# INVITED ARTICLE

# Medical Cost Containment for Workers' Compensation

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## Abstract

Medical costs have escalated at alarming rates over the past 10 years. Nowhere has this been more pronounced than in the Workers' Compensation area where this escalation has exceeded that of general medical costs in recent years. For example, since 1980, general medical expenses increased at an annual rate of approximately 10% whereas those for Workers' Compensation averaged 14.5%.

This presents a serious concern to everyone involved since medical costs today represent over 40% of total Workers' Compensation claims payments. An analysis of possible reasons for this situation suggests some possibilities for containment.


## Introduction

Workers' compensation affects everyone—even employees who never suffer a job-related illness or injury, or employers who never have to handle a workers' compensation claim. Why? Because the cost of this state-mandated coverage, together with the cost of workers' compensation claims, is part of the cost of doing business. Higher workers' compensation costs result in higher prices for consumers. So everyone has a stake in what is happening in this arena.

While most people are aware that health costs, in general, have been skyrocketing over the past decade, the lion's share of the attention focused on the problem has been aimed at the employee and individual health care arenas. And not without reason. Inflation in this area is running about 10 percent annually—well ahead of the general inflation rate—for a staggering total national expenditure of about $620 billion in 1989. That's a frightening 11.5 percent of America's Gross National Product.

However, the inflation rate in workers' compensation medical claims is even worse, about 14.9 percent annually. And it's time that employers, employees,

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insurers, academicians, and regulators alike turn their attention to this problem.

Just a decade ago, medical costs accounted for about one-third of workers' compensation paid losses. Today, they are almost half of paid losses, more than any other category of workers' compensation costs, including permanent injury claims, indemnity benefits and litigation, according to the Workers' Compensation Insurance Rating Board.

Costs of this kind have tremendous impact on companies. Obviously, the higher the costs, the more it hurts competitiveness. And, as has already been pointed out, it comes back to haunt consumers in the form of higher prices. That's the bad news.

The good news is, it's possible to do something about it. And now is the time to do it, improve our nation's ability to compete in world markets and keep a healthy economy here at home. The additional good news is, there are techniques for containing or reducing workers' compensation medical costs that will also help ill or injured employees receive better care.

This article describes some of the techniques CIGNA is using to achieve these objectives. But, first, some background will help put both the problem and its remedies into context.

A mere 76 years ago, there were no compulsory insurance coverages or other first party compensation programs for those who suffered injuries or developed an illness as a result of their work conditions. If they could not work, they were simply out of luck except for possible third party claims against their employer and such claims were usually unsuccessful.

Today, in all 50 states and the District of Columbia, workers' compensation provides two basic types of benefits: medical and indemnity as a result of a compensable illness or injury contracted or suffered on the job. Indemnity benefits pay claimants for a portion of wages lost. Medical benefits are payable for necessary medical care, even if no indemnity benefits are payable.

Beyond these basics, however, there are more differences than similarities among workers' compensation regulations. Benefit levels, administration and procedures for delivery of care to claimants all vary from state to state.

For example, some states specify only that the amount of medical benefits paid on behalf of an ill or injured employee be "fair and reasonable", or "usual and customary", while others have developed extensive fee schedules. Some statutes provide the injured or ill workers with free choice of medical care provider. Others give the employer the right to direct the injured employee to a particular physician or medical facility. And still others mandate the use of state-approved doctors and facilities.

These differences stem from the age of the workers' compensation system, as well as from the fact that is was created on a piecemeal, state-by-state basis. The first comprehensive and compulsory law was passed in New York in 1914. The last of the continental states to enact a similar law was Mississippi, in 1948.

These differences alone make it difficult to contain workers' compensation medical claims costs, especially for companies that do business in more than

one state. Just getting a handle on the situation requires in-depth knowledge of the laws and regulations affecting the various locations in which one does business. But there are two additional factors that compound inflation in workers' compensation medical claims:

1. A lack of basic cost containment techniques similar to those now commonly applied to other segments of the health care field, and
2. The effects of cost shifting, i.e., filing claims for workers' compensation which should actually be filed under other health care coverages.

