



Health Strategy
Associates



The Impact of COVID-19 and Employment Changes on Workers' Compensation

A Follow-up Survey of 35 Payers
and Service Providers

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Abridged Version

A detailed version of this report with respondents' verbatim statements is available for purchase.

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The purpose of this survey was to gather as much information as possible on workers' compensation payers' and service providers' perspectives on, adaptations to, and concerns about the impact of COVID-19 and the resulting changes to the economy. It follows an initial, shorter survey of 15 payers conducted in late March 2020. These surveys are intended to help stakeholders learn from each other and accelerate their efforts to manage a very fluid and entirely unforeseen event.

Health Strategy Associates, LLC conducted the survey of 35 payers and service providers over a seven-day period ending on May 28, 2020. Respondents included large state funds and insurers, national third-party administrators, large self-insured and self-administered employers, and service providers. Participants received most of the survey questions in advance of the interview.

To preserve confidentiality, organizations' names are not recorded or published, and responses were edited to remove any terms or locations that could identify the respondent.

The survey included 24 primary questions and took about 20 minutes to complete. Not all respondents answered all questions as some were targeted to payers and others to service providers. Note that responses are from payers unless otherwise specified.

Key Findings

Decreased total claim counts are almost universal across all respondents, with the exception of large self-administered grocers that stayed open during the pandemic. Respondents estimated new injury (non-COVID-19) claims had dropped by 25-50% since early March. Payers expected total claims to decrease about 20% for the entire year (using 2019 as a baseline); service providers agreed. Some respondents were admittedly just guessing, while others had done sophisticated projections.



Asked to predict total claims counts for 2021, half demurred and those who did respond estimated declines ranging from 3-30% (the latter from an insurer with heavy exposure to the energy industry).

Generally, payers accepted a far lower percentage of COVID-19 claims than non-coronavirus claims, primarily due to:

- Lack of a positive test; and/or



- No symptoms; and/or
- No documented work-related exposure.

Notably, insurers tended to accept a relatively low percentage of filed COVID-19 claims, while self-insured, self-administered employers accepted a much higher percentage. However, there are differences in how employers “count” these claims, which skews the numbers. For example, some employers automatically award two weeks of full quarantine pay to exposed workers under a short-term disability type arrangement. These employers accept those claims as workers’ comp only if the worker shows symptoms and/or seeks medical treatment for COVID-19.

As of June 1, accepted COVID-19 claims were generally not expensive, with the vast majority incurring little to no expense and only outlier claims resulting in expenses in the \$200,000 range (not including death claims).

For example, one respondent noted 3.8% of COVID-19 claims represented the vast majority of costs on accepted COVID-19 claims, thus the “average” cost per claim of \$7,800 was not a very useful metric. Another respondent stated “96% of claims cost less than \$3,500, but 4% are expensive.” They noted that a lot of claims are filed with no payments, so if two years from now there is a health problem, it can be tied back to occupational exposure to the coronavirus.

Several respondents voiced concern over sequelae, a subsequent abnormal medical condition resulting from the initial infection. Multiple reports indicate some patients have suffered serious kidney, cardiac, gastro-intestinal, and blood disorders (clots) as well as significant persistent lung damage. This development could significantly impact treatment and disability expenses and duration for a subset of patients.^{1,2,3}

Increased claim duration for occupational injury claims also concerned respondents. With layoffs, furloughs, government shutdowns, and other business interruption issues reducing employment, workers out on injury leave often do not have jobs to which they can return. In addition, respondents noted injured workers were not able to access care due to provider office closures and/or fear of exposure to the coronavirus.

We asked if there had been a shift in the mix of medical-only and lost time (LT) claims. While most respondents did not report a significant change, some reported a spike in claims (particularly LT claims). These came from industry sectors where employees were working longer hours.

