APPLYING VALUE-BASED HEALTH CARE TO WORKERS’ COMPENSATION MEDICAL COSTS

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Introduction

For years U.S. employers have struggled to contain the rising medical costs associated with workers’ compensation injuries. Many cost containment remedies have been tried without much success. Interestingly, simplicity often produces the most profound solutions to complex problems, and early indications are the same principle holds true for workers’ compensation.

A shift in current thinking is beginning to emerge when it comes to the treatment of injured workers. The risk and insurance industry has been focused on delivering managed care rather than valued-based health care. Some leading organizations are beginning to realize that less emphasis should be placed on negotiating volume discounts and processing paperwork, and instead their focus should turn to identifying value-based health care providers who can produce positive outcomes by consistently delivering quality care at competitive prices.¹

The purpose of this paper is to explore the implications of this movement. More specifically, it will review historical medical cost trends, examine managed care techniques used in the past, and explore how value-based health care is being applied to produce promising results in the workers’ compensation arena.

¹ North, David A. (2011, April 12) Quality Health Care Assumes Center Stage. WorkCompWire. Leaders Speak Series
Historical Medical Cost Trends

In recent years, the rate of increase associated with workers’ compensation medical costs has outpaced that of general health care. While some progress has been made in slowing the rate of increase, workers’ compensation medical expenses represent a sizeable expense for most employers.

The National Council on Compensation Insurance (NCCI) tracks the average medical cost per lost time claim on an annual basis. According to NCCI, the estimated annual change for the years 1994 to 2001 was 8.9 percent. In the years that followed, 2002 to 2009, the rate of increase slowed to 6.7 percent. This is certainly an improvement over the double-digit increases that were seen in prior years. Moreover, at the 2011 Annual Issues Symposium, NCCI reported the most recent rate increase in 2009 beat the historical average showing an estimated increase of 5.4 percent. While this is an improvement, employers continue to seek ways to reverse the trend.

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Not surprisingly, medical costs today comprise a much larger percentage of total claim costs than they have in the past. According to NCCI, medical expenses made up approximately 42 percent of total lost time claim costs in 1983 with indemnity costs accounting for the remaining 58 percent. By 2007, that percentage had reversed with medical making up 59 percent of total claims costs and indemnity comprising the remaining 41 percent based on NCCI data from the 2008 State of the Line Report.\(^3\)

While the rate of increase has been tempered in recent years, these are sizeable expenses impacting an employer’s budget. Moreover, the passage of the Patient Protection and Affordable Care Act in 2010 and the political battles that have ensued introduce more volatility into the workers’ compensation medical arena. To remain competitive, organizations must find ways to bring workers’ compensation medical costs under control.

While costs continue to rise, the quality of medical care provided to injured workers is perceived by some industry observers to be inferior to the general health care available to the population. Moreover, some believe the shortage of quality occupational health care providers is due in part to many talented physicians opting out of the system for more profitable and less bureaucratic medical careers.

**The Evolution of Managed Care**

In recent years, employers have spent billions of dollars on managed care programs in an attempt to curtail workers’ compensation medical costs. These techniques were introduced during the 1980s and became prevalent in the 1990s when some believed the workers’ compensation system was on the verge of collapse due to rampant cost increases. It was during this period that medical bill reviews, preferred provider organizations, case management, and utilization reviews became commonplace in the risk management field, and many new managed care companies quickly appeared on the risk management landscape.

**Bill Review.** Early on, medical bill review became popular as employers wanted to ensure medical billings did not exceed state fee schedules or usual and customary charges. Furthermore, the bill review process often identified charges for treatment not associated with work-related injuries.
Utilization Review. Utilization review soon followed as a way to minimize excessive or inappropriate treatment. These reviews became a way to standardize medical treatment and promote quality care. Some states passed legislation making utilization review mandatory.

Case Management. Case management was designed to provide injured workers with guidance and care throughout the recovery process. Initially, field case managers worked with injured workers individually to ensure progress and improvement. Over time, field case management became reserved for more severe or costly injuries. This labor-intensive technique gave way to what was perceived to be a more efficient telephonic case management approach.

