

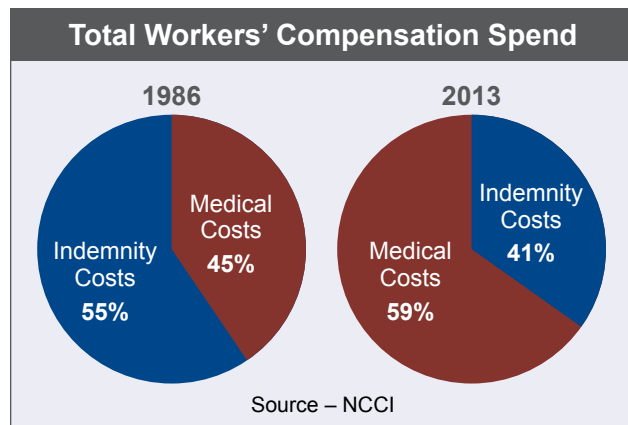
As Workers' Compensation Evolves, So Must Managed Care Solutions

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It wasn't too long ago when you could manage workers' compensation medical costs by focusing on preferred provider networks. With large groups of providers agreeing to deliver care to injured workers at discounted rates, the key to controlling costs was maximizing network use.

But this singular focus no longer works for employers, insurance companies and third party administrators (TPAs). Medical costs, which represented about 45 percent of the total cost of a workers' compensation claim in the 1980s, now represent about 59 percent.



Driving up medical costs is a complex array of factors, from medical inflation and narcotics abuse to the growing number of workers with pre-existing

medical conditions that complicate their post-injury treatment. This **PMA Executive Briefing** will examine these underlying loss drivers and their implications for managing medical costs.

Escalating Workers' Compensation Medical Costs — The Reasons Why

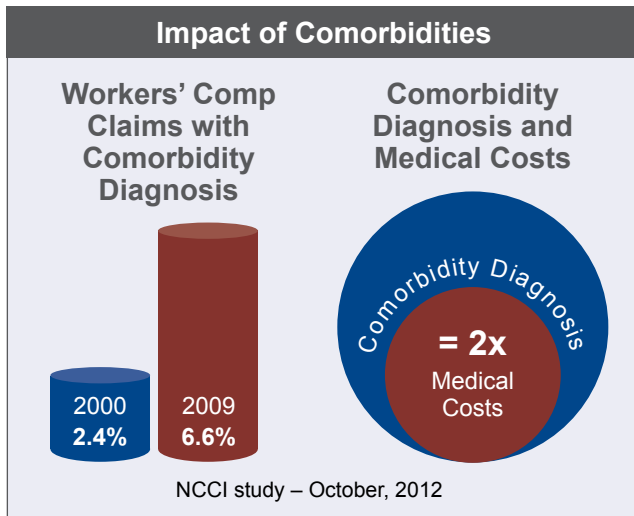
Among the key contributors to the increase in medical costs are the many technological advances in diagnostic tools, surgery and prosthetics. While these advances have improved patient care and quality of life, they also have driven up the cost of care.

Pharmacy costs have also risen dramatically and now represent approximately 18 percent of the average medical spend of a workers' compensation claim. Of that total, opioids prescribed for pain make up about 25 percent and have become a well-publicized and serious problem. The overuse and abuse of opioids slows an employee's return to work and extends claim durations. Additionally, physician dispensing of prescription drugs from their offices is a key issue in workers' compensation medical costs.

At the same time, underlying medical conditions like hypertension, diabetes, obesity and depression are much more prevalent among today's workers.

These “comorbidities” complicate injured workers’ care, delaying their return to work. In fact, the National Council on Compensation Insurance (NCCI) found the share of workers’ compensation claims with a comorbidity diagnosis nearly tripled from 2000 to 2009, doubling comparable medical costs.

Finally, we have seen workers over age 55 emerge as the fastest growing segment of the U.S. workforce. While these employees are valuable members of the workforce, they have an impact on medical costs, as older workers’ claims tend to be more severe, and involve longer durations out of work for recovery.



Growing Complexity and the Affordable Care Act

Meanwhile, managing workers’ compensation claims has become much more complex due to medical issues, changes on the legislative and regulatory fronts, as well as growing administrative burdens.

Along with growing complexity in the diagnosis and procedure codes assigned by providers when treating a patient, jurisdictional differences in managing care have grown as well. Today, states differ significantly in their rules for determining the direction of care to providers, utilization review,

narcotics oversight and physician dispensing of medications.

Change has been a constant over the last decade in the U.S. healthcare system. Systemic pressures, including the Affordable Care Act (ACA) and industry consolidation, are causing many providers to leave preferred provider networks. In addition, some providers are choosing not to treat workers’ compensation patients because of the administrative burden.

Overall, we must keep an eye on the ACA and its potential impact on workers’ compensation. On one hand, if the ACA improves overall wellness as intended, the result could be healthier workers who heal and return to work faster. On the other hand, it may have a negative result, too. These include “cost shifting” of non-work-related injuries to workers’ compensation insurance, and creating provider shortages that lead to delays in care and slow a worker’s return to work.

