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Commentary

How a company manages disability during a recession can have long-term repercussions when the economy turns around.

Recession-Proofing Work Force Productivity: How Employers Are Managing Disability in a Downturn Economy

TAMMY BRADLY

In this time of economic uncertainty, consumers and businesses alike are tightening their belts. It's a natural reaction, but it has downsides. In an effort to cut costs, some employers are eliminating or significantly limiting certain disability management interventions. This approach may reduce short-term expenses, but it can have significant negative impact in the long term. With pared-down work forces, the companies that will survive challenging times are the ones that successfully manage short-term costs without sacrificing long-term strategic goals, remain compliant with regulatory requirements, and maintain a healthy and productive work force.

This column examines the impact of the eco-

nommic recession on the workplace and its impacts on employee productivity. The column also discusses strategies that employers are using to hedge against the current economic challenges and explores considerations for managing programmatic risks when resizing a disability management model, including recent changes to the Americans with Disabilities Act (ADA) and Family and Medical Leave Act (FMLA) regulations that must be addressed.

Recession's Impact on Workers Compensation Claims Trends

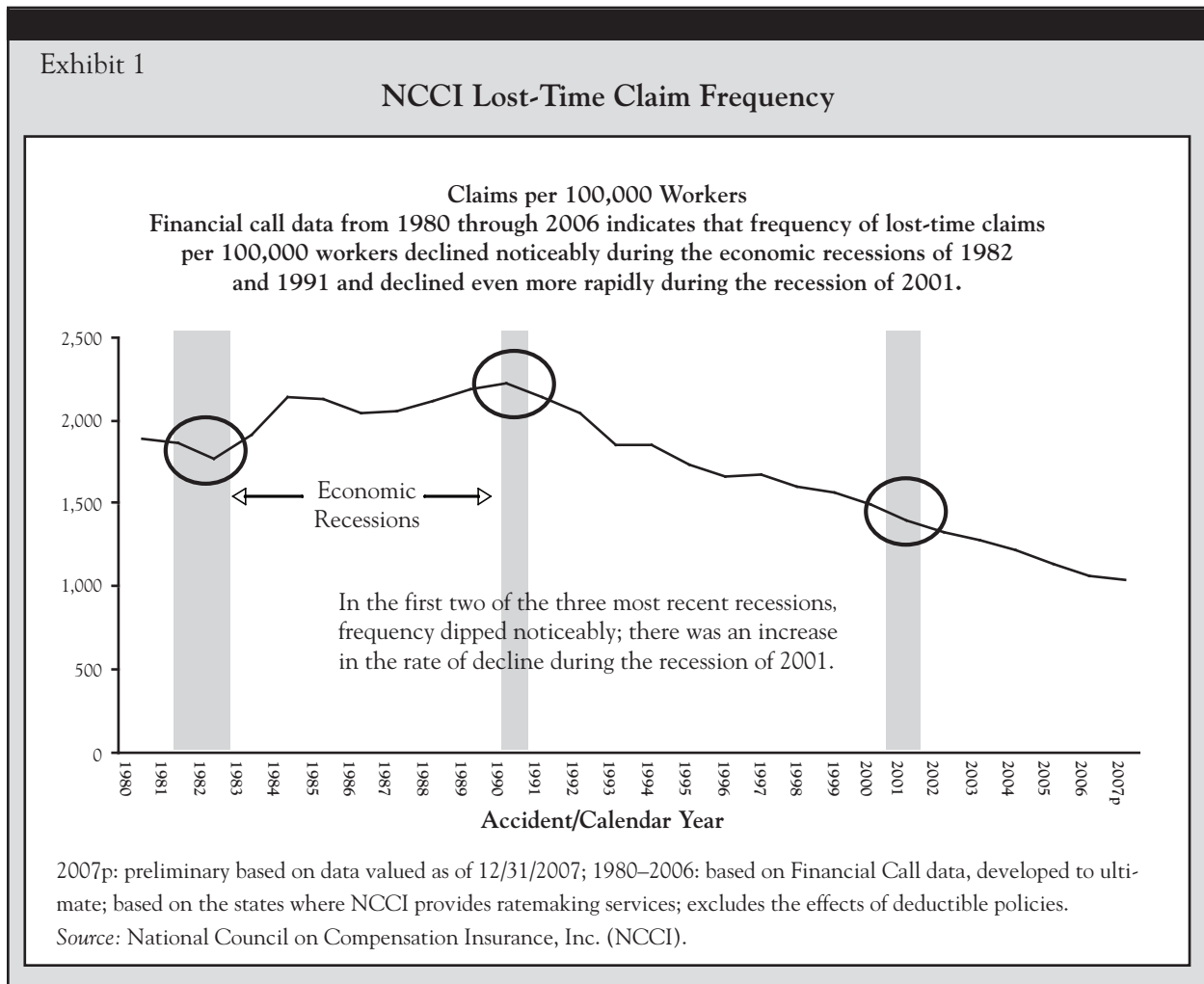
In the current economic climate, employers and

