

# Can HMOs Respond to Demand for Managed Workers' Compensation?

**H**EALTH MAINTENANCE ORGANIZATIONS (HMOs) ARE BACKING AWAY from managed workers' compensation programs, according to a 1999 survey conducted by Milliman & Robertson (M&R) and issued in the first quarter of 2000.

And while there's considerable interest in integrated disability management services, there's little active involvement in IDM at this time. According to the survey, active participation has dropped from 70 percent in 1996, to 63 percent in 1997, and to 41 percent between 1998 and 1999. The total number of occupational injury claimants treated by formal HMO workers' compensation networks has also declined.

The M&R survey of HMOs, the fifth of its kind, asked what services or strategies HMOs were offering or considering in 1998 and 1999 that were specific to managed workers' compensation (MWC), medical services designed to treat and manage occupational, or workers' compensation, lost-time injuries; and IDM services designed to manage nonoccupational lost-time disability claims.

The purpose of the survey was to update and refine a meaningful database of the strategies and products HMOs are actually using, or actively considering, for the treatment of occupational injuries with managed workers' compensation medical services. For the first time in 1999, the survey also looked at lost-time nonoccupational disability management services as well.

The need for "medical management" of occupational injuries and "case management" of all lost-time claims, both occupational and nonoccupational, is

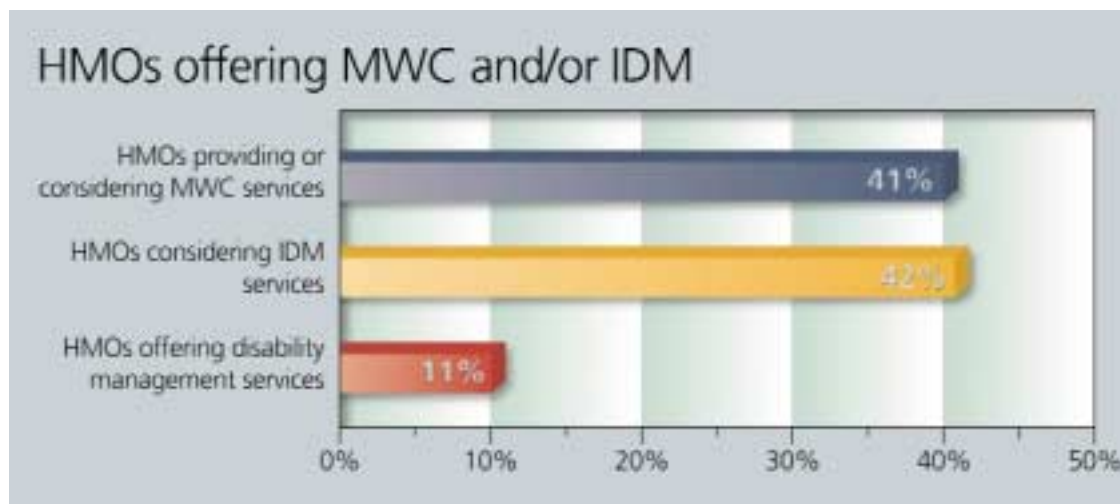
well documented. The success in driving down the cost of both workers' compensation and nonoccupational disability claims results from providing "real-time" claim reporting capabilities, early medical intervention, ongoing case management, treatment protocols, sophisticated and usable management reports, and effective return-to-work programs.

The reduction of the duration of lost-time claims is due to these interventions. Employers, health care plans, providers, workers' compensation insurers, and disability carriers are beginning to realize the importance of the full array of services and their impact.

M & R has been tracking HMO involvement in workers' compensation since 1994. The most recent survey reflects the results of the data from 1998 to 1999, when the survey was expanded to include questions about medical services specific to the management of nonoccupational lost time, disabling injuries, and illnesses. The nonoccupational disability management of short-term disability (STD) and long-term disability (LTD) management has been a natural progression for most employers and providers who have experienced the success of occupational claims management.

## Major Survey Findings

Forty-one percent of the responding HMOs said they're providing or considering managed workers' compensation (MWC) services; 42 percent indicat-



ed that IDM services are being considered, although only 11 percent are actually offering any disability management services for nonoccupational claims.

