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# VISIONS

## Workers' Compensation Medical Costs on Employer, Payer Radar Screens

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*“Economics is extremely useful as a form of employment for economists.”*  
—John Kenneth Galbraith,  
*American Economist*

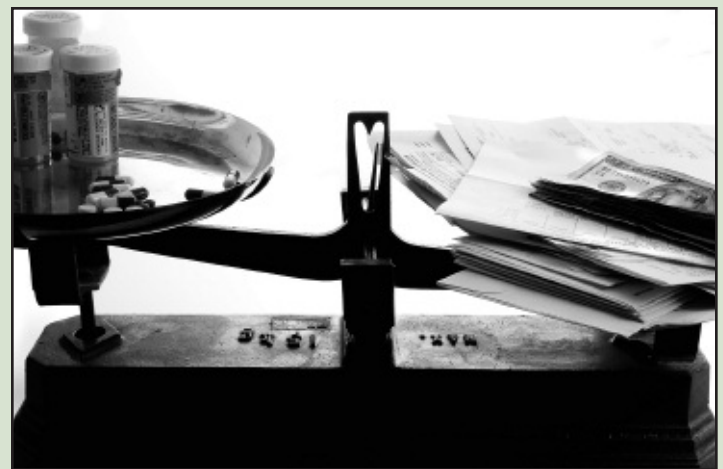
By Karen O'Hara

**O**ne intriguing aspect of workers' compensation is that medical costs are higher than they are under group health plans for the treatment of comparable conditions.

There are some price disparities, but higher utilization rates under the workers' compensation system are the leading reason for the difference, studies show.

While the frequency of workers' compensation claims has been steadily falling since the early 1990s, severity rates and medical costs have increased. Despite the use of multiple control mechanisms, observers do not expect these trends to dramatically reverse, even in the midst of the recession.

“While there is no doubt that events such as plant closings and large layoffs do result in clusters of claims, the evidence suggests that this is



unlikely to play a major role in frequency patterns,” Harry Shuford, Ph.D., chief economist for NCCI Holdings, Inc., says in an article entitled, *What Does the Recession Mean for Workers' Compensation?*<sup>1</sup> “In six of the seven recessions since the early 1960s, workplace injury rates fell; in five of the six expansions, it rose.”

The article is one several written by industry experts and published in the NCCI's 2009 *Workers' Compensation Issues Report*. Based in Boca Raton, Fla., the National Council on Compensation Insurance (NCCI) manages the nation's largest database of workers' compensation insurance information. It also issues rate-setting recommendations and analyzes costs

associated with proposed state reform legislation.

In his report, Dr. Shuford makes the following observations and predictions, accompanied by one major caveat:

- Claim frequency will continue to decline, perhaps at a modestly faster pace over the course of the recession.
- Growth in indemnity severity will continue but at a slower pace, while indemnity loss costs are likely to decline a bit.
- Medical severity will continue to increase at a “distressingly strong” pace.
- Growth in medical loss costs will ease a bit in response to the anticipated increased decline in frequency.

The caveat: “This analysis reflects experience over the economic downturns of the

cost containment efforts could be enhanced:

**Nurse Case Management:** Nurses have a depth of knowledge and clinical experience they can draw on to facilitate treatment. For example, a nurse can assist a busy treating physician by contacting the patient to evaluate their condition and researching treatment options based on best practices and the patient's specific circumstances. "The nurse case manager is perfectly positioned to help the doctor practice evidence-based medicine," Dr. Andrew said.

**Utilization Review (UR):** Utilization reviewers have immediate access to evidence-based research and resources. However, they often lack clinical experience. According to Dr. Andrew, "A successful UR program is not focused exclusively on research. It has to be combined with clinical experience and the patient's perspective for the practice of evidence-based medicine to be appropriate and reduce costs."