insurers are seeing fewer claims than ever, but per-claim spending is increasing, with higher medical and lost-time expenses. Since the early 1990s, the frequency of workers compensation claims has fallen steadily, perhaps as a result of stronger safety initiatives and other preventive programs that companies have adopted with increasing regularity. Whatever the reason, nothing suggests that the current economic environment is likely to put an end to this long-term downward trend.

It's interesting to note that frequency of workers compensation claims fell or declined faster during the three most recent recessions. (See Exhibit 1.) Based on historical data, it's reasonable to assume that a similar downward pressure on claims will mark the current economic downturn. This trend is somewhat counterintuitive, as many would predict that when job security is at stake, employees might be more likely to file claims in order to protect their

income — but the data do not support this theory. Several factors may contribute to the downward trend in claims frequency. For one, layoffs usually affect newer hires before more seasoned employees, and newer employees may be at higher risk of injury due to inexperience. As new hires are laid off, injuries — and the associated claims rate — decline. Another issue may be that employees without a strong sense of job security are unwilling to “rock the boat,” and so they come to work instead of taking time off. This can lead to “presenteeism” — where employees are on the job but unproductive or working at a reduced capacity.

Despite decreasing frequency of claims, medical and indemnity costs per claim are both on the rise. (See Exhibit 2.) Wage freezes during recessionary times seem to slow the upswing in indemnity claims costs to a certain degree, so the issue in the short-term appears to be medical severity. Drivers of medical



