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Cost Of Providing Workers Compensation Benefits Declining

Relative to wages, payments made by U.S. employers for medical care and cash benefits for workers disabled due to workplace injuries or diseases appear to be declining, according to a study of trends in workers compensation benefits released by the National Academy of Social Insurance (NASI), a nonprofit organization that conducts research on social insurance.

Based on an analysis of the most recent data available from state agencies, the study found that workers compensation payments in the U.S. amounted to $55.3 billion in 2005, down 1.4% from 2004. Of the total paid out in 2005, $26.2 billion went to medical care providers, while $29.1 billion took the form of cash wage replacement benefits. Compared with the previous year, medical payments in 2005 fell 0.5%, while cash benefits decreased 2.1%.

By contrast, researchers noted, Social Security paid $85.4 billion in cash benefits to disabled workers and their dependents in 2005, while Medicare paid $48.8 billion for health care for disabled persons under age 65 during the same year.

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Even as benefits paid to workers and medical providers declined, the total amount spent by employers on workers compensation benefits plus administration rose by 2.3% in 2005 to $88.8 billion, the study found. Researchers attributed the rise in workers compensation costs in part to a combination of wage growth and an increase in the number of workers covered.

Yet, measured relative to the wages of covered workers, both employer costs and benefits for workers decreased in 2005, the study found, with the cost to employers for workers compensation benefits declining from $1.75 per $100 of covered wages in 2004 to $1.70 per $100 of covered wages in 2005. Results showed that, between 2004 and 2005, medical payments decreased from $0.53 to $0.50 per $100 of covered wages, and wage

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The Long-Term Care Affordability and Security Act of 2007 (S. 2337) would overturn current law, which explicitly prohibits employees from paying for long-term care insurance using pre-tax dollars.

replacement benefits fell from $0.60 to $0.56 per $100 of covered wages.

According to researchers, an examination in trends in workers compensation between 1989 and 2005 reveals that both benefit payments and employer costs fell sharply from their peaks in the early 1990s, reaching a low point in 2000. The data indicates, however, that benefits rose only slightly after 2000, while employer costs climbed more markedly.

Researchers further noted that the 2005 decline in workers compensation payments is attributable in large part to steep drops in benefit payments in California, as cost containment measures enacted in 2003 and 2004 took effect in that populous state. The analysis showed that, if workers compensation payments in California were excluded from the national figures for 2005, total workers' compensation payments would have risen by 1.7%, instead of declining by 1.4%, as is the case when California is included in the calculation.

Congress Weighs Allowing Pre-Tax Payment Of LTC Insurance Premiums

A bipartisan bill that would allow employers to offer workers the opportunity to purchase qualified long-term care insurance on a pre-tax basis was filed in the Senate on November 13, 2007, by Sens. Chuck Grassley (R-IA), Olympia Snowe (R-ME), Blanche Lincoln (D-AR), Debbie Stabenow (D-MI), and Gordon Smith (R-OR).

The Long-Term Care Affordability and Security Act of 2007 (S. 2337) would overturn current law, which explicitly prohibits employees from paying for long-term care insurance using pre-tax dollars. Under the proposal, employers would be permitted to offer qualified long-term care insurance through Section 125 cafeteria plans and flexible spending arrangements (FSAs).

According to the bill's sponsors, the legislation also updates consumer protections developed by the National Association of Insurance Commissioners (NAIC) and includes new protections to help ensure that the long-term care insurance policies receiving beneficial tax treatment meet certain quality standards.

The bill has been sent to the Senate Finance Committee, of which Sen. Grassley is the Ranking Member. A parallel measure, H.R. 3363, was introduced in the House of Representatives in August by Reps. Earl Pomeroy (D-ND), Jim Ramstad (R-MN), Allyson Schwartz (D-PA), and Kenny Hulshof (R-MO), along with 20 cosponsors, and it is currently under review by the House Ways and Means Committee.

Commenting on the proposed legislation, Sen. Grassley said, "As we deal with the realities of an aging America and rising costs of healthcare, it's vital that we give workers a new option in planning for retirement security by making long-term care insurance policies more affordable for people of all ages. The added security provisions to these policies will help make sure we weed out the bad apple agents."

Survey data recently released by national insurance trade association America's Health Insurance Plans (AHIP) confirmed the legislators' assertions that awareness of long-term care insurance remains low among baby boomers. Results of the AHIP survey showed that just one-quarter of baby boomers approaching retirement are very familiar with long-term care insurance, and around an equal percentage erroneously believe they are covered for long-term care expenses when, in fact, they are not.

According to Sen. Snowe, statistics indicate that nearly half of all seniors age 65 or older will need some form of long-term care at some point in their lives, but just 10% of seniors have taken out a long-term care insurance policy and only 7% of all private industry employees are offered long-term care insurance as a voluntary benefit.