Preferred Provider Organizations. Preferred provider organizations (PPOs) became a workers’ compensation staple in the early 1990s. In an attempt to capitalize on volume discount purchasing, employers raced to create or purchase large, expansive provider networks. Preferred provider organizations grew in number as more states allowed employers to direct care. They were even utilized in states where employees maintained the right to choose their doctors for work-related injuries.

Many regional PPOs were soon swallowed by larger ones and became national PPOs in an attempt to include as many health care providers as possible in these networks. In exchange for discounting services, employers agreed to channel or direct injured workers to these preferred providers. This type of volume discounting eventually led to the formation of specialty networks that included discounts for services such as pharmacy, durable medical equipment, diagnosis, radiology and physical medicine.4

Yet, despite more than two decades of managed care offerings and the evolution of what became a billion-dollar industry, workers’ compensation medical costs continued to increase and projected savings did not fully materialize. Looking at today’s best practices and the application of managed care to workers’ compensation, these results and perceptions are really not surprising. Some of the shortcomings in expectations can be attributed to the following:\(^5\)

- State fee schedules originally designed to contain costs gave way to increased frequency of treatment.
- PPO networks did not generally include quality and outcome metrics in the contracting and credentialing process, and network fees did not reflect the value of care delivered or claims outcomes produced.
- Medical literacy was missing as little effort was directed toward helping injured workers understand their diagnosis or treatment options, and many injured workers did not know how to facilitate their own recovery process.
- Early medical treatment guidelines were not reflective of modern technology and rehabilitation practices.
- Physicians were not rewarded for the additional time needed to rehabilitate injured workers, become familiar with return to work procedures, or comply with state regulations. As a result, many chose to leave the workers’ compensation and occupational medicine arena for more lucrative and satisfying alternatives.
- Over time, the level of paperwork and administrative responsibilities multiplied considerably for health care providers, claim administrators, and employers. And, it became more difficult for injured workers to navigate the system.

\(^5\) North, David A. (2011, April 12) *Quality Health Care Assumes Center Stage*. WorkCompWire. Leaders Speak Series
Furthermore, these extensive managed care offerings did little to impact the quality of health care provided to injured workers. Research suggests that those who are treated in the workers’ compensation system fare worse than those who receive care for similar types of injuries in other medical care systems.6

Back to the Basics

Looking at medical cost trends and the application of various managed care techniques over the last 25 years, employers have continued to ponder what modifications could be made to slow rate increases and improve the quality of care for injured workers.

In an attempt to control costs and improve the system, employers and industry constituents ultimately lost sight of the original goal. Too much emphasis had been placed on processing paperwork, negotiating volume discounts, and managing the transaction. Quality health care and the timely treatment of the injured worker had become an afterthought. In wrestling with this issue, the original intent of this 100-year-old social system once more began to surface.

From the beginning, the goal of workers’ compensation has been to provide partial wage replacement and reimburse the medical costs of the injured worker. Through the years, these costs escalated out of control. In an attempt to control these costs, employers learned there is significant value to restoring the health of an injured worker and return much needed labor to the workplace as quickly as possible. After an unexpected work-related injury, the worker’s need to remain on the job and earn a living did not change, nor did the employer’s need for labor diminish as a result of the accident.

One of the best ways to address both of these needs is to ensure the injured employee receives appropriate medical care as soon as possible. The reality is better medical outcomes are good for both employees and employers. Employees are more likely to return to healthy, productive living. Employers are more likely to see better results in claim durations, long-term medical costs, and total cost of risk.

After all, this is how most individuals would treat a family member or close friend in need of health care treatment. Less emphasis would be placed on achieving volume discounts and treatment utilization, and more emphasis would be placed on seeking the best care available at a reasonable cost.7

A transformational shift in thinking has begun to occur. Many who previously embraced managed care philosophies are beginning to emphasize the advancement of quality health care for workplace injuries. As in the past, the group health specialty offers industry leaders with a wealth of information and practices that can be modified for work-related injuries. One of the most promising concepts centers on the idea of value-based health care.

**Value-Based Health Care**

Value-based health care is all about creating value for injured workers. This is achieved by delivering quality care on a timely basis as opposed to simply lowering costs. According to this model, the best way to control costs is to improve the quality of care that injured workers receive on the front end. There is strong emphasis that the dollars spent improve the medical outcomes achieved.

