the death benefit is the sum equal to four times the amount annually devoted to the support of dependent by the deceased employee, not to exceed $15,000. In the case of a total dependent, such person receives the entire benefit, and any partial dependent receives no part thereof.

6. Death benefits are paid in installments in the same manner and amounts as temporary disability indemnity.

7. The death benefit and indemnity payments received therefrom are not reduced for the subsequent remarriage of the widow or the attainment of majority by minor children.

8. The death benefit is paid to total and partial dependents and is not available or paid in absence of dependents, to estate and/or heirs of the deceased. If a dependent beneficiary of a deceased employee dies and there is no surviving dependent, the death indemnity payments terminate and do not pass to the estate or heirs of the deceased dependent of the original deceased employee.

Financing

The California Workmen's Compensation Law is "compulsory", vis-a-
vis "elective". Under the compulsory law, every employer subject to it is required to comply with its provision. An elective law is one in which the employer has the option of either accepting or rejecting the act, but when he rejects the act, he loses the customary common law defenses—assumed risk of the employment, negligence of fellow servants, and contributory negligence.15

The California law is also classified as "competitive", vis-a-vis "exclusive". Under the competitive law, employers subject to it may choose whether they will insure with the State Fund or a private insurance company, or if qualified, may self-insure. An exclusive law is one in which the employer is required to insure his risks with the State Fund.16

A comparison of the business of the State Compensation Insurance Fund with that of all other private carriers in California, in terms of direct premiums written, shows that in the period between 1948 and 1958 it wrote an average of 26 percent.17 The only comparable data available for self-insurers is that during the period 1948-1955, 8.66 percent of the annual total compensation payments in California were dispursed by self-insurers.18

16Ibid., p. 10.
18Ibid.
In 1961 approximately 275 employers in California were self-insurers. Self-insurers feel they can assume their own liability on Workmen's Compensation to their financial advantage. "Self-insurance, in theory, operates at its best when an employer has so large a spread of risks that he is able to enjoy the benefit of the law of large numbers." 19

In California, a consent to self-insure must be obtained from the State Director of Industrial Relations. 20 The Director of Industrial Relations requires the self-insurer to deposit with the State Treasurer, a surety bond or securities in a specific amount, to insure payment of compensation liability on the part of the self-insurer. 21 The consent to self-insure may be revoked by the Director of Industrial Relations for good cause after a hearing such as solvency, duress of claimants, dishonesty, etc. 22 Self-insurers usually create a fund or a reserve to cover not only expected liability from experience, but to insure payment of incurred unpaid liabilities. They are not required or obligated "to pay into the State Compensation Insurance Fund any sums covering liability for compensation excepting life pensions". 23


21 *Ibid., Article 3701, p. 175.*

22 *Ibid., Article 3702, p. 175.*

23 *Ibid., Article 3703, p. 175.*
Premiums

Workmen's Compensation premiums to the individual employer are derived from the applicable occupational classification rate and the payroll remuneration of the insured employee(s). Classification rates are expressed in terms of and applied to each 100 dollars of total employee remuneration.

The Insurance Commissioner of the State of California is responsible to approve and issue the classification of risks and premium rates for all insurers. The Insurance Commissioner has licensed the California Inspection Rating Bureau to compile and publish the various rates.24

No insurance carrier, including the State Compensation Insurance Fund, may issue, renew or continue in force, a Workmen's Compensation insurance policy at premium rates which are less than the rates issued by the Bureau and approved by the Commissioner.25 To the individual employer the rates are not as rigid and as universally applicable as the statement implies. The final rate applicable to the individual employer is derived in the following manner.

1. The California Inspection Rating Bureau publishes rates based upon sworn reports of each workmen's compensation insurance carrier, including the State Compensation Insurance Fund, showing by work classification the payrolls


25 Ibid., p. 1
and cost of accidents of each insured employer, plus an expense allowance reasonable for all carriers. The rates are officially published by the Rating Bureau in their Manual of Rules, Classification and Basic Rates for Workmen's Compensation Insurance, and are commonly referred to as the "Manual Rates".

2. The manual rates are subject to modification under various merit rating plans as incentives to encourage accident prevention environs. One of these, applying to manufacturing plants, is titled the Schedule Rating Plan. If an employer has an annual payroll of at least $30,000 in a specific location and premium of at least $150 in that location in manufacturing, he is subject to schedule rating. The plan gives a rate credit if the equipment in the plant is guarded to establish safety standards and can result in an increased rate if it is not guarded to such standards. The plan also allows a rate credit to the employer who maintains a fully-equipped first-aid station with a registered nurse, a credit for the employer who conducts an approved safety organization, and a credit for employing a certified Safety Engineer.

26Ibid., p. 4.

27Ibid. Also see, California, Workmen's Compensation Industrial Rating Plans, (San Francisco: California, Inspection Rating Bureau, 1958, Rev. October 1, 1961), p. 9.
3. Another plan is Experience Rating. All employers developing an average annual premium of 500 dollars or more for three consecutive years or $1,500 dollars or more in one year are eligible for rating under the Experience Plan. The employer's premium rate is modified according to his own accident record in relation to the average for the industry. If he has kept his accidents below the industry average, he pays proportionately less. On the other hand, if his accident record has been above average, he pays proportionately more. The experience rate modification of each eligible employer is applied to the premium developed at Manual or Schedule rates. The California Inspection Rating Bureau publishes Rating Cards, by employer name, indicating the classification assignment(s), Schedule rate modifications and Experience modifications as applicable.

4. When an employer insures through a participating insurance carrier or the State Fund, he may receive a dividend. Dividends are usually distributed on a merit basis, thus rewarding those employers experiencing fewer accidents than other comparable employers insuring with the same carrier. During the period 1948 and 1958, the average dividend from the State Fund was 27 percent of total premiums written by the Fund. The average dividend from all other insurance

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28Risenfield, loc. cit., p. 658. Also, the percentage compares with the balance sheet published by the State Compensation Insurance
carriers was 8 percent of total premiums written by all private carriers.\textsuperscript{29}

Total remuneration, the basis of premium computation, is the amount at which services rendered are recompensed and includes the market value to the employee of board, rent, housing, fuel, lodging, store certificates, merchandise, credits, or any other substitute for money, bonuses, Christmas gifts, or other gifts to employees, commissions, dismissal pay, wages paid during holidays, vacations, sickness periods and extra pay for overtime except as described below. Remuneration does not include special reward for discovery or invention, employer contributions for group insurance, retirement or stock purchase plans.\textsuperscript{30}

Overtime remuneration is "that portion of the total remuneration which is derived from the application of an increase above and in addition to the regular rate of remuneration (or additional pay for hours not worked but allowed in lieu of such an increased rate) because of time worked on holidays, Saturdays or Sundays; or because of the number of hours worked in any one week or day beyond the standard for the industry."\textsuperscript{31} Overtime remuneration is not included in premium computations if the employer's books and records are maintained to a specified

\textsuperscript{29}Ibid., p. 659.

\textsuperscript{30}California, Manual of Rules, Classifications and Basic Rates for Workmen's Compensation Insurance, loc. cit., p. 3.

\textsuperscript{31}Ibid.
standard and clearly depict the one-half time of the time-and-a-half and the full time of double time. Overtime remuneration does not include extra pay for swing, graveyard, or working certain hours on the clock or incentive or bonus pay.

Unemployment Compensation Disability Insurance

Benefits

Unemployment Compensation Disability Insurance (U.C.D.I.) benefits are divided into two categories: Disability and Hospital.

Disability.—Disability indemnity is payable to an employee who is "unable to perform his regular or customary work"32 because of mental or physical illness, or because of mental or physical injury provided that his earnings were $300 or more during the base year.33 (Refer Table 2 for explanation of base year.)

Disability indemnity is not payable:

1. For disabilities arising out of or caused by pregnancy during the course of pregnancy and for 35 days after termination of pregnancy or for 28 days after termination of pregnancy if then hospitalized.34

2. For any period of time the employee is entitled to indemnity under Workmen's Compensation, except when the benefits are less than the disability benefit due, the difference is paid.35

33Ibid., Article 2652, p. 116. 34Ibid., Article 2626, p. 115.
3. For any period the employee is entitled to Unemployment Indemnity.\textsuperscript{36}

4. For disabilities which begin during a trade dispute, unless the disability (a) was caused by an accident, or required hospitalization disability, (b) was not caused by the trade dispute, and did not arise out of the trade dispute, and (c) would have occurred had there been no trade dispute.\textsuperscript{37}

5. For any period of confinement by court order or certification in a public or private institution as a dipsomaniac, drug addict or sexual psychopath; or whenever legal custody is the cause of unemployment.\textsuperscript{38}

The amount of the weekly indemnity is based on the employee's wages in the calendar quarter of the base year in which he or she earned the most. The total of the wages earned during the selected quarter is then projected as shown in Table 3 to determine the weekly indemnity.\textsuperscript{39} The base year is computed as shown in Table 2.\textsuperscript{40}

Indemnity payments are paid for each full day of disability beginning with the eighth day of disability, or the first day of hospital confinement, whichever occurs first. The maximum amount of indemnity payable is 26 times the weekly benefit amount. Disability payments

\textsuperscript{36}\textit{Ibid.}, Article 2628, p. 116. \textsuperscript{37}\textit{Ibid.}, Article 2677, p. 121.

\textsuperscript{38}\textit{Ibid.}, Article 2678, p. 121. \textsuperscript{39}\textit{Ibid.}, Article 2655, p. 117.

\textsuperscript{40}\textit{Ibid.}, Article 2610, p. 115.
are not affected by other disability and hospital insurance the employee may carry as an individual or as a group member.

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**Table 2**

**Unemployment Compensation Disability**

**Twelve-Month Base Period**

<table>
<thead>
<tr>
<th>If the claim begins in</th>
<th>The base period is the 12 months which ended the preceding</th>
</tr>
</thead>
<tbody>
<tr>
<td>February, March or April</td>
<td>September 30</td>
</tr>
<tr>
<td>May, June or July</td>
<td>December 31</td>
</tr>
<tr>
<td>August, September or October</td>
<td>March 31</td>
</tr>
<tr>
<td>November, December or January</td>
<td>June 30</td>
</tr>
</tbody>
</table>

*Note:* If an employee files a disability insurance claim within one year after filing an unemployment insurance claim, disability insurance payments will be computed from the same base period which was used for the unemployment insurance claim.

A partial week of disability is payable at the rate of 1/7th of the weekly benefit amount for each day of disability. Indemnity payments are payable to the employee when he is receiving less than his full wages while disabled. Indemnity payments and wages added together are limited to the employee's total weekly wage immediately prior to
<table>
<thead>
<tr>
<th>Amount of Wages in Highest Quarter</th>
<th>Weekly Benefit Amount</th>
<th>Amount of Wages in Highest Quarter</th>
<th>Weekly Benefit Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>$75-$149.99</td>
<td>$10</td>
<td>$950-$974.99</td>
<td>$43</td>
</tr>
<tr>
<td>150-174.99</td>
<td>11</td>
<td>975-$999.99</td>
<td>44</td>
</tr>
<tr>
<td>175-199.99</td>
<td>12</td>
<td>1000-1024.99</td>
<td>45</td>
</tr>
<tr>
<td>200-224.99</td>
<td>13</td>
<td>1025-1049.99</td>
<td>46</td>
</tr>
<tr>
<td>225-249.99</td>
<td>14</td>
<td>1050-1074.99</td>
<td>47</td>
</tr>
<tr>
<td>250-274.99</td>
<td>15</td>
<td>1075-1099.99</td>
<td>48</td>
</tr>
<tr>
<td>275-299.99</td>
<td>16</td>
<td>1100-1124.99</td>
<td>49</td>
</tr>
<tr>
<td>300-324.99</td>
<td>17</td>
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<td>325-349.99</td>
<td>18</td>
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<tr>
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<td>19</td>
<td>1175-1199.99</td>
<td>52</td>
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<tr>
<td>375-399.99</td>
<td>20</td>
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<td>400-424.99</td>
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<td>54</td>
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<tr>
<td>425-449.99</td>
<td>22</td>
<td>1250-1274.99</td>
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<td>450-474.99</td>
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<td>1475-1499.99</td>
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<td>675-699.99</td>
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<td>1500-1524.99</td>
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<td>700-724.99</td>
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<td>1525-1549.99</td>
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<td>725-749.99</td>
<td>34</td>
<td>1550-1574.99</td>
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</tr>
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<td>750-774.99</td>
<td>35</td>
<td>1575-1599.99</td>
<td>68</td>
</tr>
<tr>
<td>775-799.99</td>
<td>36</td>
<td>1600-1624.99</td>
<td>69</td>
</tr>
<tr>
<td>800-824.99</td>
<td>37</td>
<td>1625-1649.99</td>
<td>70</td>
</tr>
<tr>
<td>825-849.99</td>
<td>38</td>
<td>1650-1674.99</td>
<td>71</td>
</tr>
<tr>
<td>850-874.99</td>
<td>39</td>
<td>1675-1699.99</td>
<td>72</td>
</tr>
<tr>
<td>875-899.99</td>
<td>40</td>
<td>1700-1724.99</td>
<td>73</td>
</tr>
<tr>
<td>900-924.99</td>
<td>41</td>
<td>1725-1749.99</td>
<td>74</td>
</tr>
<tr>
<td>925-949.99</td>
<td>42</td>
<td>1750-and over</td>
<td>75</td>
</tr>
</tbody>
</table>
disability. The minimum amount of weekly indemnity is 10 dollars. The maximum for injuries incurred between the period of January 1, 1958 and December 31, 1961, was 65 dollars; January 1, 1962 and December 31, 1963, was 70 dollars; January 1, 1963 to the present is 75 dollars;

The California Legislature, in 1961, established a weekly maximum benefit amount factor. The Director of Employment determines the factor each year prior to November 30. The factor is two-thirds of the average weekly total wages paid to employees throughout the State who are covered by the law during the second calendar quarter of that year. The factor is rounded to the nearest dollar.

The factor becomes the maximum amount of weekly indemnity. For each additional one dollar beyond 75 dollars in the Weekly Benefit Amount column in Table 2, add a corresponding 25-dollar spread in the amount of wages in Highest Quarter column. Any adjustment in the factor becomes effective on the following January 1, and is effective for all disabilities commencing on or after that date. The factor may decrease as well as increase but "in no event shall the maximum weekly benefit amount be below seventy dollars ($70)."

Hospitalization.—During confinement in a hospital, an employee receives 12 dollars a day for each day of confinement not in excess of 20 days. The 12 dollars is paid regardless of the amount of disability indemnity paid or remuneration from the employer.
The only employees disqualified for this benefit are those disqualified for disability benefits under paragraph 5 of Benefits (see above or footnote #38) or when the employee is furnished or is compensated for hospitalization pursuant to the Workmen's Compensation Law.\(^{45}\)  

### Financing

The California Unemployment Insurance Code provides financing features characteristic of Workmen's Compensation, i.e., employer/employees may elect one of the following alternatives: (1) adopt the State Plan and forward employee contributions to the State Unemployment Compensation Disability Fund, (2) develop a Voluntary Plan and insure through a private insurance carrier, or (3) develop a Voluntary Plan and self-insure.\(^{46}\)

The State Unemployment Compensation Disability Fund is not at all like the State Compensation Insurance Fund for Workmen's Compensation. The latter is a non-profit corporation with no legal ties to the State government. The State Unemployment Compensation Disability Fund is a special fund within the State Treasury, although "separate and apart from all other public money or funds."\(^{47}\) The State Treasurer is the Treasurer of the Disability Fund. The State Fund is administered under

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\(^{45}\)Ibid., Article 2804, p. 130. 


\(^{47}\)California, Unemployment Insurance Code, loc. cit., Article 3001, p. 131.
the direction of the State Director of Employment and is used exclusively for the purpose of Unemployment Compensation Disability.\textsuperscript{48}

The State Legislature established the Unemployed Disabled Account effective January 1, 1962. The Unemployed Disabled Account is part of the Disability Fund and was established "for the purpose of keeping a record of the payments to, and the disbursements from, the Disability Fund with respect to the payment of benefits to persons whose employment has terminated or who are in noncovered employment at the time their period of disability commences."\textsuperscript{49}

The Unemployed Disabled Account is credited with 0.15 percent of the taxable wages paid to employees covered by the Disability Fund for the calendar year 1962, 0.13 percent for 1963, and 0.12 percent for each calendar year thereafter. Voluntary plans remit to the Disability Fund/Unemployed Disabled Account on the same basis. The account is charged with disbursements for the payment of benefits and the additional administrative costs of the payment of benefits to persons whose employment has terminated or who are in noncovered employment at the time their disability commences.\textsuperscript{50}

An employer, a majority of the employees employed in this State by an employer, or both, may apply for approval of a "Voluntary Plan" for the payment of unemployment compensation disability benefits.\textsuperscript{51} The

\textsuperscript{48}Ibid., Article 3002, p. 131. \textsuperscript{49}Ibid., Article 3012.(b), p. 132. \textsuperscript{50}Ibid., p. 133. \textsuperscript{51}Ibid., Article 3251, p. 137.
Director of Employment approves the plan when all of the following conditions exist: 52

(a) The benefits are greater than those provided under the State Plan.

