

# Improvement Strategies for Disability Plan Performance

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An OCI Analytic Study

September 9, 2010

**OCI**<sup>®</sup>





## THE CHALLENGE

As medical and insurance rates continue to rise, employers have used many different approaches to control those costs and improve productivity, while maintaining high employee morale. The most common efforts are return to work programs, increasing employee deductibles, generic drug-use mandates, wellness plans, and consumer-driven health plans<sup>1</sup>.

Add to that list heightened scrutiny of benefit plans themselves - an effort many employers believe can save on already scarce resources, reduce unnecessary spending, ensure employee safety, and encourage employees to return to work quickly once their medical needs have been addressed. But benefit plans can be complex, and changes can be difficult to implement without having access to relevant and timely information pertaining to the immediate needs of the plan.

Many employers lack the data and analytic expertise to determine whether specific plan changes, such as the implementation of duration limits, would actually result in cost savings. Despite their intimate knowledge of their employees and benefit plans, many employers are unable to identify the types of claims demanding their attention and focus on their true cost drivers.

Because of these complexities, OCI studied various plan designs to determine which elements had the most significant impact on costs, and which conditions or injury types were most affected by plan design changes.

In the end, OCI's research answered this question: which changes should an employer consider making to its benefit plans to reduce claims and improve their bottom line?

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<sup>1</sup> Health Care Plans: Impact of the Financial Crisis. (2009). International Foundation of Employee Benefit Plans.



## THE STUDY

A large employer, convinced of the plan design changes it needed to make to reduce claims and save money, asked OCI to confirm its assumptions and estimate those savings. OCI's study, however, uncovered trends the employer did not expect and refocused its efforts on new plan designs that were more likely to result in savings. Often, an apparently complex and expensive injury type is not the key driver of total cost. OCI's study identified the employer's true cost drivers and provided the critical information the employer needed to make the most informed decisions about its benefits plans.

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OCI studied the employer's disability claims over a four-year period to determine whether plan changes specifically intended to reduce the duration and incidence of claims would have a significant impact on the employer's costs. OCI used claims data associated with current employer benefit plans contained in the OCI Reference Database to develop scenarios and predict the cost impact of altering the customer plans with these scenarios.

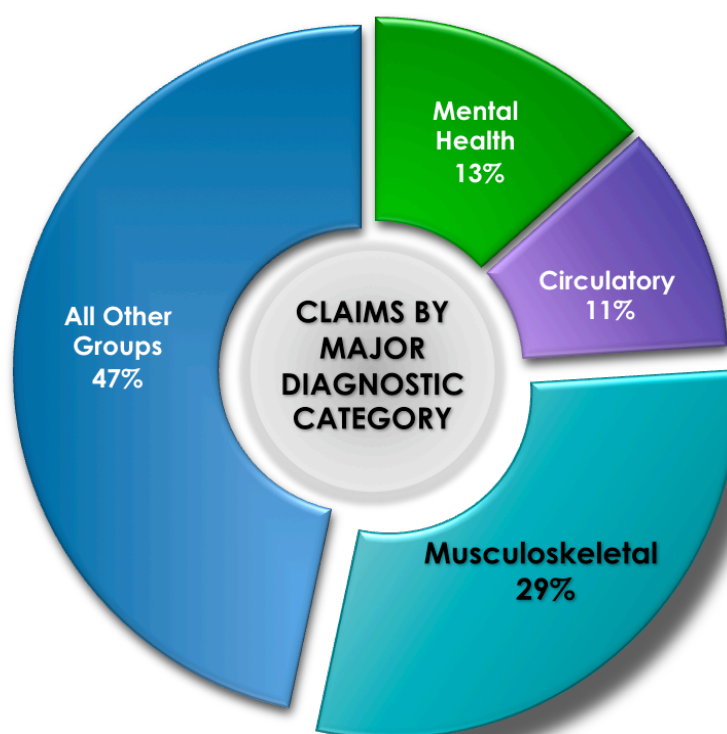
The study focused on two primary areas. First, it considered claim duration limits on frequent injury types that tend to be affected by employee behavior. For this aspect of the study, OCI modeled the financial impact of a 24-month duration limit.

And second, the study analyzed whether a waiting period for new employees would reduce claims significantly enough to drive cost savings. OCI initially examined the impact of claims filed within 90 or 180 days of a new employee's hire date. But presented with the results, the employer was able to quickly assess a waiting period besides these initial options that fit better with its goals.

## THE ANALYSIS

Figure 1 illustrates an essential initial result of OCI's study: the employer's assumptions about its most costly claims – and therefore, its most effective cost management approach – were unfounded. The employer in the study tended to focus on reducing and managing mental health claims, but that approach is not likely to generate the most significant savings.

