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# Impact Of The Great Recession On Workers' Compensation



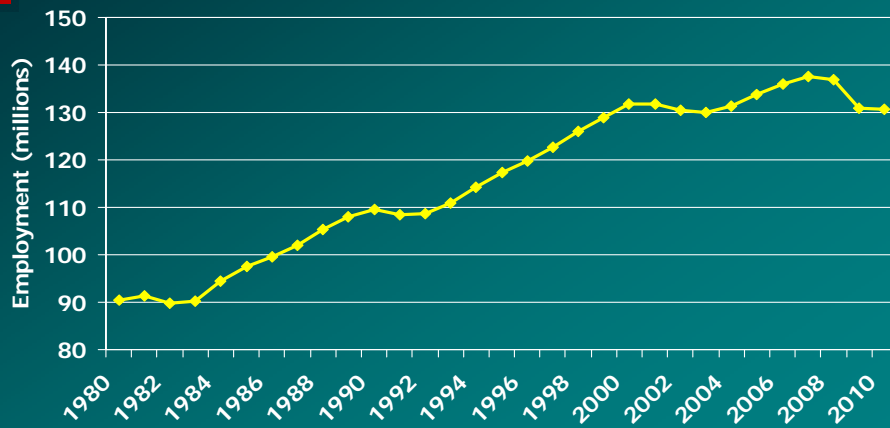
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## Outline

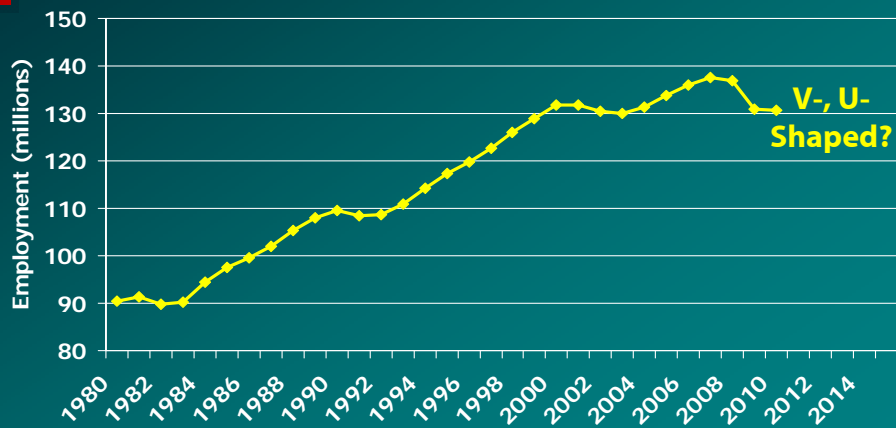
- What if this recovery is very different from past recoveries?
- What if very different approaches are required for state programs?
- What might that mean for WC systems?



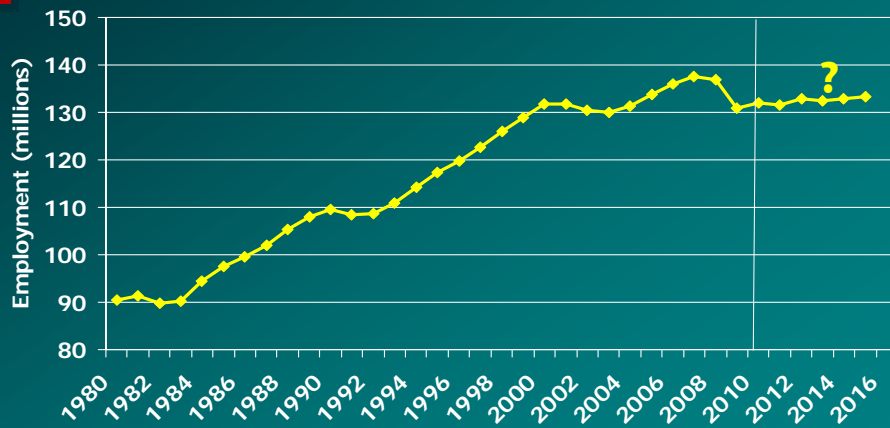
## Past Recessions: Always Return To Normal