(b) The plan has been made available to all of the employees of the employer employed in this State or to all employees at any one distinct, separate establishment within the State.

(c) A majority of the employees have approved the plan.

(d) If insured, the form of the insurance policy has been approved by the Insurance Commissioner and is to be issued by an admitted disability insurer.

(e) The employer has consented to the plan and has agreed to make the necessary payroll deductions, if any, and transmit the proceeds to the insurer, if any.

(f) The plan provides for the inclusion of future employees.

(g) The plan will be effective for at least one year.

(h) The approval of the plan will not result in a substantial selection of risks adverse to the Disability Fund.

The following general ground rules apply to approved "Voluntary Plans".

52 Ibid., Article 3254, p. 138.
(a) Publication of the benefits payable as indemnification for loss of wages under the Voluntary Plan are separately stated and designated "Unemployment Compensation Disability Benefits".

(b) Neither the employee nor employer contributes to the State Disability Fund except that the Voluntary Plan must pay the amount noted above to the Unemployed Disabled Account of the Disability Fund. 53

(c) "An employee who has ceased to be covered by a Voluntary Plan shall, if otherwise eligible, thereupon immediately become entitled to benefits from the Disability Fund to the same extent as though there had been no exemption from contributions." 54

(d) When the Voluntary Plan is to be self-insured by the employer, the Director of Employment requires the employer to deposit securities in an amount that would be deducted from the covered employees for the ensuing year if they were covered by the State Plan. 55

Premiums

Each employee covered under the State Plan contributes 1 percent of his wages up to a specified amount within a calendar year. 56

The following amounts have been specified: Calendar 1961—$3600, 1962—

53Ibid., Article 3252, b, p. 137  54Ibid., Article 3263, p. 145.
55Ibid., Article 3258, p. 143.  56Ibid., Article 984, p. 50.
$4100, 1963—$4600, 1964—$5100, 1965 and thereafter—$5600. The employer deducts the contributions from the employee's wages at time the wages are paid. Contributions are forwarded to the State Disability Fund.

An employer may assume all or part of the cost of a Voluntary Plan and may deduct from the wages of an employee covered by the plan an amount not to exceed that which would be required if the employee were covered by the State Plan.\(^\text{58}\)

**Comparison of the California Laws**

The hypothesis of this paper is; Industry in Southern California, as exemplified by selected firms, has exceeded minimum legal requirements to a major extent in providing hourly employees with pay for time not worked due to accident or illness. "Legal requirements" has been defined as the State of California requirements under Workmen's Compensation and Unemployment Compensation Disability Insurance. Since these requirements are the primary reference, it seems desirable to compare these requirements with those of the other 49 states.

**Workmen's Compensation**

All fifty of the states have Workmen's Compensation laws. Comparative data and provisions are available in 3 publications. One is published by the Chamber of Commerce of the United States.\(^\text{59}\) Two

\(^{57}\)Ibid., Article 985, p. 50.  \(^{58}\)Ibid., Article 3260, p. 144.  

are published by the U. S. Department of Labor. The Department of Labor Bulletin 212 presents a comparison of major provisions of State Workmen's Compensation laws, together with standards recommended by the Department, International Association of Industrial Accident Boards and Commissions, American College of Surgeons, American Medical Association, or Council of State Governments. No state meets all of the recommended standards. The majority of states do not meet half of the recommended standards. The following are the 19 recommended standards and a summation of California's standing and the position of the other 49 states.

1. A Workmen's Compensation law should be compulsory in order to give protection to all gainfully employed workers. California has a compulsory law. Twenty-four states have an elective law, the balance a compulsory law.

2. A Workmen's Compensation law should not exempt employers with less than a specified number of employees. California has no numerical exemption. Twenty-nine states exempt employers with less than a stipulated number of employees.


The number of numerical exemptions range from 2 employees to 15.\textsuperscript{62}

3. A Workmen's Compensation law should cover agricultural workers in the same manner as other employees. California and eight other states provide coverage for farm workers in the same manner as other employees. In eight other states the farm worker must be covered if engaged in certain mechanized or power-operated operations. Thirty-three states exempt agricultural employment.\textsuperscript{63}

4. A Workmen's Compensation law should cover an employee disabled by an occupational disease in the same manner as an employee disabled from an accidental work injury. California and 29 other states have full coverage for occupational disease. Eighteen states cover only enumerated diseases, usually termed "schedule" coverage and 2 states have no provisions for occupational diseases.\textsuperscript{64}

5. A Workmen's Compensation law should have a rehabilitation division within the Workmen's Compensation agency in order to handle the specialized responsibility with respect to the rehabilitation of the small percentage of workers who require rehabilitation services. Thirteen states have rehabilitation divisions. California and 36 other states do not.\textsuperscript{65}

\textsuperscript{62}\textit{Ibid.}, p. 5. \textsuperscript{63}\textit{Ibid.}, p. 7

\textsuperscript{64}\textit{Ibid.}, p. 9. \textsuperscript{65}\textit{Ibid.}, p. 11.
6. A Workmen's Compensation law should contain provisions for special maintenance benefits during the period of rehabilitation. Eighteen states provide for special maintenance or other compensation to facilitate the rehabilitation of an injured worker. California and 31 other states do not.66

7. A Workmen's Compensation law should contain full medical benefits for accidents. California and 34 other states provide full medical coverage. Fifteen states limit medical benefits either by setting a dollar limit or time limit, or both.67

8. A Workmen's Compensation law should contain full medical benefits for occupational diseases. California and 24 other states provide full medical coverage. Twenty-three other states limit medical benefits either by setting a dollar limit or time limit, or both. Two states have no specific coverage of occupational diseases.68

9. A Workmen's Compensation law should give the Workmen's Compensation Agency the responsibility and authority to supervise and control medical care in order to achieve

66 Ibid., p. 13. 67 Ibid., p. 15. 68 Ibid., p. 17.
maximum restoration of the injured worker with a minimum of delay. California and 21 other states provide their Workmen's Compensation Agency with authority to supervise medical care.69

10. A Workmen's Compensation law should be provisioned to allow the worker the initial selection of physician, providing that his selection is in accord with the rules and regulations as adopted by the state. Twenty states give the initial selection of physician to the injured worker. California and 29 states give the initial selection to the employer or insurance carrier.70

11. A Workmen's Compensation law should give broad coverage under second or subsequent injury in order to encourage the employment of handicapped workers. All but four states have some form of second or subsequent injury legislation. "However, 31 of these laws limit the coverage to loss, or loss of use, of a member of the body."71 Only California and 15 other states provide for the coverage of additional types of disabilities.

12. A Workmen's Compensation law should provide for an adequate period of time for an injured worker to file an occupational disease claim. "The time limitations for the

69 Ibid., p. 19.
70 Ibid., p. 21
71 Ibid., p. 22.
filing of claims should be at least one year after the date when employee has knowledge of the nature of his disability and its relation to his job and until after disablement." California and 19 other states are considered to provide a sufficiently flexible period for filing claims.

13. A Workmen's Compensation law should provide for a waiting period of not more than 3 days with retroactive benefits after 2 weeks. Six states meet this standard. California and the balance of states do not. California is 7 and 49 days respectively.

14. A Workmen's Compensation law should provide benefits to widows during widowhood rather than set a period of time or aggregate total amount limitation. Nine states meet this standard; California does not. California has an aggregate total amount limitation of $17,500 or $20,500 in the case of a surviving widow and one or more dependent minor children. No time limit is specified in California.

15. A Workmen's Compensation law should provide benefits for Permanent Total Disability for life or for the period of disability. California and 26 other states meet this standard.

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72 Ibid., p. 24. 73 Ibid., p. 25. 74 Ibid., p. 27. 75 Ibid., p. 29. 76 Ibid., p. 31.
16. A Workmen's Compensation law should provide additional compensation to illegally employed minors who experience temporary total disability. Thirteen states provide double benefits. California and 3 other states provide 50 percent additional benefits. The balance of the states provide no additional benefits.77

17. A Workmen's Compensation law should provide a maximum weekly benefit equal to at least 66 2/3 percent of the state's average weekly wage. Three states were above this suggested standard in 1961. "Nineteen States had weekly benefit levels less than 50 percent of their average weekly wage in 1961."78 California's weekly benefit in 1961 was 66.2 percent of the average weekly wage.

18. A Workmen's Compensation law should provide administration by a state agency in lieu of court administration. Only five states have court administration. California is administered by a state agency. A state agency will "assure that the law is effectively administered and that the intent of the law is fulfilled".79

19. A Workmen's Compensation law should give the administrative agency exclusive jurisdiction over questions of fact, with appeals to the courts limited to questions of

77Ibid., p. 33. 78Ibid., p. 34 79Ibid., p. 39
California and 28 other states meet this recommended standard. California meets 13 of the 19 recommended standards enumerated in the Department of Labor Bulletin 212. Five of the standards that California does not meet are not met by the majority of the other states either. California does not quite meet the maximum weekly benefit recommendation of 66 2/3 percent of the state's average weekly wage. California, however, had the third highest average weekly wage for the period, ($105,73). The percentage of a state's work force that is covered by Workmen's Compensation is another measure of the effectiveness of this law. Only California and 8 other states cover in excess of 85 percent of their work force. Thirteen states cover less than 65 percent.

The comparison of the state maximum weekly benefit to the National average weekly wage is a measure of the effectiveness of that law. California was 62 percent in 1961 and was surpassed only by Hawaii (67%), Arizona (65%), Alaska (65%), and Wisconsin (64%). The average maximum weekly benefit of the 50 states to the National average weekly wage was 49.9 percent.

80 Ibid., p. 41
81 Ibid., p. 35.
Unemployment Compensation Disability Insurance

Only three other states have disability insurance laws. Rhode Island and California were the only two until 1949 when New Jersey's law became effective. New York established her law in 1950. All four laws are compulsory. Only Rhode Island's is exclusive. In New York only 4 percent of the employees are insured through the State Fund. The other 96 percent is either covered by a self-insuring voluntary plan, or a voluntary plan through a private insurance carrier.84

Fifty-two percent of the employees in California were covered by voluntary plans in 1951. This percentage dropped to 42 percent in 1958, 33 percent in 1960 and 26 percent in 1961. Early in 1962 three events occurred to curb voluntary plans. The first two occurred in the State Legislature when the law was modified to include a weekly maximum benefit amount factor85 and established the requirement for voluntary plans to remit to the Unemployed Disabled Account of the State Disability Fund an amount equal to 15 percent of the contributions that would have been forwarded to the State Fund if the employee were covered by the State Plan.86 The third occurred when a California State Supreme Court decision,87 in effect, ruled that


85 California, Unemployment Insurance Code, loc. cit., Article 2655.5, p. 119.

86 Ibid., Article 3012(b) p. 132.

87 Pitts v Perlus, California Reports, pp. 824-848. [58 C.2d 824; 27 Cal.Rptr. 19, 377 P.2d 83]
the Director of the Department of Employment did not work an unlawful retroactivity in establishing revised reasonable tests for existing voluntary plans to prevent substantial adverse selection of risks to the State Fund. Further, existing voluntary plans would have to meet standards set by the Director or be discontinued. Reliable estimates indicate less than 1 percent of California employees are now covered by a voluntary plan. A large insurance company that cancelled 21,000 voluntary plan policies covering 730,000 employees, indicates that the reason for cancellation was a "combination of adverse legislation and an adverse supreme court ruling". 88

CHAPTER III

POLICIES AND PRACTICES OF SELECTED FIRMS

This chapter delineates policies and practices, the corresponding costs of each policy and/or practice, and the more cogent data collected for each of the selected firms surveyed as part of this study. The data presented herein has been extracted from completed survey forms as shown in Appendix A.

In order to conserve space, the description of each item is not repeated for each firm. The item number assigned as follows will be the identification of that data for each firm.

1. Industrial classification.
2. Time period covered by the survey.
3. Group covered by the survey.
4. Average number of employees for the group during the period.
5. Total remuneration for the group during the period.
6. Method used to finance Workmen's Compensation.
7. Workmen's Compensation cost per 100 dollars of remuneration for group covered.
8. Method used to finance Unemployment Compensation Disability Insurance.
9. Unemployment Compensation Disability Insurance cost
to firm per 100 dollars of remuneration for group covered.

10. Other wage replacement policies and/or practices, corresponding cost per 100 dollars of remuneration when available, and brief description of benefit. The letters N. A. are placed after the policy or practice name when cost was not available, not applicable, or too small to note.

FIRM 1

1. Petroleum
2. 1-1-61 through 12-31-61
3. Hourly Nonexempt
4. 1600
5. $9,150,000
6. Private Carrier
7. $1.61
8. Self-insured
9. None. Employee contributes in the same manner and amount as if he were covered by the State Plan. Contributions are credited to the sick leave account. Payments for U.C.D.I. and sick leave benefits are charged to the same account. Company claims that they are ahead by self-insuring and handling funds in this manner. Voluntary Plan exceeds State Plan in that (a) employees who earn $33 or less per week receive 70% of their weekly earnings, $10 minimum, (b) $33 or more per week, employee receives 2/3 of weekly earnings with a $70 maximum. Both employee and employer contribute to employees' coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefit.
10.A. Sick Leave. $1.78.

1. A full-time employee who has completed one year of continuous service is eligible for paid sick leave.

2. Each year, at the anniversary date of employment, the employee is credited with paid sick leave.

3. Sick leave is awarded at the rate of 10 days each year through 4 years and then 15 days per year thereafter.

4. Sick leave is cumulative up to a maximum of 130 days. Excess sick leave is not paid off.

5. Sick leave used is deducted from the total available.

6. Sick leave can be used only for nonoccupational accident and sickness.

7. The combination of sick leave and U.C.D.I. benefits cannot exceed the employee's basic wage. However, when an employee is receiving U.C.D.I. disability indemnity and is utilizing sick leave to supplement up to his basic wage, only that dollar portion required of a sick leave day is credited. The balance of the day is still available to the employee for future sick leave requirements.

10.B. Industrial Accident Leave. $0.20.

1. A full-time employee who has completed one year of continuous service is eligible for paid industrial accident leave. These benefits are supplemental to
Workmen's Compensation indemnity.

2. Each year, at the employee's anniversary date of employment, the employee is entitled to additional paid industrial accident leave.

3. Industrial accident leave is awarded at the rate of 10 days per year through 4 years and then 15 days per year thereafter.

4. Industrial accident leave is cumulative up to a maximum of 130 days. Excess accident leave is not paid off.

5. Industrial accident leave used is deducted from the total available.

6. Industrial accident leave can be used only for occupational accident and sickness.

7. The combination of industrial accident leave and Workmen's Compensation benefits cannot exceed the employee's basic wage. However, when an employee is receiving Workmen's Compensation indemnity and is utilizing industrial accident leave to supplement up to his basic wage, only that dollar portion required of an industrial accident leave day is credited. The balance of the day is still available to the employee for future industrial accident leave requirements.

10.C. Dismemberment Insurance. $0.01.

Dismemberment Insurance ranges from $2000 for employees
earning less than $200 per month to $5000 for employees earning in excess of $350 per month. The full amount is paid for loss of both hands, or both feet, or the loss of sight of both eyes, or the combination of any two thereof. One-half the amount is paid for the loss of one hand, one foot, or the loss of sight in one eye. If more than one of the above losses is sustained as a result of the same accident, payment is made only for the loss for which the larger indemnity is payable. Dismemberment coverage is part of the group health plan. The firm pays the entire cost of the benefit.

10.D. Disability Retirement. (N.A.)

Normal retirement age is 65 years. Early retirement is permissible at the employee's or employer's option provided the employee is 55 years old and has 15 years' service with the company. Disability retirement is available to employees who are totally and permanently disabled, who are 50 years old and have 15 years' service. Firm pays entire cost of the retirement plan.

FIRM 2

1. Petroleum 2. 1-1-61 through 12-31-61
3. Hourly nonexempt
4. 2270 5. $13,168,000
6. State Fund 7. $1,46
8. Private Carrier 9. None. Employee contributes in the same manner and amount as if he were covered
by the State Plan. U.C.D.I. is part of the group health plan. The plan exceeds the State Plan indemnity in that (1) employees who earn less than $3000 per year receive a $35 weekly indemnity, (2) $3000 to $4000 receive $45, (3) $4000 to $5000 receive $55, (4) $5000 to $6000 receive $65, (5) $7000 and up receive $70. Both employee and employer contribute to employee's coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefit.