Once again, the larger HMOs (more than 250,000 group health members) continue to be the most likely to offer MWC (and IDM) services, while the smaller HMOs (between 20,000 and 250,000 members) appear to be more concerned with the profitability of current products than with considering new product lines. This is a trend identified in the 1997-98 survey, but it's much more pronounced this year, probably because of the financial problems plaguing nearly every health care plan in the country.

In this survey, as in the past, HMOs identified the desire to increase their current health care employer client base (79 percent) as their primary motivation for offering MWC/IDM services. Increased revenue (71 percent) and greater overall market penetration (43 percent) were, once again, the second and third most common reasons for entering this market.

While most HMOs list tracking patient outcomes as a key objective, the majority didn't provide data on the average duration of lost-time cases. Since this is such a key measure of the true efficacy of a "managed" workers' compensation and lost-time claim management program, HMOs offering MWC/IDM services are truly unable to measure the most important cost savings generated by their intervention—the replacement wage benefits saved by a more rapid return-to-work program.

All of the HMOs offering or considering MWC or IDM services indicated a desire to create a true integration of their core group health business with workers' compensation and disability medical

management services.

Total medical and indemnity cost savings "estimated" by the active HMOs as a result of their medical interventions and services were once again between 20 percent and 30 percent. It's unclear, however, what data is being used to determine these employer savings.

The revenue derived from providing "managed care services" to occupational injuries and lost-time management claims represented less than 10 percent of the revenue of the active HMOs responding.

About one-half of active respondents reported that 70 percent or more of their group health primary care physicians were included in occupational networks. The limited responses concerning specialists in the network showed a similar pattern.

About two out of three of the active HMOs have linked up with external vendors to supplement their MWC or IDM program. Forty percent of those indicat-

ed they had partnerships or alliances with workers' compensation insurers and 33 percent had partnered with third-party administrators (TPA). Other partnerships included case management firms and loss control companies.

### Conclusion

During 1998 and nearly all of 1999, the commercial workers' compensation market remained very competitive, with employers paying as much as 50 percent to 60 percent less than their standard premium in some states. As a result, there has been less employer concern about managing claim costs, fewer self-insured and large deductible programs, and less demand by employers for medical management services for occupational or nonoccupational programs.

It was clear by mid-1999, however, that the workers' compensation insurance carriers could no longer offset poor loss ratios with investment income. As 1999

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came to a close, the workers' compensation, health, and disability markets were clearly hardening in most states as a result of the following:

- Current WC rate inadequacy in most states;
- The increase in the cost of medical services, drugs, and equipment as a result of the current health care environment;
- A predicted increase in the frequency and overall cost of workers' compensation and disability claims as a result of:
  - Increase in the number of employed workers;
  - Increase in salaries of those employees;
  - Predicted increase in the number of occupational stress claims.

As the market continues to harden throughout the year 2000, the demand by the "risk bearers" (insurance carriers and self-insured employers) for effective management approaches to lost-time occupational and nonoccupational claims

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will increase exponentially. The ability of these claims payers to save 20 percent to 30 percent in workers' compensation or disability costs will cause employers and insurance carriers to once again invest their time and efforts into MWC and IDM programs.

The health care industry today, however, is preoccupied with serious financial issues and is not in a position to invest time, money, or resources in new and untested products and services. It appears that those HMOs currently providing workers' compensation services will continue to service occupational injuries, but

few new health care players are entering the MWC or IDM market. As such, the presence of HMOs as a direct provider of products and services in this market may be on hold until the HMO industry solves the financial issues confronting it as we enter the new millennium.

Despite these impediments, the M&R survey indicates that HMOs are definitely aware that medical management of lost-time nonoccupational health care claims and occupational workers' compensation injuries should be part of their business plans and future core competencies.

For the short term, however, it appears it will be the workers' compensation insurance carriers, specialized MWC vendors, and third-party administrators that will deliver medical management services to self-insured employers and employer groups (SIGs).

Thus, there is a unique irony to the "progress" that has been made in MWC and IDM services. At a time when the concept of medical management of lost-time claims is reaching a relatively high level of acceptance, and demand by employers and insurance carriers is growing, the HMOs and their local medical provider networks best suited to manage these claims are unable to respond.

Most of the survey's HMO respondents understand the potential for increased revenue and improved retention of current clients that can be derived from offering MWC and IDM services. However, the initial investment of money, time, and resources necessary to enter this market may be insurmountable until the HMO industry can re-establish the profitability of its core group health care products. ■



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