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7 North, David A. (2011, April 12) *Quality Health Care Assumes Center Stage*. WorkCompWire. Leaders Speak Series
According to the U.S. Department of Health & Human Services, Agency for Healthcare Research and Quality, the goals of value-based medicine are: emphasis on prevention, early detection, making the right diagnosis, avoiding complications, and other actions that improve health. These goals are well-suited for workers' compensation.

Aside from this strong commitment to achieving positive outcomes and making quality care a priority, there are related components of value-based medicine that can be applied to workers' compensation. These are provider selection, increased medical literacy, a progressive stay at work and return to work program, and a holistic health, wellness and safety approach. Each of these is described below.

**Provider Selection**

One of the cornerstones of this value-based purchasing approach is identifying and rewarding high-value physicians. These are health care providers who consistently achieve positive medical outcomes and create value for those they treat. Under this model, they are rewarded and have the opportunity to treat a greater volume of injured workers based on their strong performance.

With this in mind, the American College of Occupational and Environmental Medicine (ACOEM) and the International Association of Industrial Accident Boards and Commissions (IAIABC) teamed up with some of the industry’s leading constituents to produce, “A Guide to High-Value Physician Services in Workers’ Compensation.” The guide focused on how to find the best available care for injured workers.

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According to the ACOEM/IAIABC Guide, the ideal physicians are those who:

- Are willing to accept patients covered by workers’ compensation insurance.
- Employ best practices in providing high quality and compassionate medical care.
- Respect and fulfill the extra responsibilities that workers’ compensation creates.
- Produce better overall outcomes at comparatively better total costs over the course of an injury or illness.

This group of experts goes on to define high-value physicians as “those who provide high-value services and produce the same or better results at comparatively lower overall costs per injury episode than other physicians do.” While these physicians may not be the lowest cost provider on a per service basis, a combination of excellent outcomes and competitive pricing makes them the most desirable candidates with regard to long-term results.


Medical Literacy

Medical literacy is another important component associated with a valued-based health care approach. Unfortunately, this component is often lacking in treating injured workers today.

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Medical literacy refers to the ability to understand basic health information and follow instructions related to care and well-being. Patients must be able to express health concerns and discern a physician’s response concerning their treatment or condition.10

Medical literacy and understanding will impact a person’s ability to follow prescription instructions, perform physical therapy exercises at home, evaluate medical treatment options, and adhere to appointment schedules. This in turn will directly influence medical outcomes and the effectiveness of treatment. A physician’s prescribed treatment is only as good as the extent to which it is followed.

There are many deterrents to medical literacy today. Many people do not have the education or reading level necessary to follow instructions or make decisions. In other cases, language barriers may prevent the individual from comprehending necessary information. Diminished cognitive abilities may hinder medical literacy. In other cases, individuals may simply lack the initiative to follow through with the prescribed treatment plan.11

A value-based system recognizes these limitations and focuses on empowering those receiving treatment. Their cooperation and action are necessary if they are going to take charge and manage their own state of health. Employees are encouraged to make decisions and take actions aimed at maximizing their own medical outcomes.

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Educational tools, resource information, and personal support are ways that employers can elevate medical literacy among their employee populations. Some organizations offer nurse advice lines, case managers, or language interpreters to foster understanding. Others have found it beneficial to designate a care coordinator or health advocate to follow up and answer questions concerning diagnoses, treatment options, or prescriptions. These are excellent means to encourage dialogue and maintain open lines of communication.\(^\text{12}\)

**Stay at Work and Return to Work Strategies**

Most employers will espouse both the qualitative and quantitative benefits of strong stay at work (SAW) and return to work (RTW) programs. Over time these types of programs have shown to aid in an injured worker’s recovery and reduce overall claims costs.

An injured employee’s ability to work is determined by functional capacity, functional impairment, and medical-based restrictions. As a result, treating physicians play an extremely critical role in the effectiveness of both SAW and RTW programs.

According to ACOEM, there are significant opportunities to enhance the effectiveness and roles that treating physicians play in SAW and RTW initiatives. One suggestion is to pay treating physicians for the time and effort they spend in disability prevention and management. Such an approach would create notable value by helping employees return to work on an expedient basis.

