Public Entity Risk Management:
Zero In on Worker’s Compensation Cost Drivers
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Zero In on Workers’ Compensation Cost Drivers

Results of the Public Entity Workers’ Compensation Survey 2013 conducted by PMA Companies and the Public Risk Management Association (PRIMA), with strategies to better manage workers’ compensation performance and costs

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Executive Summary
Public entities are grappling with tight budgets, declining revenues, growing economic pressures, and a wide array of risks. At the same time, workers’ compensation costs continue to rise.

Given this environment, PMA Companies teamed up with PRIMA to conduct a survey of PRIMA members who are public entity risk managers, using an independent market research firm. The survey was designed to examine current and expected workers’ compensation conditions.

Survey Results
In February 2013, more than 200 public entity risk managers responded to the survey and answered questions about workers’ compensation concerns, budgetary issues, and management strategies. Among the key findings:

- **An aging workforce was the biggest workers’ compensation concern among public entity risk managers**, followed by controlling claims frequency and returning employees to work.

- **When asked about workers’ compensation costs, 39% reported an increase**, 27% reported a decrease, and 34% said they stayed the same during the prior three years. The top four reasons for an increase were increased medical provider costs, increased pharmacy costs, an aging workforce, and increased claims frequency.

- **The top four ways public entity risk managers said they are managing workers’ compensation performance** were reducing claims through loss prevention, reducing costs per claim, reducing injury severity, and improving claims reporting time.

- **To reduce workers’ compensation costs**, respondents said their four primary means they are attempting or will attempt are improved safety programs, return-to-work programs, wellness programs, and manager accountability/charge-backs.

- **When asked about their risk management budget**, 30% said it had been reduced in the last three years, primarily due to less available revenue, workforce reductions, and consolidation of services.

- **During the next three years, public entities expect medical costs and an aging workforce to be the most significant issues** affecting their workers’ compensation costs.
Selected Recommended Solutions

Based on issues identified by public entity risk managers in the survey results, PMA recommends public entities implement strategies to build a safety culture that fosters employee involvement, promotes management safety training, and reduces the frequency and severity of risks. Specific strategies should address the impact of an aging workforce, employee health, medical and pharmacy costs, and claims costs:

- **Addressing an Aging Workforce**—The workforce is growing older and as it does, it presents public entities with skilled, experienced workers, but also specific areas of risk management concern. While older workers have comparable claims frequency when compared with younger workers, the severity of their injuries is much higher. Public entities with older workers should consider a multi-disciplinary risk management approach that addresses safety issues and workplace accommodations, among other issues.

- **Integrating Workplace Safety and Employee Wellness**—As medical and pharmacy costs continue to rise, employee health and wellness needs to be addressed. For example, the most obese workers file twice as many workers’ compensation claims and have 13 times more lost workdays than healthy weight workers. By integrating occupational health & safety and wellness programs, public entities can boost employee morale, reduce medical (plan) losses, increase productivity, and reduce the frequency and severity of workers’ compensation claims.

- **Addressing Medical and Pharmacy Costs**—To manage medical and pharmacy costs, use a managed care and pharmacy benefit management program that provides quality healthcare and reduces costs.

- **Improving Return-to-Work Strategies**—Facilitating return to work of injured workers when medically appropriate is critical in managing claims costs. Strategies for improving performance in this area include implementing an effective modified-duty plan and paying attention to injured workers in a timely, consistent, and caring way.

- **Implementing a Charge-Back Strategy**—Charge-backs (cost-allocation systems) can be an effective tool for motivating and managing positive risk management behaviors and promoting accountability and transparency within your organization. While each allocation system is different, the goals should be to promote risk prevention and control by providing incentives, balancing cost risk-bearing and risk-sharing, and providing managers with cost information.

About the Survey

PRIMA and PMA Companies co-sponsored a survey of public entity risk managers in February 2013. The survey was designed to examine workers’ compensation-related risk management conditions and practices among public entity risk managers who are members of PRIMA. The questionnaire was fielded and tabulated by J.P. Murphy and Company, an independent survey research firm. The white paper presents key survey findings along with PMA’s discussion of their implications and recommended actions for public entity risk managers.

A total of 210 submissions out of 840 qualified respondents were received, which represents a completion rate of 25%. This rate is above industry standards for surveys of this type.

