

May 2006



# *Dynamic Business*<sup>®</sup>

**The Voice of Smaller Business**

## Honoring Eric Hoover

*The Nation's  
Top Entrepreneur*

*Plus...  
2006 SBA  
Award Winners*

PRESORTED  
STANDARD  
U.S. POSTAGE  
PAID  
PITTSBURGH, PA  
Permit No. 4561

**SMC** SMC-IA  
Group Insurance 1382 Beulah Road  
Pittsburgh, PA 15235-5068  
www.smc.org

Change Service Requested

# Solving the Workers' Compensation Paradox

by **David R Leng, CPCU, CIC, CWCA**

A perplexing paradox exists in the world of Workers' Compensation insurance. Thanks to safety professionals and the efforts of employers, employees have much safer workplaces, greatly reduced risks for injuries, and far better education in how to avoid injuries in the workplace of today than they did 15 years ago. According to the annual "Issues Report" of the National Council on Compensation Insurance (NCCI), from 1990 to 2004 there was a 45 percent decrease in work-related injuries.

Fewer injuries would cause a reasonable person to assume that the total cost of work-related injuries has also gone down. But therein lies the paradox. In spite of the number of employee injuries plummeting over the period described, NCCI reports that the total costs for work related injuries over that same period have more than doubled.

As companies and employers worked to improve workplace safety, they had two goals in mind. One was to address the "human factor" – the need to reduce injuries for the benefit of their employees' health and welfare. Great progress has been made along those lines as fewer people are suffering injuries. However, the second goal was to reduce operational costs due to injuries. At that, employers have experienced a huge failure

Employers must look for alternative solutions if they want to achieve this second goal. Fortunately, many of the factors that are driving up injury costs in the face of decreased injury claims can be found in areas where employers can make a difference ... if they know about them. It is critical for employers to understand what factors are driving up work-related injury costs, even as injuries themselves are on the decline, and how to drive them back down.

Those in the insurance industry always believed that increased frequency of injuries brought increased severity. But with injuries down 45 percent and costs up, we find the opposite to be true. If fewer injuries mean higher costs, this can only mean that the remaining injuries are costing substantially more per injury than 15 years ago. To further compound the paradox, however, there is no evidence that medical conditions arising out of work-related injuries are any more complex than they were 15 years ago.

So why are employee injury claims costing dramatically more money than they did 15 years ago? The employer should look at the three most important people involved with returning an employee to work after an injury – the physician, the employer, and the employee – to see why costs have increased and to realize where action can be taken to reduce costs.

There is a natural tendency to blame medical cost inflation as the primary culprit for this inverted trend of fewer injuries-high-

er costs. While medical inflation is partly to blame, the role it plays is a minor one; there are far greater influences driving up injury costs.

Physicians have been asked by the insurance industry over the past decade to do more for less. Asking them to accept reduced fees while at the same time asking them to increase their assistance with disability management. This was probably not a good idea and may have been the first falling domino that started the chain reaction to greater injury costs. Anyone who has been to their physician has seen the consequences. Except in the most extreme cases, physicians are stretched thin and are forced to spend less time with each patient per visit.

And physicians are not immune to the dilemma of other business owners; they, too, have seen these decreased margins met with increased operating costs. A combination of additional responsibilities with a decrease in their fees may have precipitated additional injured employee visits to the doctor. We are relatively certain that the longer an injured employee stays in the system, the greater the medical, indemnity, and settlement costs. This has a multitude of negative effects on the employer's business. Loss of productivity and the cost of overtime to make up for the loss of the employee are the two most obvious. But extended recovery has the potential to have a far greater impact.

As we know, the employee's state of mind has a lot to do with his or her recovery. If, before being released to full duty, an employee goes to the doctor 10 times for a single injury instead of three, that employee may begin to think, "There must be something seriously wrong with me." This thinking delays the return to work and claims spiral out of control.

In addition to these factors, there is also the well-documented rising cost of prescriptions. Insurance Journal (June 3, 2005) reported that the cost of prescription drugs in Workers' Compensation cases has increased at an annual rate of 13 percent. It also cited a physician peer review study that claims it's not the increase in the price per prescription that has caused overall drug costs to soar, but rather it is the volume of prescriptions being written by physicians that is the main culprit for this upsurge in drug costs.