Readers should know that a significant number of respondents opined (but did not cite data) that there may be more LT claims for injuries because employees with relatively minor injuries were not reporting them. This is consistent with other



research indicating workers injured during recessions tend to not report injuries, perhaps because they do not want to be laid off or perceived as less than a highly loyal, valuable worker.⁴

For payers, perhaps most worrisome are potential premium reductions. The economic devastation resulting from COVID-19 containment efforts and the public's ongoing concern about exposure to the virus is affecting businesses and may lead to significant cuts in premium income over the near term, and possibly well into 2021.

Unsurprisingly, service providers voiced concern over low claims counts due to a lower number of injuries, furloughs, business closures, and increased work from home (WFH).

With a proven vaccine and effective treatment still some months in the future, several respondents voiced grave concern over the impact of low consumer demand on business in general and small businesses, particularly retail, hospitality, travel, and tourism. It was not difficult to discern a deep level of angst from respondents at insurers with significant exposure to those sectors.



It is quite clear that telemedicine use has exploded and is here to stay.

Presumption laws and changes to them garnered a 3.5 on the 1-5 concern scale (between "concerned" and "very concerned"). Employers and third-party administrators (TPAs) were less concerned than insurers, with service providers the least concerned among the respondent groups.

The most common presumption-related issues were the broadness of the new laws and executive orders. Respondents saw a potential for confusion and varying interpretations of these, as well as the evolving nature of some states' positions on presumption. Notably there was no consensus on which state has done the best job addressing COVID-19 and workers' compensation.

Interestingly, several respondents opined that presumption changes could significantly increase loss costs. Given the relatively low number and cost of most COVID-19 claims to date and the generally limited expansion of liability contemplated in presumption changes to date, this was somewhat surprising.

All respondents mentioned telemedicine at least once during the interview. It is quite clear that telemedicine use has exploded and is here to stay. It is being used for triage and claim intake, initial visit and evaluation (although in limited cases), follow-up visits, telerehab (typically for follow up physical therapy (PT) and rehab



services), behavioral health sessions, and likely others unmentioned. The volume of services grew dramatically for almost all interviewees; only one payer seemed somewhat unconvinced of its utility, if not its necessity in the current situation.

The impact on stakeholders:

Third-Party Administrators (TPAs)

A decline in claims will reduce revenues and almost certainly lower margins. TPAs may benefit if insurers decide to reduce overhead by offloading their claims handling functions to TPAs. Expect TPAs to continue the long-term move to internalize claims services functions, e.g., telephonic case management (TCM), utilization review (UR), bill review, etc. There could be other business opportunities as multi-line TPAs expand or develop new products and services to coordinate and manage back-to-work, general liability risk management, and disability programs.

Insurers and state funds

Reduced premiums will have the most impact over the mid- to long-term. However, carriers may see a short-term spike in profits before the drop in premiums and extended disability durations overtake a massive reduction in filed claims to reduce margins. Fortunately, the industry is significantly over-reserved and is in a very strong financial position.

I expect carriers to reduce spending on infrastructure projects and information technology and outsource more functions and tasks over the midterm as they try to reduce administrative expenses and unallocated costs.

Self-insured and self-administered employers

Large employers will likely see little change over the long term. Over the near term, staff is scrambling to implement safe worksite changes, manage return-to-work protocols and processes, reduce exposure risk for customers and employees, and evaluate the effect of supply chain changes.

Coordination with excess carriers was top of mind for a couple. However, that seems to have dissipated since the initial COVID-19 survey as COVID-19 claims costs remain quite manageable on an incident and entity basis.

Service providers

Briefly, those services that happen earliest in the claim and/or require face-to-face contact saw the greatest impact when new claims volumes dropped overnight.

Occupational medicine clinics, transportation, specialty managed care, including imaging, PT and rehab, independent medical exams (IMEs), field case



management (FCM), along with surgery and its management, took the biggest hit to date. Network revenues are suffering as a result, as is UR. Bill review has also been affected as a result of fewer bills and less network revenue.