10.A. Sick Leave. $2.18.

1. A full-time employee who has completed one year of accumulated service is allowed paid sick leave during the remainder of that calendar year at the rate of one week at full pay and two weeks at half pay multiplied by the ratio of the remaining full months of that calendar year to a full year.

2. Employees who, on or by January 1 of any year, have completed one year of accumulated service are allowed, during that calendar year, paid sick leave absences at the rate of one week at full pay and three weeks at half pay for each year of service.

3. The maximum paid sick leave allowance for a given year is 13 weeks at full pay and 39 weeks at half pay.

4. Employees start each year with a new paid sick leave allowance for that year, computed on the basis of
accumulated service. Unused sick leave is not carried over nor paid off.

5. Sick leave can be utilized for both occupational and nonoccupational sickness and injury.

6. The combination of Workmen's Compensation or U.C.D.I. indemnity and paid sick leave cannot exceed the employee's basic wage.

7. The company policy is to exhaust the employee's sick leave allowance for nonoccupational disabilities prior to filing a U.C.D.I. claim against the carrier. The policy tends to raise sick leave cost and to reduce the Group Insurance costs for the company.

8. The amount of sick leave available is determined for the year in which the absence commences and is not added to when the absence extends into the following year. However, sick leave is available for the second calendar year at the normal rate for any subsequent injury.

9. Sick leave pay allowance is granted only to those employees who, in good faith, intend to return to their job after sickness or injury. Sick leave is not paid to any person whose services have been or will be terminated for any reason, including death or retirement.

10. B. Dismemberment Insurance. $0.005.

Dismemberment Insurance is $3000 for all employees re-
gardless of earnings. Full payment and half payment provisions are the same as in firm #1. Dismemberment coverage is part of the group health plan. The employer and employee contribute to the cost of the coverage.

10.C. Disability Retirement. (N.A.)

Normal retirement age is 65 years. Early retirement or disability retirement is available to employees provided they have at least 10 years of credited participation and have reached the age of 55 (females - 50). Firm and employee contribute to the retirement plan.

FIRM 3

1. Banking
2. 1-1-61 through 12-31-61
3. Entire payroll
4. 9700
5. $48,780,000
6. Private Carrier
7. $0.16
8. Private Carrier
9. None. Employee contributes in the same manner and amount as if he were covered by the State Plan. U.C.D.I. is part of the group health plan. Indemnity benefit differs from State Plan in that (1) employees who earn less than $30 per week receive 70 percent of weekly salary, not to exceed $20, (2) $30 but less than $60 receive 66 2/3 percent of weekly salary, not to exceed $40 and (3) $60 or more receive 60 percent of weekly salary with a $40 minimum and $70 maximum.

Employer contributes entire cost of employee's coverage under the health plan. Hospital room and board benefit is
reduced by U.C.D.I. hospital benefit.

10.A. Sick Leave. $1.89.

1. A written sick leave policy or practice is not published. The company policy is disseminated by a central staff administrator to the various supervisors. The company feels this approach is more effective for the employee and employer.

2. Pay for time not worked due to sickness is charged to a sick leave account.

3. Sick leave is granted at the rate of 1 week for each 6 months. On lengthy illnesses the rule is one month for each two years of service.

4. When an employee begins to equal or exceed the 1 week for each 6 months' allowance, the staff administrator and supervisor discuss the case. The supervisor then discusses the situation with the employee as required.

5. The unwritten policy is flexible. The firm seldom has an employee who utilizes the full sick leave allowance without good cause. The company will continue benefits under certain conditions such as when the employee is the head of the household or the sole breadwinner for a family.

6. Sick leave pay is reduced by disability indemnity payments received under U.C.D.I. or Workmen's Compensation. The total of any disability indemnity and
sick leave remuneration will not exceed the employee’s base rate.

7. The average number of sick days used per year per employee is 7. Short one or two day illnesses account for 5 1/4 of the 7 days and the balance for long term illnesses.

10.B. Permanent Total Disability Benefit. $0.04.

1. The Company insures each employee up to $15,000 for an amount computed on length of service. The amount is 1 year’s salary up to 5 years’ service; 1 1/2 years’ salary from 5 to 8 years; 2 years’ salary from 8 to 15 years; 2 1/2 years’ salary from 15 to 20; 2 3/4 years’ salary from 20 to 25; and 3 years’ salary after 25 years’ service.

2. Insurance coverage begins for male employees after 3 months’ service and female employees after 3 years’ service.

3. If an employee becomes totally disabled before age 60, the entire amount of insurance is paid.

10.C. Early Retirement. (N.A.)

Normal retirement age is 65, however, early retirement is possible as early as age 60 at either the employer or the employee’s option. Eligibility for early retirement is dependent on the employee’s hire by the firm before age 50. Early retirement for permanent disability is limited to age 60 or older since the permanent total disability
benefit is payable up to that age. The firm pays all premiums for the retirement plan.

FIRM 4

1. Auto Manufacturing
2. 1-1-61 through 12-31-61
3. Hourly
4. 1620
5. $9,800,000
6. Self-insured
7. $0.68
8. State Fund
9. None. Employer contributes entire cost of employees' coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefit.


1. The Weekly Sickness and Accident benefit is designated 1-4-26, i.e., benefit begins on the first day of accident, fourth day of sickness, and continues for 26 weeks for any one disability or for 6 weeks for maternity.

2. The benefit is payable for occupational and nonoccupational sickness or accidents.

3. Any Workmen's Compensation or Unemployment Compensation Disability indemnity received is deducted from the benefit derived from the Sickness and Accident Benefit (not counting hospital, surgical or medical expenses, and payments or specific allowances for loss, or 100 percent loss of use of member or disfigurement).
4. The entire cost of the benefit is paid by the firm.

5. The employee receives one check from the company which would be the weekly sickness and accident amount for his hourly wage. Any Workmen's Compensation benefit due is charged to the proper account since this is self-insured and any U.C.D.I. weekly benefit due is filed jointly by the firm and employee, and when received, is credited to the S & A account.

6. The benefit is handled or insured through a private carrier. In practice, the company pays the actual amount dispersed, plus a small percentage for handling.
7. The indemnity schedule for Weekly Sickness and Accident and Monthly Permanent Total Disability is as follows:

<table>
<thead>
<tr>
<th>Basic Hourly Rate</th>
<th>Group Life Insurance</th>
<th>Monthly Permanent Total Disability</th>
<th>Weekly Sickness and Accident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $2.57</td>
<td>$5,500</td>
<td>$110</td>
<td>$55.00</td>
</tr>
<tr>
<td>$2.57 but less than $2.77</td>
<td>6,000</td>
<td>120</td>
<td>60.00</td>
</tr>
<tr>
<td>$2.77 but less than $2.97</td>
<td>6,500</td>
<td>130</td>
<td>65.00</td>
</tr>
<tr>
<td>$2.97 but less than $3.17</td>
<td>7,000</td>
<td>140</td>
<td>70.00</td>
</tr>
<tr>
<td>$3.17 but less than $3.37</td>
<td>7,500</td>
<td>150</td>
<td>75.00</td>
</tr>
<tr>
<td>$3.37 but less than $3.57</td>
<td>8,000</td>
<td>160</td>
<td>80.00</td>
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<td>$3.57 but less than $3.77</td>
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<td>170</td>
<td>85.00</td>
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<td>90.00</td>
</tr>
<tr>
<td>$3.97 but less than $4.17</td>
<td>9,500</td>
<td>190</td>
<td>95.00</td>
</tr>
<tr>
<td>$4.17 but less than $4.37</td>
<td>10,000</td>
<td>200</td>
<td>100.00</td>
</tr>
<tr>
<td>$4.37 and over</td>
<td>10,500</td>
<td>210</td>
<td>105.00</td>
</tr>
</tbody>
</table>

10.B. Monthly Permanent Total Disability Benefit of Group Life Insurance. (N.A.)

1. The monthly permanent total disability benefit is payable to employees who become permanently and totally disabled prior to the age of 60.

2. The benefit is not paid to employees who have more than 10 years' service. Benefits for these employees are computed under the Pension Plan disa-
3. The employee's contribution for the benefit is $ .20 per 1000 dollars per month. The contribution includes the Group Life Insurance amount, and although any additional cost is guaranteed by the firm, the employee's contribution has been covering the entire cost. The first 500 dollars of life insurance is not computed in the employee's monthly contribution.

4. The monthly indemnity is payable for 50 months commencing 6 months after disability. Thus, the benefit begins at the conclusion of any Sickness and Accident indemnity.

5. Any Workmen's Compensation indemnity due is not deductible but is in addition to the Monthly Permanent Total Disability indemnity.


$0.20.

1. The Pension Plan is entirely paid for by the firm.

2. The cost shown is actual payments during 1961.

3. An employee who has more than 10 years' service, is less than 65 years old, and is unable to work for remuneration or profit and will continue to be so for the rest of his life, is eligible for this benefit.
4. The pension is $5.60 per year of service per month.  
   ($4.80 for years of service prior to 1958.)
5. The pension begins after 6 months of disability.
6. Any Workmen's Compensation or Social Security indemnity due is deducted from the total monthly indemnity under this benefit.

FIRM 5

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Utility</td>
</tr>
<tr>
<td>2.</td>
<td>1-1-61 through 12-31-61</td>
</tr>
<tr>
<td>3.</td>
<td>Entire Company</td>
</tr>
<tr>
<td>4.</td>
<td>5400</td>
</tr>
<tr>
<td>5.</td>
<td>$34,500,000</td>
</tr>
<tr>
<td>6.</td>
<td>Self-insured</td>
</tr>
<tr>
<td>7.</td>
<td>$0.44</td>
</tr>
<tr>
<td>8.</td>
<td>Self-insured</td>
</tr>
<tr>
<td>9.</td>
<td>None. Employee contributes 3/4 of 1 percent of the first $3600 he earns. The cost of the plan varies from year to year depending on the experience. The plan has been operative for 14 years with contributions ranging between 1/2 and 3/4 of 1 percent. The major difference between the plan and the State Plan is that the minimum weekly benefit for employees with more than 6 months' service is $40 in lieu of $10. Contributions are credited to a special fund and indemnity payments charged thereto. The firm's only contribution is approximately $150 per month in the form of administration. Both employee and employer contribute to the employee's coverage under the group health plan. Hospital room and board benefit is not reduced by U.C.D.I. hospital benefits.</td>
</tr>
</tbody>
</table>
10.A. Sick Leave. $2.53.

1. An employee who has completed 6 months' service becomes eligible for paid sick leave. Sick leave allowance is awarded on the basis of continued services as follows: 6 months, 3 days; 1 year, 8 days; 2 years, 2 weeks; 3 years, 3 weeks; 4 years, 3 weeks; 5 years, 4 weeks; 6 years, 5 weeks; 7 years, 6 weeks; 8 years, 7 weeks; 9 years, 8 weeks; 10 years or more, the employee receives full pay until Protection Retirement Disability benefit begins, which begins after 60 days' disability.

2. Depending on the amount of completed service, the employee receives the corresponding sick leave allowance for the calendar year. At the beginning of the calendar year a new allowance is received.

3. Unused allowance in one calendar year cannot be carried forward to the next year. Unused sick leave is not paid off.

4. Only one annual allowance may be received per disability even though disability begins in one calendar year and extends into the next. However, the allowance in this instance would be that allowance available to the employee at the beginning of the new calendar year.

5. Any Workmen's Compensation or U.C.D.I. indemnity and
sick leave cannot exceed the employee's normal wage. Only that portion of sick leave allowance actually paid as a supplement is considered to be used. The remainder, expressed in money, is available for subsequent illness or injury.

6. Employees must complete a sickness report for any absences of 3 days or less due to illness. When over three days, the employee or supervisor may complete the report.

10.B. Protection Retirement Disability. $0.37.

1. Employees are covered by the benefit after one year of service and continue to be covered until age 68. (Females - 65.) Firm pays entire cost of benefit.

2. The employee receives the following amounts if he becomes totally disabled: 50% of normal pay the first 2 years; 40% of normal pay the next 2 years; 36% of normal pay the 5th year.

3. Normal pay is considered to be $100 a week minimum.

4. If an employee has 10 years' service or more, 36% of normal pay will be paid until age 68. An employee can retire as early as age 60 and if retirement benefits are greater, the employee can elect to convert to retirement benefits. He must convert at age 68.

5. Benefits start after the employee has been disabled for 60 days.
6. Any Workmen's Compensation, U.C.D.I. or Social Security indemnity received by the employee is deducted from the amount due under this benefit.

<table>
<thead>
<tr>
<th>Firm 6</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Utility</td>
<td>2. 1-1-61 through 12-31-61</td>
</tr>
<tr>
<td>3.</td>
<td>Entire firm</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>8250</td>
<td>5. $70,355,000</td>
</tr>
<tr>
<td>6.</td>
<td>Self-insured</td>
<td>7. $0.33</td>
</tr>
<tr>
<td>8.</td>
<td>Self-insured</td>
<td>9. $0.30. Employee contributes in the same manner and amount as he would in the State Plan. For an employee with less than one year service with the firm, the Voluntary Plan exceeds the State Plan in that he receives 120 percent of the weekly benefit amount which would be payable under the State Plan. Other provisions are the same as the State Plan. Employees who have more than one year service with the company receive weekly indemnity payments of $80 per week for the period of disability, not to exceed 52 weeks. Other provisions are the same as the State Plan. Both employer and employee contribute to the employee's coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefit.</td>
</tr>
</tbody>
</table>

10.A. Sick Time Allowance. $2.20.

1. An employee becomes eligible for sick leave after one year of service. No sick leave is available
67
to the employee during his first year, but at his first anniversary the employee is credited with 15 days.

2. Sick time allowance is awarded at the rate of 1 1/4 days per month. Sick time allowance is accumulated indefinitely until used.

3. All accumulated sick time allowance is utilized before U.C.D.I. benefits commence.

4. Sick time allowance is used to supplement Workmen's Compensation. Only that portion of sick time allowance actually paid as a supplement is considered to be used. The remainder is still available for the same illness.


The firm's pension plan contains provisions for early retirement at age 55 with consent from the firm and at age 60 at the employee's option. Only one year service is required. The company pays the entire cost of the pension plan. No specific provisions are made for disability retirement.

10.C. Disability Provisions of Group Insurance. $0.02.

The firm provides a group life insurance and permanent total disability plan. The dollar coverage for both provisions is the same. The amount of life and disability coverage is dependent on annual salary and ranges from $2500 for an annual salary of less than $3000 to
$21,000 for an annual salary of less than $15,000. The first $2500 of coverage is paid for by the firm. The balance is paid for by the employee. The total amount is paid to the employee if he becomes permanently and totally disabled. The employee must be under age 60. The payment is made regardless of any other payments due from the pension plan or Workmen's Compensation.

**Firm 7**

1. Aerospace
2. 1-1-61 through 12-31-61
3. Hourly - Factory
4. 21,000
5. $159,875,000
6. State Fund
7. $0.51
8. State Fund
9. None. The employer contributes entire cost of employees' coverage under the group health plan. Hospital room and board benefit is not reduced by U.C.D.I. hospital benefit.

10.A Sick Leave. $2.05.

1. Each employee, at his anniversary date, receives a check for sick leave. The sick leave pay is computed at 2 percent of all remuneration paid the employee during the preceding year.

2. The employee receives no sick leave pay during the year for days he is absent from the job due to sickness, illness or accident. The normal pay check is reduced by the time not worked.
3. The firm claims that sick leave averages 5 days, and this method discourages the employee from staying home when not sick and saves a considerable amount of bookkeeping.

10.B. Dismemberment Insurance. $0.01.

The firm provides a group life insurance plan that includes dismemberment provisions. The dollar coverage for both life and dismemberment are the same. The amount varies with the hourly wage as follows: Less than $1.50, $4000; $1.50 but less than $1.90, $5000; and $1.90 and over, $6000. The firm pays the entire cost of the plan. Full payment and half payment provisions are the same for Firm #1.

10.C. Disability Retirement Pension. $0.03.

1. Employees are eligible for this benefit if they (1) are between the ages of 45 and 65, (2) have at least 10 years' service, and (3) are permanently and totally disabled.

2. Benefits begin 6 months after commencement of disability.

3. The amount of indemnity is based on service with a monthly minimum of $70 and maximum of $175.

4. Indemnity is payable until age 65 when the normal pension provisions apply.

5. Any amount to be received under the benefit is re-
duced by Workmen's Compensation or Social Security indemnity payments received by the employee.