Deductibles, co-payments and similar cost control techniques have been standard features of most medical benefits programs for quite some time. Their function is to shift some of the cost of medical treatment to employees, thus giving them a stake in controlling expenses. More recently, the concept of utilization review has been introduced to cut down on inappropriate or unnecessary forms of treatment, such as costly emergency room treatment for relatively minor injuries when lower cost and equally effective alternatives are available; multiple unnecessary visits to treat minor medical conditions, and hospitalization for surgery which can be routinely handled on an outpatient basis.

But these cost containment measures have been neither broadly nor systematically applied in the workers' compensation arena. And that, coupled with the fact that cost controls are so pervasive in other health care programs, has added to the workers' compensation burden by inducing medical cost shifting. The reason is obvious: if a group health plan requires a deductible and/or co-payment, and the workers' compensation plan does not, both the claimant and the doctor will be financially better off if they present the claim under workers' compensation.

An additional wrinkle is that, beginning in the early 1980s, government and group health buyers of medical care began contracting directly with physicians, hospitals and other providers for lower fees. To make up for such discounts, providers often charge higher rates to workers' compensation payers, who, as noted, have not widely pursued aggressive medical cost containment strategies. Clearly, it is in the best interest of employers to quickly adopt cost control techniques in their workers' compensation programs just as they have done in other health care benefits programs.

While some cost controls aim at reducing the price per treatment or procedure, others are designed to discourage over utilization. For maximum effectiveness, it is essential to apply both pricing and utilization controls in all cases. Otherwise, as experience shows, price limits alone tend to foster higher utilization or procedural miscoding, while utilization limits alone tend to permit higher fee per treatment. Thus, using only one type of control can end up costing as much, or more, than using no controls at all.

Effectively implementing this two-pronged approach requires three critical resources: First, an experienced, efficient claims management operation to oversee and coordinate the entire effort. Claims personnel must work closely with the employer and the sick or injured employee to ensure that good treatment from appropriate providers is delivered on a timely and effective

basis. It's their job to make sure the employee does not become abandoned or lost in the system.

However, the claims operation should do a great deal more than simply administer the claims process. It should also be a focal point for information and control. That is, it should be able to provide risk managers with up-to-date claims and loss information and reports—preferably online, through a computer system, for maximum timeliness. There should also be a loss control component to conduct loss-cause investigations and make recommendations for safer, more efficient work conditions. Analyzing past and present claim patterns and conducting workplace inspections can yield insights that help prevent losses and lessen their severity when they do occur.

Second, a network of carefully screened, high quality doctors, hospitals and other medical service providers who have contracted to provide reduced prices in exchange for a large, steady volume of cases. This network can be organized by third party administrators, workers' compensation carriers or, ideally, as in CIGNA's case, by an organization that can leverage the case loads of both health care and workers' compensation operations in negotiating volume agreements with outside providers.

Third, a highly professional utilization review resource, such as CIGNA's Intracorp. The job of the utilization review, or UR firm is to see that only necessary and appropriate procedures and/or facilities are utilized in the claimant's treatment.

For maximum effectiveness and savings, the UR firm should be able to provide service in six key categories:

1. Preadmission screening and certification, which determines if hospitalization is really required. The adjustor provides basic information about the case to a medical review specialist who is usually a registered nurse. This information includes confirmation of compensability and levels of coverage. The review specialist then contacts the treating physician and reviews the treatment plan to make sure it meets accepted criteria and norms for length of stay.

2. Continued hospital stay reviews when workers are admitted to an acute care facility. A medical review specialist reviews the claimant's clinical status, continued treatment needs, and plan for discharge with the treating physician. This continues until discharge occurs or medical criteria are no longer met.

3. Case management, for both catastrophic and non-catastrophic cases. The case manager works with the attending physician to identify options for alternative care, home care, return to work needs and on-site coordination of specialized treatment. This early identification and intervention can result in substantial savings for the employer and more successful treatment outcomes for the patient.