The largest public entity type responding to the survey was cities and towns, representing 43% of respondents, followed by counties, which represented 28%. The remaining respondents were school districts or special districts, airport transit or utilities, risk pools, state or state agencies, or other entities.
Public entities with populations between 50,000 and 250,000 were the predominant respondents; however, a substantial number of respondents also served populations under 50,000 and over 250,000.

**Type of Public Entity:** Which Type of Entity Best Describes Your Organization? (N=210)

- City or Town: 43%
- County: 28%
- School District(s): 9%
- Special District: 5%
- Airport Transit or Utility: 4%
- Risk Pool: 4%
- State or State Agency: 4%
- Other: 4%

**Number of Residents Served:** Total Includes All Entity Types

- Total (N=210):
  - <50,000: 16%
  - 50,000 to 249,999: 46%
  - 250,000–499,999: 24%
  - 500,000+: 15%

- Municipality (N=90):
  - <50,000: 4%
  - 50,000 to 249,999: 28%
  - 250,000–499,999: 6%
  - 500,000+: 5%

- County (N=58):
  - <50,000: 5%
  - 50,000 to 249,999: 49%
  - 250,000–499,999: 18%
  - 500,000+: 18%
Survey Results

Workers’ Compensation Concerns and Strategies
The biggest workers’ compensation concern cited by survey respondents was an aging workforce, selected by 42% of respondents. Controlling claims frequency, returning employees to work, and co-morbidity issues were the next biggest concerns.

**Biggest Workers’ Compensation Concerns:**
Please Indicate Your Two Biggest Workers’ Compensation Concerns (N=209)

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Aging Workforce</td>
<td>42%</td>
</tr>
<tr>
<td>Controlling Claims Frequency</td>
<td>31%</td>
</tr>
<tr>
<td>Returning Employees to Work</td>
<td>31%</td>
</tr>
<tr>
<td>Co-Morbidity Issues Impacting Claims</td>
<td>22%</td>
</tr>
<tr>
<td>Severity of Exposures and Risk Potential</td>
<td>17%</td>
</tr>
<tr>
<td>Resistance to Safety Culture</td>
<td>14%</td>
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<tr>
<td>Increasing WC Regulations</td>
<td>14%</td>
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<tr>
<td>Ability to Benchmark Results</td>
<td>10%</td>
</tr>
<tr>
<td>Medical Costs (Write-In)</td>
<td>5%</td>
</tr>
<tr>
<td>Access to Credible Risk Mgt. Info</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
</tr>
</tbody>
</table>

**Managing Workers’ Compensation Performance:**
Indicate the Top Four Ways You are Managing Your Workers’ Compensation Performance (N=208)

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing Claims Through Loss Prevention</td>
<td>85%</td>
</tr>
<tr>
<td>Reducing Costs Per Claim</td>
<td>56%</td>
</tr>
<tr>
<td>Reducing Injury Severity</td>
<td>48%</td>
</tr>
<tr>
<td>Improving Claims Reporting Time</td>
<td>47%</td>
</tr>
<tr>
<td>Reducing Our Frequency Ratio</td>
<td>44%</td>
</tr>
<tr>
<td>Claims Litigation Management</td>
<td>43%</td>
</tr>
<tr>
<td>Benchmarking/Stewardship Reporting</td>
<td>25%</td>
</tr>
<tr>
<td>Fraud Prevention</td>
<td>23%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>

When asked for the top four ways they are managing workers’ compensation performance, 85% cited “reducing claims through loss prevention.” Reducing costs per claim, reducing injury severity, and improving claims reporting time were the other top choices.
Cost Trends and Management
Of public entities responding, 39% reported an increase in workers’ compensation costs, 27% said costs had decreased, and 34% said they stayed the same. The top four reasons for higher costs were increased medical provider costs, increased pharmacy costs, an aging workforce, and increased claims frequency.

Risk managers said they are attempting or will attempt to reduce these costs in four primary ways: improved safety programs, return-to-work programs, wellness programs, and manager accountability/charge-backs. However, only 36% said they use “charge-backs” to hold their department managers accountable for workers’ compensation costs.
During the next three years, public entities expect medical costs and an aging workforce to be the most significant issues affecting their workers' compensation costs.

**Risk Management Budgets**

When asked if their risk management budgets had been reduced in the past three years, 30% of respondents said budgets had been reduced and 66% said they had not. The top reasons for budget reductions were less revenue available, workforce reduction, and consolidation of services.
When asked how much of their budget was allocated to loss prevention, only 4% said 20% or more, while 36% said 1-4%; 32% said they were unsure.