6. The firm pays the entire cost of the benefit.

FIRM 8

1. Electronic 2. 1-1-61 through 12-31-61
3. Nonexempt Assembly
4. 1350 5. $7,331,000
6. Private Carrier 7. $0.61
8. State Fund 9. None. Both the employee and employer contribute to the employee's coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefit.

10.A. Sick Leave. $1.84.

1. Sick leave is granted from the first day of employment to each employee at the rate of 1 day for each two months of service.

2. Maximum accumulation of sick leave is 13 days. An employee is not credited with additional sick leave when he has accumulated 13 days. Unused sick leave is not paid off.

3. Amounts received from Workmen's Compensation or U.C.D.I. are deducted from sick leave pay.

10.B. Dismemberment Insurance. $0.01.

The firm provides a group life insurance plan that includes dismemberment provisions. The dollar coverage for both life and dismemberment is the same. The amount
varies with the hourly wage as follows: Less than $1.49, $4500; $1.49 to $2.16, $6000; $2.16 to $2.88, $7500; $2.88 to $3.85, $9000; and $3.85 and over, $12,000. Both the employer and employee contribute to the cost of the plan. Full payment and half payment provisions are the same as for Firm #1.

10.C. Early Retirement. (N.A.)

An employee may retire early if he (1) is between the ages of 55 and 65 and (2) obtains the approval of the firm. No specific provisions are made for disability retirement. The pension plan has "a vested rights provision" that begins at 55 percent at 6 years and adds 5 percent each year thereafter. However, if an employee retires after age 55, he has 100 percent vested interest because of his age regardless of amount of service with the firm. Both the firm and employee contribute to the pension plan.

FIRM 9

1. Electronic
2. 1-1-62 through 12-31-62
3. Shop Payroll
4. 91
5. $551,000
6. State Fund
7. $0.66
8. State Fund
9. None. Both the employee and employer contribute to the employee's coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefit.
The year 1962 was used in lieu of 1961 as insufficient information was available for that year. The Workmen's Compensation rate was up .04 from the 1961 rate, primarily due to revisions in the law.

10.A. Sick Leave. $1.81.

1. Employee becomes eligible for sick leave upon completion of 90 days' service.

2. Sick leave is awarded at the rate of 3 1/3 hours for each month of service. On the first of the month, following the 90-day probationary period, 10 hours of sick leave will be allowed; on the first day of each month thereafter an additional 3 1/3 hours are accrued.

3. Maximum accrual of sick leave is 80 hours on March 31st of each calendar year. Any sick leave in excess of 80 hours at this date is paid off at the employee's current rate and removed from the books.

4. The firm had no policy as to the method of handling Workmen's Compensation or U.C.D.I. benefits and accrued sick leave.

10.B. Dismemberment Insurance. $0.01.

The firm provides a group life insurance plan that includes dismemberment provisions. The dollar coverage for both life and dismemberment is the same. The amount varies with the weekly wage as follows: Less than $75,
$2000; $75 but less than $100, $3000; $100 but less than $115, $5000; $115 but less than $145, $7500; and $145 or more, $10,000. Both the employee and employer contribute to the cost of the plan. Full payment and half payment provisions are the same as for Firm #1.

FIRM 10

1. Electronic

2. 1-1-61 through 12-31-61

3. Electronic Assembly

4. 126

5. $738,000

6. State Fund

7. $0.63

8. State Fund

9. None. Both the employer and employee contribute to the employee's coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefit.

10.A. Sick Leave. $1.41.

1. Employee becomes eligible for sick leave after one month's service.

2. Sick leave is available to employees at the rate of 5 days per year.

3. Sick leave can be accumulated from year to year. Unused sick leave is not paid off.

4. Sick leave pay is reduced by disability indemnity payments received under U.C.D.I. or Workmen's Compensation. The total of any disability indemnity and sick leave remuneration will not exceed the
employee's weekly base rate. Any unused portion of a sick leave day, used as herein described, is available to the employee for application to any subsequent day of absence in the same manner.

10.B. Dismemberment Insurance. $0.01.

The firm provides a group life insurance plan that includes dismemberment provisions. The dollar coverage for both life and dismemberment is the same. The amount varies with the monthly wage as follows: Less than $350, $2000; $350 to $500, $5000; $500 to $750, $7500; and $750 and over, $10,000. The firm pays the entire amount of the coverage or cost of the plan. Full payment and half payment provisions for dismemberment are the same as for Firm #1.

FIRM 11

1. Insurance
2. 1-1-61 through 12-31-61
3. Office Supervision, Staff and Clerical
4. 198
5. $946,000
6. Private Carrier
7. $0.115
8. Self-insured
9. None. Employee contributes in the same manner as he would under the State Plan. The Voluntary Plan exceeds the State Plan in that disability indemnity payments begin on the first day due to accident and the fourth day due to illness. Both employee and employer contribute to the employee's cover-
age under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefit.

Contributions for U.C.D.I. go into the same account as sick leave. Any U.C.D.I. disbursements in excess or less than the total amount deducted from employees will correspondingly effect the cost of sick leave benefits. The firm claims they are ahead by self-insuring U.C.D.I. in this manner.

10.A. Sick Leave. $2.17.

1. Employees become eligible for sick benefits three months after hire date.

2. Sick leave is available to employees in the following amount for any given calendar year.

<table>
<thead>
<tr>
<th>Employment with the company</th>
<th>Full Salary</th>
<th>Two-Thirds Salary</th>
<th>One-half Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 to 6 months</td>
<td>1 week</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 mo. to 1 year</td>
<td>1/2 month</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 to 3 years</td>
<td>1/2 month</td>
<td></td>
<td>1 month</td>
</tr>
<tr>
<td>3 to 5 years</td>
<td>1 month</td>
<td>1 month</td>
<td>1 month</td>
</tr>
<tr>
<td>5 to 10 years</td>
<td>1 month</td>
<td>2 months</td>
<td>2 months</td>
</tr>
<tr>
<td>10 to 15 years</td>
<td>2 months</td>
<td>2 months</td>
<td>2 months</td>
</tr>
<tr>
<td>over 15 years</td>
<td>3 months</td>
<td>3 months</td>
<td>6 months</td>
</tr>
</tbody>
</table>

3. The maximum amount of full pay during one year for one to three-day absences is 11 days.

4. Any time in excess of the 11 days for one to three-day absences or an absence in excess of three days
requires a doctor's certificate on a company form before sick leave pay is received by employee. For approval, the sick leave claim must include:
---A diagnosis evidencing disability.
---The dates on which employee was confined because of disability.
---The dates employee was disabled from performing his duties.
---The date on which the doctor feels the employee is able to return to work.

5. Benefits are not paid for illness or injury caused by or arising in connection with pregnancy. Any Workmen's Compensation or U.C.D.I. indemnity and sick benefit cannot exceed the employee's normal wage. Only that portion of sick benefit allowance paid as a supplement is considered to be used. The remainder is available for the same absence or subsequent absence due to sickness or accident.

10.B. Dismemberment Insurance. $0.01.

The firm provides a group life insurance plan that includes dismemberment provisions. The coverage for both life and dismemberment are the same but vary in amount depending on salary of the individual. The coverage for males ranges between $4000 for earnings of less than $2400 per year to $22,000 for earnings in excess of $9000 per
year. The coverage for females ranges between $3000 for earnings of less than $2500 per year and $7000 for earnings over $6000 per year. The cost of the coverage is paid for by both the employer and employee. Full payment and half payment provisions are the same as for Firm #1.

10.C. Disability Retirement. (N.A.)

1. If an employee becomes permanently and totally disabled and has 15 years' service with firm, he is eligible for benefits.
2. Minimum retirement is $75 per month.
3. Both employer and employee contribute to the cost of the pension plan.
4. The difference between disability retirement and early retirement provisions is that for early retirement the employee must be 55 years old, as well as have 15 years' service.

FIRM 12

<table>
<thead>
<tr>
<th>1. Insurance</th>
<th>2. 1-1-61 through 12-31-61</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Entire Home Office except executive payroll.</td>
<td></td>
</tr>
<tr>
<td>4. 2600</td>
<td>5. $12,100,000</td>
</tr>
<tr>
<td>6. State Fund</td>
<td>7. $0.12</td>
</tr>
<tr>
<td>8. Private Carrier</td>
<td>9. None. The employee contributes in the same manner and amount as if he were covered by the State Plan. The Voluntary Plan exceeds the State Plan in that the minimum benefit is $21 per week and the disability benefit period is 27 weeks in</td>
</tr>
</tbody>
</table>
lieu of 26 weeks. Both employer and employee contribute to the employee's coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefits.

10.A. Sick Leave. $1.56.

1. All employees become eligible for sick leave after 3 months of service.

2. Sick leave allowance is awarded at the rate of one day per each 1 1/2 months of service during the first 5 years. Unused sick leave is multiplied by 2 at the employee's fifth anniversary. After 5 years of service, sick leave is awarded at the rate of three days for each 1 1/2 months of service.

3. Company pays 100 percent of employee's basic wage for first 20 paid sick leave days during any one absence and 80 percent thereafter until sick leave is exhausted.

4. Any Workmen's Compensation and U.C.D.I. disability indemnity and sick leave benefits will not exceed the employee's basic wage. Any sick leave day reduced as to amount of money received as described herein is counted as a full sick leave day used.

5. If an employee becomes totally disabled and has been with the company for 10 years the firm will pay, after exhausting sick leave, Workmen's Com-
pensation and U.C.D.I. indemnity due the employee, and amount equal to 2 percent of the employee's base rate per month for each year of service until employee reaches age 65.

6. The average number of sick leave days used per employee per year is 5 3/4 days.


1. If an employee, before age 60, becomes totally disabled and thereby is unable to work, the life insurance is paid in monthly installments. If the employee subsequently is able to work, the payments cease. The firm pays for the first $2000 of coverage, the employee pays the balance. The amount of coverage varies with monthly earnings and starts $3500 for employees earning less than $125 to $18,000 for employees earning $700.

10.C. Early Retirement. (N.A.)

The firm's pension plan contains provisions for early retirement at anytime after 20 years of service is obtained. Normal retirement is at age 65 regardless of the number of years' service. Consent of the firm is required to retire before age 65 and if approved, retirement benefits can begin when the employee is 55 years old, if he then has 20 years' service. Entire cost of pension plan is paid for by the firm. No specific provisions are made for disability retirement.
10.D. Accidental Death and Dismemberment Benefit. $0.01.

1. All permanent, full-time, salaried male employees and all permanent, full-time, salaried female employees who qualify as head of a household are eligible for the Group Accidental Death and Dismemberment Benefit.

2. The firm encourages the employee to carry this insurance and considers it their form of travel insurance. Both the firm and the employee contribute to the cost of the benefit. The firm pays a substantial portion; the employee's cost is $3000 coverage is $.09 per month and for $54,000 is $2.16 per month.

3. The amount of coverage for both accidental death and dismemberment are the same. The amount of coverage is dependent on the employee's monthly earnings and starts at $3000 for employees earning less than $125 per month to $54,000 for employees earning $700 or more per month.

4. Full payment and half payment provisions for dismemberment are the same as for Firm #1.

FIRM 13

1. Steel

3. Hourly Paid Employees

4. 1640

5. $14,602,000
The company conducts interstate operations and has established a Sickness and Accident Insurance Plan. The benefit is reduced by an U.C.D.I. temporary disability indemnity received by California employees. The Weekly Sickness and Accident Insurance benefit is dependent on the employee's hourly wage as follows:

| Less than $2.09 | $53.00 |
| $2.09 but less than $2.49 | 56.00 |
| 2.49 but less than 2.89 | 59.00 |
| 2.89 but less than 3.36 | 62.00 |
| 3.36 but less than 3.76 | 65.00 |
| 3.76 or more | 68.00 |

The company weekly benefit exceeds the U.C.D.I. by approximately $3.00 per week. Benefits under the company plan begin on the first day of total disability due to accident and on the eighth day of total disability due to illness and in each case continues for 26 weeks.

The schedule of payments shown above also includes the maximum coverage for occupationally-incurred disabilities for the first 26 weeks thereof.

Employer pays entire cost of group health plan. Hospital room and board benefit is reduced by U.C.D.I.
hospital benefits.

10. A. Disability Retirement. (N.A.)

Disability retirement under the pension plan is available to all employees provided (a) the employee has at least 15 years' service with the firm and (b) the employee is permanently and totally disabled. Pension payments begin 6 months after total disability. The firm pays the entire cost of the pension plan.

FIRM 14

1. Manufacturing 2. 1-1-61 through 12-31-61
3. Factory Direct Labor
4. 1030 5. $6,360,000
6. Private Carrier 7. $0.95
8. State Fund 9. None. Both the employer and employee contribute to the cost of the employee's coverage under the group health plan. Hospital room and board benefit is not reduced by U.C.D.I. hospital benefits.

10. A. Sick Leave. $0.82.

1. Employees become eligible for sick leave after 6 months of service at which time he receives 2 1/2 days of sick leave credits. The employee may utilize the sick leave credits commencing on the fourth day of absence.

2. The employee receives 2 1/2 days of sick leave
credits at the completion of each 6 months of service. Sick leave credits may be utilized commencing on the second day of absence after one year of service and on the first day after 5 years of service.

3. No more than 8 days of sick leave credits can be accumulated during the first 5 years of employment. Thereafter sick leave is cumulative, however, the maximum amount of sick leave usable by any employee during any one year is 10 days. Unused sick leave is not paid off.

4. Any indemnity received from Workmen's Compensation or U.C.D.I. and sick leave will not exceed the employee's basic wages.

10.B. Workmen's Compensation Supplement. $0.01.
If an employee is injured while at work in the plant, is unable to work and is eligible for Workmen's Compensation, the firm will pay the employee 40 hours at the employee's basic rate. If the employee receives Workmen's Compensation commencing the first day in lieu of the eighth, the supplement is reduced accordingly.

10.C. Disability Retirement. (N.A.)
Any employee who has at least 15 years of service and who has become totally and permanently disabled, is entitled to a pension under the company's pension plan. The pension
benefit begins after 6 months of disability and continues until age 65 when normal retirement provisions become applicable. Minimum disability retirement is $900 per year. The entire cost of the plan is paid by the firm.

10.D. Dismemberment Insurance. $0.01.

The firm provides a group life and dismemberment insurance plan. The dollar coverage for both life and dismemberment is $5000, regardless of the employee's wage. Full payment and half payment provisions for dismemberment are the same as for Firm #2. The firm pays the entire cost of the plan.

FIRM 15

1. Manufacturing
2. 8-1-61 through 7-31-62
3. Hourly Nonexempt
4. 120
5. $850,000
6. State Fund
7. $1.94
8. State Fund
9. None. Both the employer and employee contribute to the cost of the employee's coverage under the group health plan. Hospital room and board benefit is reduced by U.C.D.I. hospital benefits.

10.A. Sick Leave. $0.35.

A formal or semiformal sick leave plan does not exist for the shop personnel. Any sick pay awarded to an employee is reserved as a management prerogative. The informal
policy is that when an employee has over six months' service, has performed well in his assigned duties, and will be out for several weeks, the normal weekly paycheck is continued for a short duration. A record of the amount of money dispersed in this manner was not available. The Controller estimated the amount to be $3000 for the covered period. Continuation of pay was of a relatively short duration and any Workmen's Compensation or U.C.D.I. indemnity received by the employee was in addition thereto.

10.B. Dismemberment Insurance. $0.01.

The firm provides a group life insurance plan that includes dismemberment provisions. The dollar coverage for both life and dismemberment is the same. The amount varies with the employee's length of service with the firm as follows: $4000 for less than one year; $8000 for one year and over. The employer pays the entire cost of the plan. Full payment and half payment provisions for dismemberment are the same as for Firm #1.

FIRM 16

1. Transportation 2. 1-1-61 through 12-31-61
3. Employees in the bargaining unit
4. 2215 5. $16,400,000

the entire cost of the employee's coverage under the group
health plan. Hospital room and board benefit is not reduced by U.C.D.I. hospital benefits.

10.A. Disability Retirement. (N.A.)

1. An employee is eligible for disability retirement if he, (a) has not reached the age of 65, (b) has had 15 continuous years of service, (c) is disabled and is receiving Disability Insurance benefits under the Federal Social Security Act.

2. An employee is not eligible for disability retirement as long as he is receiving any benefit under Workmen's Compensation.

3. Minimum monthly benefit is $50.

4. The entire cost of the plan is paid by the employer.
CHAPTER IV

ANALYSIS OF DATA COLLECTED

Chapter III presented tabulated information in a standard sequential format for each selected firm. This chapter will follow a similarly sequential format presentation of data collected. However, not similar to Chapter III, this chapter consolidates common data for all selected firms. Combining the data in this manner will indicate scope of the survey, variations among the firms and among firms in the same industry/size classifications, facilitate analysis, and provide a base for Chapters V and VI.