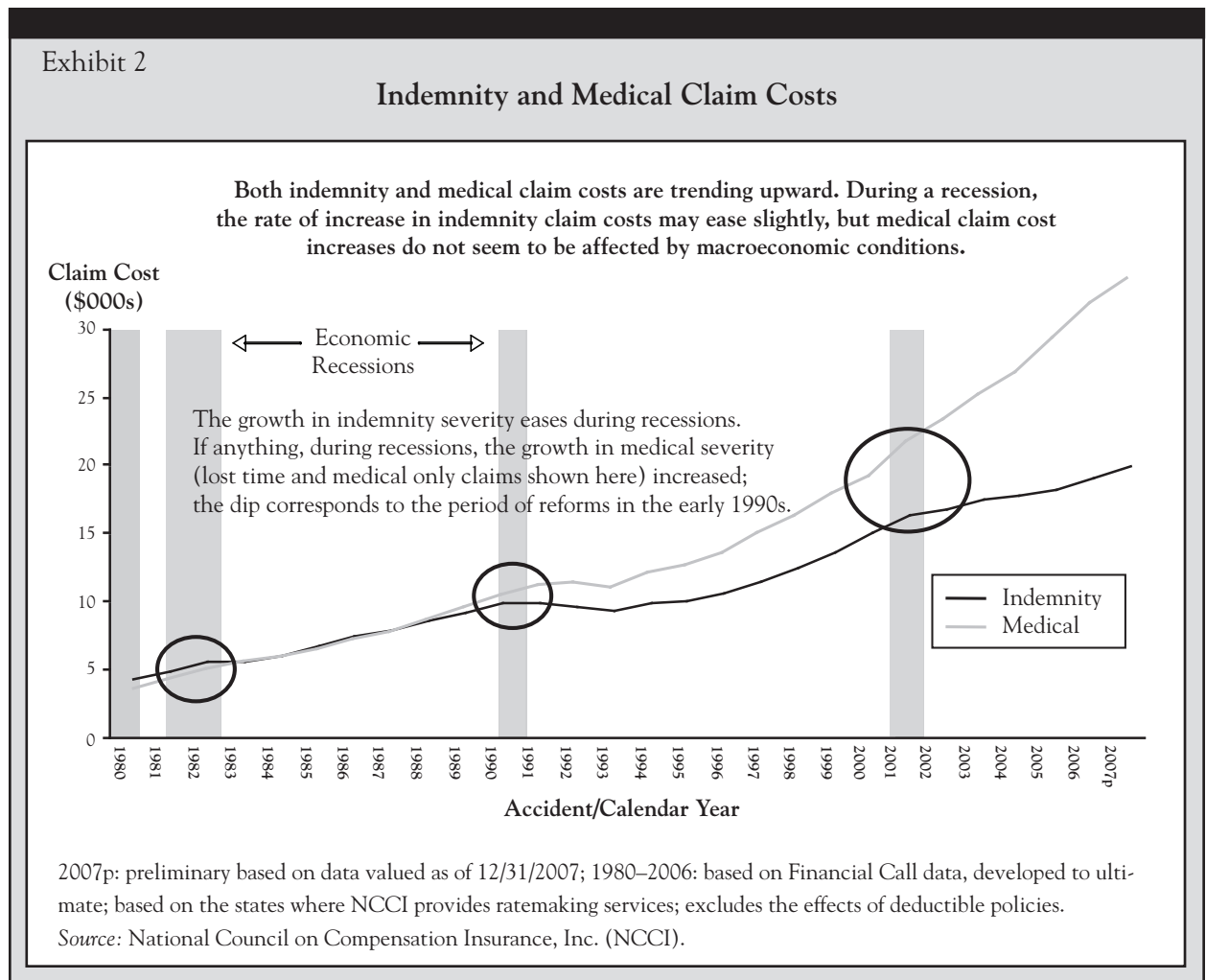
severity include medical price inflation and higher utilization. According to the National Council on Compensation Insurance (NCCI), “the key driver of the marked increases in medical severity in recent years has been the growth in the number of billed treatments.”¹ Past recessions have not driven costs down. In fact, during the recession in 2000–2001, the medical price index actually increased noticeably. The trend is not expected to reverse.

The Impact on the Industry

Independent of any recession, rising claims costs affect insurers in several ways. In addition to premiums, insurers also rely on investment earnings as a major source of revenue. It is logical to assume that significant drops in the stock market in the past year have forced insurers to place tighter controls than ever on claims and administrative expenses. However, at least

one large disability insurer has reported that, to date, it has seen no significant changes in claims reporting or approval patterns. This insurer is monitoring trends in mental health and musculoskeletal claims, as it saw increases in those diagnoses associated with prior recessions; however, in the first half of 2009, the insurer reports, mental health and musculoskeletal claims have decreased, and return-to-work (RTW) rates have increased for both short- and long-term disability. Although this represents the perspective of only a single insurer, it is worth noting. Also, it points to the potential for “presenteeism.”

Employers are under similar pressures. For many companies, sales are down; investment capital and credit are both difficult to come by. Many have applied a range of cost-cutting measures, including wage freezes, furloughs, layoffs, and scaling down of the amount that they reimburse employees for participating in popular wellness programs, such as



fitness programs. Employers are looking at spending in all areas, looking for places to cut back or programs to cut completely. Disability management interventions are increasingly under the microscope. To those with short-term cost reductions in mind, disability management programs look like obvious places to cut, because it is often difficult to quantify the savings these interventions return; however, the long-term impact of such cuts can drive long-term expenses higher.

It's impossible to assess the cost-benefit ratio of a program without considering the program's long-term effects. For example, reducing medical cost containment programs such as early intervention case management and utilization review, which help control medical utilization, ultimately results in higher

medical claims costs. Similarly, eliminating RTW programs results in longer disability durations and higher indemnity claims costs. In addition to direct cost increases, employers who eliminate RTW programs also risk spending more to replace the absent worker and on training and supervising new employees, not to mention the indirect costs of lower productivity when a seasoned worker is not on the job.

