

New Models for Managing Workers' Compensation Medical Costs

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With the rising cost of workers' compensation coverage, employers would be well advised to pay heed to a trend that could ultimately lower their costs and improve coverage for their employees. Once considered the standard arrangement to provide coverage for employees, the generalist Workers' Comp managed care firm is beginning to take a back seat to a more customized approach, known as Specialty Workers' Comp managed care. That's because these large general managed care companies' ability to reduce costs seems to have run its course. This new trend recognizes that a generic answer to what turns out to be a set of very different problems is no longer delivering the savings employers expected.

It is easiest to define specialty Workers' Compensation managed care companies by talking about them in the context of their more common, and in most cases, better known 'big brothers', the generalist Workers' Compensation managed care firms. Traditionally, generalist firms provide a full range of services, such as networks, bill review, telephonic and field case management, and related services across several, or markets to carriers, TPAs, and self-administered employers. Their sales pitch is based on the idea that 'integrated' services are easier to administer than fragmented services. The truth is no network company provides the best network in every state and not every managed care firm has the right capabilities in every area.

The specialty managed care companies concentrate on a geographical area, type of care or case where their expertise and focus enables them to deliver savings that are significant improvements over those delivered by their broad-based competitors. Freed from having to manage every case, they can concentrate on those cases where their experience tells them they will have the greatest impact.

There are two general types of specialty firms; those that are geographically focused and those that concentrate on a type of care or type of provider.

Typically, geographic firms provide network access, and sometimes other services such as bill review and case management in a state. Their local knowledge and presence has several advantages:

- Ability to work with local claims and policyholder staff to educate them on and interface with the provider community

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- market share provides good negotiating leverage
- Local experience helps identify the providers that are 'most attractive', lending credibility to the network
- Deep knowledge of state regulations and the legal environment is invaluable to adjusters
- Strong ties to and knowledge of the provider community enables them to negotiate more intelligently and effectively, driving down costs and delivering the best providers.
- Local knowledge ensures they are 'on top of' changes in the health care community; mergers, alliances, and ventures that will impact patients and insureds.
- Typically, local firms have good access to and relationships with local regulators and officials, streamlining regulatory approvals and the like.

Examples of strong local firms include Choice Medical Management in Florida, MagnaCare in New York City, and EOS in California. While these are three very different firms, all enjoy strong market share positions, effective networks, locally-expert staff, and excellent results.

Specialty firms

Unlike geographically focused companies, specialty firms concentrate their energies and resources on a type of care or specialty and likely operate in several jurisdictions. They may work in the imaging, physical therapy, occupational medicine, or pharmacy sectors, among other niches. Wherever they are concentrated, effective specialty firms have several common features.

- Extensive in-house expertise in their niche ¶ PTs, pharmacists, radiologists etc.
- Unique or specific business models that are highly relevant to their niche
- Highly effective technology solutions that enable integration of their program into broad-based programs
- Strong data collection, analysis, and reporting orientations

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- Medical management programs that address the unique nature of their niche; e.g. DUR for pharmacy; utilization management tools for PT.
- Deliver value to providers in the form of technology, billing management, connectivity, medical guidelines, cash flow management tools

Examples of specialty managed care firms include MedRisk, a musculoskeletal specialty company in 19 states; and Express Scripts Inc, a national Pharmacy Benefit Management company with Workers' Compensation-specific networks and deep discounts. Both firms are technologically savvy, have dominant market share in their niche, and strong relationships with their affiliated providers.

With loss ratios climbing and senior management demanding better results with lower expenses, the growth of these specialty companies is certain. Clearly, if carriers and employers are to survive, they must find better answers. These answers lie in the expertise, experience, and tight focus on specialty managed care firms.

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