Number of Firms/Industrial Groups

A desirable objective in any survey is to obtain breadth of coverage. Data was obtained from 16 firms in 6 different industrial groups in an attempt to obtain this objective. The number of firms/industrial groups can be classified as follows: 2 petroleum, 1 banking, 1 auto manufacturer, 2 utility, 1 aerospace, 3 electronic, 2 insurance, 1 steel, 2 manufacturing and 1 transportation.

Firms included in the survey were not picked in a purely random manner. Four firms were selected to supplement a previously selected interviewed firm in order to obtain industrial comparison. Examples of these are firms classified as petroleum, utility, insurance and small
electronic. Two firms were selected to supplement a previously interviewed firm in order to obtain possible size variations within the industrial classification. These two selections were manufacturing and electronics. Of the total number, eleven of the firms were selected because of the high probability of cooperation and the availability of desired data. Selections were made with the assistance of the Merchants and Manufacturers Association of Los Angeles who supplied the name of an executive in the Personnel Department in each company who would be cooperative and interested in participating in such a survey. All companies contacted were very cooperative and are included in the survey. Only one company that was contacted is not in the survey since complete data was not available. A comparable company was substituted.

Other than as stated in the preceding paragraph, the selected firms were picked at random in that no preset industrial pattern of selection was followed nor was the quantitative data to be obtained from any firm preconceived in any manner.

**Base Period**

An objective of the survey was to obtain data from each firm for a common length of time. This was accomplished by specifying a 12 month period, preferable between January 1, 1961 through December 31, 1961. Data was collected from all 16 firms for a 12 month period. Fourteen firms supplied acceptable data for the desired period, i.e., 1-1-61 through 12-31-61. One firm supplied data on their fiscal period of 8-1-61 through 7-31-62, another supplied data for calendar 1962 because of rapid growth and consolidation in 1961 that preclude the gathering of reliable data for that year. The 2 firms reporting for other than
calendar 1961 represent only 211 employees of the total that were covered by the survey.

**Classification of Employees**

The study attempts to confine itself to hourly nonexempt employees. However, various policies and programs for salaried office, clerical, supervisory and executive personnel are included when they do not exclude the hourly nonexempt employee. The reasoning used in excluding exempt employees under certain circumstances was (1) different policies are established, either formal or informal relative to top level employee(s) in all firms and (2) the inclusion of these policies and attendant costs would distort the costs applicable to the average employee. They would be difficult to measure and to describe, moreover, they are sometimes treated as company confidential, and in general, would confuse the survey without affording corresponding benefits.

Another reason why the study confines itself to nonexempt employees is that both the State laws, exemplifying the minimum State requirements, exclude income as a basis of premium computation after a specified ceiling. U.C.D.I. premiums were based on the first $3600 in 1961.\(^1\) Workmen's Compensation premium computations excluded that portion of salary in excess of $15,600 per annum for executive officers, partners and individual employers.\(^2\)

\(^1\)California, Unemployment Insurance Code, (Sacramento: Documents Section, Printing Division, 1961) Article 984, p. 50.

Nonexempt employees are most often thought of as the factory direct payroll. The factory payroll is analogous to the bargaining unit. This was the original thought process as the survey was outlined. However, after the survey began, the problem of proper classification of the office, clerical nonexempt personnel began to emerge. They are rarely classified as factory payroll, are rarely included in the bargaining unit, are not part of the executive payroll. They are often included with the exempt supervisory, office and staff payroll. The inclusion or exclusion of this type of employee in this study was made dependent on the company structure of employees. Where a strong bargaining unit existed, they were excluded. Examples are firms 1, 2, 4, 7, 13, 14, and 16. They were also excluded in firms where three distinct payrolls existed and the costs that are of interest to this study were distributable to each. The 3 payrolls are executive, office-clerical and factory. Examples are firms 8, 9, 10, and 15. The balance of the firms which included banking, utilities and insurance, have only two distinct payrolls existing, i.e., top executive and the balance of the firm. Employee benefits that were of interest to this study were applicable to all employees except the small group on the top executive payroll. Due to the large number of office-clerical-staff classification of employees when compared to the total number of employees, no attempt was made to separate employees as to bargaining unit or not in bargaining unit, as direct or indirect, or as exempt or nonexempt.
The total number of employees covered by the survey is 59,210.
The number of employees with a given firm ranged from 91 to 21,000.
The number of employees covered for a given firm was computed by averaging the number of employees for the period covered by the survey.

The average number of employees for a period of a year or the exact number of employees for a specific date is rather difficult to determine in finite terms. For instance, a person is considered to be an employee under Workmen's Compensation and U.C.D.I. when he receives remuneration. However, a person may be considered as employed for a considerable period of time after remuneration has ceased, such as during extended sick leave. In this case, the employee may be receiving indemnity payments from one of two State programs. Some employers have a definite policy towards employment status, others do not. Employers with a large work force were encouraged to indicate average number of employees to the nearest 10. Employers with a smaller work force were encouraged to compute the average as close as possible. In most instances, employers had available the number of employees at the end or beginning of each month. These figures were totaled for the year and divided by 12.

The average number of employees per firm is 3701. The median firm is 1635. The number of employees for the various firms fell in 5 distinct groupings. See Table 4 for information on these groupings and other information on employees covered by the survey.
TABLE 4
EMPLOYEES COVERED BY SURVEY

<table>
<thead>
<tr>
<th>Firm No.</th>
<th>Industrial Classification</th>
<th>Payroll Classification of Employees Included in Study</th>
<th>Number of Employees Included in Study</th>
<th>Payroll for Employees in 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Petroleum</td>
<td>Hourly Nonexempt</td>
<td>1,600</td>
<td>59,150</td>
</tr>
<tr>
<td>2</td>
<td>Petroleum</td>
<td>Hourly Nonexempt</td>
<td>2,270</td>
<td>13,168</td>
</tr>
<tr>
<td>3</td>
<td>Banking</td>
<td>Entire Payroll</td>
<td>9,700</td>
<td>48,780</td>
</tr>
<tr>
<td>4</td>
<td>Auto Mfg.</td>
<td>Hourly</td>
<td>1,620</td>
<td>9,800</td>
</tr>
<tr>
<td>5</td>
<td>Utility</td>
<td>Entire Payroll</td>
<td>5,400</td>
<td>34,500</td>
</tr>
<tr>
<td>6</td>
<td>Utility</td>
<td>Entire Payroll</td>
<td>8,250</td>
<td>70,355</td>
</tr>
<tr>
<td>7</td>
<td>Aerospace</td>
<td>Hourly Factory</td>
<td>21,000</td>
<td>159,875</td>
</tr>
<tr>
<td>8</td>
<td>Electronic</td>
<td>Nonexempt Assembly</td>
<td>1,350</td>
<td>7,331</td>
</tr>
<tr>
<td>9</td>
<td>Electronic</td>
<td>Shop Payroll</td>
<td>91</td>
<td>551</td>
</tr>
<tr>
<td>10</td>
<td>Electronic</td>
<td>Electronic Assembly</td>
<td>126</td>
<td>738</td>
</tr>
<tr>
<td>11</td>
<td>Insurance</td>
<td>Office Supervision, Staff &amp; Clerical</td>
<td>198</td>
<td>946</td>
</tr>
<tr>
<td>12</td>
<td>Insurance</td>
<td>Entire Home Office Staff Except Executive</td>
<td>2,600</td>
<td>12,100</td>
</tr>
<tr>
<td>13</td>
<td>Steel</td>
<td>Hourly Paid Employees</td>
<td>1,640</td>
<td>14,602</td>
</tr>
<tr>
<td>14</td>
<td>Manufacturing</td>
<td>Factory Direct Labor</td>
<td>1,030</td>
<td>6,360</td>
</tr>
<tr>
<td>15</td>
<td>Manufacturing</td>
<td>Hourly Nonexempt</td>
<td>120</td>
<td>850</td>
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<tr>
<td>16</td>
<td>Transportation</td>
<td>Bargaining Unit</td>
<td>2,215</td>
<td>16,400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>TOTAL</th>
<th>Number of Firms</th>
<th>Payroll for Employees in 000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>4 Firms</td>
<td>48,780</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4 Firms</td>
<td>34,500</td>
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<td></td>
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<td>3 Firms</td>
<td>70,355</td>
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<td>3 Firms</td>
<td>159,875</td>
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<td></td>
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<td>2 Firms</td>
<td>7,331</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 Firm</td>
<td>551</td>
</tr>
<tr>
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<td>738</td>
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<td>1 Firm</td>
<td>946</td>
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<td>4 Firms</td>
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<td></td>
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<td>3 Firms</td>
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</tr>
<tr>
<td></td>
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<td>3 Firms</td>
<td>850</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1 Firm</td>
<td>16,400</td>
</tr>
</tbody>
</table>

**TOTAL** 59,210 405,506

**GROUPINGS**

91 thru 198  4 Firms
1,350 thru 1,640  4 Firms
2,215 thru 2,600  3 Firms
5,400 thru 9,700  3 Firms
21,000  1 Firm
Total Payroll

Total payroll, as presented in Table 4, was computed in the same manner as total remuneration for Workmen's Compensation premium rate application. A complete definition of total remuneration is presented in Chapter II, and in brevity, it represents total wages before deductions and includes sick pay, vacation pay, bonuses, holiday pay and overtime pay less the one half of time-and-a-half and the full time of double time.

The definition for total payroll was standardized for this study because it is used as a common denominator for all cost data collected. As a generalization, a firm's payroll figures usually represent the "total remuneration" definition plus overtime premium. It was deemed desirable to use the common denominator and to reduce the normal payroll figure by the overtime premium because in 1961, the average overtime for U.S. production workers in manufacturing, both durable and nondurable goods, was 2.4 hours.\(^3\) A firm being surveyed who experienced overtime equivalent to the national average, would have total payroll in excess of 2.5 percent of the "total remuneration" definition if it were not reduced by the premium portion of that overtime. Since this amount represents over two times the average Workmen's Compensation rate, use of a strict definition of total payroll was deemed mandatory to obtain commonality and comparability of data.

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Workmen’s Compensation Cost

Workmen's Compensation financing, as described in Chapter II, can be accomplished by one of three methods, i.e., insure with the State Compensation Insurance fund, with a private carrier or with one's self.
<table>
<thead>
<tr>
<th>Firm No.</th>
<th>Firm Classification</th>
<th>Method of Financing Workmen's Compensation</th>
<th>Composite Rate</th>
<th>Portion of Rate Applicable to Wage Replacement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Petroleum</td>
<td>Private Carrier</td>
<td>$1.61</td>
<td>$1.942</td>
</tr>
<tr>
<td>2</td>
<td>Petroleum</td>
<td>Private Carrier</td>
<td>1.46</td>
<td>.854</td>
</tr>
<tr>
<td>3</td>
<td>Banking</td>
<td>Private Carrier</td>
<td>0.16</td>
<td>.094</td>
</tr>
<tr>
<td>4</td>
<td>Auto Mfg.</td>
<td>Self Insure</td>
<td>0.68</td>
<td>.398</td>
</tr>
<tr>
<td>5</td>
<td>Utility</td>
<td>Self Insure</td>
<td>0.44</td>
<td>.257</td>
</tr>
<tr>
<td>6</td>
<td>Utility</td>
<td>Self Insure</td>
<td>0.33</td>
<td>.193</td>
</tr>
<tr>
<td>7</td>
<td>Aerospace</td>
<td>State Fund</td>
<td>0.51</td>
<td>.298</td>
</tr>
<tr>
<td>8</td>
<td>Electronic</td>
<td>Private Carrier</td>
<td>0.61</td>
<td>.357</td>
</tr>
<tr>
<td>9</td>
<td>Electronic</td>
<td>State Fund</td>
<td>0.66</td>
<td>.386</td>
</tr>
<tr>
<td>10</td>
<td>Electronic</td>
<td>State Fund</td>
<td>0.63</td>
<td>.369</td>
</tr>
<tr>
<td>11</td>
<td>Insurance</td>
<td>Private Carrier</td>
<td>0.115</td>
<td>.067</td>
</tr>
<tr>
<td>12</td>
<td>Insurance</td>
<td>State Fund</td>
<td>0.12</td>
<td>.070</td>
</tr>
<tr>
<td>13</td>
<td>Steel</td>
<td>Self Insure</td>
<td>0.84</td>
<td>.491</td>
</tr>
<tr>
<td>14</td>
<td>Manufacturing</td>
<td>Private Carrier</td>
<td>0.95</td>
<td>.556</td>
</tr>
<tr>
<td>15</td>
<td>Manufacturing</td>
<td>State Fund</td>
<td>1.94</td>
<td>1.135</td>
</tr>
<tr>
<td>16</td>
<td>Transportation</td>
<td>Self Insure</td>
<td>1.12</td>
<td>.655</td>
</tr>
</tbody>
</table>
Six firms surveyed were insured by private carriers, 5 insured by the State Compensation Insurance Fund and 5 firms self-insured Workmen's Compensation liability. Refer to Table 5 for listing of firms and method of insuring. The distribution ratio of 6:5:5 relative to method of financing was quite by accident, i.e., representing each method equally. As previously discussed, the distribution ratio of all insurers in California is approximately 7:2:1, private carrier, State Fund and self-insure, respectively, based on premiums written and losses incurred.4

The composite rate shown in Table 5 was computed for each firm by dividing total payroll by net Workmen's Compensation premium payments, and expressed in terms of each 100 dollars of payroll. Net premium payments represent total remittance less any dividends. This approach relieves the figures of potential problems attendant with utilization of the straight quoted manual/schedule/experience rate, less dividends, particularly when an employer has more than one classification rate.

That portion of the composite rate applicable to wage replacement for work-connected sickness or accident is rather difficult to ascertain very accurately. Information was obtained from the California Inspection Rating Bureau relative to both incurred losses and loading or overhead/expense factors. A letter from the Bureau, plus the enclosure to that letter titled "The Establishment Of Minimum Workmen's Compensation In-

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surance Premium Rates In California" has been included as Appendix "B". Accordingly, the applicable portion of the composite rate was derived in the manner described below.

58.5% X Composite Rate

The 58.5 percent represents that portion of incurred losses attributable to wage replacement indemnity payments.\(^5\) According to an actuary of the Rating Bureau, 6.8 percent of losses were attributable to death while 34.7 were attributable to medical expenses. The 6.8 percent for death losses also represents temporary disability indemnity payments for the employees who subsequently died. Information as to the amount applicable to disability indemnity contained in the death classification could not be located or obtained. The effect on the ultimate portion of the composite rate applicable to wage replacement is considered negligible and further research was abandoned.

The true average amount of a composite rate applicable to wage replacement could be obtained by further reducing the above formula by the apparent expense ratio of 35.29 percent for Private Carriers\(^6\) and 12.69 percent\(^7\) for the State Compensation Insurance Fund. The formula used for determining the portion of the composite rate applicable to wage replacement automatically allocates the applicable administrative expense to wage replacement.

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\(^5\)See Appendix "B" for a detailed discussion of Workmen's Compensation rate making.

\(^6\)Risenfeld, loc. cit., p. 659.

\(^7\)Loc cit., p. 658.
The same formula was utilized for those firms that self-insure Workmen's Compensation. The 58.5 percent, as discussed earlier, represents that portion of incurred losses attributable to wage replacement indemnity payments. 6.8 percent of total losses experienced by the average carrier can reasonably be assumed applicable to the self-insurer. 34.7 for medical expenses can equally be assumed. However, during the period 1940 through 1955 self-insurers experienced a 48.8 percent medical loss to total losses. More recent information was not located. During the comparable period carriers in California experienced a 38.9 percent medical loss to total losses. The 34.7 percent for medical losses was not adjusted with this information because of two primary reasons, (1) Medical Department expense allocations and (2) Workmen's Compensation administration expense allocation.

Of the firms surveyed that self-insure, all can be considered large business (in excess of 1,000 employees). Almost all large firms have a medical department regardless of method of financing Workmen's Compensation. When a firm finances through a private carrier or the State Fund, it receives a reduced rate under the Schedule Rating Plan. The carrier, however, is specifically prohibited from contributing "directly or indirectly any sum of money or percentage of premium to any employer, in reimbursement, partial or otherwise, of the cost of hire of a nurse,

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or physician employed and paid by the employer". 10 Firms that self-insure and that have medical departments, in the opinion of the author, have a tendency to expense all or a greater portion of the cost of medical coverage to Workmen's Compensation than would be available to them under the Schedule Rating Plan, thus increasing the total loss attributable to medical.

The Workmen's Compensation composite rates obtained from self-insurers in the opinion of the writer, are not as reliable as those obtained from firms who insure by other means. This conclusion is based solely on the interviews with self-insurers during the course of this study. The reasons for this conclusion are outlined below.