Less – but still – affected are sectors that get most of their revenue from longer-duration claims. Home healthcare and durable medical equipment (DME), along with pharmacy benefit managers (PBMs) are the least impacted to date.

Service providers with an existing robust tele-presence have been able to switch some patients to telehealth services, thereby keeping the patient progressing on the path to regain functionality, while also generating revenue.

Business models

Cash-rich companies with manageable (or no) debt are in a far better position to weather the crisis than highly leveraged firms. This generally benefits founder-owned companies and those with solid cash reserves.

Networks may well weather the crisis as they are generally high-margin businesses with relatively low staffing requirements.

Companies that have kept more of their business functions onshore are in far better shape than those that outsourced critical functions such as document management, clinical support, UR, provider relations, scheduling, and call center operations.

LIKELY TO SURVIVE:

- Low or no debt
- Strong cash flow
- Founder-owned
- Tele-services before COVID-19
- Business functions onshore

The interruption in business seen in India and other low-labor-cost nations forced offshoring entities to bring back paper bills from overseas and reroute future shipments. They have also had to change other workflows and processes, while obtaining, programming, installing, and securing technology along with hiring or retraining staff to absorb the increased workload—all seemingly overnight.

The suddenness of the change and drastic implications for service companies will almost certainly lead to even more consolidation. Those firms that are smaller, debt-heavy, and/or provide FCM, transportation, PT/rehab, or IMEs may find themselves looking for partners or acquirers as a way to grab whatever value they can before they have to close the doors.



The Details

COVID-19 CLAIMS COUNT AND COST

Two-plus months into the pandemic, respondents reported about 33,000 COVID-19-related claims had been filed with their organizations. Approximately 21% were accepted. Similar to the findings of research conducted by the California Workers' Compensation Institute and the National Council on Compensation Insurance, respondents reported a significant portion of claims were not accepted because they were:

- Still in the investigation process;
- Not supported by a positive COVID-19 test; and/or
- Exposure only (e.g., first responders exposed to a COVID-19 patient).

These extremely premature figures reflect wide differences in reporting standards, definitions of and criteria for "accepted claim," along with employers' practices and differences in wage replacement. In the latter case, some employers use short-term disability as wage replacement for patients filing initial coronavirus claims while other entities use wage-replacement mechanisms available through workers' compensation. Further, presumption law and standard changes cause significant variation among states.

Respondents were split evenly among those who expect the number of COVID-19 claims to level off and those projecting an increase. Somewhat fewer are expecting the number of COVID-19 claims to decline. To date, most claims are from healthcare workers (mostly in skilled nursing and rehab facilities) and first responders.

IMPACT ON THE WORKERS' COMPENSATION INDUSTRY

Respondents believe COVID-19 will have a major impact on the worker's compensation industry. On a scale of 1-5, payer responses averaged 4.1 or a very significant impact. (The April survey respondents rated this a 4.4).

The 11 service entities surveyed were even more concerned, rating the impact a 4.5, between very and extremely significant impact. The impact will come from lower claims counts and fewer injuries, the key driver of the service industry.

Respondents offered a variety of perspectives on what that impact will be. Among the 25 payer respondents (insurers, TPAs, funds, and employers):

- Nine expected decreased claims over the near term.



Respondents believe COVID-19 will have a major impact on the workers' compensation industry



- Six expected reduced premiums due to business closures and furloughs.
- Five expected more use of telemedicine services.
- Seven predicted slower return to work due to issues accessing care or lack of available jobs.

REDUCTION IN NEW INJURY CLAIMS AND RETURN TO WORK

As briefly noted above, the impact of economic shutdowns and employment reductions on new injury claims is one of the most significant takeaways. On the 1-5 scale, respondents believe the current situation's impact is "very significant" (4.1). Responding to the question "Using 2019 as a baseline, what is your expectation in terms of workers' compensation claims volume in 2020 and 2021?" interviewees' average response was claims would be down almost 20% in 2020. Crystal balls turned opaque when it came to 2021. A dozen respondents predicted claims counts would be between three to 30 points lower than 2019; other respondents had no opinion.

