OCI Analytic Study

Company Downsizing and the Impact on Complex/High Risk Medical Claims

Turning History Into Foresight SM

COMPANY DOWNSIZING AND THE IMPACT ON COMPLEX/HIGH RISK MEDICAL CLAIMS

Organizations that are negatively affected by the economy generally look to reduce their greatest expense; that being payroll. But force reductions can have negative and offsetting cost consequences for an organization's health care costs. Because the cost of recruiting experienced workers, retraining and reorienting them to company policies and workflows can be significant, organizations tend to lay off less experienced, lower tenured, and more often younger employees first. While studies have shown that less experienced employees are more prone to accidents, injuries to older employees are more severe and require a longer recovery period.

The National Council on Compensation Insurance (NCCI) has reported a long-term rise in medical costs (due to inflation), yet a long-term reduction in the incidence of medical disability and workers' compensation claims (due to safer workplaces). Offsetting this trend, independent studies from California and Texas have shown that workers' compensation claims have risen with higher unemployment. A report by U.S Office of Personnel Management indicates that workers compensation claims increased during downsizing[1]. Researchers at Case Western Reserve[2] investigated the impact of plant downsizing on disability pension utilization in Norway. They concluded, "Plant downsizing substantially increases the disability entry rate of workers in affected plants. Workers originally employed in plants that closed between 1993 and 1998 were 27.9 percent more likely to utilize disability pensions in 1999 than comparable workers in non-downsizing plants." Combined with the higher percentage of older workers, whose injuries tend to be more severe and take longer to recover, organizations can experience higher average medical costs from the remaining employees when they institute a reduction in force.

An article by NCCI in July 31, 2009[3], concluded that: "In recessions, the acceleration of job destruction increases the growth rate of workplace injury and illness incidence rate (which is indicative of moral hazard), while the slowdown in job creation depresses this growth rate by reducing the proportion of workers of short job tenure." NCCI further concludes, "the effect of job destruction originates in opportunistic behavior, as employees affected by layoffs look to workers' compensation for wage continuation." NCCI concedes: "Another explanation for why layoffs contribute to [1]workers' compensation claims points to the layoff 'survivors', who may suffer from increased stress, anxiety, and depression (see, for instance, Noer, 1993, and The Travelers Companies, 2008)."

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1 www.opm.gov/studies/workcomp.txt
2 http://ideas.repec.org/p/ssb/dispap/435.html
3 'New Research on Workplace Injuries and Job Flows' by NCCI, Posted May 01, 2009 and updated July 31, 2009

This conclusion is supported by a Minnesota electronics manufacturer, whose management had employees complete the Human Factors Inventory (a stress/general well-being inventory) during a major downsizing. The survey showed high levels of worker stress. The company implemented a variety of programs to address this problem. Result – workers' comp claims decreased by 30%.[4] It can also be hypothesized that employees may stay out on leave longer in fear of losing their job once they return from leave.

Counter-balancing these conclusions, workers may have been suffering from long-term accumulated body stress, fatigue, recurring, chronic or progressive medical conditions for years and either didn't know they could file a claim or concluded that if they didn't file a claim, they could miss the opportunity if or after they were laid off.

Unrelated to an injury and workers' compensation claim, an employee who is in fear of losing a job may encourage family members to get all of their medical issues attended to prior to losing benefits.