1. The one universally stated reason by self-insurers as their objective is the monetary advantage. The quoted savings being experienced by the self-insurer ranged from 25 to 50 percent. Several of the executives interviewed were primarily responsible for their company's decision to self-insure and now are responsible for the program. It is not inferred that the self-insurer's costs are deliberately minimized, however, the writer felt that self-insurers often did not include costs that were not directly and solely attributable to Workmen's Compensation as part of the cost of self-insuring.

2. The cost to administer the self-insurer's program was usually

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10 California, Manual of Rules, Classification, etc., loc. cit., p. 27.
quoted as one clerk or as one of several duties performed by a clerk. Depending on the company, the cost to administer ranged between 1 and 3 percent of the total cost of the program. The "cost to administer" as compared to the apparent expense ratio of private carriers and the State Fund, is considered very low.

3. Chapter III, while describing the various wage replacement programs within each selected firm, indicated that many of the program benefits overlap and as such, create opportunities for administrative interpretation. Examples of programs that may overlap are Workmen's Compensation, State Disability, Sick Leave, Retirement and Salary continuation. When programs do overlap and benefits are due and paid an employee, a true distribution of the payment may not be accomplished. An example would be an employee who is hurt on the job, is off work for 2 weeks, the employer self-insures Workmen's Compensation, and the employee has 4 weeks of available sick leave. The employee would receive 2 weeks of full pay. The employer may or may not charge the applicable portion of the second week to the Workmen's Compensation account. If, for example, the employer insured Workmen's Compensation through the State Fund or a carrier, a claim more probably would be filed.

4. The cost of Workmen's Compensation to the self-insurer during a given year is very difficult to determine unless
at least 5 years have elapsed. A large portion of the losses incurred during a given year remain unpaid and unearned at the end of that calendar year in which the accident or disability occurred. This necessitates estimates of the loss and the establishment of appropriate reserves.

Self insurers establish a budget rate for the current year in terms of each $100 of payroll. The rate is based on the amount of money in the reserve account, the estimate of unpaid liabilities and the recent historical rate experienced. This method of computing rates is not too dissimilar to the rate-making computation made by the Rating Bureau in that the manual rate is adjusted for the individual insurer through the experience, schedule and dividend systems. However, to the employer the monies expended on this type of coverage appear to be more fixed in the short run.

As was noted before, the self insurer does not really know his true cost of Workmen's Compensation for a number of years.

A self insurer's budgeted rate can vary from year to year depending on the level of employment. One firm surveyed experienced a 60 percent reduction in total employees over a two-year period. During the high of the
employment figure, losses increased beyond the budgeted rate primarily due to the large number of new employees and increased production. The budgeting miscalculation was discovered after total employees and resulting payroll had fallen considerably. The adjustment required to return reserves to an adequate level during the lower employment period increased the budgeted rate to an abnormally high figure. Thus, for that given year, the true cost of Workmen's Compensation was not discernible from the budget rate.

Unemployment Compensation Disability Insurance Cost

Unemployment Compensation Disability Insurance financing, as described in Chapter II, can be accomplished by one of three methods, i.e., insure through the State Plan, develop a Voluntary Plan and insure through a private carrier, or develop a Voluntary Plan and self-insure. Three firms surveyed had Voluntary Plans and insured the plan with a private carrier. Four firms surveyed had Voluntary Plans and self-insured the plan. The balance of the firms surveyed insured UCDI through the State Plan. Refer to Table 6 for listing of firms and method of financing UCDI.

Approximately one half of the employees covered by the survey were insured under a Voluntary Plan. The balance were insured through the State Plan. The Social Security Bulletin reports that 26 percent
of California employees were covered by Voluntary Plans in 1961. Thus the survey selection is not typical of the total population covered by UCDI. The primary reason is the predominance of large firms in the survey. Large firms tend to have Voluntary Plans. The mean number of employees per firm covered by the survey is 3701. The typical firm or median is 1635. Ten firms had 2215 employees or less and of these 10, 8 insured with the State Fund.

### Table 6

**UCDI Financing**

<table>
<thead>
<tr>
<th>FIRM NO.</th>
<th>FIRM CLASSIFICATION</th>
<th>METHOD OF FINANCING UCDI</th>
<th>COST TO EMPLOYEE AS % of 1st $3600 EARNINGS/1961</th>
<th>COST TO EMPLOYER PER $100 PAYROLL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Petroleum</td>
<td>Self Insure</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>2</td>
<td>Petroleum</td>
<td>Private Carrier</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>3</td>
<td>Banking</td>
<td>Private Carrier</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>4</td>
<td>Auto Mfg.</td>
<td>State Fund</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>5</td>
<td>Utility</td>
<td>Self Insure</td>
<td>.75%</td>
<td>None</td>
</tr>
<tr>
<td>6</td>
<td>Utility</td>
<td>Self Insure</td>
<td>1%</td>
<td>$0.30</td>
</tr>
<tr>
<td>7</td>
<td>Aerospace</td>
<td>State Fund</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>8</td>
<td>Electronics</td>
<td>State Fund</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>9</td>
<td>Electronics</td>
<td>State Fund</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>10</td>
<td>Electronics</td>
<td>State Fund</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>11</td>
<td>Insurance</td>
<td>Self Insure</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>12</td>
<td>Insurance</td>
<td>Private Carrier</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>13</td>
<td>Steel</td>
<td>State Fund</td>
<td>.18%</td>
<td>$0.33</td>
</tr>
<tr>
<td>14</td>
<td>Manufacturing</td>
<td>State Fund</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>15</td>
<td>Manufacturing</td>
<td>State Fund</td>
<td>1%</td>
<td>None</td>
</tr>
<tr>
<td>16</td>
<td>Transportation</td>
<td>State Fund</td>
<td>1%</td>
<td>None</td>
</tr>
</tbody>
</table>

---

Four firms self-insured their Voluntary Plan (Firms #1, 5, 6, and 11). Firms #1 and #11 credit employee contributions and charge UCDI and sick leave disbursements to the same account. Firm #5 maintains separate accountability of the benefits and passed on an average yearly savings to employees in the form of a reduced payroll deduction. UCDI deductions were .75 percent of the first $3600 in earnings. Firm #6's UCDI voluntary Plan benefits are greatly expanded and called Comprehensive Disability. This plan is comparable to firm #5's income replacement plan called Protection Retirement Disability. Both firm #5 and firm #6 are utilities and the two plans appear to be competitive. It is interesting to note a similarity in cost of the two programs. Firm #5's plan is included under UCDI and costs the firm $.30 per $100 payroll. Firm #5 deducts 1% from employees up to $3600. Firm #6's plan costs $.37 per $100 payroll and deducts .75 percent from employees up to $3600. The representatives interviewed from firm #1 and firm #11 stated they were ahead by self-insuring. Firm #5 must be ahead by self-insuring as represented by the reduced employee contribution rate. No comment was asked for or obtained from firm #6.

Firm #13 was the only other firm that had a recorded cost of UCDI. The reason for the cost was that the firm was under a nationwide labor agreement that included a wage replacement clause. California UCDI benefits are greater than the contract clause, therefore California employees are insured through the State Plan. Employee contributions are reduced by the nationwide average cost per employee of the Contract Clause. The company thus forwards this average cost plus the employees' contri-
bution to the State Fund. Firm #4 was similar to #13 in that the firm was under a nationwide contract that included a wage replacement clause. The clause included contributions by employees. In California, however, employees pay the normal 1 percent UCDI contribution to the State Fund in lieu of the normal contribution to the company. The benefits under the clause are greater than UCDI and the company pays any difference to the employee. The cost of the benefit to the firm was 14 cents per $100 payroll and was not classified under UCDI in Table 6.

It was observed that firms have different methods of handling the relationship of the UCDI hospital benefit and hospital benefits under their group medical insurance. An outline of the various treatments is made in Table 7. All firms surveyed had a group medical insurance plan. Employers contributed the entire cost of the employee coverage in 4 firms. The balance of the firms contributed to the cost of the plan as did the employee. As was previously discussed, the cost of UCDI was paid by the employee in all firms except one. Against this background of employee contributions, all but three firms reduced the group hospital benefit by any benefits the employee receives under the UCDI hospital benefit. Employees in 7 companies must apply to the State for part of their hospital benefit and to the medical insuring company for the balance. Employees in the other two firms that have a State Plan for UCDI may file duplicate claims for hospital benefits, one to the State and one to the insuring company. It can be concluded from these findings that many employers have reduced the cost of their group medical insurance plan and in some cases their Voluntary UCDI Plan through elimination of duplicate coverage of hospital benefits.
Twelve of the 16 firms surveyed had formalized sick leave policies. Two of the four firms that did not have a sick leave policy or program had supplemental benefits to UCDI and Workmen's Compensation temporary Disability provisions. Another firm had an informal sick leave policy. Only one firm did not have any form of sick leave or salary replacement other than UCDI benefits. Sick Leave programs are by far the most costly single program adopted by firms to replace employees' lost wages due to sickness or accident. An outline of the various firm's sick leave plans is presented in Table 8.

<table>
<thead>
<tr>
<th>FIRM NO.</th>
<th>FIRM CLASSIFICATION</th>
<th>GROUP MEDICAL INSURANCE</th>
<th>EMPLOYER CONTRIBUTES</th>
<th>EMPLOYEE CONTRIBUTES</th>
<th>GROUP HOSPITAL BENEFIT REDUCED BY UCDI BENEFIT</th>
<th>EMPLOYER CONTRIBUTES TO UCDI COVERAGE</th>
<th>STATE PLAN FOR UCDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Petroleum</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>2</td>
<td>Petroleum</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>3</td>
<td>Banking</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>4</td>
<td>Auto Mfg.</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>5</td>
<td>Utility</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>6</td>
<td>Utility</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>7</td>
<td>Aerospace</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>8</td>
<td>Electronics</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>9</td>
<td>Electronics</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>10</td>
<td>Electronics</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>11</td>
<td>Insurance</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>12</td>
<td>Insurance</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>13</td>
<td>Steel</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>14</td>
<td>Manufacturing</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>15</td>
<td>Manufacturing</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
<tr>
<td>16</td>
<td>Transportation</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
<td>yes</td>
</tr>
</tbody>
</table>

**Sick Leave**
<table>
<thead>
<tr>
<th>Firm No.</th>
<th>Firm Classification</th>
<th>Number of Days Sick Leave Per Year</th>
<th>Length of Service Requirement for Eligibility</th>
<th>Accumulation Policy</th>
<th>Sick Leave Cost Per $100 of Payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Petroleum</td>
<td>10/yr first 4 years, 15/yr thereafter</td>
<td>1 year</td>
<td>130 days maximum accum.</td>
<td>$1.78</td>
</tr>
<tr>
<td>2</td>
<td>Petroleum</td>
<td>5 full pay days plus 10 half-pay days for each year of service per year</td>
<td>1 year</td>
<td>Not cumulative from year to year</td>
<td>2.18</td>
</tr>
<tr>
<td>3</td>
<td>Banking</td>
<td>10/yr for short illnesses. 20/yr for each 2 years of service for lengthy illnesses.</td>
<td>None</td>
<td>Not cumulative from year to year</td>
<td>1.89</td>
</tr>
<tr>
<td>4</td>
<td>Auto Mfg.</td>
<td>None</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>5</td>
<td>Utility</td>
<td>Scaled from 8/yr for 2 years of service to 40/yr for 9 years of service</td>
<td>6 months</td>
<td>Not cumulative from year to year</td>
<td>2.53</td>
</tr>
<tr>
<td>6</td>
<td>Utility</td>
<td>15/yr</td>
<td>1 year</td>
<td>Cumulative for indefinite period</td>
<td>2.20</td>
</tr>
<tr>
<td>7</td>
<td>Aerospace</td>
<td>Approx. 5/year</td>
<td>None</td>
<td>Not cumulative from year to year</td>
<td>2.05</td>
</tr>
<tr>
<td>8</td>
<td>Electronics</td>
<td>6/yr</td>
<td>1 month</td>
<td>13 days max. cumulation</td>
<td>1.84</td>
</tr>
<tr>
<td>9</td>
<td>Electronics</td>
<td>5/yr</td>
<td>3 months</td>
<td>Approx. 14 1/2 days maximum cumulation¶</td>
<td>1.81</td>
</tr>
<tr>
<td>10</td>
<td>Electronics</td>
<td>5/yr</td>
<td>1 year</td>
<td>Cumulative for indefinite period</td>
<td>1.41</td>
</tr>
<tr>
<td>11</td>
<td>Insurance</td>
<td>Scaled from 10/yr for 1 year of service to 60/yr for 15 years of service. Full pay plus partial pay days scaled from 20/year to 180/yr for 15 years of service</td>
<td>3 months</td>
<td>Not cumulative from year to year</td>
<td>2.17</td>
</tr>
<tr>
<td>12</td>
<td>Insurance</td>
<td>8/year first 5 years, 16/year thereafter</td>
<td>3 months</td>
<td>Cumulative for indefinite period except that full pay for 1st 20 days during any one illness and 80% pay thereafter until accumulated sick leave days are exhausted</td>
<td>1.56</td>
</tr>
<tr>
<td>13</td>
<td>Steel</td>
<td>None</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>14</td>
<td>Manufacturing</td>
<td>5/yr</td>
<td>6 months</td>
<td>8 days for less than 5 yrs of service, indefinite thereafter, however, max. of 10 days available/year</td>
<td>0.82</td>
</tr>
<tr>
<td>15</td>
<td>Manufacturing</td>
<td>Not formalized</td>
<td>6 months</td>
<td>Not formalized</td>
<td>0.35</td>
</tr>
<tr>
<td>16</td>
<td>Transportation</td>
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<td>--</td>
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</tr>
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</table>

¶Unused sick leave is paid to the employee at normal earning rate.
Among the various sick leave plans there appeared no specific correlation between the cost of the plan and any one provision. Instead, the cost of any given plan was dependent on the total administrative definition of the plan, and in some cases the interrelationships with other benefits. The various provisions effecting the cost of sick leave plans are discussed in the following paragraphs. The one factor that was felt would likely dominate the cost would be the number of days' sick leave allowed per year. A comparison of the two columns titled "Number of Days Sick Leave Per Year" and "Sick Leave Cost Per $100 of Payroll" in Table 8 depicts no correlation.

Personnel working on a salary tend to have more liberal sick leave benefits, in terms of cost, than those working on an hourly basis. Examples of firms having a large percentage of salary workers are Utility, Insurance and Banking. Examples of firms with a large percentage of hourly workers are Auto, Steel and Manufacturing. Workers in the transportation firm surveyed were paid on a commission basis with a weekly minimum wage and had no sick leave plan nor supplemental benefit for UCDI or Workmen's Compensation.

There was not a positive correlation between the size of a firm and the cost of its sick leave program. However, the 3 firms with the highest cost of sick leave were among the 4 largest firms. It is believed that if a larger number of small firms were included in the survey (firms with less than 150 employees), a better correlation would be obtained between the size of a firm and the cost of sick leave programs, i.e., larger firms have higher cost for sick leave programs since many small
firms do not have a sick leave program.

As was pointed out previously, the total administrative definition of a sick leave plan determines the cost. Among the more common administrative points or characteristics of a sick leave plan are length of service for eligibility, accumulation policy, pay for unused sick leave, relationship of UC DI or Workmen's Compensation temporary disability payments and sick leave benefits, waiting periods, doctor certificates, and first line supervision's actual practice in authorizing a sick day.

1. Length of Service for Eligibility--The length of service required before an employee becomes eligible ranges from zero to 1 year. Two firms had no eligibility requirement, one had 1 month, three had 3 months, three had 6 months, and four had a 1 year period. Firms also varied in their policy in defining eligibility in relation to length of service in that some firms begin to credit sick leave to an employee from the hire date, others from the eligibility date. Two examples of this are firms #1 and #2. Employees in firm #1 are credited with a full years' allowance after one year of service, while employees in firm #2 only, begin to accumulate sick leave after one year of service.

2. Accumulation Policy--Maximum accumulation of sick leave credits ranged from a one year's allowance to indefinite accumulation. Six firms had a maximum accumulation of one year's allowance. Two firms had an indefinite accumulation policy. The balance of 4 firms had varying amounts (see
firms #1, 8, 9 and 14). Accumulation policy also varied in that some firms credited employees with a full year's allowance at the beginning of the calendar year, or in some cases, at the employee's anniversary date while others credited an employee's sick leave account on a regular monthly or bimonthly period based on service for the preceding period of time. The effect on the employee is that the first company's employee has his full year's allowance available anytime during the year while the latter company's employee has only his accumulated credits available. The tendency is to establish a policy for the latter employee, of more than one year's allowance while the former frequently is not allowed to accumulate from year to year.