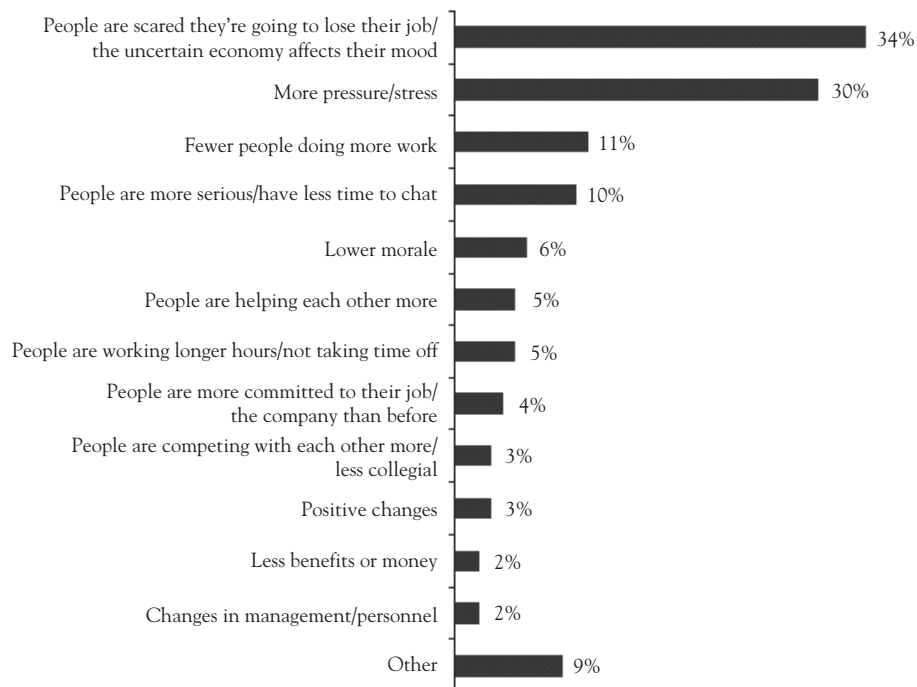
The Impact on Productivity

Another key issue to examine is the impact of the recession on productivity. Admittedly, productivity can be difficult or even impossible to quantify, depending on the work product output. Nevertheless, optimal productivity makes a real difference in a

Exhibit 3

Uncertain Economy Causes Corporate Mood Changes

A majority of respondents in a recent survey have noticed a change in mood in their company, including job insecurity, more pressure, and lower morale.



Source: "Living to Work: Understanding views of disability insurance plans," Yankelovich, part of The Futures Company (February 2009).

company's success and a real impact on the bottom line. Stress from the current economic turmoil is not conducive to optimal productivity, and that stress can be exacerbated when employers cut programs that support employee health and well-being.

As noted previously, one might expect disability claims to rise in a recession, but that has not been the case. A recent survey conducted by Yankelovich, part of The Futures Company, revealed that many employees feel nervous about losing their job. According to the survey, most Americans have a strong work ethic and derive satisfaction from their jobs. In fact, 65 percent of those surveyed "live to work" — that is, they get satisfaction from going to work each day, they would work even if they won the lottery, or the job gives their life structure and purpose.² This is more true of older employees and more true for women than men.

Mental Health Issues

The vast majority (94 percent) of survey respondents felt that disability income insurance was "somewhat" or "very valuable," and 62 percent said that not being able to pay bills would be their biggest worry if they couldn't work because of a disabling injury or illness. Although only 17 percent of respondents in the Yankelovich study had ever been out of work for more than 30 days due to an illness or injury, 58 percent of those in that group reported experiencing negative emotions during their time away from work, including anxiety, depression, feeling of unproductiveness, sense of vulnerability, and confusion.

Yankelovitch interviewed its study subjects in late January 2009. Sixty percent said that the overall mood at their workplace had changed in the past six months; of those who noticed a change, 34 percent said that people were afraid of losing their jobs and 30 percent reported increased pressure and stress. (See Exhibit 3.) These data echo a study by the National Business Group on Health, in which 40 percent of respondents indicated that their mental health, including stress and anxiety, is worse since the economic turndown.³ The mental health issues are more among prevalent older employees (44 percent of those aged 45 to 64) than for younger employees (35 percent of those aged 22 to 34).