**FIGURE 1 – Claims by Major Diagnostic Category**

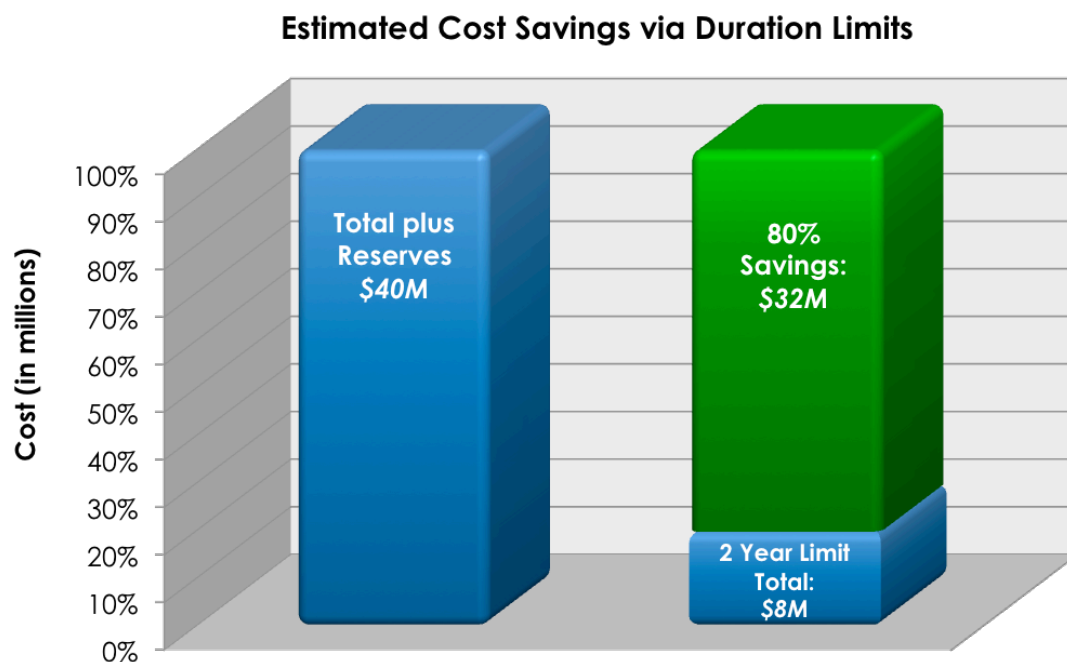


- Mental health long-term disability (LTD) claims accounted for about 13 percent of the employer's claims during the four-year study period, costing about \$10 million
- Musculoskeletal LTD claims, however, accounted for 29 percent of the employer's claims, costing about \$22 million

Not only was musculoskeletal the most costly category in total, but it also had the highest frequency and the second highest average cost per claim (closely following tumor-related claims). In addition to helping focus plan design changes on the areas of greatest potential savings, this finding emphasizes another important point: musculoskeletal claims are often difficult to diagnose and treat in an objective way. In other words, they tend to have a behavioral component that may be affected by plan design changes.

In order to understand the potential impact of duration limits, OCI modeled a 24-month limit for all LTD claims that extended for two years or more. Figure 2 demonstrates that the employer could realize dramatic savings by implementing such limits.

**FIGURE 2 – LTD Savings from 2-Year Duration Limit**



- Total LTD costs plus reserves for claims with a duration of at least two years were \$40 million
- A two-year duration limit on those LTD claims – which would eliminate the costs of claims that extend beyond two years – would save the employer \$32 million

