Part 3 in the 2000 Series on Issues in the Health Care Industry

Can Workers' Comp Benefit from Group Health Lessons Learned?

Joseph Paduda

Joe Paduda, Principal and managing consultant, Health Strategy Associates, warns that many in the workers' compensation industry have failed to heed the old adage that “those who cannot recall the past are condemned to repeat it.” This is exemplified by those in the industry that point to the present positive trends as proof that a “minimal” commitment to managed care is sufficient in spite of clear indications both historical and logical that those trends are short term at best. Paduda believes that the workers' comp industry's long held belief that the industry is so unique has prevented those in it from learning valuable lessons from others outside the industry.

Paduda cites similarities between group health and disability insurance and workers' compensation both obvious and not so obvious. Group health and workers' compensation are both employee benefit plans purchased in large part by the employer that protect people both from the cost of treating injuries and illnesses and the loss of income that might result from these illnesses. Both are also widespread in this country, and both involve the payment of an insurance premium to protect against an insurable risk. Health care providers are very important to both, as is the motivation of the employee to recover and return to full functionality. While these commonalties are obvious, Paduda asserts that many workers' compensation experts have ignored the experiences of these other insurers in formulating their strategy for the future.

The large indemnity carriers dominated the group health market twelve years ago while HMO's were seen as small players, derided as socialized medicine, that restricted freedom of choice. By the mid-90's the traditional carriers were being hurt by the “mom-and-pop” HMO's, margins deteriorated and many began to exit the market. The carriers that have survived have either become niche players or transformed themselves, at least in part, into true managed care companies. Carriers that made significant investments in managed care either through internal development (CIGNA) or acquisition (Aetna) continue to compete while those that dabbled in managed care, such as Travelers and MetLife, are gone. The overarching lesson in this is the need to recognize impending change and prepare for it. Some of the reasons Paduda cites for the failure of group health carriers to prepare for industry changes include the structure of executive compensation programs, senior management teams with little background in the health care field, and a tendency to view alternative competitors derisively. But primarily he points to the failure of the group health industry as a whole to understand the business they were in and the resulting inability to recognize the competitive advantages, namely local market share, strong medical management, and a fundamental understanding of the cost drivers in their business, that were enjoyed by the upstart competitors. He points out that group carriers perfected the business of the processing of financial transactions rather than the provision of health care.

Paduda argues that the business of workers compensation carriers is not the “risk management” of occupational illnesses and injuries, any more that the group health carriers' business was simply the financing of health care. Rather, the business of workers' compensation is returning injured workers to functionality as quickly and cost-effectively as possible.

Twelve years ago, group carriers worked to reduce lengths of stay, prevent admissions, develop creative financing mechanisms, and obtain discounted prices from providers in a vain effort to restrain the increase in costs in the system. Today, most comp carriers find themselves incorporating precisely those strategies in their effort to deliver lower expenses. Paduda predicts that as these efforts are shown to fail, comp carriers will seek even better discounts, more creative financing and more aggressive case management. Meanwhile, a few comp carriers will change their focus. They will start identifying good providers, require employers to buy into and comply with transitional duty programs, manage disability with clinically sound and disability focused software tools, and report disability results to their customers and providers.

If comp carriers are committed to managing injured workers back to full employment, their sales people must talk about it convincingly, their provider networks must focus on providers that tare skilled in this difficult task, their case management systems must facilitate that process and they must show their results in reports that make sense and are easy to read.

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