4. Retrospective utilization reviews for noncertified emergency hospitalization. An on-site review is conducted to assure that all admissions met the established criteria for hospitalization and that all charges were appropriate.

5. Provider and hospital bill audits. Auditors examine all charges above a predetermined amount, conducting on an on-site comparison with medical

records. Medical provider charges are reviewed to see if they fall within or exceed applicable state-established charges, negotiated fee schedules and/or usual and customary charges.

6. Non-emergency surgical necessity reviews. When the medical necessity of a surgical procedure is questionable, the advisability of a second opinion is discussed with the claims adjustor, who provides approval for this process.

It's important to point out that utilization review programs are not designed to deny necessary treatment. Instead, they're employed to prevent unnecessary treatment, over-utilization and cost shifting. In fact, UR can provide options that keep workers' compensation claims from becoming strictly yes-or-no propositions, which then lead to an adversarial climate and, possibly, litigation. With utilization review, both parties win. The employer through cost containment, and the employee through better, medically necessary treatment.

CIGNA has formalized this well rounded approach into a program called RX Comp[sm] and proven its effectiveness through extensive field tests. By following these procedures, and utilizing the resources, provided through Rx Comp[sm], employers in these tests saved an average of 22 percent on physicians' and hospital charges and, in one case, reduced costs by 10 percent below the State's published fee schedule.

Along with substantial savings in medical costs, the strategies outlined here can also reduce lost work time, another, often overlooked, cost to the employer. They work because they provide control for the employer through a single point of claims management, consistency in handling those claims, and the accountability that comes from only one supplier handling both claims management and medical services.

At this point, readers may be wondering how the various state workers' compensation rules and regulations affect an employer's ability to implement cost control programs like Rx Comp[sm]. This is a legitimate concern—but one that turns out to be groundless, for the most part. CIGNA's Property and Casualty Division began one of the first preadmission certification/continued stay review programs for workers' compensation over two years ago. In following up with various administrative bodies, the company found that these procedures are not considered adverse to workers' compensation laws. Nor has there been any resistance from most hospitals and physicians, since utilization reviews and similar cost control tools have been used for years in group health programs.

The one exception to the general acceptance of cost containment procedures is in the choice of attending physician or the right-of-direction issue. As stated earlier, 22 states give employers the right to direct employees to a particular physician. Others require that attending physicians be selected from a state-approved list. And some leave the choice of doctor strictly to the employee.

Over the longer term, it is desirable, from both the employer's and the insurer's point of view, to win the right to direct treatment in those states where it is not already granted. Unstructured selection of medical care

providers can put employees into health care delivery networks of unknown quality, jeopardizing their wellbeing. And such networks are not accountable to the employer who pays the bill. So there is little incentive to see that the costs of care remain reasonable and appropriate. But, politically, this is a difficult issue. Consensus across the nation will probably take years to achieve.

Fortunately, even in states where employee choice is mandated, CIGNA has found, from its own experience and other studies, that employees are open to employers' suggestions regarding physicians and medical facilities. For example, a study done for the Workers' Compensation Research Institute in 1988 compared Illinois (a worker choice state) with Colorado (which gives the employer the right to direct treatment). The study found only slight differences in the way doctors were actually selected.

The key, again, is having access to a quality network of service providers. Otherwise, employees will quickly learn not to trust their employers' recommendations, defeating the program's purpose.

Another way to approach the control of treatment issue is to have the same insurance carrier underwrite both employee health care and workers' compensation coverages. This allows the same network of doctors and medical facilities to treat employees, whether or not the illness or injury is work-related. Combining coverages also gives the carrier more purchasing power in the medical community, which helps to further reduce costs. CIGNA has developed a program along these line, which is called 24-Hour Coverage℠ because employees are taken care of around the clock, whether engaged in business or leisure activities, no matter where they are.