For respondents who said they were doing their job with fewer resources (see chart below), more than half said they were doing this by working additional hours, while 38% cited functional consolidation, and 32% cited support from outside vendors.

For public entities utilizing fewer resources (see chart below), municipalities made the greatest use of outside vendors. Counties reported delivering fewer services and all other types of public entities reported other departments were handling more risk management tasks.

**Selected Risk Management Solutions**
Public entities today face tight budgets, growing economic pressures, and a wide array of risks. The pressures come at a time when workers' compensation costs continue to rise.

Given this environment, public entity risk managers seeking to manage workers' compensation costs can benefit from workplace safety programs. These programs should build a positive safety culture, foster employee involvement, promote management safety training, and reduce the frequency and severity of risk.

Moreover, PMA recommends that public entity risk managers consider specific strategies to address issues raised in the survey results—the impact of an aging workforce, higher medical and pharmacy costs, employee health, and higher claims costs.
Aging Workforce
An aging workforce was cited in the survey as the top concern of public entity risk managers. When considering the impact of more employees continuing to work well into their 60s, it is important to note that these workers have a positive impact in the workplace, bringing experience and improvements in productivity. However, older workers also lose cardio and physical capacity, changes that raise risk management concerns.

Strategies to address an aging workforce must recognize that the issue is not the frequency of claims, but the severity. In fact, according to the National Council on Compensation Insurance, Inc. (NCCI), frequency rates are within approximately 5% of each other across all age groups. However, medical and indemnity severity rates were 51% and 56% higher, respectively, for workers age 45-64 compared to younger workers.

In addition, the Bureau of Labor Statistics reports that injuries and illnesses become more severe as workers age. Median days away from work due to injury and illness increase from five days for workers age 20 to 24, to 12 days for workers age 55 to 64.

When addressing risk management concerns and older workers, public entities should consider the following:

- **Role of co-morbidities**, e.g., obesity, hypertension, and diabetes, affecting the older workers and their impact on workers’ compensation claims
- **Workers aging in jobs**, particularly older workers in physically demanding jobs who may find it difficult to continue handling their job responsibilities
- **Helping older workers stay healthy**, with particular emphasis on key areas such as exercise, eye examinations, appropriate medication usage, and workplace accommodations/safety features

Medical Costs
As identified in the survey, medical expenses have a significant impact on overall workers’ compensation costs. To manage medical expenses, it is important to mitigate costs through a multi-faceted managed care and pharmacy benefit management program that provides quality healthcare to injured workers and manages medical and pharmacy costs.

A successful managed care program should include:

- Medical case management and clinical services
- Nurse triage/early intervention
- Pharmacy nurses
- Robust bill review services
- Pharmacy benefit management, including programs to monitor narcotic utilization
- Out-of-network services
- Quality and regulatory assurance programs
Workplace Safety and Employee Wellness

With public entities reporting rising medical and pharmacy costs as top cost drivers for their workers’ compensation programs, employee health and wellness needs to be addressed on several fronts. Strategies should address overall employee health.

Obesity is a growing problem not only in society in general, but for workers’ compensation costs. According to the Insurance Information Institute (III), the percentage of obese adults did not exceed 20% in any state in 1994. By 2010, all 50 states had adult obesity rates of 20% or more—with 12 states reporting 30% of adults as obese.

The III also reports that the most obese workers file twice as many workers’ compensation claims and have 13 times more lost workdays than healthy weight workers. Workers’ compensation medical claims and indemnity costs are 5 to 10 times higher for the most obese workers.

Though most risk managers understand that obesity and other employee health conditions can directly impact workers’ compensation costs, there is not always a clear path to addressing the intersection of workplace safety and worker wellness. Occupational health & safety seeks to foster a safer work environment by focusing on injury and illness prevention, while wellness programs focus on enhancing the overall well-being of workers by addressing lifestyle behaviors inside and outside the workplace.

However, these are not mutually exclusive concerns. By integrating wellness programs and risk management, public entities can combine occupational health & safety and wellness, boost employee morale, reduce medical plan losses, increase productivity, and reduce the frequency and severity of workers’ compensation claims. The keys are breaking down internal silos, customizing solutions and using incentives, actively engaging workers and management, having adequate staff and resources, and evaluating and adapting as necessary.