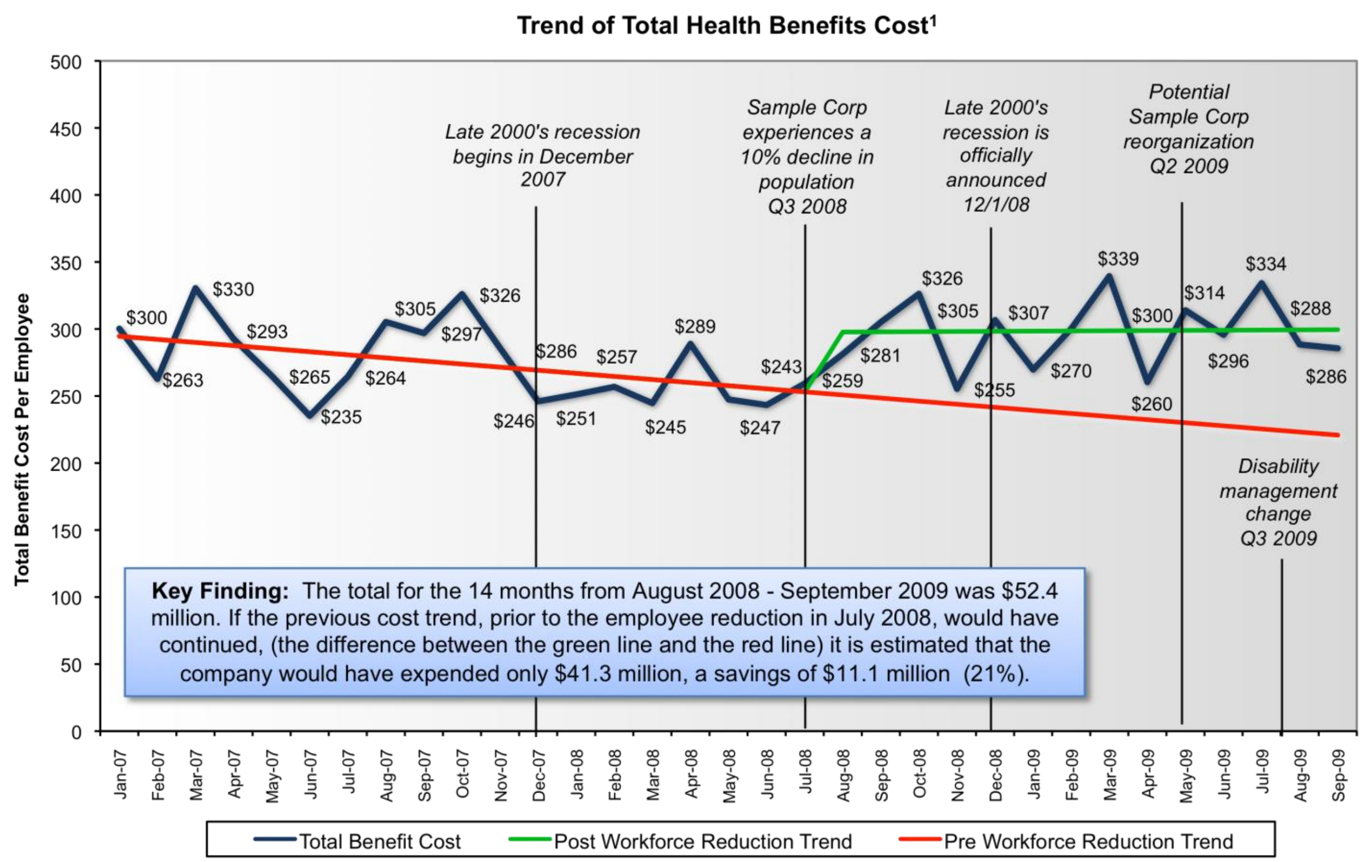
The findings of a recent case study, undertaken by OCI, a Data Integration and Software Services provider, support these industry trends, but look more closely at the impact of a company's downsizing on the complex/high risk claims of its employees (i.e. claims that are difficult to assess and/or have the potential for long durations) and the net cost impact to the company. This white paper presents those findings along with recommended activities that organizations can undertake to identify and mitigate these costs when they anticipate a reduction in force.

4 Kohler, S. and Kamp, J. (1992). American Workers Under Pressure Technical Report. St. Paul Fire and Marine Insurance Company. St. Paul, MN.