An additional, and not inconsequential, benefit of integrating medical coverages is that it eliminates double dipping, or collecting medical benefits under both workers' compensation and employee health care plans. CIGNA's experience shows that this happens in approximately 3 to 5 percent of all cases, including smaller ones. When insurance coverages are integrated, the claims handling process catches these attempts and eliminates them.

Still another benefit is the ability to identify pre-existing conditions and allocate related claims to the employee health care plan, where they belong. For example, claims stemming from heart conditions or back problems will sometimes be filed under workers' compensation. The coordinated claims handling provided through integrated insurance coverage will quickly reveal whether the employee has been previously treated for such a condition. If so, it will be handled as a group coverage claim. This results in a truer record of workers' compensation medical costs, which affects the premium the employer pays through experience rating. It can also reduce the employer's overall health care costs, since employee health care plans generally include deductibles and co-payments that would not apply in workers' compensation benefits.

It's also worth noting that coordinated insurance coverages and claims handling result in better treatment for ill and injured workers. It's simpler, from an administrative standpoint, for employees to deal with one medical

network. Treatment is also more comfortable and effective. Except in the most traumatic cases, employees will usually deal with their regular medical care providers. And, because the treating physicians and facilities will be familiar with employees' medical histories, they will be better able to coordinate the various services required to complete the necessary course of treatment.

Thus, creative cost containment strategies such as utilization review and integrating group health and workers' compensation coverages do not just save employers money. They also preserve the original intent of workers' compensation legislation, which is to (1) provide certain, prompt, reasonable income and medical benefits to victims of work-related accidents (2) provide a single no-fault remedy and thereby reduce litigation, court delays and costs associated with personal injury litigation, and (3) encourage employer interest in safety and rehabilitation.

There is no doubt that cost containment measures will eventually become more the norm than the exception in workers' compensation programs. The competitive nature of the insurance industry itself is fueling this trend.

But the real drivers behind cost containment are the employers who pay for workers' compensation. For them, integrating formal cost containment programs into workers' compensation coverages is an increasingly important part of their battle to control their overall costs of doing business. And the outcome of that battle will determine their ability to compete in their markets and perhaps even their ability to survive over the long run. So it's no small issue, especially in today's aggressive marketplace and uncertain economic climate.

To reiterate, these cost savings measures will not be utilized at the expense of employee welfare. For one thing, they are designed with the claimant's wellbeing in mind. For another, the system simply will not allow it. And, third, smart employers know that a win-win situation is worth the effort it requires, because it pays them back through increased employee productivity and loyalty.

Employers also know that litigation is expensive to all involved, no matter what the outcome. A story about Abraham Lincoln illustrates this point. Before becoming our 16th president, Lincoln, then a practicing lawyer, was approached by a local citizen who had been unable to collect $2.50 he was owned by an impoverished debtor. He demanded that Lincoln sue. When he could not be dissuaded, Lincoln asked for a fee of $10 and gave half to the defendant, who then repaid his debt. This was, to say the least, a roundabout and expensive way to gain satisfaction. Most business people today are too savvy to fall into such a trap. This should quell fears that cost containment will take on Draconian overtones.

To summarize, it is possible to not only tackle the workers' compensation medical cost giant, but to win, as well. And readers are invited to join in that fight through their roles as employers, employees, consumers, regulators and academicians. Because, again, everyone has a stake in the outcome.

For its part, CIGNA is taking advantage of every opportunity to educate key audiences about the workers' compensation cost containment tools available today. Also, as a major carrier of workers' compensation and other employer-paid coverages, we'll continue to develop and test new ways to curb inflationary costs that threaten American business' ability to compete profitably in domestic and world markets.

Ultimately, every problem can benefit from a fresh perspective. Additional research on this issue, whether in an academic, business, or industrial setting, or through a business-academic partnership, would be welcome. It is hoped that this article has stimulated reader thinking and aroused the interest of all concerned. Perhaps it will spur those interested to pursue the topic, in whatever capacity is most appropriate.