Employees' Use of Health Care

Another side effect of the economic turndown is

that employees often neglect their health, which can put them at higher risk of a disabling illness or injury. The U.S. Bureau of Labor Statistics estimates that companies lose approximately 2.8 million workdays annually because of employee illness and injuries⁴ — and that is not taking into account the effect of financial insecurity. The National Business Group on Health found that 39 percent of those surveyed doubled-checked the cost of a doctor's visit or prescription prior to service, and 27 percent of those surveyed chose not to receive health-care treatment in order to save money on copayment or coinsurance costs. Some have stopped taking prescribed medications or are splitting or skipping doses.⁵ In this case, employees under age 55 are more likely to have skipped treatment to save on cost. Whether employees are under mental or emotional stress or in some discomfort from an untreated condition, it is reasonable to conclude that some portion of the work force is coming to work at less than 100 percent capacity. That "presenteeism" negatively affects productivity.

Productivity losses from "presenteeism" may be as high as 60 percent of the total cost of worker illness.

In 2004, the Cornell University Institute for Health and Productivity Studies (IHPS) and the health information firm Medstate released the results of a study of medical and short-term disability data from 375,000 employees over a three-year period. Researchers found that productivity losses from "presenteeism" may be as high as 60 percent of the total cost of worker illness — even higher than the cost of absenteeism and medical and disability benefits. The greatest job-productivity losses came from headaches, allergies, arthritis, and mental health-related issues, including depression.⁶ In 2003, when the economy was stronger, an estimated 49 percent of employees lost productivity at a rate of at least an hour a day due to stress.⁷

Strategic Culture Creation

It's obvious but worth restating that in order to man-

age workers compensation disability costs, companies need to reduce potential risk. Employers must ensure that they have a good safety program in place. Other proactive programs, such as ergonomic programs, can help reduce the incidence of costly and debilitating musculoskeletal injuries. Companies should promote a culture that values safety and encourages employees to look out for their own well-being and that of their coworkers.

Employers are also faced with interpreting and implementing the Americans with Disabilities Act Amendments Act of 2008.

Wellness Programs

Many organizations are launching or aggressively promoting programs for work/life balance, wellness, and stress management, as well as behavioral health interventions. For example, employees at PepsiCo headquarters can enjoy yoga, Pilates, and spinning classes, along with free laundry service.⁸ IBM offers financial incentives for employees to participate in a 12-week wellness program — with an estimated savings of about \$80 million in reduced health claims.⁹ To address shift work and other stressors that can lead to sleep apnea, overeating, or other problems, Union Pacific Railroad has a comprehensive behavioral health program that provides tools for resiliency and healthy coping.¹⁰ H-E-B Grocery Company encourages outreach to detect stress and depression and offers a referral to its employee assistance program (EAP) whenever an employee is disabled, regardless of whether a behavioral health issue is identified.¹¹ Communication — letting employees know what the company is doing for them — is key to the success of such programs.

Importance of Communication

Good two-way channels of communication are also important when it comes to mitigating employee stress levels. Internal communications vehicles should address employee concerns about finances, medical care, and job security. In a recent white paper, the Disability Management Employer Coalition (DMEC)

recommends that “employers should engage their front-line managers who have the closest contact with employees to make emotional connections with the people they supervise,” particularly blue-collar workers.¹² Supervisors should listen closely to their employees for signs of stress, burn-out, and low morale, all of which can harm productivity and could also lead to unsafe behaviors. Managers need to be familiar with the health and financial programs available through their employee benefits programs and be proactive about directing employees to these resources as appropriate.

Organizations should also train front-line managers and supervisors to initiate earlier and more frequent contact with employees who become ill or injured, even if they don’t offer an EAP referral, as H-E-B Grocery does. Early reporting and treatment of injuries supports better outcomes. By meeting the employee’s need for information at the time of injury and at other critical moments, this communication can have a positive impact on the employee’s perception of the disability experience — and can significantly reduce disability duration. In a study by the Gallup Organization, employees with work-related illnesses or injuries who were satisfied with the way their employer treated them returned to work in 63.5 days, compared to 125.8 days for dissatisfied employees.¹³

Stay-at-Work and Return-to-Work Programs

Stay-at-work (SAW) and return-to-work programs still play an important role. Stay-at-work programs are designed to help employees remain at work — and productive — by managing any limitations associated with their condition. Return-to-work programs help employees become productive again following an injury or illness, often by placing them in a transitional duty capacity. RTW programs are a win-win because they help reduce the employer’s direct costs and also help allay the disabled employee’s insecurities surrounding a claim.