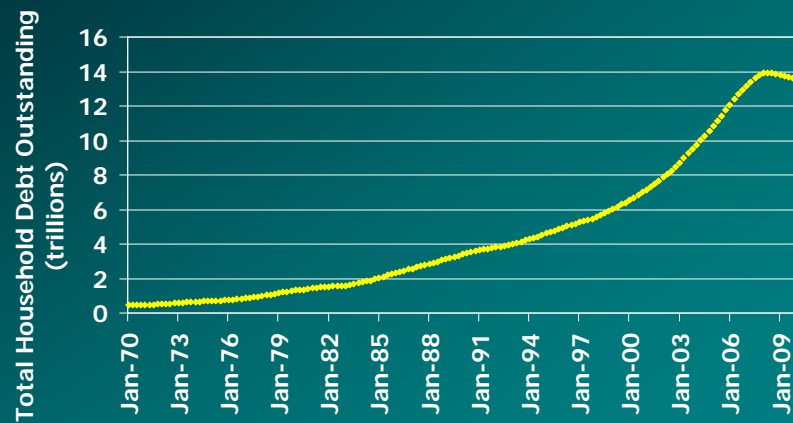
## The Great Recession: What Type Of Recovery?



## "Jagged Checkmark" Recovery: Back To A "New Normal"



## Household Debt Soared



## Expansion Of Credit Fueled Big Bubbles

- Pre-Great Recession, credit-worthiness and default risk was too-often over-estimated
- Over-extension of credit led to . . .
- Exaggerated the demand for
  - Consumer goods
  - Housing
  - Financial assets (stocks)

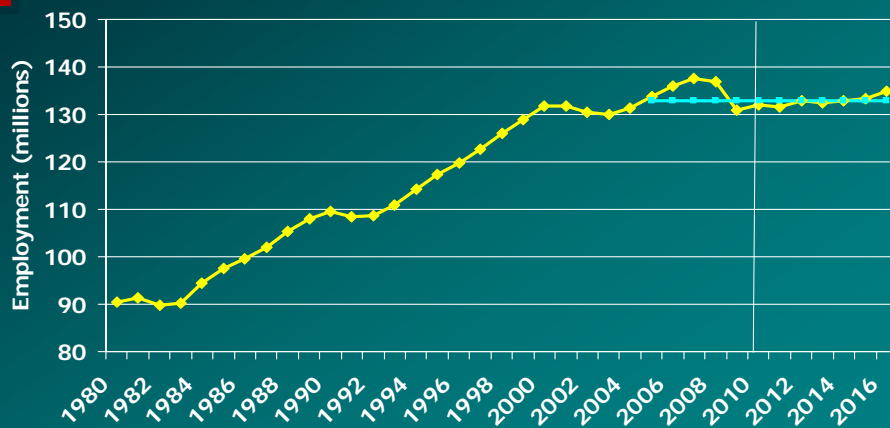


## Why A "New Normal" Is Possible

- Exaggerated levels of demand led to
  - Over-building of housing, factories, shopping centers, etc.
  - Inflated asset prices (housing, stocks)
  - Inflated tax revenues
- But this was "pseudo-demand"
  - Total demand = real demand + pseudo-demand
- New Normal—based on real demand →
  - Lower than the old peak ("old normal")



## The "New Normal" Discounts The Pre-bubble Pseudo-Demand



## Outline

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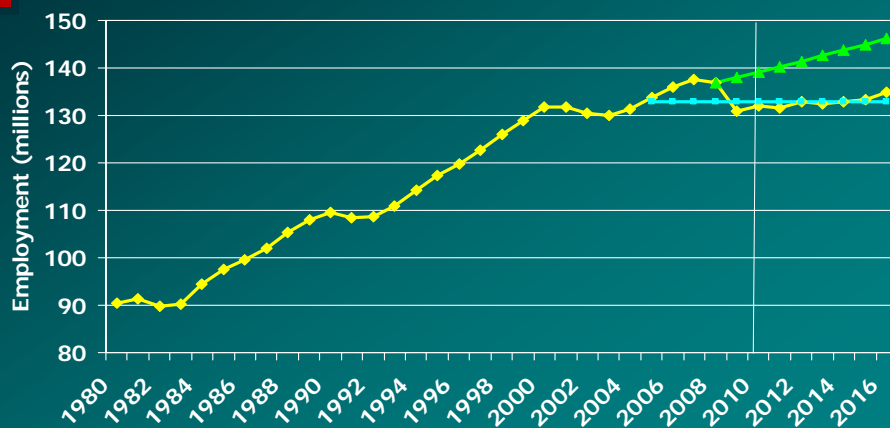