Paid Time Off Banks Can Reduce Unscheduled Absences

While a growing body of evidence suggests that paid time off (PTO) programs can help to reduce the number of unscheduled employee absences, many employers are reluctant to switch from traditional time off (TTO) benefits to a PTO model, according to a survey conducted by the Alexander Hamilton Institute (AHI), an employment law consultancy.

The 2007 annual "Survey of Traditional Time Off and PTO Program Practices" included responses from 1,734 organizations. Results showed that, while 37% of employers combine paid leave time into a single PTO bank, 63% of employers continue to track sick, personal, and vacation time in separate banks.

When asked why they have not switched to a PTO bank, the reasons cited by respondents included the need to negotiate paid time off with unions, state laws that require payment of accrued vacation time upon termination, and the requirement among government employers that sick time be credited toward retirement benefits. However, many of the employers surveyed told researchers they believe that tracking vacation, personal, and sick leave separately cuts down on the amount of paid time off that employees take.

Slightly more than one-third of both the PTO (38.6%) and the TTO (36.1%) employers surveyed reported that the number of workdays the average employee misses due to unscheduled absences is between three and four days a year. But the differences in absenteeism rates became apparent at the margins: 26.6% of the TTO employers and 20.3% of the PTO employers told researchers that the average employee logs five to six unscheduled absences per year, while 22.8% of the TTO employers and 29.8% of the PPO employers said the average worker misses just one to two workdays due to unscheduled absences per year.

In addition, the survey found, 56.5% of respondents with paid time off programs said they believe that implementing a PTO bank had reduced unscheduled absences among employees. Of those respondents, 54% reported experiencing a 10% reduction in absences; 32.5%, an 11% to 20% drop; and 13.6%, a decline of more than 20%. Among all the employers surveyed with PTO banks in place, 78.4% told researchers their PTO program met their expectations, and 14.6% said the program exceeded their expectations.

"While the unionized and government employers have greater forces to contend with than just convincing its internal workforce that switching to PTO is a good idea, those that cite termination pay or other costs reasons may be short-sighted in their approach and should weigh those costs versus the potential savings of reduced unscheduled absences," AHI researchers advised.

Employers Making Progress In Managing Health Care Costs

Companies that make sustained and comprehensive efforts to better manage the delivery of health care benefits are seeing impressive results when it comes to controlling costs, as indicated by the results of the 2008 "Health Care Cost Survey" conducted by human resources consultancy Towers Perrin.

The annual survey of 315 large companies found that the average cost of providing health care benefits is expected to reach $9,312 per employee in 2008, an increase of 7% over 2007. While observing that this growth rate is among the lowest reported by survey respondents over the last five years, researchers also noted that the survey uncovered a significant

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cost differential for companies that are actively and effectively managing program performance. Among these "high performing" companies, researchers said, annual increases in per-employee health care costs will be around $1,500 lower than among "low performing" employers.

The survey showed that employers expect to cover an average of 78% of 2008 health insurance premium costs, while workers will be asked to contribute the remaining share. The average per-employee health plan contribution in 2008 is set to rise 8% compared with the previous year, to $2,040. Increases in premium contributions, combined with other forms of cost-sharing, such as co-payments and deductibles, have led to a doubling of out-of-pocket health care costs for employees over the last five years, the survey found.

To better understand what factors drive variations in health care cost increases across companies, researchers divided the organizations surveyed into three categories: low, average, and high performers. These designations were based on relative costs and cost increases, and on the extent to which a company is meeting its health benefit objectives in areas such as efficient purchasing, employee engagement, and managing health risks in the employee population.

An analysis of the 2008 survey data showed that 45% of high performers are seeing cost increases of 5% or less. While average per-employee health care expenditures will total $10,320 among low performing companies, the average cost of providing health care benefits among high performing organizations will amount to just $8,844 per worker.

Cost-shifting to employees was not an approach used by most high performing organizations, researchers emphasized. In fact, they noted, employees at high performing companies tend to pay significantly less than the average worker for their health care coverage.

Instead, the analysis suggested, high performing companies have realized cost savings through better overall management of their health benefit programs. For example, the study found, high performers show a clear commitment to supporting employees' health and health care decisions, have well-articulated health care strategies, use rigorous metrics for evaluating the effectiveness of specific programs, and design their programs to promote price transparency. Results further showed that these companies require employees to be more accountable for their health care decisions and help employees make better choices by providing them with tools and resources that support employee awareness and action.

"As we learn more about what high-performing companies are doing differently, it is becoming increasingly apparent that accountability is one of the most critical success factors," said Dave Guilmette, managing director of the Towers Perrin health and welfare practice.

"But what the high performers show us is that accountability swings both ways," Guilmette continued. "As companies ask their employees to become more accountable for their health care consumption and participate in cost-control initiatives, the companies themselves must become more accountable to employees by providing the resources, support tools, education and communication initiatives that employees need to be successful consumers of health care. High-performing companies are far more committed to implementing these measures than the low-performing group and, we believe that is the reason they are so much more successful."

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