The Impact of ADAAA

To further complicate matters in today’s climate of economic uncertainty, employers are also faced with interpreting and implementing the Americans with Disabilities Act Amendments Act of 2008 (ADAAA), which went into effect on January 1, 2009. Although the new regulation was written to

bring the Americans with Disabilities Act back into alignment with its original intention, some employers are struggling to maintain their current SAW and RTW programs under this new act.

ADAAA broadens the definition of disability to include “A) a physical or mental impairment that substantially limits one or more major life activities of such individual; B) a record of such an impairment; or C) being regarded as having such an impairment.” It does not apply to transitory and minor impairments that last six months or less.¹⁴ The impact of the act on employees, employers, and insurers — and what it might mean to SAW and RTW programs — is not yet clear. It does not appear that ADAAA will affect employers who promote SAW and RTW as “transitional” programs and who limit transitional duty assignments to less than 180 days. (Most employers currently limit their programs to 90 to 120 days.) It is probably helpful to use the term “transitional” rather than “modified” work to avoid any appearance of making an accommodation, which could be considered as regarding the employee as having a disability.

Transitional Programs Under ADAAA

SAW and RTW programs should provide temporary assignments that are both productive and consistent with the employee’s medically documented capabilities. Employers must monitor transitional work and should reassess assignments at least monthly. Best-practice programs are designed to be progressive, so that the physical demands of the transitional duty increase as the employee’s functional capabilities improve. The ultimate goal is return the employee to full duty. This proven approach accelerates return to full work capacity and productivity and also promotes medical recovery.

The Impact of FMLA Changes

Employers also need to consider a number of changes to the Family and Medical Leave Act (FMLA) that took effect in January 2009. The new rules don’t change the definitions of “serious health condition,” but they now specify that the employee must visit a health-care provider within seven days after the first day of the incapacity and again within 30 days of the onset. In addition, “light duty” time no longer counts against an employee’s FMLA entitlement.

Careful Case Management Selection

Case management is proven to make an impact on disability duration. Employers who implement disability case management, supported by line supervisors and an internal absence manager, can have a 74 percent lower absence rate than those that do not.¹⁵ Employees with occupational injuries whose claims are not managed tend to be away from work an average of 27 weeks longer than disabled employees whose cases are managed.¹⁶ Directing the injured or ill employee to the appropriate level of medical care and ensuring that medical utilization is both reasonable and necessary helps control medical severity and supports timely recovery and return to work.

In a challenging economy, it makes sense to be selective about which cases are managed, targeting those that are likely to benefit most from additional oversight. Data-driven case management programs that address both claims data and medical utilization data can result in significant savings by promoting optimal claims outcomes and helping reduce exposure for inappropriate and ineffective treatment. In addition to targeting cases for timely and appropriate evaluation and intervention, a data-driven approach provides impact validation, which is particularly attractive in a climate of cost justification and supports continuous improvement of program design.

Conclusion

It’s a time of uncertainty for employers and employees alike. On the downside of an economic cycle, employees worry about job security, wages, health, and, often, higher demands and heavier workloads. Employers worry about cutting costs, limiting exposure, maintaining profitability, complying with labor regulations, and keeping their employees safe, healthy, and productive. Eventually, the economic pendulum will again swing the other way. The companies that remain standing strong and productive will be those that successfully address the challenges facing them today with well-designed employee programs that support each unique organization’s long-term strategic goals.

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- Philadelphia-based Intracorp, a subsidiary of CIGNA Corporation, helps employers maximize their workers compensation and disability benefits programs to enhance the well-being and productivity of their work force. Intracorp, which was ranked the leading case management provider in 2009 by *Business Insurance* magazine, also offers pharmacy benefit management, utilization management, return-to-work programs, ergonomic consulting, medical bill review, provider network access, and information management services. For more information, visit the Web site at <http://www.intracorp.com/>.