## Why New Approaches May Be Needed

- The “New Normal” means
  - Slower recovery & lower revenues for most public and private entities
  - Fiscal issues and job growth dominate state policy debates
- The New Normal may require structural changes in public programs, including WC
- Big headwinds challenge state programs—unprecedented in the past 70 years
- States tend to sort into job winners and losers



## Job Growth: The Principal Policy Debate



## Forces Shaping State Programs

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- Lower revenues in the “New Normal” shape public programs
- Job growth may be the voters’ top priority
- But unprecedented fiscal headwinds
  - Past gov’t financial commitments limit budget flexibility
  - Aging baby boomers
  - International competition
  - Immigration trends and policies
  - Political polarization and paralysis
  - Reduced federal funding for states



## Unfunded State And Local Government Commitments Limit Flexibility

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- Unfunded public pension liabilities
  - 2008—\$500 billion in state programs
- Unfunded retiree health benefits
  - 2008—\$550 billion in state programs
- Deferred maintenance on public infrastructure
- Bonded debt



## Outline

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## Implications Of New Normal And Fiscal Headwinds For State Governments

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- Public/private entities have smaller revenues
- Winning states have job growth
  - Reduce unnecessary costs in public programs to fuel job growth
- Losing states do not materially reduce unnecessary costs
  - Job growth muted
  - Borrow from future taxpayers



## Implications Of New Normal For WC Systems

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- WC public policy debates focus on
  - Fiscal stress
  - Eliminating unnecessary costs
  - Large numbers of longer-term unemployed



## Implications Of New Normal For WC Systems—State Fiscal Stress

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- Lower revenues for state agency
  - Especially if funded from general revenues
  - Doing more with less
  - Opportunities for consolidation?
    - Agency functions
    - Across agencies
    - Use of multi-state alliances to achieve economies of scale

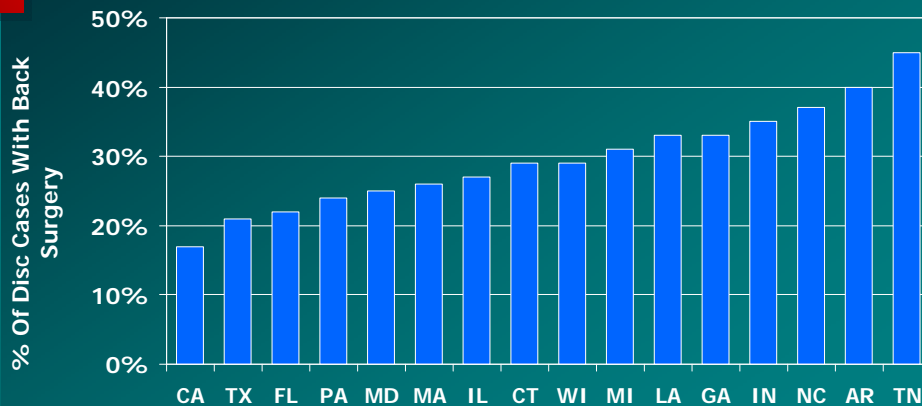


## Reducing Unnecessary Costs: Examples From WCRI CompScope™ Benchmarks

- Unnecessary medical care
- Unnecessarily high (low) medical prices
- Unnecessarily high (low) income benefits
- Unnecessary litigation and litigation costs
- Unnecessary regulatory compliance costs
- Unnecessary delays in return to work



