

Workers' Compensation Medical Care: Controlling Costs

Nationally, approximately 40 percent of workers' compensation costs are associated with medical and rehabilitative treatment, with the remainder reflecting cash payments to compensate workers for lost wages.

In the past two decades, costs associated with providing medical care to Americans injured on the job or suffering from an illness related to their work have fluctuated dramatically. They skyrocketed in the late 1980s and early 1990s, and moderated in the mid-1990s. There is now evidence that workers' compensation costs, which currently total \$41.7 billion annually, are set to rise again.¹

Medical expenses for a typical workers' compensation claim, in which the worker has lost more than seven days of time from work, total approximately \$4,753.² Physicians and hospitals receive between 65 percent and 84 percent of medical payments in these workers' compensation claims. Physical and occupational therapists receive 10 percent and chiropractors receive 4 percent of total medical payments.

While direct workers' compensation medical care benefit payments represent only about 1.3 percent of the nation's total health care expenditures, they are still a source of major concern for employers. The National Academy of Social Insurance estimates that the employer cost of workers' compensation insurance is about 1.4 percent of payroll, exceeding the proportion of wages spent on sick leave, short-term and long-

term disability benefits, and life insurance.³

The true cost of work-related injuries and illnesses might be much higher than available data indicate. A recent study, for example, estimated that the direct and indirect (not covered by workers' compensation) costs of occupational injuries and illnesses were approximately \$171 billion – on a par with costs for cancer and heart disease, and much greater than costs for Alzheimer's disease and AIDS.⁴

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During the 1990s, the upswing in workers' compensation costs led more than half of the states to pass laws and regulations aimed at containing medical costs. Reformers looked to managed care strategies to slow the medical care increases. As of 1998, 25 states had either authorized or mandated the use of managed care organizations for the treatment of injured workers. (See box on following page for examples of other cost containment measures.)

The Impact of Cost Containment Strategies

Preliminary research suggests that managed care techniques can help contain workers' compensation medical costs. However, the evidence also suggests that patient satisfaction with care can be adversely affected by the introduction of these measures. Little is yet known about how these techniques ultimately affect patient recovery and long-term vocational outcomes, or other related indirect costs. Findings from recent studies include:⁵

¹ Mont, D., J.F. Burton, Jr., and V. Reno. 2000. *Workers' Compensation: Benefits, Coverage, and Costs, 1997-1998 New Estimates*. Washington, DC: National Academy of Social Insurance.

² These statistics are based on workers' compensation claims from eight states and reflect injuries occurring in 1996, with payments observed through June 30, 1997. See Eccleston, S., D. Wang, M. Watson, and X. Zhao. 2001. *The Anatomy of Workers' Compensation Medical Costs and Utilization: A Reference Book*. Cambridge, MA: Workers Compensation Research Institute.

³ See Mont, D. et al. 2000.

⁴ Leigh, J.P. et al. 1997. Occupational Injury and Illness in the United States, Estimates of Costs, Morbidity, and Mortality. *Archives of Internal Medicine*. 157: 1557-1568.

⁵ Readers should refer to Dembe, A. 1998. Evaluating the Impact of Managed Health Care in Workers' Compensation. *Occupational Medicine—State of the Art Reviews*. 13(4): 799-821.

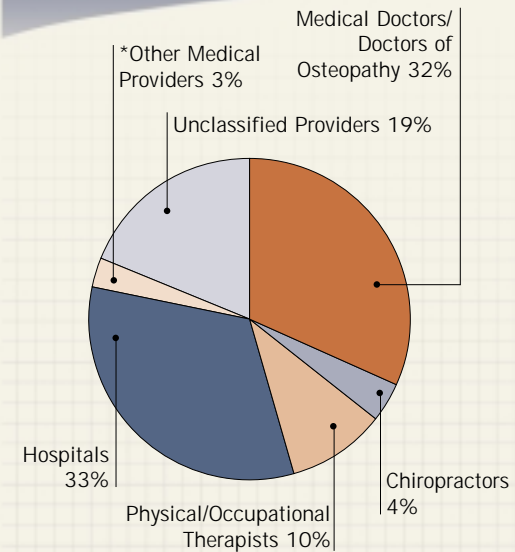
- *Washington State Workers' Compensation Managed Care Pilot Evaluation*. Under the pilot program, 120 firms and 7,041 enrollees moved from a fee-for-service arrangement to experience-rated capitation.⁶ An evaluation determined that medical costs per injury were 21.5 percent lower under the managed care arrangement, but fewer patients expressed satisfaction with their care, particularly access to their medical providers.
- *Workers Compensation Research Institute*. The Institute recently reported that the use of networks in California, Connecticut, and Texas led to reductions in medical costs of between 13 percent and 46 percent, depending on the type of claim and nature of the injury.⁷ The study found that network care is less expensive because prices in network are lower and because providers in workers' compensation networks use fewer services than do providers out of network. This particular study did not examine the impact of networks on health care quality or patient satisfaction.
- *Managed Care Programs in Florida, New Hampshire, and Oregon*. Each state achieved varying degrees of cost reductions under managed care, but found that workers were generally less satisfied with the quality of their care under these arrangements.

Despite the increased use of cost reduction techniques, many experts believe that workers' compensation costs are set to rise again, primarily because general health care costs are also on the rise. According to the National Academy of Social Insurance, total cash and medical benefits paid to

COST CONTAINMENT STRATEGIES IN WORKERS' COMPENSATION MEDICAL CARE

- Discounted fee schedules
- Utilization management of workers' compensation medical services
- Restricted networks of designated physicians
- Case management
- Mandatory treatment guidelines
- Hospital payment regulations

DISTRIBUTION OF WORKERS' COMPENSATION MEDICAL PAYMENTS TO PROVIDERS



* The authors indicate that these providers are usually MDs/DOs or hospitals, but they are unable to distinguish between the two provider types.

Source: Eccleston, S., D. Wang, M. Watson, and X. Zhao. 2001. *The Anatomy of Workers' Compensation Medical Costs and Utilization: A Reference Book*. Cambridge, MA: Workers Compensation Research Institute.

workers grew in 1998 for the first time since 1992, rising to \$41.7 billion, an increase of about 2.7 percent from the previous year.

Increases in costs could detract policymakers and business leaders from focusing on assuring high quality and good access to care for those suffering from a work-related injury. Future attempts at cost-saving should be balanced with considerations for whether workers who receive treatment through managed care arrangements are as satisfied with their medical care, and whether they experience comparable degrees of recovery and return to work. ●

This fact sheet series was created by the Workers' Compensation Health Initiative, a national program of The Robert Wood Johnson Foundation. The goal of the Initiative is to support innovations in workers' compensation that will contain costs and improve the quality of care provided to injured workers. For more information, visit the program's web site at www.umassmed.edu/workerscomp.

⁶ Cheadle, A. et al. 1999. Evaluation of the Washington State Workers' Compensation Managed Care Pilot Project II – Medical and Disability Costs. *Medical Care*. 37(10): 982-993.

⁷ Johnson, W.G., M.L. Baldwin, and S.C. Marcus. 1999. *The Impact of Workers' Compensation Networks on Medicare Costs and Disability Payments*. Cambridge, MA: Workers Compensation Research Institute.