Specific drivers of the decrease in the volume of new injury claims were:

- Employer shutdowns/lockdowns.
- Business closures.
- Fewer motor vehicle accidents.
- Hesitation to file claims on the part of those still working; desire to be perceived as valued employee.
- Hesitation to get care due to concern about exposure to COVID-19 at healthcare facilities.

Claim counts drop drastically



Another important effect is a significant impact on return to work. Respondents rated this a 2.8, indicating COVID-19 has had a "significant" impact on delaying return to work due to limited access to care, no job to which to return, and business closures.

CHANGES TO CLAIM INTAKE AND TRIAGE

Respondents were asked if they are making any changes to claim intake or triage to address COVID-19-related claims. Note: some respondents gave multiple answers.

- More than half added new questions to the intake and triage process.
- Nine of 24 payers had bifurcated the claims intake process, with COVID-19-related claims handled by staff trained specifically to address them.

Consistent with our first survey, training included:

- Questions specific to travel, nature of work, exposure both in and outside the course of work, health status of family and other members of the individual's household.
- Education about the health impacts of COVID-19 to help intake staff educate claimants and better understand responses.



- Identification of resources for testing for those concerned about or reporting exposure.
- The same number (nine) provided additional training for claim intake staff.

Changes made by service providers involve keeping their employees and the injured workers they care for as safe as possible. Several noted that they assume every patient is COVID-19-positive while others have inserted COVID-19 screening questions into their intake protocols.

CHANGES TO CLAIMS HANDLING AND MEDICAL MANAGEMENT

Thirteen of the 24 payer respondents have moved coronavirus claims to a special handling unit of adjusters with COVID-19 training. All employers surveyed had increased training of their adjusters tasked with handling COVID-19 claims.

THE EXPLOSIVE GROWTH OF TELEMEDICINE

Essentially, all respondents have ramped up the use of tele-services, some dramatically. Big increases in the use of telemedicine for triage, initial assessment, follow-up visit, telerehab, and behavioral health were reported. However, many respondents noted that the big increase was from a very small initial base.

Keith Newton, Chairman and CEO of occupational clinic company Concentra, said, "We went from seeing around 50 per day to almost 1,000 per day at its peak. As states have opened up, it's dialed down a little but still up substantially." Note: I requested and received permission to identify Keith and use his statement in this report.

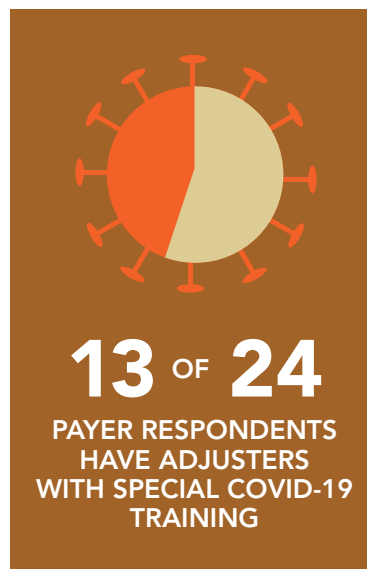
Another payer said, "We went from 123 bills for telemedicine in January to 2,259 bills in April, PT and teletherapy [were] involved."

Another went from no visits to 3,000 in a few weeks, another from four tele-visits in March to 149 in April.

PHARMACY-RELATED CONSIDERATIONS

Respondents were asked if they had worked with their PBM to adapt to COVID-19, and specifically what they wanted their PBM to do. Few had made meaningful changes other than:

- Loosening restrictions on early refills and quantity limits for non-controlled substances. In addition, requirements for prior authorization have been reduced – again only for drugs that are not controlled substances.





- A significantly greater effort to move patients to mail-order fulfillment as an alternative to retail pharmacies.