**Provider Networks:** The use of providers in medical networks who practice true evidence-based medicine have considerable cost-containment potential. However, many networks fall short in this regard. "In general, unless it is custom-built, the quality of providers will run the spectrum from greatest to worst, and the patient will end up somewhere within that spectrum," Dr. Andrew said. "It's up to the MPN and the employer to hold providers up to a standard of care." He advises employers to establish personal contact with the primary treating physicians in the networks they use.

**Education:** Dr. Andrew encourages network sponsors to provide educational materials and courses to help doctors satisfy licensing requirements and increase their knowledge base. "I have heard people say doctors are too busy to practice evidence-based medicine," he noted, "but this type of training doesn't take a lot of time, and practice patterns can change in a relatively short period of time. We have seen over the years that it takes a doctor 10 to 25 seconds to find what they need in the guidelines once they know what to look for."

"If we can get the networks to train providers on evidence-based medicine, we can achieve a whole new level of savings with the same tools we are using now."

## References

1. *2009 Workers' Compensation Issues Report*; a collection of articles on the past, present and future state of workers' compensation; www.ncci.com.
2. *Workers' Compensation vs. Group Health: A Comparison of Utilization*; John Robertson and Dan Corro; NCCI Research Brief, November 2006.
3. *Effectiveness of WC Fee Schedules: A Closer Look*; Barry Lipton, Dan Corro, Natasha Moore and John Robertson; NCCI, February 2009.
4. *Anatomy of Workers' Compensation Medical Costs and Utilization, 7th Edition*; Stacey Eccleston, Petia Petrova and Xiaoping Zhao, January 2009; WC-08-16—WC-08-26; published by the Workers' Compensation Research Institute; wcrinet.org.
5. *California Workers' Compensation Reform Outcomes*; California Workers' Compensation Institute; www.cwci.org.

## Radiology Costs Growing at Rapid Pace

Diagnostic radiology is the fastest growing medical expense in workers' compensation, according to the Association of Health Insurance Plans (AHIP).

Advances in technology that improve diagnostic decision-making have led to a rapid increase in the use of expensive diagnostic tests such as MRI and CT scans. Nearly \$100 billion a year is spent on imaging in the U.S. These costs are expected to increase 16 to 18 percent annually, a rate twice that of prescription drugs and faster than overall health-care spending, which is projected to increase 10 percent a year. In workers' compensation, diagnostic radiology costs are projected to rise 20 percent a year, the AHIP reports.

For those overseeing workers' compensation program costs and outcomes, it is important to understand the cost drivers and how to best manage the referral process to get the appropriate value, prompt scheduling and quality services from the best providers, Pamela Landefeld, vice president of planning and strategy, radiology product manager at One Call Medical, says in a recent article. One Call Medical provides diagnostic imaging and electrodiagnostic services.

"With the cost of diagnostic radiology increasing so dramatically, experts say it has become a new frontier in health services that payers need to manage, just as managed approaches have been used in the past to control costs for prescription drugs and hospital services," Ms. Landefeld said.

According to data from One Call Medical:

- On average, 67 percent of diagnostic claims are unmanaged.
- Accepted state fees or usual-and-customary rates are typically 30- 40 percent higher than the discount rates available through specialized diagnostic networks.
- Approximately 10-15 percent of diagnostic claims are performed at imaging centers participating in specialized networks but not under the network contract, resulting in unnecessarily higher costs. Many payers spend as much as 45 percent more than they need to on high-end diagnostic services.

"Payers are seeking new solutions that not only provide quality diagnostic services, but also effectively control costs," Ms. Landefeld writes. "Claim adjusters and nurse case managers can play a key role in this drive to improve the management of diagnostic radiology services."

To further reduce claim leakage, she advises payers to educate claim adjusters, nurse case managers and treating physicians on the "proper procedures to schedule diagnostic services for injured employees." She also recommends use of retrospective review to identify the 10-15 percent of services that have already been performed but still qualify for discounts.