

Draft

Employee Choice in Managed Care Workers' Compensation

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Abstract

While spending for workers' compensation benefits slowed through the 1990s, the costs have begun rising again in recent years. As employers, insurers, and States struggle to develop effective cost containment strategies, they may be inclined to consider adopting managed care for workers' compensation programs. Yet it is not clear that workers will readily accept these changes. And since many States have laws protecting provider choice, widespread implementation may be difficult.

This paper summarizes the results of a recent survey of more than 400 Northern California employees who were given an option of enrolling in managed care workers' compensation program. The analysis explores what factors may impact employees' decisions to enroll in managed care workers' compensation. Older employees (OR=1.036), employees that were satisfied with pay (OR=1.947), and employees with "other" chronic medical conditions (OR=1.713) all had greater odds of enrolling in a managed care workers' compensation option. Employees identifying themselves as Asian or Pacific Islander (OR=0.469), employees who perceived higher risk on the job (OR=0.555), employees who believed their employer was fair (OR=0.437), and employees who identified themselves as "other" professionals (OR=0.480), all had lower odds of enrolling in a managed care workers' compensation option. Thus, it appears that employee trust may play an important role in determining if managed care programs can be successfully used for workers' compensation programs.

Statement of Problem

During the late 1980s and workers' compensation costs grew rapidly. Workers' compensation medical benefit payments increased at 15.6 percent per year between 1984

and 1991, more rapidly than both the annual increases of 10.8 percent in cash benefits and the generally high rate of medical cost inflation elsewhere in the economy (Burton 2000). In an attempt to control costs, managed care was implemented and appeared to be successful in controlling workers' compensation costs throughout the 1990s. While the shift to managed care resulted in better-controlled costs, there may be barriers to more widespread implementation of managed care in the workers' compensation system.

These barriers might be described as arising from the construct of workers' compensation, where the worker usually seeks medical care for an injury he or she believes was caused by his or her work, and perhaps, indirectly by his or her employer. Given the possible problems this might create for an employee, many States have laws protecting workers' right to provider choice for their workers' compensation care. This safeguard protects a worker's right to care, regardless of an employer's assessment of the injury or the employee. However, this legal protection places employee choice in an unforeseen position of importance in limiting the implementation of managed care in workers' compensation on a widespread basis.

New Contribution

While there is a growing literature on the topic of workers' compensation, there are relatively few articles on managed care and workers' compensation, and fewer still on employee choice in workers' compensation. Most of the most recent work has summarized the results of managed care demonstrations or pilot projects in workers' compensation. Yet in these pilot projects, individual employee's choice was not a major issue in the analyses for different reasons. This article summarizes the results of a recent demonstration, Kaiser on the Job, where individual employees were given an option of

enrolling, or declining to enroll in the managed care option. The following study summarizes the results from the survey of more than 400 employees. Many questions focused on factors potentially influencing an employee's decision to enroll in the managed care workers' compensation option. This specific emphasis on employee choice is a new contribution to the literature.

Workers' Compensation Cost and Benefits

According to a recent report on the subject of workers' compensation costs and benefits, workers' compensation benefit payments and costs declined relative to wages in 1997 and 1998 (NASI 2000). This decline was part of a trend started in the early 1990s. Benefits declined by 35 percent between 1992 and 1998 as a share of payroll, from 1.66 to 1.08 percent. Employer costs declined by 38 percent between 1993 and 1998, or from 2.17 to 1.35 percent of payroll (NASI 2000). Several factors could explain the slowing growth. One expert (Burton 2000) have speculated that some of the causes of the decline in benefits and costs include[d]: fewer accidents, improvements in the operation of workers' compensations programs, the active management of medical care, more effective return-to work programs, and tightening of eligibility for workers' compensation benefits.

Nonetheless, while the costs grew at a slower rate, they remain quite substantial. In 1998, total workers' compensation benefit payments nationally were \$41.7 billion (NASI 2000). These costs included payments were for medical costs and cash benefits for workers with injuries or illnesses on the job. Total costs to employers, which included premiums paid to workers' compensation insurers, were \$52.1 billion in 1998 (NASI 2000).

It is interesting to note that the workers' compensation situation in California is quite different. For some reason, California costs have not been successfully controlled as seen in the rest of the nation. Since California's workers' compensation cost and benefits represent as significant portion of national expenditures (17.5 percent), it indicates that other States must have controlled costs beyond the national average. While other States experienced slowing in expenditures, California's spending continued to grow quite rapidly (NASI 2000). Spending on workers' compensation benefits totaled \$7.4 billion in 1998, an increase of 8.0 percent over the 1996 level of \$6.8 billion (NASI 2000). Thus, not only are workers' compensation costs and benefits increasing in California, the increases in California may have outpaced medical inflation.

Cost Containment in Workers' Compensation

Given the dramatic increases in the late 1980s, and early 1990s, employers and States appeared anxious to explore new options that might control costs more effectively. The goals of cost containment in workers' compensation are threefold. They usually include efforts to prevent incidents, efforts to contain medical care costs, and efforts to return the employee back to work as soon as possible. This paper will discuss efforts to control medical care costs.

Many workers' compensation trade publications enthusiastically supported the use of managed care to contain medical costs (Kilgour 1993, Kertsez 1994). To fill the increased demand, many managed care companies began offering workers' compensation products. As noted (Gabel et al 1997), between 1988 and 1993, the percentage of surveyed plans offering workers' compensation increased from 5.6 percent to 15.9 percent. The increase in demand for health maintenance organization workers'

compensation plans has been attributed to HMO's cost containment properties, because many workers' compensation reimburse providers on a fee-for-service basis, HMOs and other managed care organizations can render employers substantial savings (Gabel et al 1997).

Workers' Compensation and Managed Care

In the worker's compensation literature, the most relevant articles discussed the evaluation of managed care pilot programs, either in specific workplaces or in larger settings such as States. One article by Green-McKenzie et al summarized the results of a 3-year study at the Johns Hopkins Medical Institution. The study tracked the costs and quality of care for two populations. Both groups received traditional workers' compensation medical care in one year, and the same population received managed care about three years later.

The authors noted that they were not able to randomize patients in the study, because Maryland is an "employee choice" State. This means that in worker compensation cases, workers are free to seek the provider of their choice (Green-McKenzie et al 1998). However, it was impressive that almost all (99 percent) of the workers chose the managed care setting (Green-McKenzie et al 1998). Apparently, by offering its own health care services to workers, JHI improved services to its workers. As one researcher noted, "In the past, injured employees often did not receive priority treatments from JHI physicians and would have to wait weeks for an appointment, which ran up lost-time costs or induced the workers to seek care from a provider outside the university (Wise 1994)." The authors said that that medical costs were reduced by 50