3. Pay for unused Sick Leave—Two firms (#9 and #7) followed a policy of paying employees for unused sick leave. Firm #9 paid employees, at the respective employee's normal rate, for any accumulated sick leave in excess of 2 years' allowance at the end of the firm's fiscal year. Firm #7 prepared a check at the employee's anniversary date for sick leave in the amount of 2 percent of the employee's total earnings for the preceding year. When an employee is absent he does not receive sick leave pay. The executive interviewed stated that the firm had at one time followed the practice of paying employees when absent,
who had sick leave credits, and would charge sick leave. Under this system, the average number of days used per employee per year approached the yearly allowance. Their current practice discourages unwarranted absence and minimizes administration costs.

The practice of paying for unused sick leave appears to be rather costly in terms of dollars paid employees per sick leave day allowance. A review of Table 8 indicates that firms with larger sick leave allowances have, proportionately less costs than do firms #7 and #9. The possibility of offsetting savings from increased efficiency due to reduced absences and administrative costs, is not within the purview of this study.

4. Waiting Period and Doctor's Certificate—Only firm #14 had a waiting period before an employee was eligible for sick leave. Employees with less than 1 year service were eligible on the 4th day of illness. Employees with 1 year service but less than 5 were eligible on the 2nd day. Employees with over 5 years' service had no waiting period. It is believed that the waiting period is the primary reason for the low cost (82 cents per $100 dollars of payroll) being experienced by firm #14.

Only firm #11 requires a doctor's certificate when an employee requests sick leave pay. Firm #11 requires a doctor's certificate when (1) an employee is absent more
than 3 days or (2) an employee is absent and has used more
than 11 days sick leave during the preceding 12 months.
Only firm #5 requires that a sick leave report be filed
whenever an employee receives sick pay. Additionally, a
doctor's certificate is required when the employee is
hospitalized or is sick longer than 7 calendar days.
This requirement is for UCDI hospital and temporary dis-
ability benefits.

5. UCDI and Workmen's Compensation Relationship to the Sick
Leave Plan--The cost of a sick leave program can be
affected when a firm self-insures Workmen's Compensation
or when a firm has a Voluntary Plan for UCDI. Contrarily,
the cost of a sick leave program tends to be the most
accurate when UCDI is through the State Fund and Workmen's
Compensation is insured through the State Compensation
Insurance Fund. Some of the reasoning for these statements
are outlined below.
There is a tendency for an employer and employee to obtain
all that is rightly due from the detached insuring agency
such as a State Fund. There is reason to be adminis-
tratively sharp in this area. Further, many firms follow
a policy of not allowing Temporary Disability Indemnity
and sick leave to exceed the employees normal salary.
Some of these firms charge a proportionate day of sick
leave for the supplement to the Temporary Disability
Indemnity while other firms charge a full sick day. As was previously discussed, some firms that self-insure UCDI commingle UCDI and sick leave in one account. Any savings or losses from the UCDI plan will affect the cost of sick leave. Firm #6 self-insures both UCDI and Workmen's Compensation. All sick leave is exhausted before UCDI benefits begin, however, sick pay supplements Workmen's Compensation Indemnity with only a proportionate day of sick leave charged.

**Dismemberment Insurance**

Dismemberment provisions are included in the study as they are considered a form of wage replacement for sustaining a disability. Workmen's Compensation provisions the loss of both eyes or the use thereof and the loss of both hands or the use thereof as "conclusively presumed to be total in character". The worker, if the accident occurred on the job, would receive permanent disability indemnity for the remainder of his life. Malingering, in Workmen's Compensation, is not encouraged in that the employee is encouraged to obtain gainful employment without resulting in the loss of indemnity payments. Dismemberment provisions of the various Group Health or Group Insurance plans are similar in that the injury in itself is conclusive in nature with the total amount of coverage being paid immediately. Subsequent rehabilitation and gainful employment does not reverse the award.

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12 California, Labor Code, (Sacramento: Documents Section, Printing Division; 1961), Article 4662, p. 204.
The philosophy behind the conclusiveness of dismemberment goes beyond the obvious visual loss and physical impact and includes the nebulous and undeterminable injury to the rest of the body; physically, biologically and mentally. In order to reduce the injury to a measurable and administratable accident, conclusiveness is presumed. Dismemberment provisions in Group Health and Group Insurance plans are not like Workmen's Compensation in that the indemnity is paid for non-occupationally as well as occupationally incurred dismemberments. An outline of the various dismemberment provisions found in the firms included in the survey is presented in Table 9. Ten of the 16 firms had dismemberment provisions. All dismemberment policies were similar in that the full amount of the coverage was paid for loss of both hands, or both feet, or the loss of sight of both eyes, or the combination of any two thereof and one-half the amount of coverage was paid for the loss of one hand, one foot, or the loss of sight in one eye. Eight of the firms had dismemberment provisions included in their Group Health/Insurance Program or Plan. One of the 10 firms included dismemberment in its Group Insurance Plan while another had a separate insurance program titled Accidental Death and Dismemberment.

Of the 6 firms that did not have dismemberment provisions, 4 had a program to provide disability benefits, however, the programs did not specifically specify dismemberment. It can be assumed that if dismemberment prevented the employee from working, and if other provisions were complied with, indemnity would be paid for the duration of the disability or until the benefits expired. Further details can be found
### Table 9: Dismemberment Insurance

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<tr>
<th>Firm</th>
<th>Dismemberment Provisions</th>
<th>Estimated Cost/$100 Payroll</th>
<th>Part of Group Health Insurance Plan</th>
<th>Employer Pays Entire Cost of Dismemberment</th>
<th>Employer/Employee Share Cost of Dismemberment</th>
</tr>
</thead>
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<tr>
<td>1</td>
<td>$2,000 &amp; $200/mo. Earnings to $5,000 for $350/mo. or more&lt;sup&gt;a&lt;/sup&gt;</td>
<td>0.01</td>
<td>Yes</td>
<td>Yes</td>
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<td>2</td>
<td>$3,000 for all employees&lt;sup&gt;b&lt;/sup&gt;</td>
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<td>No</td>
<td>Yes</td>
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<tr>
<td>3</td>
<td>None&lt;sup&gt;b&lt;/sup&gt;</td>
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</tr>
<tr>
<td>4</td>
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</tr>
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<td>---</td>
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</tr>
<tr>
<td>7</td>
<td>$4,000 for $1.50/hr to $6,000 for $1.90/hr or over&lt;sup&gt;a&lt;/sup&gt;</td>
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<td>Yes</td>
<td>No</td>
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<td>Yes</td>
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<tr>
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<td>No</td>
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<tr>
<td>15</td>
<td>$4,000 for less than 1 year service, $8,000 for over 1 year service&lt;sup&gt;a&lt;/sup&gt;</td>
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<td>16</td>
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</tbody>
</table>

<sup>a</sup>The full amount of the insurance is paid for loss of both hands, or both feet, or the loss of sight of both eyes, or the combination of any two thereof. One half the amount is paid for the loss of one hand, one foot, or the loss of sight in one eye.

<sup>b</sup>Firm has a program for disability benefits, however, program does not specifically specify dismemberment provision. Refer individual firm summary of benefits in Chapter III.
in Chapter III for these programs (Firms #3, 4, 5 and 6).

The cost of dismemberment insurance to a firm was computed in terms of $100 "total remuneration". The method of computation was as follows.

1. The cost of dismemberment insurance was stated to be approximately 1 cent per $1000 per month by personnel in the Los Angeles headquarters of Traveler's Insurance Company.

2. The average amount of insurance coverage per employee within each firm was determined by dividing total remuneration for 1961 by the average number of employees during the year for that firm. This figure was then divided by either 1, 12, 52 or 2080 depending on the base term expressed in the chart of insurance coverage. One, 12, 52 and 2080 represent year, month, week and hour respectively. The figure thus obtained correlated to the individual firm's chart of insurance coverage for dismemberment gives the average employee's dismemberment coverage.

3. The average amount of insurance coverage times 1 cent per $1000 coverage gives the average cost per month per employee. This figure was multiplied either by 1 or by 1/2 depending on whether the firm paid the entire cost of the coverage or whether the firm and the employee both contributed to the cost of the coverage. The standard of 1/2 was adopted when both employer and employee contribute because (1) the small amount of cost involved in this particular provision and (2) most dismemberment provisions are included with at least one or more other
insurance provisions thus precluding an exact allocation of contributions by contributor and by provision.

4. The average cost to the firm per employee per month was then divided by the average number of 100 dollars total remuneration received per employee per month.

5. The method of computation of the average cost to the firm of dismemberment coverage in terms of 100 dollars of payroll can be summarized as follows:

\[
\frac{\text{Total Remuneration in 1961}}{\text{Average Number of Employees in 1961}} = \frac{1,12,52 \text{ or } 2080}{\text{Average Base Rate for insurance}}
\]

\[
\text{Average Base Rate for Insurance} = \frac{\text{Average Amount of Insurance Coverage}}{\text{Average Number of X}}
\]

\[
\text{Average Amount of Insurance Coverage} \times \frac{1}{1000} = \frac{\text{Employer Share of Cost}}{\text{Average Number of $100 Total Remuneration per Employee}}
\]

\[
\text{Average Cost to the Firm per $100 Total Remuneration} = \frac{\text{Average Cost to the Firm per $100}}{\text{Total Remuneration}}
\]

6. The computation for firm #1

\[
\frac{9,150,000}{1,600} = 12 = \$477
\]

\[
\$477 = \$5,000
\]

\[
\$5,000 \times \frac{1}{1000} = \frac{4.7}{4.7} = \$0.01/100 \text{ Total Remuneration}
\]

**Disability Retirement**

Thirteen of the firms surveyed had a retirement plan for their employees. The 3 firms that did not have a plan were the smallest firms,
in terms of average number of employees, included in the study (Firm 9, 10 and 15). Eight firms had disability provisions in their retirement plans. All other firms who had retirement plans had provisions for early retirement. It can be assumed that an employee who would otherwise qualify could retire early or before the normal age if he became disabled and could not continue working.

The cost of a disability provision in retirement plans was not available for most firms. It was concluded that the applicable cost might be determined, but only after a thorough study of each retirement plan. This approach was deemed not within the purview of this study primarily because of the extensiveness of work required and because pension plans are a study in themselves.

**TABLE 10**

<table>
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</table>

*Early Retirement Possible With Benefits

Disability pension costs were available from two firms. Costs were available because (1) each of the firms followed a policy of self-insuring the provision separately from any other program including their
pension plan and (2) the plan included employees that normally would not be eligible for the pension plan since in both firms the main eligibility requirement was 10 years' service. Firm #7 had fewer employees receiving indemnity payments since they had only recently established their program, thus partly explaining the smaller cost as compared to firm #4. Another reason for the lower cost was that employees had to be 45 years or older to be eligible, while in firm #4 there was no age requirement. The cost per $100 total remuneration for the programs was $0.03 for firm #7 and $0.20 for firm #4. The cost represents actual expenditures or total indemnity paid during 1961.
CHAPTER V

CALIFORNIA MINIMUM REQUIREMENTS COMPARED WITH SELECTED FIRMS

The primary purpose of this chapter is to test the hypothesis that created this study. The hypothesis of this study is:

Industry in Southern California, as exemplified by selected firms, has exceeded minimum legal requirements to a major extent in providing hourly employees with pay for time not worked due to accident or illness.

"Legal requirements" is defined as the requirements of the State of California on Workmen's Compensation and Unemployment Compensation Disability Benefits as prescribed in the State of California Labor Code and the State of California Unemployment Insurance Code. All other wage replacement programs are considered to be non-California requirements. Various wage replacement programs for wages lost due to sickness or accident gathered and measured from selected firms included sick leave, dismemberment insurance, disability provisions in pension plans, salary continuation, and Workmen's Compensation supplements.

The hypothesis will be tested by comparing costs of California required benefits to those benefits not required by the State. Substantiation of the hypothesis can be accomplished if the ratio of
<table>
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<th>Firm No.</th>
<th>California Requirements</th>
<th>Non-California Requirements</th>
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<tr>
<td></td>
<td>Workmen's Compensation</td>
<td>Sick Leave</td>
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<td></td>
<td>Disability Payments</td>
<td>Dismemberment</td>
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<td>UCDI Coverage</td>
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<td>Total</td>
<td>Provision in Retirement Plan</td>
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<td>Other Disability Programs</td>
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<tr>
<td></td>
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</tbody>
</table>

Total | $7,452 | $23,995

* N.A.—Costs not available
corresponding costs exceeds 3. "Major extent" in the hypothesis is defined as benefits costing three times those required as legal minimums.

Table 11 presents the total cost of California required programs, i.e., Workmen's Compensation and UCDI, to the various firms surveyed. Table 11 also presents the total cost to the various firms of their wage replacement programs not required by California, i.e., sick leave, dismemberment insurance, disability provisions in retirement plans and other miscellaneous wage replacement programs. All costs are expressed per $100 total remuneration. The hypothesis is substantiated in terms of total costs to the 16 selected firms in that the total cost of California required wage replacement programs is $7.452 per $1600 of payroll as compared to $23.995 for non-California required wage replacement programs. The ratio of $23.995 to $7.452 is 3.2. It can be said that the average firm exceeds the minimum State requirements, in terms of cost, by a ratio of 3.2 in providing hourly employees with pay for time not worked due to sickness or accident.

It can further be said that the total cost to the average firm is 422 percent of the legal minimum requirements. Additionally, the ratio and percentage would be higher if administrative costs were measurable and included in the non-California required programs. Administrative costs were included in Workmen's Compensation.

Table 12 presents the ratio of non-California required programs to California requirements for each of the selected firms. Nine firms exceeded the hypothesis ratio of 3 while 7 firms did not. 59,210 employees were covered by the survey. For each employee that was with a firm that
<table>
<thead>
<tr>
<th>Firm No.</th>
<th>Total Cost of California Requirements</th>
<th>Total Cost of Non-Calif. Requirements</th>
<th>Ratio of Column 2 to Column 1</th>
<th>Total Number of Employees When Column 3 is under 3.0</th>
<th>Total Number of Employees When Column 3 is over 3.0</th>
<th>Total Remuneration When Column 3 is Under 3.0</th>
<th>Total Remuneration When Column 3 is Over 3.0</th>
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</thead>
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<tr>
<td>1</td>
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<td>1,600</td>
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<td>2</td>
<td>0.854</td>
<td>2.185</td>
<td>2.6</td>
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<td>3</td>
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<td>1.93</td>
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<td>4</td>
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<td>0.34</td>
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<td>0.193</td>
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<td></td>
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<tr>
<td>7</td>
<td>0.298</td>
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<td>2,215</td>
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<td>16,400</td>
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<tr>
<td>Totals</td>
<td>$7.452</td>
<td>$23.995</td>
<td>3.2</td>
<td>10,495</td>
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<td>48,715</td>
<td>70,330</td>
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</tbody>
</table>

**Ratio of Column 5 to 4 is 4.6**

**Ratio of Column 7 to 6 is 4.8**
did not exceed the hypothesis ratio of 3, 4.6 employees were with a firm that did. It appears that those employees who are employed by firms that do exceed the hypothesis ratio are not adversely effected by total remuneration in that they received a larger average annual total remuneration than did those employees who were employed by firms that did not exceed the hypothesis ratio of 3. The average wage is $6880 to $6701. Table 12, therefore, further substantiates the hypothesis in terms of number of firms, number of employees and average total remuneration per employee.
CHAPTER VI

SUMMARY AND CONCLUSION

Formal commitment by employers to replace a portion of wages lost by employees due to sickness and accident dates back to 1908 and the first Workmen's Compensation legislation. Workers' desire for more economic security than was required by law has moved most employers to establish other wage replacement programs. These other or non-California required programs have evolved primarily within given firms and as such, a widespread variance in methodology, terminology and extent of security provided, exists among firms. These variances exist even among firms within the same industry as is shown in Chapter III and IV. The variance among firms and lack of knowledge of how much industry has exceeded minimal requirements encouraged the development and desirability of testing the hypothesis that Industry has exceeded minimum legal requirements by threefold.

In order to test the hypothesis, it was necessary to examine sickness and accident wage replacement policies and programs of various firms in Southern California. Sixteen firms were selected which ranged from 91 to 21,000 employees in the wage category of interest. Prior to contacting the selected firms, a thorough study was made of the two California-required laws in the area of wage replacement. These were Workmen's Compensation and Unemployment Compensation Disability Insurance.
Next, a listing was prepared of all benefits likely to be encountered which replace lost wages owing to sickness or accident.

A survey form was prepared to classify and record data collected during interviews with personnel at selected firms. The form helped collate and condense data for analysis. Further, use of the form reduced spurious information and maximized both the quality and usefulness of the data collected.