The effect here on the claim severity is two-fold. First, the employer is paying for the costs of those prescriptions, which drives up severity. Second, however, is a result similar to employees being required to make repeat visits to the physician – the more prescriptions they are given, the more they begin to think "there's something seriously wrong with me." Again, this delays the employee's return to work and the cost of the claim escalates.

Employers need to be aware of this chain of events. Once

*"If injuries are down,  
why are costs up?"*

– David Leng



they are, they find that it is not that difficult to fix. Physicians can provide employees with the best possible care without dragging out the process. The employer just needs to work with the physician to help him or her understand the business.

Cooperation begins with the employer reaching out to the physician and the two becoming "partners" in the care of not just injured employees, but in the entire medical concern of the business. For example, the employer can pledge to help increase the physician's patient volume by utilizing the physician's services not only for examining injured employees, but also for such things as pre-employment drug testing and physical examinations.

Once established, this "partnership" must work together to develop a plan to get employees back to work – on any level – as soon as possible. Most doctors agree that "work is therapy" and that employees get well faster if they remain at work even in a modified capacity. If the employee is not hospitalized, restricted to bed rest, or contagious and their cognitive ability is not too impaired to do the job, then they should be at work. Yet, doctors often don't return the employee to work because the employer has not communicated that they will accommodate any restrictions or "light duty."

Employers who say, "we don't have any modified or restricted duty positions" are making a costly mistake. The longer an employee stays out of work, the greater the likelihood that the claim will evolve to a severe level. It is, therefore, critical to get the employee back to work, even at a reduced capacity, and to educate the supervisor of the injured employee in the value of supporting and accommodating restrictions.

In most cases, if the doctor and the employer are taking steps in a positive direction aimed at returning the employee to work as soon as possible, the injured employee will follow their lead as numerous studies have shown employees generally want to return to work as soon as possible. If employees are not following that lead, it may be a sign that the employer needs to reevaluate his or her hiring policies.

Up to this point, there has been no mention of claims adjusters or attorneys, and for good reason. When things go bad,

**Psst!**  
**We Have Dear Abby Beat.**



There's a whole new way to promote your business, and we are offering it to a limited number of businesses that want unique advertising in their business category.

**It's simple. It's inexpensive. It's available NOW!**

Call Carol Winterhalter for information at 412.371.1500 ext. 249, or email Carol at [carol@smc.org](mailto:carol@smc.org).

[www.smc.org](http://www.smc.org)

**KEY REASONS TO ADVERTISE IN**  
**Dynamic Business**

- Low out-of-pocket cost means an efficient media buy for your business.
- Both display and classified ad space is available.
- 81% of our readers are CEOs and Presidents.
- Over 63% have household incomes over \$50,000.

**Purchasing Influence**

Our Readers purchase over \$900 million in goods and services each year:

- 69% buy health care benefits
- 67% buy banking services
- 65% buy printing products
- 60% buy computers



**CALL CAROL WINTERHALTER AT DYNAMIC BUSINESS MAGAZINE**  
**412/371-1500**

these are the people that usually catch most of the blame for high claim costs, but this should only happen if the employer and physician fail to work together and make poor decisions. When the partnership fails, the adjuster's job is almost impossible, the intervention of an attorney is usually warranted, and claim costs rise.

Their intervention, however, can be minimized. When the employer and the doctor work together and make good decisions regarding the injured employee and are willing to accommodate the injured employee as necessary and fitting, the claims adjuster's job is easy and there is not much need for an attorney. The result – their shares of the final price tag are greatly reduced.

The reduction in frequency of employment related injuries has turned out to be partly fools gold; while the "human factor" has improved, the financial factor has not. Making matters worse is the likelihood that the reductions in the

number of work related injuries seen over the past 15 years might not be sustainable. If frequency ticks up before we have solved the severity problem, the system is in big trouble.

But employers need to look for help no further than their local medical clinic and their own staff. Employers that align their goals with those of the doctor and employee will find the severity of their claims plummet. ▼

**Editor's Note:** David Leng is a co-founder of Keystone CompControl, the country's largest network of workers' compensation specialists, and one of only 20 Level-5 members of the Institute of WorkComp Professionals. Leng, who has 11 years experience specializing in workers' compensation, is an alumni of Penn State where he received his Bachelor of Science in Insurance. He holds many professional designations, including Certified Insurance Counselor and Charter Property Casualty Underwriter, and has been designated a Certified WorkComp Advisor by the Institute of WorkComp Professionals. He can be reached via e-mail at [dleng@keystonecompcontrol.com](mailto:dleng@keystonecompcontrol.com).