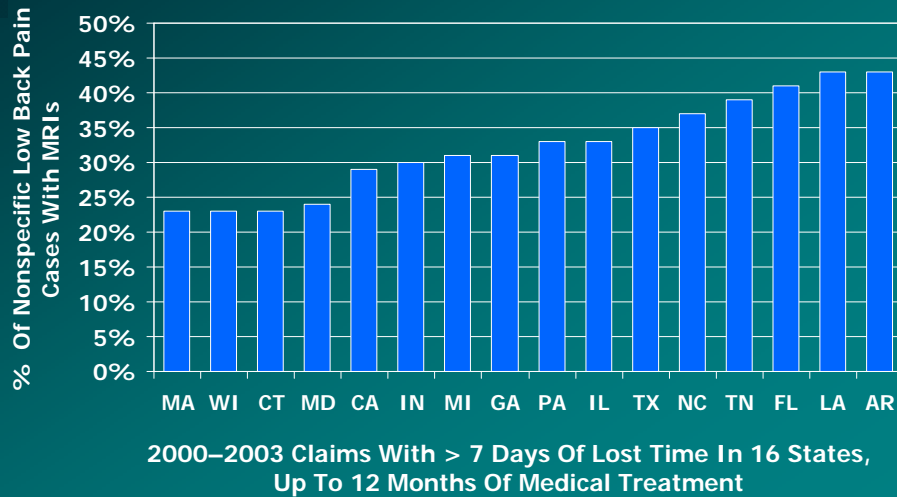
## Might There Be More Unnecessary Surgery In States With Higher Surgery Rates?



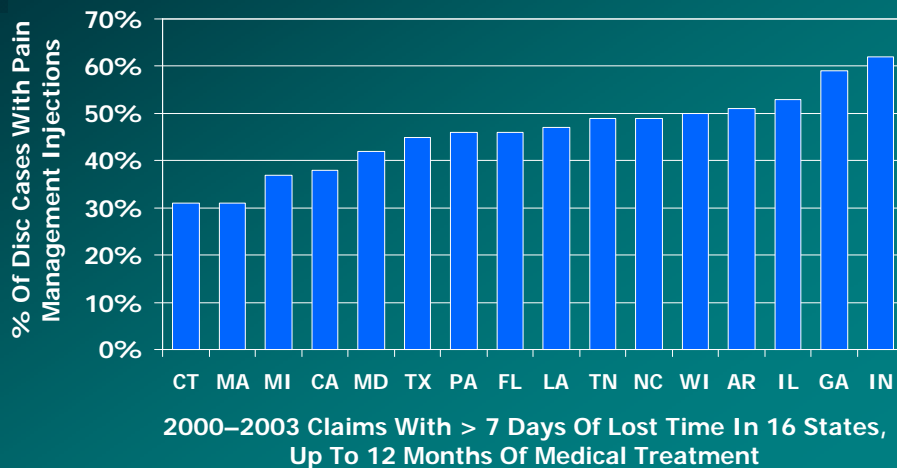
2000–2003 Claims With > 7 Days Of Lost Time In 16 States,  
Up To 12 Months Of Medical Treatment



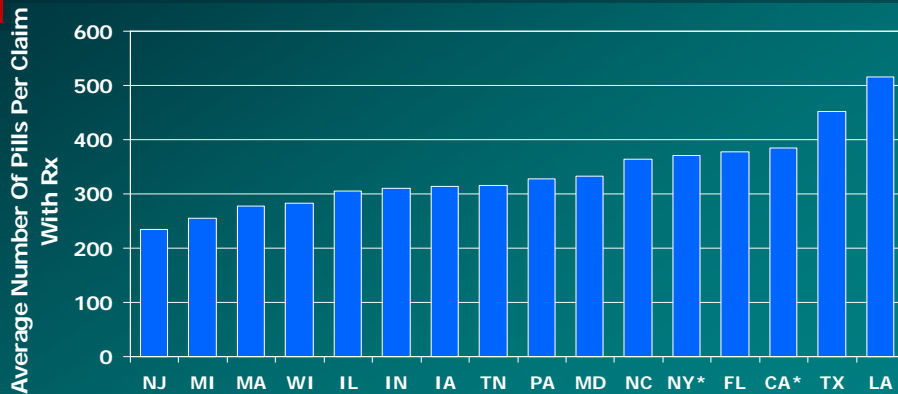
## More Frequent Use Of MRIs, Inconsistent With Evidence-Based Guidelines