The various wage replacement benefits were reduced to a "cost per $100 total remuneration". This denominator was selected because Workmen's Compensation premiums, the prime State requirement affecting the employer, are computed on this basis. Benefits were divided into two categories, those required by the State and those not required by the State. Various statistics were tabulated for application of quantitative and qualitative analyses.

The hypothesis was tested by comparing costs of California-required benefits to those benefits not required by California. The hypothesis was substantiated in that the ratio of the cost of non-required to required benefits was 3.2. It can be said that industry in Southern California, as exemplified by selected firms, exceed the minimum legal requirements to major extent in providing hourly employees with pay for time not worked due to sickness or accident.

The hypothesis was also substantiated in terms of the number of firms, number of employees, and average total remuneration per employee, in that (1) nine firms exceeded the hypothesis ratio of 3, (2) for each employee that worked for a firm that did not exceed the hypothesis ratio
of 3, 4.6 employees worked for a firm that did, and (3) those employees who worked for a firm which exceeded the hypothesis ratio 3, received a larger average annual total remuneration than those employees who worked for a firm which did not exceed the hypothesis ratio.

The hypothesis indicates that the role of the State is no longer the predominant force in terms of costs to the employer. The cost of Workmen's Compensation to California industry, as a percentage of payroll, is substantially the same today as it was 40 years ago. The cost to employers for benefits that replace employees' lost wages has increased over the last 40 years. The basic hypothesis of this paper is that the increase has been threefold. State laws which once caused the predominant cost of this type of employee benefit now account for only approximately one fourth of the total package.

Fringe benefit growth, during recent years, has substantially improved employee well being. This growth has also increased the cost of doing business. The Chamber of Commerce of the United States conducts a biennial survey on fringe benefits. In 1961, 91 of the companies surveyed had participated regularly since 1947. These 91 companies reported fringe benefits amounting to 14.7 percent of payroll in 1947 and 26.4 percent in 1961.

The fringe benefit trend does not indicate any reversal, and since the forces that have caused this trend are still active, it can be assumed that benefits to replace wages lost as a result of sickness or accident will continue to rise. Interviews with personnel of selected firms frequently indicated recently established benefits, recent increase in existing benefits, or current consideration of new benefits in the area
of replacement of lost wages.

Since the role of State is no longer dominant and since the fringe benefit trend shows no indication of reversing or even slowing down, attention must be focused on what these non-California required benefits are, what they cost, which ones are most costly, and what controls and alternatives can be developed by the individual business enterprise to maximize benefits to the employee per unit of cost to the employer.

In the area of replacement of wages lost due to sickness or accident, sick leave programs are by far the most expensive non-California required benefit. A review of Table 11 indicates that sick leave programs exceed the cost of Workmen's Compensation for the majority of firms.

It is felt that employers should note two facts enumerated in the last several paragraphs: The fringe benefit trend does not indicate any reversal since the desire on the part of the employee for more security is still very active, and sick leave programs are by far the most expensive wage replacement benefit. A combination of these two facts develops an alternative that, in the author's opinion, tends to maximize benefits to the employee per unit of cost to the employer. The alternative is to establish a salary continuation plan to commence paying benefits after 6 months' total disability and to finance this plan by establishing a one-day waiting period before sick leave benefits commence.

Sick leave programs are primarily designed to replace employees' lost wages caused by one and two-day illnesses and to fill the gap of the seven calendar day waiting period for non-hospitalized UCDI or Workmen's Compensation temporary disability indemnity. Among the various
sick leave plans, as described in Chapter III, there appeared no specific correlation between the cost of the plan and any one characteristic. Instead, the cost of any given plan was dependent on the total administrative definition of the plan. The one factor that was felt would likely dominate the cost, would be the number of days' sick leave allowed per year. Close scrutiny of Table 8 depicts no correlation.

Only firm #14 had a waiting period before an employee was eligible for sick leave benefits. Employees with less than 1 year service were eligible on the 4th day of illness. Employees with 1 year service, but less than 5, were eligible on the 2nd day. Employees with over 5 years' service had no waiting period. It is believed that the waiting period is the primary reason for the low cost (82 cents per 100 dollars of payroll) being experienced by firm #14. A correlation between waiting period and cost was not possible in this survey since only 1 firm had a waiting period. However, it can reasonably be assumed that a positive correlation exists.

It is estimated that a one-day waiting period would reduce the average sick leave program cost from $2 per $100 total remuneration to $1.50. The $.50 savings is considered to be conservative. An alternative to the one-day waiting period is paying only 3/4 pay for a sick leave day in lieu of the usual full pay. This policy can also be estimated to save approximately $.50 for the average sick leave plan. The two main limiting factors in adopting either of the above alternatives are (1) difficulty in application to many salary office groups and (2) the possible encouragement of employees to work when they have a contagious illness.
A salary continuation plan in effect at one of the selected firms will be used as an example. The plan was not included in the survey because it was available only to exempt employees. The cost of the plan is $0.34 per $100 total remuneration, and is considered very reliable since the employee pays the entire cost of the plan and the cost quoted is the actual payroll deduction. The more salient points of the program are as follows:

1. An employee who earns between $8,000 and $10,000 receives a weekly benefit of $115.00.

2. The payroll deduction is $2.40 per month.

3. Payments begin after 90 days of total disability. Any UCDI, Workmen's Compensation, or Social Security benefits received reduce the insurance payments correspondingly. Therefore, the maximum benefit from any of the 4 sources will be $115.00 per week.

4. The payments continue as long as the employee is disabled until age 65 for sickness or age 68 if disability results from an accident.

5. The plan requires that 75% of eligible employees enroll.

The low rate of 34 cents per $100 total remuneration was obtained because over 3,000 employees currently have joined the plan. It must be noted that the cost would tend to double when the total number of employees covered in a plan approaches approximately 50. Additionally, the sample plan described above covered a rather low risk group. A comparison of other wage replacement plans that commence after sick leave
benefits are exhausted can be obtained by reference to firms #5 and #6. Their plans cost $.37 and $.30 respectively.

The basic principle used in the suggested alternative is the incidence of short term disability as compared to long term. It is felt that employees would be adequately covered by current sick leave programs that would be modified as suggested, along with UCDI indemnity for the first 90 to 180 days. After this period, a long uncertain period exists for most employees. A salary continuation program can fill this void in the majority of fringe benefit packages.

The Chamber of Commerce estimates that the average fringe benefit package amounts to 24.9% of payroll, 61.6 cents per payroll hour, or $1,254 per year per employee. This report indicates that employers in Southern California average $1.97 per 100 dollars total remuneration for replacement of lost wages caused by sickness and accident.

It is sad to report that most employees do not understand their various wage replacement programs. The extent of coverage and interrelationship of sick leave, UCDI, Workmen's Compensation and Social Security are not clear, nor could even be intelligently discussed by 15 non-supervisory employees questioned by the writer.

"The extent of management's interest in its benefit program seems to reflect the attitude of employees toward such programs." In deter-

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mining the attitudes of employees in 11 companies where benefits are not explained, a recent survey indicated that only 48% of the employees were pleased with their programs, while only 43% indicated they understood the benefits provided. On the other hand, the survey showed a direct correlation between the interest exhibited by management in employee welfare and favorable reaction of employees toward their benefits. Firms and management should organize an information campaign to indicate interest and to educate their employees on the fringe benefits provided and available in order to maximize good will toward the company and the morale of the individual employee.

3 Ibid.
The purpose of the survey is to measure the employer's cost of programs that are for the purpose of replacing hourly/non-exempt employee's lost wages due to sickness or accident. Survey form will be completed with the aid of R. A. Crepa.

SECTION I

1. Company Name

2. Plant(s) or Division(s) covered by survey and address(es).

3. Time period covered by survey. (Twelve calendar months is the most desirable).
   From ___________________ To ___________________

4.a. Total number of employees during period. (A desirable method of computation is to total the number of employees at the end of each month or pay period covered by the survey and divide by the number of months or pay periods).

4.b. Total payroll during period

4.c. Total number of hours worked during the period. Regular
   Premium

5.a. Name or description of group covered in survey

5.b. Total number of employees in group covered by survey.
5.c. Total payroll during period for group covered in survey.__________________________

5.d. Total number of hours worked during the period by group covered in survey.

Regular

Premium

6. Name and title of person completing survey form.________________________________

7. Date completed.________________________________________________________________

SECTION II

8.a. How is Workman’s Compensation financed? (State Fund, private insurance company or self-insured).

8.b. Total Workman’s Compensation Benefit Cost during the period covered by survey. (If insurance is carried with a private company or the State Fund, enter the net premium amount. Dividends should be subtracted from gross premiums so that the figure reflects net costs. Where necessary, prorate premium payments to correspond to the time period covered by the survey. If program is self-insured, costs should reflect actual costs, including those costs that would be incorporated in the retention charges under an insured program).

8.c. What portion of 8.b. was for medical?

Weekly Wage Replacement?______________ Death Benefit?______________

All other? (Explain)

9. What portion of 8.c. was applicable to group covered in survey for medical?

Weekly Wage Replacement?______________ Death Benefit?______________

All other? (Explain)

10. What are the Workman’s Compensation Rate Classification(s) and number of employees in each classification for group covered by survey? (Total number should equal number in 5.b.).

_________________________________________________________________________

_________________________________________________________________________
SECTION III

11. How is California Temporary Disability Insurance (UCD) financed? (State Fund, private insurance plan or self insured).

12. Total net company contribution to temporary disability program. (Please attach normal publication or written material that describes program representing the contribution listed. Zero contribution would connote the normal State Plan financed from employees' contributions and descriptive material is not required. Do not include cost of uninsured sick leave plans).

13. What portion of 12 was applicable to group covered by survey?

SECTION IV

14. Total number of uninsured sick leave hours and their cost. (Include payments made by the company directly to the employee for time lost because of sickness or accidents, whether at the worker's regular rate or at a different rate. Where it is company policy to pay workers for a given number of days sick leave annually regardless of whether time is lost, this cost (payments for unused sick leave) should be included in item 16).

<table>
<thead>
<tr>
<th>Hours</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

15. What portion of 14 was applicable to group covered by survey?

<table>
<thead>
<tr>
<th>Hours</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16. Total sick leave hours and cost not included in 14 above.

<table>
<thead>
<tr>
<th>Hours</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
17. Please describe and state cost of any other benefit programs that compensate employees within the survey group for wages lost due to sickness or accident such as Salary Continuation, Attendance Bonuses, Early Retirement, Group Insurance, Union Welfare Package and Guaranteed Workweek.
Mr. R. A. Creps
16652 Itasca Street
Sepulveda, California

Dear Mr. Creps:

Pursuant to our telephone conversation on February 14, I have attached a memorandum which outlines the essential features of the ratemaking procedure for workmen's compensation. It may be helpful if I amplify some of the remarks made in that memorandum.

Reference is made to individual classification experience. The loss experience which is reported to the California Inspection Rating Bureau is segregated between the indemnity and medical portions. Losses are further identified as to "type of injury". The types of injury are: Death, Permanent Total Disability, Major Permanent Partial Disability, Minor Permanent Partial Disability, Temporary Total or Temporary Partial Disability, and Medical Only. Major permanent partial is defined to be those permanent injuries other than permanent total, which carry a permanent disability rating of 25% or more. Minor permanent partial is then defined as those permanent injury cases other than permanent total or major permanent partial. Death, permanent total and major permanent partial are collectively referred to as "Serious"; minor permanent partial and temporary as "Non-Serious".

It is important to recognize the fact that in reporting indemnity losses to the California Inspection Rating Bureau, the amounts include all losses incurred on account of the death or injury, including specific benefits and compensation for temporary disability as well as loss of earning power. Thus, for example, in a death case, the amount reported includes compensation paid to the deceased prior to death. Or again, temporary disability payments in connection with permanent injuries are included with the amount reported under the applicable permanent disability type of injury.

With this fact in mind, the following distribution of total incurred losses by type of injury, based on the most recent available data, may be of value to you.

<table>
<thead>
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<th>Type of Injury</th>
<th>% of Total</th>
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</thead>
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<td>Death</td>
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<tr>
<td>Perm. Total</td>
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<tr>
<td>Major</td>
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<tr>
<td></td>
<td>27.4</td>
</tr>
<tr>
<td>Total Serious</td>
<td></td>
</tr>
<tr>
<td>Minor</td>
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<tr>
<td>Temporary</td>
<td>9.8</td>
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<tr>
<td></td>
<td>37.9</td>
</tr>
<tr>
<td>Total Non-Serious</td>
<td></td>
</tr>
<tr>
<td>Total Indemnity</td>
<td>65.3</td>
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<tr>
<td>Medical Total</td>
<td>34.7</td>
</tr>
<tr>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>
Mr. R. A. Creps  
February 19, 1962

As indicated in the memorandum, there is no predetermined distribution which is utilized with respect to the Serious, Non-Serious and Medical portions of the pure premium. In retrospect, however, it is possible to see what distribution actually exists in the rates. The current rate structure contemplates the following distribution:

<table>
<thead>
<tr>
<th></th>
<th>All Classes Combined</th>
<th>&quot;Manufacturing&quot; Classes*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indemnity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Serious</td>
<td>26.97%</td>
<td>23.22%</td>
</tr>
<tr>
<td>Non-Serious</td>
<td>38.53</td>
<td>40.19</td>
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<tr>
<td>Medical</td>
<td>34.50</td>
<td>36.59</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

*As distinguished from "Contracting" and "All Other"

I trust that this information will be of help to you in your study.

Very truly yours,

L. B. DROPKIN
Actuary

LBD: js
Encl.
Minimum workmen's compensation insurance premium rates in California are established by the use of principles and practices summarized in the following paragraphs.

Such minimum premium rates are computed from past experience, adjusted as closely as possible to reflect the conditions which will prevail during the period for which the rates will be in effect. Past experience consists of the record of exposure to hazard, the rates and premiums charged, and the losses incurred.

The rate making operation is initiated within the California Inspection Rating Bureau and consists of three principal steps. The first step is a determination of the necessary change in the overall Manual premium level. The next step is a distribution of the required overall rate level change among the various individual classifications. In this step, due regard is given to the indicated relationship, or relativity, of the classifications to each other. Finally, an expense loading is applied to produce the Manual rate.

**Overall Rate Level Change.** The overall rate level change is computed from the aggregate premium and loss experience of all California workmen's compensation insurers for all classifications combined. The determination of overall rate level assumes, in general, that the frequency of insured injuries and the incidence of severity, which together characterize the basic statistical data, will prove equally applicable to the period for which the rates are to be in effect. The actual overall earned premium for the experience period is first adjusted to produce the amount of premium which would have been earned if current rates had been used rather than the actual rates in effect at the time the policy was written. Incurred losses are also adjusted to reflect current or proposed benefit levels. These adjustments are necessary in order that any proposed changes relate to current levels rather than to the level or levels existing during the experience period.
Further adjustments are made to reflect the operation of the California merit rating plans.

The ratio adjusted losses to adjusted premium is compared to the ratio of losses to premium contemplated by the current rate structure. This contemplated loss ratio is known as the permissible loss ratio and is currently .6165. If the adjusted experience loss ratio is lower than the permissible loss ratio, rates must be decreased sufficiently so that the same experience will produce the permissible loss ratio; if higher, rates must be correspondingly increased.

Classification Relativity. Currently, to determine the proper relative level among classifications, the actual incurred experience of each classification during the most recent two policy year experience periods available is considered in terms of pure premiums. Pure premiums are losses per unit of exposure. Usually the unit of exposure is the payroll in hundreds of dollars.

For those classifications with a sufficiently large volume of expected losses, the average loss cost per unit of exposure developed by the experience becomes the "selected" pure premium rate. For those classifications with lesser amounts of expected losses, the "selected" pure premium rate is an average of the pure premium rate indicated by experience and the pure premium underlying the already existing rate. The relative weight given to the experience data increases with the volume of experience in accordance with a table known as a credibility table.

After pure premium rates have been selected for all classifications, they are applied against the respective classification payrolls, or other exposure basis, to determine an aggregate amount. This is then compared with the desired aggregate amount determined by the overall rate level calculation and all pure premium rates are adjusted upward or downward by the same percentage to achieve the proper level.

These classification pure premium rates provide for average amounts which, in the aggregate may be expected to cover expected indemnity and medical losses.
The distribution between indemnity and medical varies by class, and reflects the actual distribution experienced by the class.

**Determination of the Manual Rate.** To construct the final premium rate, there is added to the proposed pure premium rate a loading which is made up of 36% for company expenses and 2.35% for California gross premium tax. Thus, the proposed pure premium rate represents 61.65% of the final rate, as previously indicated, while the remaining 38.35% represents expense and tax loading.
SELECTED BIBLIOGRAPHY

Articles and Periodicals


Books


Public Documents


Unpublished Material