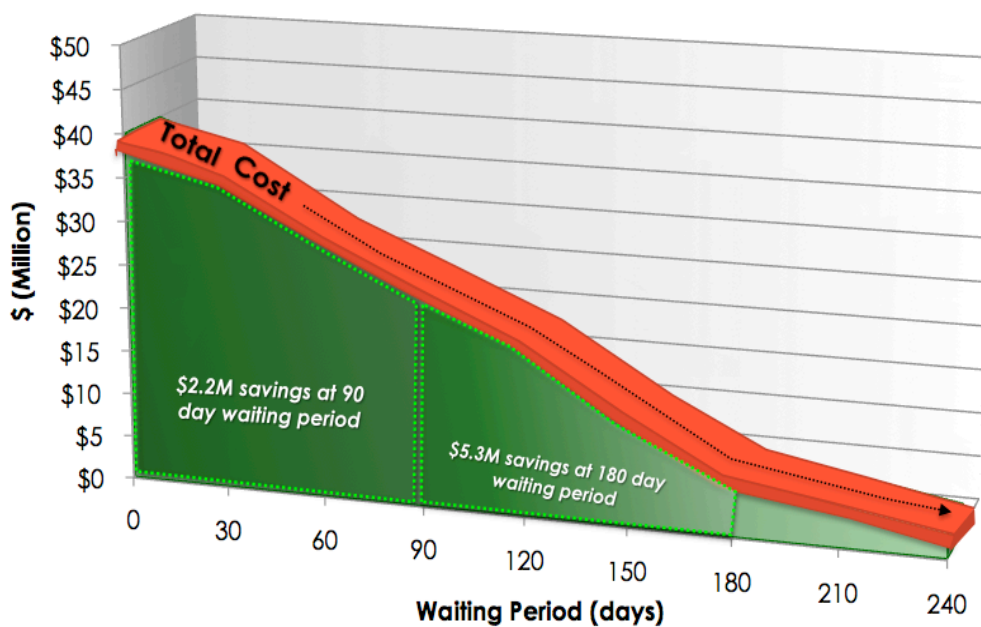


Beyond the cost savings that duration limits can produce, OCI's analysis also revealed that duration limits can reduce volatility in claims costs and provide valuable planning information for managers to estimate costs. For example, without duration limits, costs for musculoskeletal claims ranged from \$20,000 to \$81,000. When OCI modeled a 24-month duration limit, however, the range decreased to \$8,000 to \$36,000.

In addition to duration limits, OCI also evaluated the financial impact of waiting periods for new employees, a common element of many employers' plan designs. Perhaps not surprisingly, only about 2.3 percent of disability claims were filed during an employee's first 90 days. That figure increased only slightly, to 3.1 percent, from day 90 through day 180. Meanwhile, 94 percent of claims were filed after employees surpassed the 180-day threshold. Figure 3 indicates that the employer could expect relatively modest savings from new-employee waiting periods.

**FIGURE 3 – Savings from New Employee Waiting Periods**

**Total Cost & Estimated Savings Over Time via Waiting Periods for New Hires**





- Over a four-year period, a 90-day waiting period would prevent enough disability claims to save about \$2.2 million
- Over the same time period, a 180-day waiting period would save \$5.3 million

## CONCLUSION

OCI's analysis of disability claims made one result very clear – plan design changes can drive significant cost savings. But not necessarily in the ways employers expect. The employer in this study anticipated that mental health claims were a key driver of its costs, and that plan changes aimed at reducing such claims would result in meaningful cost savings. That hypothesis was only partially true. Musculoskeletal/connective tissue injuries were clearly most prevalent among LTD claims – nearly double the number of mental health claims.

Because such claims are susceptible to employee behavior – the employee's desire to return to work – they tend to respond well to plans that minimize the subjectivity of behavior.

An estimated \$32 million in savings could be realized through the implementation of a 24-month duration limit on LTD claims, a full one-third of which were musculoskeletal claims. Based on the four years of data OCI analyzed, the employer spent \$80 million, including reserves, on LTD. The study suggests that duration limits could have reduced the employer's LTD claims costs by 40 percent.

A second plan design option, the implementation of waiting periods for new employees, offered only minor cost savings over the same four-year period because employees file such a small number of claims during their first 180 days of employment. The employer spent nearly \$150 million on STD during the study period, so the estimated \$5.5 million in savings from a 180-day waiting period would reduce its STD claim costs by about 3.5 percent. Although that percentage is modest, the upfront costs of implementing the plan change would also probably be quite modest, and savings from the waiting period would be ongoing.

Clearly, not all plan design changes are created equal. Perhaps the most critical insight for employers is that without the ability to mine their data, understand their true cost drivers, and model the impact of proposed changes, it can be difficult to make the right changes to the right programs and generate the greatest possible savings.



## OCI BUSINESS INTELLIGENCE SOLUTIONS

Since its inception, OCI has delivered the critical information that Fortune 500 companies need to manage their risk, human resources, benefits, and technology-dependent programs and costs.

OCI's experience has ranged from high-level annual reporting of trends, costs, and opportunities for savings, to detailed studies of specific plan designs and the incentives inherent in those plans that drive employee behavior. This ability to provide insightful analysis from the most general level to the most granular has been the cornerstone of OCI's information delivery model since 1984.

OCI's Business Intelligence Solutions help our customers improve the health and productivity of their employees by scouring their databases for trends, population risks, healthcare cost drivers, and the factors that increase the duration of disability claims.

With over two decades of analytic experience and a team of statisticians, economists, and mathematicians, OCI has developed unmatched expertise in the understanding and use of benefits, human resources, and risk data to help managers make informed business decisions.

For more information, contact OCI at 800-678-6613 or visit us online at [www.oci.com](http://www.oci.com).