## Pain Management Injections Used Twice As Often In IN, GA Vs. CT, MA



## Average Number Of Pills Per Claim With Rx Higher In LA And TX

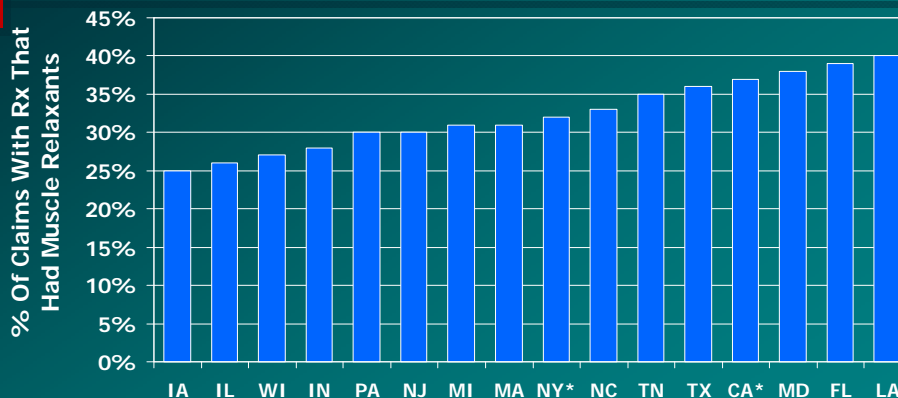


Claims With > 7 Days Of Lost Time, Injuries From October 2005 To September 2006, Prescriptions Filled Through March 2007

\*CA And NY Data Before Major Statutory Changes Affecting Pharmacy Reimbursements



## Diverse Prescribing Practices Example: Muscle Relaxants

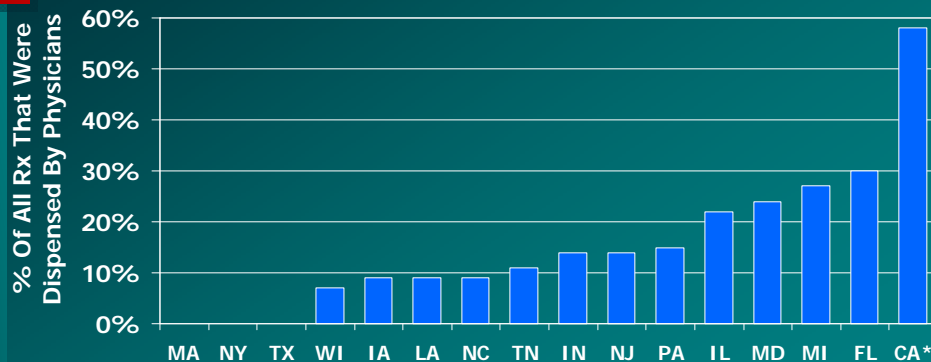


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## Physician Dispensing Rx Drugs Most Common In IL, MD, MI & FL



Claims With > 7 Days Of Lost Time, Injuries From October 2005 To September 2006, Prescriptions Filled Through March 2007

\*Prior To Law Change That Reduced Physician Dispensing



## Physician-Dispensers Received Higher Prices Than Pharmacies For Same Rx: FL Example

Top 7 Drugs	% Of Rx Dispensed By Physician	Price Per Pill In Florida		% Diff.
		Physician	Pharmacy	
Hydrocodone-Acetamin. (Vicodin®)	12%	\$0.96	\$0.46	+109%
Ibuprofen (Motrin®)	47%	\$0.49	\$0.34	+44%
Cyclobenzaprine HCl (Flexeril®)	33%	\$1.33	\$1.19	+12%
Naproxen (Aleve®)	49%	\$1.58	\$1.17	+35%
Propoxyphene-N APAP (Darvocet®)	19%	\$1.00	\$0.63	+59%
Carisoprodol (Soma®)	54%	\$3.05	\$0.62	+392%
Ranitidine HCl (Zantac®)*	95%	\$3.15	\$1.46	+116%

\*This drug was available over-the-counter 35 cents per pill  
(Source: Walgreens.com, 10/28/2009, bottle of 24 pills of Zantac® 150mg)