Changing the Focus

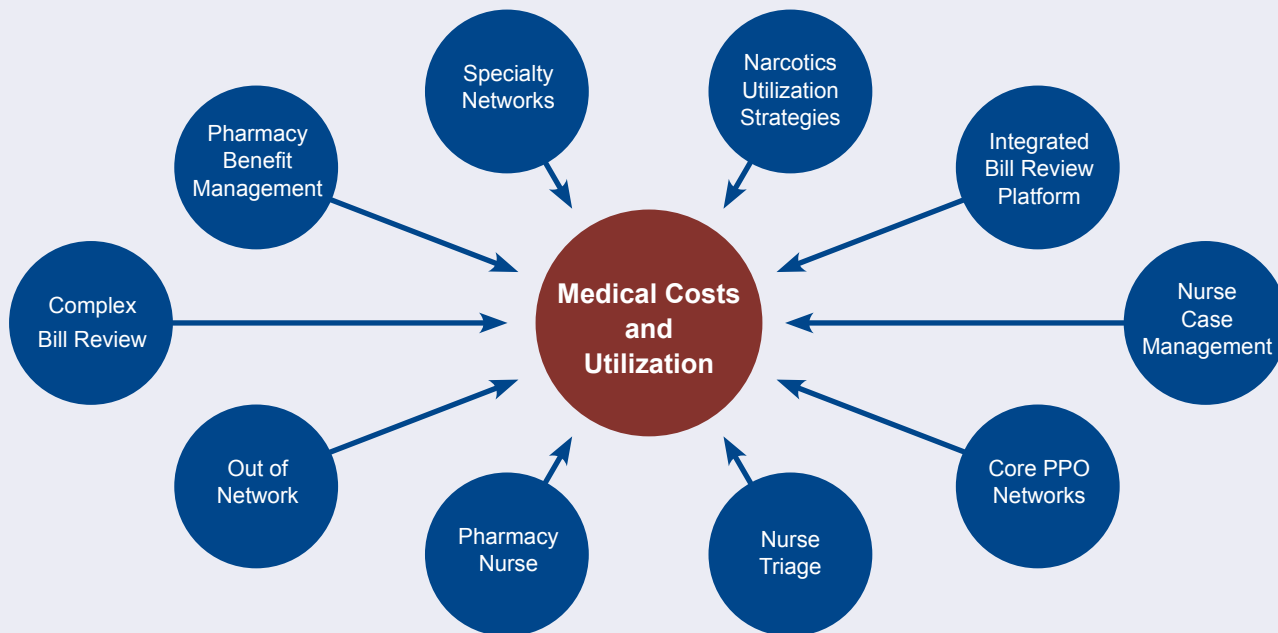
With these evolving health and industry conditions affecting the ability to control workers’ compensation claim costs, managed care strategies should be refocused in several ways.

First, worker health must be a priority. Since healthier workers heal faster and return to work more quickly, an occupational health & safety/ wellness program is pivotal to employers’ success. Programs should include health assessment processes that target and address comorbidities, age and other critical health factors, and integrate occupational health with wellness services to maximize results.

Managed care needs to focus on both cost and utilization, ensuring medical care for an injured worker is appropriate, necessary and the most beneficial course of treatment for the injured worker’s recovery. This means examining each service and reviewing whether the diagnostic

Attacking Medical Costs and Utilization

Rising medical costs and emerging issues require comprehensive managed care solutions that address all key loss drivers from day one of a workers' compensation claim.



tests, treatment and medication are supported by established evidence-based criteria.

To do this in today's increasingly complex system, specialization is required. From day one of a claim, managed care and claims programs must work in sync to address utilization and costs. Programs need to provide multi-levelled solutions that manage all loss drivers, from comorbidities to physician dispensing. In other words, you need an integrated managed care approach to manage and mitigate claims on multiple fronts.

Early intervention in a claim is critical. This includes the prompt identification of comorbidities, expediting appropriate treatment and quick pharmacy intervention, among other strategies. A successful managed care program attacks every stage of a claim to meet the challenges presented by today's growing complexities:

- Case management should ensure continuous involvement in a worker's care and recovery, set an appropriate care plan and monitor the case until it is resolved.
- Complex bill review sees the life of a claim, including patterns of treatment and utilization changes.
- Effective pharmacy management should have strong day one controls, formulary management and an integrated approach that does not rely solely on a pharmacy benefit management (PBM) partner.

Your strategies should be supported by strong data analytics with predictive intervention that provides profiles of injured workers and detail on provider services and medical care. The key is integrating your people, processes and data analytics.

Continuing to Evolve

The workers' compensation system is in a constant state of change that requires innovation, focus and the readiness to challenge existing methodologies and approaches. This is especially true when tackling rising medical costs and a changing healthcare system.

PMA Companies series of *Executive Briefings* will explore the strategies necessary to effectively manage medical costs of workers' compensation claims today. These include integrated occupational health and wellness, early intervention, bill review, case management, pharmacy management, narcotics utilization and physician dispensing.

About the Author

John Santulli, Executive Vice President, PMA Companies, leads many of PMA's customer-focused service functions under a single umbrella in PMA, including its Claims, Managed Care Services and Risk Control Departments and third-party administrators PMA Management Corp. and PMA Management Corp. of New England. He has over 30 years of workers' compensation expertise. Since joining PMA in 1982, Mr. Santulli has held positions of increasing responsibility in the field and home offices. A graduate of Gettysburg College, he has a Chartered Property Casualty Underwriting (CPCU) designation.