OCI CASE STUDY FINDINGS:

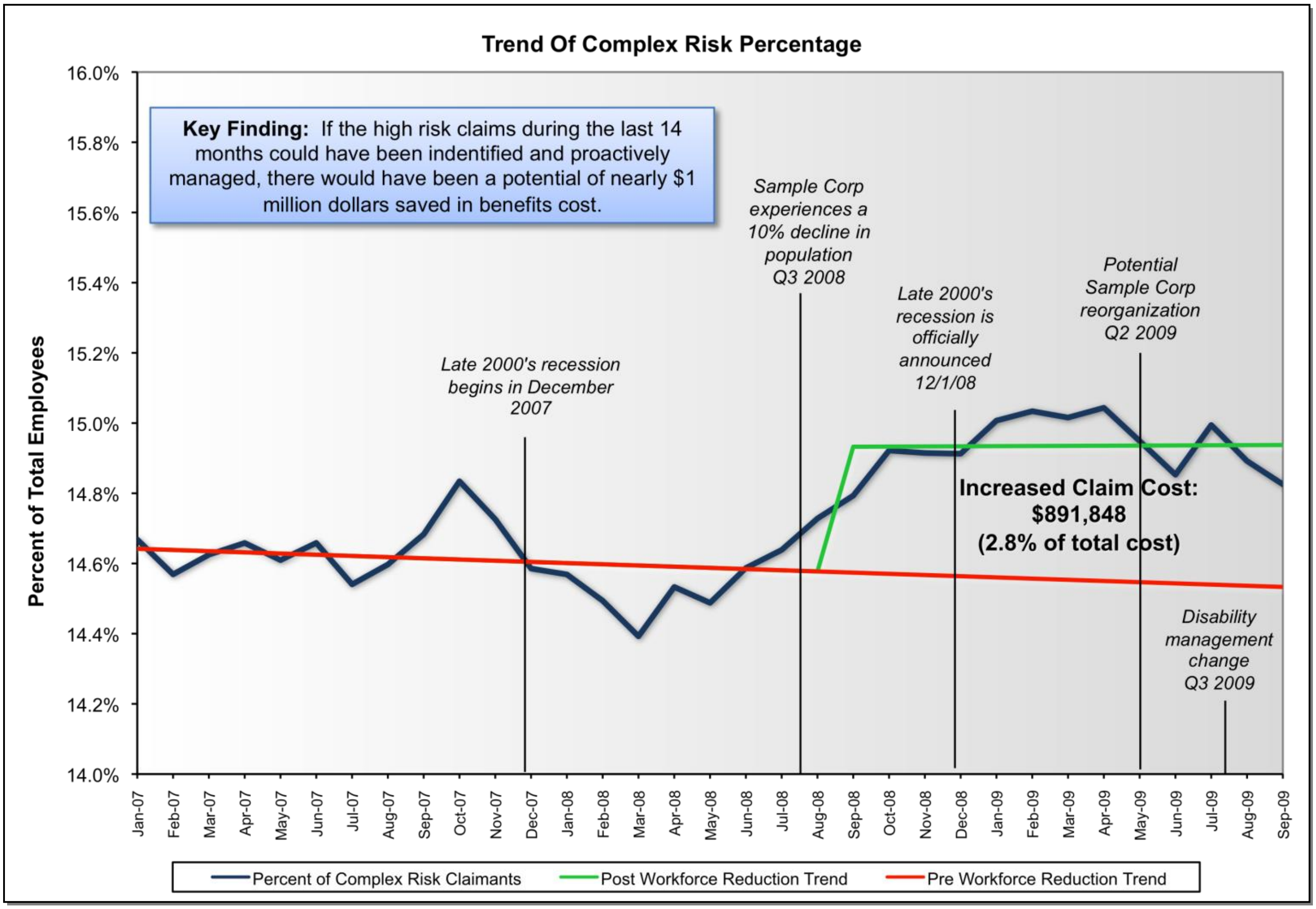
OCI conducted a detailed statistical analysis and case study on a Fortune 500 company, analyzing Total Benefits Consumption in terms of costs per employee for short term disability (STD), long term disability (LTD), workers' compensation, healthcare and prescription drug cost over a 32 month period during a recession, which included a 10% employee force reduction.