In the past, few health care providers have been paid for disability prevention or management services, and they have been a low priority. Many physicians do not realize the impact that their decisions can have on workers’ compensation programs and costs. Compensation that is contingent on training and use of evidence-based care can be used to alleviate this concern.

Employers and treating physicians should also invest the time and effort needed to understand job demands. High-value physicians will want to become familiar with the availability of SAW and RTW programs. Allowing the worker to recover while on the job and remain active has been shown to have numerous benefits.

In their desire to maximize time off work, some employees have hidden agendas. For example, they lead physicians in discussions with the questions they ask. In some cases, the injured employee is the only source of information that the treating physician has. Employers must anticipate and counter these actions. Providing a functional job description and brief explanation of the available SAW and RTW program can aid a physician’s treatment decisions.

Another opportunity for improvement revolves around the information exchange between the employer, treating physician, and claims administrator. Claims filings are often characterized by voluminous paper requests. A more coordinated approach that respects the physician’s time and fosters understanding can be extremely effective. This may include the provision of a one-page summary that highlights key information or the development of a standardized checklist.

Compensation, training, and information sharing are excellent means to improve the value of any existing SAW or RTW program. They should be a part of any value-based plan.13

Health, Wellness, and Safety

Another key component of a value-based health care program is an integrated health, wellness, and safety initiative. These initiatives are topics of increasing interest as businesses strive to increase competitiveness and maximize profits. Reducing costs and increasing productivity is the name of the game. Businesses today are discovering a direct link between improved health, wellness, and safety and increased productivity among the workforce.

While many of the wellness and prevention concepts are not new in theory, the manner in which these programs and techniques are being coordinated, their increased availability and user friendly delivery mechanisms, and the growing attempts to measure and quantify their impact have propelled these practices into the national spotlight.

While rising health care costs clearly threaten an organization’s financial performance and fiscal health, it is not surprising that senior managers frequently cite productivity and absence as other key concerns. Injuries and illnesses, whether arising at work or at home, not only drive health care costs but also result in absences from the workplace and reduced levels of productivity. In searching for ways to control rising medical costs, businesses have begun to realize the more sizeable threat employee absence has on performance. A recognizable linkage between improved employee health, safety and productivity standards has been uncovered.

Individuals make lifestyle choices each day that can have a noticeable impact on well-being. Each individual’s health is to a large degree shaped by factors such as medical care, social circumstances, and behavioral choices. Many costly conditions and injuries are believed to be largely preventable or controllable depending on an individual’s corresponding behavior.
There are a number of programs designed to promote safe and healthy behaviors. Employers are more aware than ever that obesity, lack of physical activity, and tobacco use are having an adverse effect on the health, wellness, and safety of their employees. Those who can design a program that not only encourages healthy choices but ultimately impacts employees’ behaviors can enjoy a valuable competitive advantage, thereby increasing value for their organizations.14

Summary

For 100 years, workers’ compensation has stood strong by benefiting both the employer and the employee. It has not been without its challenges and the rate of increase in medical costs in recent decades is among the most notable.

In an unending attempt to increase profitability and competitiveness, some organizations are turning to value-based health care to address this growing cost concern. Key elements in these early programs have centered on provider selection and benchmarking, improved medical literacy, stronger stay at work and return to work strategies, and more holistic health, wellness, and safety programs.

Early indications and results from such efforts are promising based on data from recent pilot programs.15 Those who focus on delivering value are likely to be successful in the coming years and find that cost reduction goals can be met through this process.


15 George, Kimberly & Ackerman, Rick. (2011, August 4). Quality Care Takes Center Stage. Public School Risk Institute Webinar.
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ABOUT THE ORGANIZATION

Sedgwick Claims Management Services, Inc. is the leading North American provider of innovative claims and productivity management solutions. Sedgwick and its affiliated companies deliver cost-effective claims administration, managed care, program management, risk consulting and related services to clients through the expertise of approximately 9,400 colleagues in more than 190 offices in the U.S. and Canada. The company specializes in workers’ compensation; disability, FMLA and other employee absence; general, automobile and professional liability; alternative markets; and warranty and credit card claims services as well as Medicare compliance solutions. For more information, see www.sedgwick.com.

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