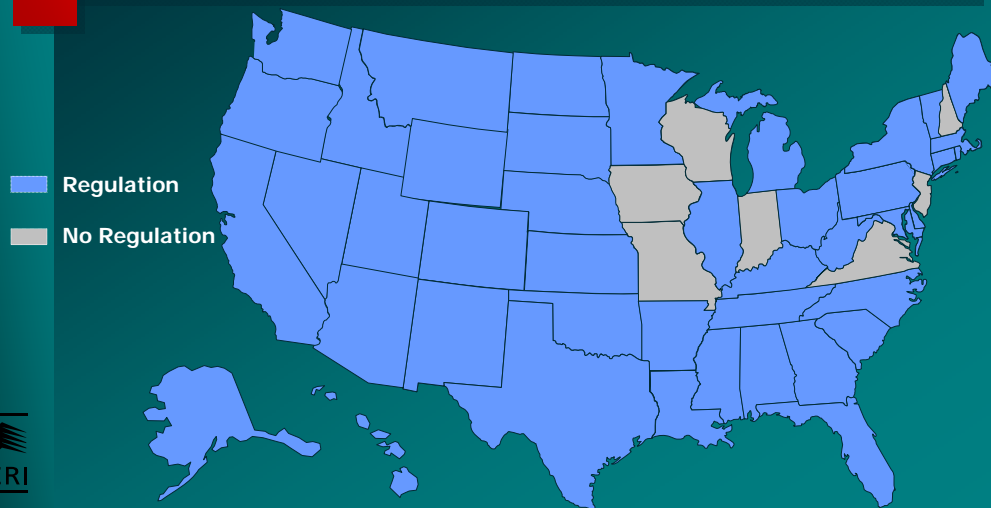


## Reducing Unnecessary Costs: Areas To Examine

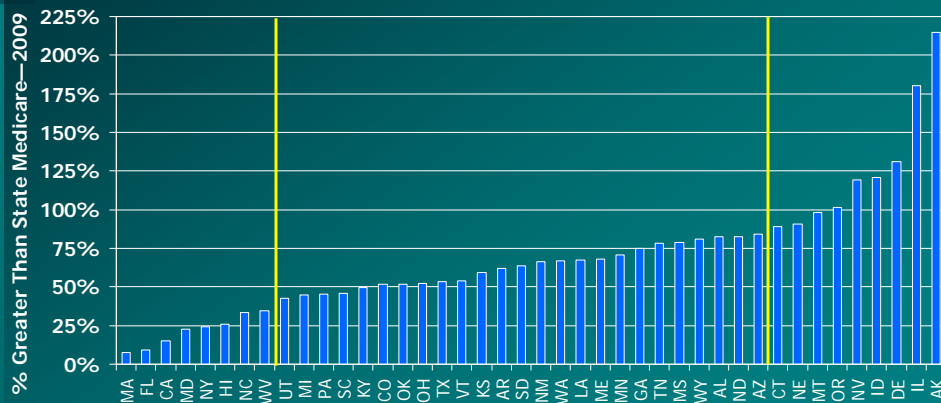
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## 43 States Regulated Nonhospital Prices In 2009

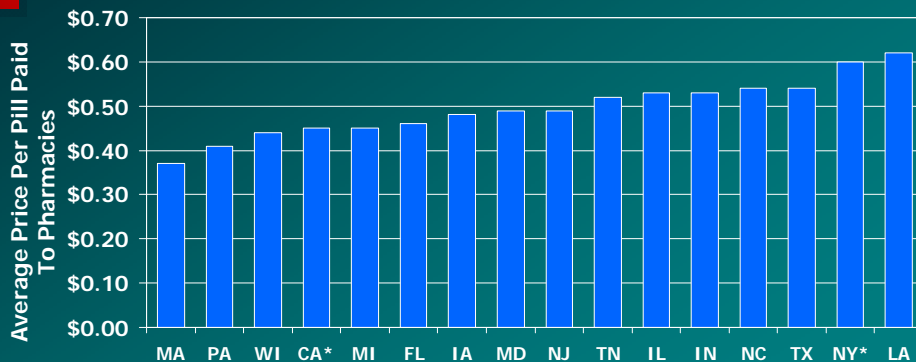


## Most Nonhospital Fee Schedules Were 40% To 90% Above Medicare In 2009



Source: *Benchmarks For Designing WC Medical Fee Schedules: 2009*

## Vicodin<sup>®</sup> Costs Twice As Much In LA As In MA, Why?



Claims With > 7 Days Of Lost Time, Injuries From October 2005 To September 2006, Prescriptions Filled Through March 2007

\*CA And NY Data Before Major Statutory Changes Affecting Pharmacy Reimbursements



## Hospital Inpatient Fee Schedules— Per Diem Rates

### Range Of Per Diem Rates (2009)

	Medical Stay	Surgical Stay
Minimum	\$1,186	\$1,338
Median	\$1,646	\$2,059
Maximum	\$8,906	\$8,906



Rates are from the *Guide for Policymakers*, calculated for a large hospital (200–900 beds) in a large city in 9 states. Per diem rates are for the first two days of the inpatient stay.