Integrating Wellness Programs & Risk Management Strategies for Public Entities

<table>
<thead>
<tr>
<th>Occupational Health &amp; Safety</th>
<th>Wellness Programs</th>
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<tbody>
<tr>
<td><strong>Goal</strong></td>
<td>Focuses on enhancing the overall well-being of workers, addressing specific lifestyle behaviors, inside and outside of the workplace.</td>
</tr>
<tr>
<td><strong>Typical Elements</strong></td>
<td>Nutrition education</td>
</tr>
<tr>
<td>Incident investigation training</td>
<td>Smoking cessation program</td>
</tr>
<tr>
<td>Safety planning</td>
<td>Stress management program</td>
</tr>
<tr>
<td>Rules and workplace procedures</td>
<td>Access to fitness centers</td>
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<tr>
<td></td>
<td>Exercise programs</td>
</tr>
<tr>
<td></td>
<td>Information on health topics</td>
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**Return-to-Work Programs**
To manage claims costs, it is critical to facilitate return to work of injured workers as soon as is medically appropriate. Strategies include paying attention to injured workers in a timely way, following up consistently, and showing sincere concern. Risk management should also focus on transitional or modified-duty programs.

To set up an effective modified-duty program, risk managers should:

- Educate medical providers on the availability of modified jobs, the need for physical capacity information, and return-to-work philosophy
- Educate the management team on why modified duty is important and expectations concerning use
- Inventory potential modified-duty jobs
- Develop a written policy
- Track and manage employees on modified duty
- Consider central budgeting of modified-duty expense

**Charge-Back Strategy**
Charge-backs, also called cost-allocation systems, can be an effective cost reduction strategy for public entities looking to motivate and manage positive risk management behaviors as well as promote accountability and transparency.

While each cost-allocation system is different, these systems should be easy to understand and administer, and not subject to manipulation. After establishing the goals of your cost-allocation system, you should:

- Assess your organization’s willingness and financial ability to budget and allocate costs at the operating-unit level
- Define the risk management costs to be allocated
- Determine an allocation approach—prospective or retrospective
- Define allocation methods, including an exposure base, experience base, allocation limits, experience period, and valuation dates
- Partner with others: Agents, consultants, actuaries, accounting, financial, senior management, information systems, etc.
- Perform trial calculations
Conclusion

As public entities grapple with workers’ compensation costs and declining revenues, effective workers’ compensation and workplace safety strategies are more important than ever. The Public Entity Workers’ Compensation Survey 2013, conducted by PRIMA and PMA Companies, revealed key public entity concerns and cost trends. An aging workforce, claims frequency, rising medical costs, and returning employees to work are key current and future issues public entities said must be addressed.

To address these issues, public entities should implement strategies that promote a healthy and safe workforce and reduce costs, including an integrated occupational health & safety and wellness program, effective return-to-work programs that utilize transitional duty, and loss prevention initiatives tailored for public entities.

About PMA Companies

PMA Companies (www.pmacompanies.com) provides risk management solutions and services in the U.S., specializing in workers’ compensation and offering property and casualty insurance. A member of Old Republic Companies, PMA Companies is headquartered in Blue Bell, PA.

Old Republic International Corporation (NYSE: ORI) is one of the nation’s 50 largest publicly held insurance organizations.

PMA Companies includes:

- **PMA Insurance Group**, specializing in workers’ compensation, and providing other commercial property & casualty insurance products

- **PMA Management Corp. and PMA Management Corp. of New England**, providing results-driven TPA and Risk Services specializing in workers’ compensation and liability

About PRIMA (Public Risk Management Association)

The Association’s mission is to promote effective risk management in the public interest as an essential component of public administration. Headquartered in Alexandria, VA, PRIMA is the largest risk management association dedicated solely to the practice of risk management in the public sector. PRIMA’s membership is made up of nearly 2,000 entities in over 1,800 jurisdictions.

About the Author

Frank X. Altiere, III is President of PMA Management Corp. He has 35 years of risk management and insurance experience, with a focus on helping organizations develop and implement high-performing risk management programs. He has spoken at many conferences and seminars and has authored articles on the total cost of risk, claims management, workers’ compensation, and achieving return-on-investment for self-insured clients.

Mr. Altiere, a Risk and Insurance Management Society (RIMS) Fellow, holds CPCU, ARM, AU, IIA, and AIS designations, and is a member of the Self-Insurance Institute of America.

1. NCCI, Workers’ Compensation and the Aging Workforce, December, 2011.