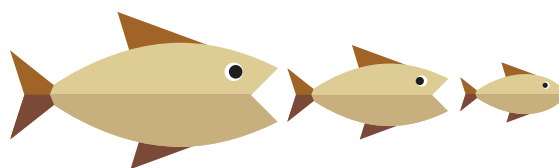
Note: Despite some public figures' statements, as of this writing there are NO drugs that have demonstrated efficacy in treating COVID-19. Only two respondents had made a change to their formularies.

EFFECTS ON THE SERVICE INDUSTRY

COVID-19's fallout is significantly impacting service providers. TPAs, transportation and translation, specialty medical management firms, DME and home healthcare companies, networks, bill review, CM, IMEs, UR, and other value-added service providers are suffering from the lack of new claims volume, dramatic decline in medical services, and delays in accessing care.

Several questions sought respondents' perspectives on how this will change the industry. Note that their comments were more focused on the midterm than the immediate fallout.

In general, payer respondents opined that it will be more difficult for service providers to "get in front of them" due to restrictions on in-person meetings, fewer conferences, corporate restrictions on travel and the like.



Large entities will snap up smaller vendors

A major theme was an expectation that there will be more consolidation, driven by large service entities that have robust cash flow and low debt loads. These entities will snap up smaller vendors or take over their business as the vendors close their doors.

Several respondents expect significant growth in adoption of behavioral health services, via tele- or other means. While the growth in payer interest in behavioral health pre-dated COVID-19, the pandemic added stress, anxiety, and fear, specifically fear that caused patients to avoid seeking care. This has prompted forward-thinking payers to implement new programs. Screening patients for behavioral health issues, identifying service providers to assist those patients, and integrating behavioral health into the care management process will likely increase over the next months.

Much needs to be done to address IMEs. Many, if not most, are on hold as states grapple with complications of office closures, distancing requirements, and payer requests for claim resolution. This picture is by no means clear and may take the longest to resolve due to the complex factors involved.



Conclusions and Recommendations

COVID-19 is forcing workers' compensation to adapt to a different world quickly. For an industry that doesn't do change well - if at all - the ability to manage this process will determine who survives and who does not.

Innovations will be forced by major changes to employment especially in retail, bars and restaurants, hospitality, travel, and healthcare. Premiums will drop significantly, especially in states that fail to effectively manage the crisis.

For claim management, payers and service providers must creatively expand tele-services to accommodate the lack of in-person medical care. This will entail significant investment and risk, but the rewards will ensure winners flourish. Return to work may be the biggest challenge if, as the Congressional Budget Office,⁵ Federal Reserve⁶ and other credible sources predict unemployment will remain high for months to come.

This is a completely new situation, one that will favor organizations and individuals that are open, collaborative, and that listen to front-line staff and clinical experts and that closely monitor news regarding employment, economic trends, and second-order effects of COVID-19. These organizations will demonstrate:

- Flexibility.
- An open acknowledgement that we don't "know" things, yet we're okay with trying new things even if those new things are radical departures from past practices.
- A willingness to drastically change procedures and policies and change them again if they aren't working.
- An ability to embrace the reality that some efforts are going to fail and that's fine, because the only thing worse is not trying new things to adapt to a very different world.

End Notes

1. <https://www.news-medical.net/news/20200605/Kidney-impairment-significantly-higher-among-hospitalized-COVID-19-patients.aspx>
2. [https://www.thelancet.com/journals/langas/article/PIIS2468-1253\(20\)30126-6/fulltext](https://www.thelancet.com/journals/langas/article/PIIS2468-1253(20)30126-6/fulltext)
3. <https://jamanetwork.com/journals/jamacardiology/fullarticle/2763845>
4. https://www.ncci.com/SecureDocuments/QEB/II_Insights_QEB_2019_Q3_EconOutlook.html
5. <https://www.cbo.gov/publication/56335#:~:text=The%20unemployment%20rate%20is%20projected,percentage%20of%20the%20labor%20force.>
6. <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20200610.htm>