## Hospital Inpatient Fee Schedules— DRG Rates

Range Of DRG Rates 2009	Hernia Procedures (DRG 355)	Knee Procedures (DRG 489)	Back & Neck Procedures (DRG 491)
13-State Median	\$7,878	\$9,473	\$7,662
Georgia	\$7,459	\$8,969	\$7,254
Illinois	\$18,701	\$30,185	\$16,524



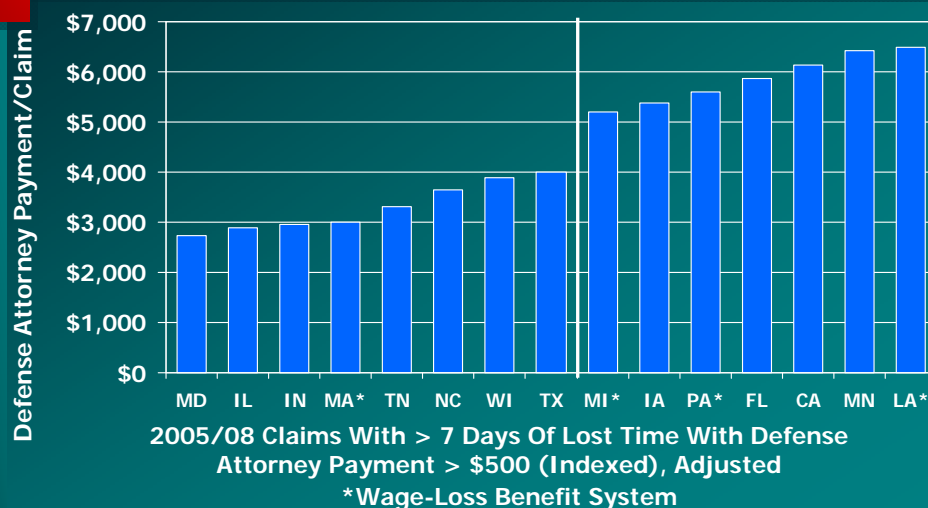
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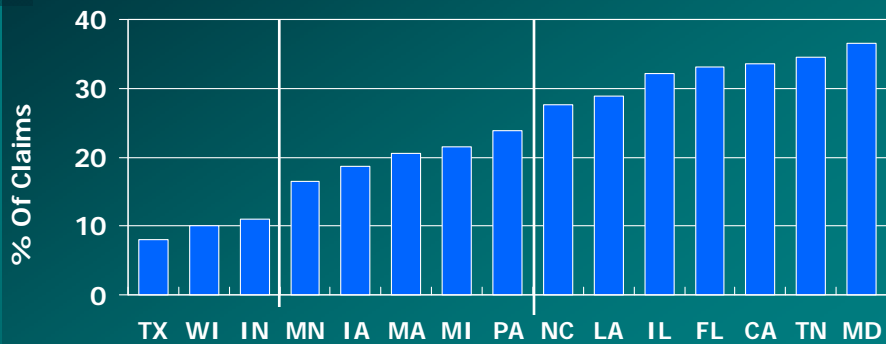
- Unnecessary medical care
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## Might There Be Unnecessary Complexity In Dispute Resolution?



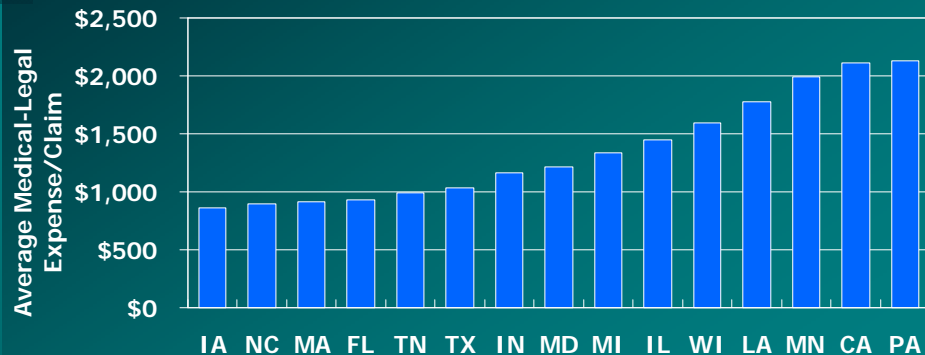
## Might Some Attorney Involvement Be Unnecessary?



