What is managed care, and how can its principles be applied to workers’ compensation insurance?
Managed care describes a medical care delivery system in which an insurance company or other provider of insurance benefits contracts with a network of doctors, hospitals or other health-care providers to offer health-care services on a cost-effective basis for a large pool of potential consumers. With their large volume of potential patients, insurers have the bargaining power to negotiate favorable reimbursement arrangements, such as contractual discount and per capita or per diem fees, usually at less cost than traditional fee-for-service arrangements. Typically, insurers contract with managed care organizations to provide medical services. An MCO can be an insurance company, a health maintenance organization, preferred provider organization or other managed care network.

Managed care encompasses a range of techniques aimed at influencing care providers to be more cost-effective in utilizing health care resources. Techniques range from the use of provider networks, physician gatekeepers who control access to specialty referrals, specialized testing and treatment, pre-certification review for hospitalization, ambulatory review for outpatient treatment, case management, audits of hospital and provider bills, and feedback to providers to improve performance.

Encouraged by the success of managed care in the group major medical health insurance market, employers and insurers are applying similar concepts to the medical care provided for work-related injuries. It is important to note that managed care in the group health arena traditionally focused only on medical cost management. In contrast, the objective of managed care in workers’ compensation is to reduce the total costs of work-related injuries and illnesses.

At What Price?
Injured workers, employers, insurers and claims administrators must work together to achieve this objective. Total costs encompass both direct and indirect costs. Direct costs include medical expenses, indemnity costs (wage replacements) and miscellaneous expenses (predominantly legal fees). Indirect costs are more difficult to measure and categorize, but generally include the cost of replacement workers and lost productivity.

Indirect costs can exceed the direct workers’ compensation costs for combined medical and indemnity benefits. It has been estimated that these indirect costs of a workplace injury can be 0.8 to 1.5 times greater than direct indemnity costs.

The duration of a disability also must be considered in treatment decisions. Early and aggressive treatment and therapy may add to the medical costs of a workers’ compensation claim, but these measures may ultimately save money for employers and insurance carriers in the long run. A speedier recovery that allows the employee to return to work earlier is a factor that reduces both indemnity and indirect costs.

This approach also assures injured workers that employers are concerned about their well-being. Managed care has demonstrated a range of benefits in workers’ compensation. Besides controlling costs and lowering disability costs, high-quality medical care at a reduced cost by physicians experienced in treating occupational injuries is made available to all employees.

Workers’ compensation is especially vulnerable to cost-shifting and other forms of abuse. Managed care protects employers and insurers from over-utilization by physicians (frequency and duration of treatment is often extended to offset limits on fees imposed by state fee schedules) and the practice of cost-shifting (physicians, hospitals, and other providers charge workers’ compensation patients more than other patients for the same types of treatment). These practices are more prevalent in less controlled sources of reimbursement, notably workers’ compensation and automobile medical coverage.
Cost-shifting and over utilization are direct results of the increased restrictions on cost control in the health-insurance arena for the past 10 years.

Managed care complements fraud control by directing injured employees to qualified providers and coordinating all aspects of their treatment and rehabilitation plans. In addition, managed care tends to reduce litigation through its emphasis on regular communications with injured workers. This demonstrates the employer’s and insurer’s commitment to help victims of work-related injuries and illnesses in their recovery and to return them to a state of productive employment.

Test Data Show Reduced Cost

Managed care is still relatively new in the workers’ compensation arena, but its value is underscored by several studies and considerable anecdotal evidence. For example, nurse case management can facilitate quicker recovery and ensure that the patient obtains the proper care in the proper setting to avoid complications or delays that could unnecessarily postpone recovery and return to work.  

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In a study involving one of CNA’s largest customers, CNA’s Nurse Case Manager/Adjuster teams—a managed care and claims administration strategy developed by CNA specifically for workers’ compensation—reduced paid indemnity costs by 35 percent and paid medical costs by 18 percent within six months!

Another CNA study combined several managed-care strategies and achieved the following results during a six month period:

- Utilization of desired physicians increased from 21 percent to 98 percent.
- The number of paid lost-time claims decreased from 13 percent to 4 percent.
- The average number of lost-time days before a return to modified duty decreased from eight to one.
- The average number of lost-time days before full return to work decreased from 26 to six.

These dramatic results are strong leading indicators of the impact managed care could have on workers’ compensation. A number of large employers and insurers also have reported significant savings through the use of managed care techniques in workers’ compensation. Results have been encouraging in those states that have been willing to give managed care an opportunity to succeed.

CNA believes that managed care is an advantage to all partic-
Participants in the workers’ compensation system. Workers are assured of high-quality, appropriate medical care. Employers benefit from reduced-loss costs and improved productivity as injured workers return to work on a timely basis. Medical providers avoid treatment disputes with insurers and are assured payment at agreed upon reimbursement levels. Insurers benefit from lower claims costs and less litigation, which moderates their need for price increases. Less pressure for price increases, in turn, lessens the need for regulatory price controls and helps preserve a healthy, competitive marketplace for workers’ compensation insurance.

About the Author
This insight into managed care has been supplied by CNA and its Commercial Affiliated Marketing division. CAM has been providing comprehensive property/casualty insurance for associations and affiliated groups since 1968. In 1993, The Association of the Wall and Ceiling Industries—International, together with CNA, developed a customized business insurance program that fits the needs of both suppliers and contractors in the wall and ceiling industry.