The following graph displays Total Benefit Costs per Employee over the period January 2007 through September 2009. Note the gradual decline in Total Benefits Cost over the initial 18 months, followed by an increase when the company experienced a 10% decline in employment. If the previous cost curve had been maintained, the company would have saved $11.1 Million in benefits cost. All costs have been adjusted for inflation and are based on the value of the dollar in September 2009.



[1] Total health benefits costs include costs for workers' compensation, short-term and long-term disability, health care and prescription drug. Employees included were those employed for at least one day during the given month.

OCI developed a proprietary algorithm to identify the increased risk for employees with complex or hard to diagnose claims, to see if a positive relationship exists between a reduction in force and high risk/complex claims. If an employee begins to behave differently in terms of benefit consumption shortly after a reduction in force this algorithm is sensitive enough to measure this increased risk with the first claim submitted by the employee. Similar to the increased benefits costs that followed the reduction in force, the percentage of employees that had complex or high risk claims increased following the reduction in force. If these high risk claims could have been identified early on and proactively managed, the company could have mitigated as much as $891,848 of the $11.1 Million in increased medical costs.



OCI developed the Risk Predictive Early Referral Application (RPERA) model to identify high-risk employee claims that are appropriate for proactive case management. RPERA incorporates a company's historical claims utilization data and adjusts for those claims where it is difficult to diagnose the underlying medical condition. The RPERA model can be used to proactively identify high-risk, lost-time claims at the first report of injury and subsequently refer these high-risk claims/claimants for early and aggressive case management intervention. The model helps to segment risk and focus management resources on appropriate areas. Results can be tabulated on a claim-by-claim status, with each claim being placed into one of two groups: high risk or non-high risk. OCI's model was designed to identify those claims with the most to gain from case management, as opposed to simply predicting the highest-cost claims which may not have any case management opportunity. The model can also be run retroactively to determine the risk associated with claims that have already closed, to get a basis for estimating overall claim risk at a company.

CONCLUSION:

"Companies and their insurance carriers need to be more aware of risks and be more proactive in managing employees with potentially complex and high risk healthcare costs before and during a reduction in force," said, Andrew Kersh, OCI Senior Analyst. "Without this level of intelligence, employers may not have the information to properly identify and manage these high risk claims, and as a result, they would be forced to absorb or pass along the increased cost to their employees in the form of higher premiums. Companies must work closely with their insurance carriers to anticipate and identify changes in employee behavior resulting from a reduction in force that lead directly to high risk claims, and address them with proactive programs on safety, job rotation for repetitive movement, early diagnosis of chronic conditions, case management and return to work programs to mitigate these risks before they become costly," said Kersh.

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ABOUT OCI:

OCI (Options & Choices, Inc.) is a Data Integration and Software Services provider that helps companies make better-informed decisions about their employee benefit and risk management programs. OCI has designed and delivered integrated health and productivity solutions to Fortune 1000 companies since 1984. Today, OCI is alone in its unique combination of true data integration and technological acumen. OCI's administrative structure allows for quick decisions, rapid senior management involvement, when necessary and low overhead costs.

OCI has maintained a strong vision of the value of integrated health and disability information. To OCI, information is not merely the logical arrangement of data into useful and understandable formats, but is a strategic asset and competitive advantage for customers. OCI builds a client-serving and corporate-integrating asset from the input of disparate vendors' data, according to the needs and resources of its clients. OCI then enables customers to understand, manage, utilize, and extract knowledge from that information; either directly through custom-built reporting tools, OCI-supplied analytics, or both. Further, OCI has the in-house advisory capability to offer data interpretation and operative suggestions based on real-world corporate experience.

For more information on OCI visit www.oci.com, contact OCI at solutions@oci.com or call **800-678-6613.**