Claims With Defense Attorney Payments > \$500 As A % Of 2005/08 Claims With > 7 Days Of Lost Time, Adjusted For Injury/Industry Mix



## Might Some Medical-Legal Expense Be Unnecessary?



2005/08 Claims With > 7 Days Of Lost Time With Medical-Legal Expenses, Adjusted For Injury/Industry Mix

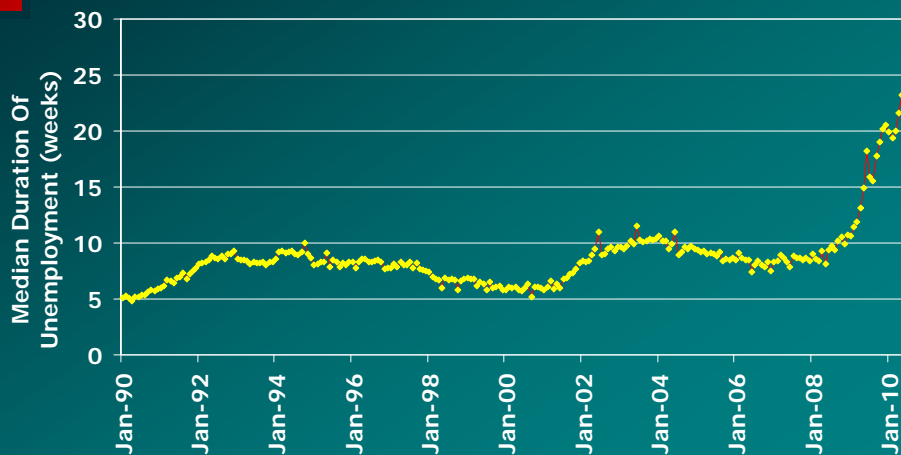


## Implications Of New Normal For WC Systems

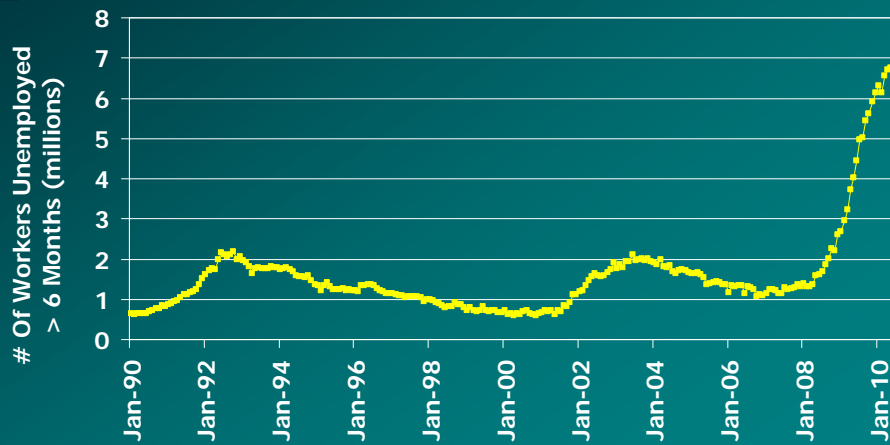
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  - Large numbers of longer-term unemployed



## Unprecedented Numbers Of Workers Suffer Long Periods Away From Work



## 7 Million Workers Away From Work For More Than 6 Months



## Implications Of New Normal For WC Systems

- Larger numbers of long-term unemployed
  - Standards for terminating temporary disability benefits
  - Adequacy of income benefits for long-term unemployed
  - Fairness of lump sums for long-term unemployed



## Great Recession May Require Structural Adjustments In WC Systems

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- May not return to “old normal” as in most recessions
- Most organizations return to a lower level of revenues, including state revenues
- Successful organizations reduce unnecessary costs
  - Defined as costs borne by employers that do not improve outcomes for injured workers
- Successful states see job growth