Despite a reported 11,000 pages of regulations, the Patient Protection and Affordable Care Act (PPACA or ACA) has little to say in terms of expected effects and outcomes for workers compensation insurance. Yet many believe that the full implementation of the ACA will mean changes for workers comp.

To help judge the potential impact, we asked two industry experts, Sam Friedman, insurance research leader with the Deloitte Center for Financial Services, and NCCI’s own chief actuary, Kathy Antonello, to share their thoughts and observations about what stakeholders might expect.

While they often agree about what to watch for, each author brings a unique view toward the coming changes.
While Obamacare may have gotten off to a rocky start last fall, thanks to technical difficulties hampering the launch of the federal health insurance exchange, one way or another it’s likely that millions of formerly uninsured Americans will eventually get coverage to avoid being penalized or to capitalize on new opportunities provided under the Patient Protection and Affordable Care Act.

How should workers compensation insurers feel about the potential implications—positive and negative—on their claims management operations and bottom line?

Frankly, this could go either way. Indeed, healthcare reform may end up being both a plus and a minus for workers comp carriers.

The Downside
While designed specifically to transform the health insurance system, the reform law could prompt widespread changes in the medical community, which are likely to reverberate throughout the workers comp business as well.

Elements of the law have been in effect for some time now, but the biggest change is yet to play out—the mandate to show proof of health insurance or pay a penalty on your income tax filing.

This mandate alone will likely send shock waves across the healthcare market, particularly when it comes to availability at first and perhaps the cost of care later on. It’s Economics 101, in terms of supply and demand. With millions who are currently uninsured expected to have coverage this year, we could see waiting rooms overwhelmed with new patients for primary care doctors, specialists, diagnostic facilities, hospitals, and rehabilitation centers.

At a minimum, many could have a much harder time getting an appointment to see a doctor, arrange for tests, or schedule physical therapy in a timely fashion. While this would be inconvenient for those paying with standard health insurance, it could be a major cost driver for workers comp carriers, which depend on providing fast and intensified treatments to get people back on the job and off wage indemnity payments as quickly as possible.

Thus, the profitability of workers comp could be challenged if Obamacare ends up causing a bottleneck in access to medical care. That’s because, while job-related medical claims account for a relatively small slice of overall healthcare costs, they make up more than half of the payments made by workers comp insurers.

The same supply and demand pressures could lead medical care providers to raise their prices for labor, tests, and services—particularly when charged to workers comp insurers, which generally have far less market leverage than either the government (via Medicare and Medicaid reimbursement levels) or most health insurers.
On the other hand, a potential flood of newly insured patients might accelerate the already growing use of physician assistants, nurse practitioners, and perhaps even telemedicine to cope with the expected overflow. Delegating routine care and seeing more patients virtually might mitigate any anticipated rise in wait times and perhaps alleviate indemnity cost concerns for workers comp insurers.

Possible Improvements
Indeed, there are a number of positive outcomes that Obamacare might promote to the benefit of workers comp carriers. For example, some of those currently uninsured who are hurt away from work have been known to falsely state they were injured on the job, just so they can file workers comp claims to cover their medical bills. With a massive expansion of health insurance, there should be less temptation to go this route.

Such temptations probably won’t disappear entirely, if only because workers comp does not impose deductibles or co-payments on patients, which can be costly. But with far fewer lacking basic health insurance, this should theoretically relieve the financial pressure on many to hand in fraudulent comp claims.

The spread of health insurance may also spur more people to get regular checkups, address minor ailments before they become major ones, and seek treatment for chronic medical conditions. In addition, the law provides incentives for employers to establish wellness programs and for workers to participate in them.

Earlier intervention and encouraging more people to take better care of their health could eventually lower rates of obesity, diabetes, and high blood pressure—societal challenges that have been blamed recently for fueling more job-related injury claims. There may also be fewer problems with backs, necks, knees, and other trouble spots, making it less likely these ailments would worsen during employment and could possibly result in fewer long-tail workers comp claims.

The law also provides funds to study the comparative effectiveness of various treatment options, with the goal of establishing best practices for providers and saving money for payers. Workers comp carriers could benefit from the insights gained in such research by altering their treatment protocols accordingly.

In this glass-half-full outlook, once all the pieces of Obamacare are in place—emphasizing prevention, earlier detection, and quicker treatment of sudden and chronic illnesses—we might eventually see a far healthier workforce and one less likely to be injured on the job. And if they are hurt, perhaps workers will recover more quickly—resulting in less frequent and less severe comp claims.

Such positive outcomes may not only negate, but perhaps surpass, any negative consequences from the stress that might be put on the system by the influx of millions of new patients under healthcare reform.

At least that’s the optimistic view. Whenever radical change is imposed upon a huge, long-established system such as healthcare, chaos theory may very well end up being the order of the day. Workers comp insurers should therefore hope for the best, but be prepared for the worst.

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By Kathy Antonello, FCAS, MAAA
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From the time it was signed into law by President Obama, the Affordable Care Act (ACA) has dominated headlines and drawn the attention of industry stakeholders that are concerned about the potential impact of the Act on workers compensation. The rollout of the ACA has been plagued by numerous challenges including a Supreme Court ruling, a chaotic website launch, and deep-rooted differences of opinion about the merits of the reform. These factors, combined with confusion in the healthcare system, have served to fuel the concern.

There is little doubt that many of the key features of the ACA will ultimately become reality, even as the implementation dates for various provisions are relaxed to help ease transitions. While the long-term implications and outcomes remain to be seen, in the short term it appears that we will have a hybrid system.

Indeed, many who are currently insured will retain their existing coverage; however, more of the population will be insured through Medicaid, and the less healthy will turn to the exchanges to obtain coverage. Many of the structural changes such as payment reform, focus on outcomes, and consolidation of delivery systems were being implemented in the private sector before the ACA was passed.

**How Might Healthcare Reform Impact Workers Compensation?**

One reasonable expectation is that a healthier population will lead to a healthier workforce.

The ACA is designed to promote wellness and remove financial obstacles, such as copays and deductibles, that may deter people from getting regular health exams and inoculations. The expected result is a reduction in the incidence of chronic diseases, including obesity and diabetes, and their associated health risks. Successful reduction of these types of serious health problems could have a material effect on workers compensation claim frequency, as well as medical and indemnity claim severity.

A less favorable outcome for workers compensation is the potential for a surge in the number of people with health insurance to overwhelm the offices of primary care physicians. This may reduce prompt access for workers seeking medical attention for work-related injuries.

Similarly, the demand for orthopedic services could increase markedly, as previously uninsured Medicaid beneficiaries seek treatment for joint and back pain. For the injured worker, a delay in receiving prompt medical attention may result in a slower recovery, thereby increasing both indemnity and medical costs. As an offset to that, some have suggested that workers compensation may be able to pay a premium to expedite access to treatment. In practice, such opportunities may be influenced by the application of medical fee schedules or other contractual agreements among insurers and medical providers where utilized.
Easier and more affordable access to healthcare might also affect the potential for cost shifting, a decidedly controversial issue in workers compensation insurance. Many stakeholders currently believe that workers compensation medical benefits are used to treat nonwork-related injuries. At the same time, many in the public sector argue that the workers compensation system is adept at pushing treatment of work-related injuries onto the public health system, including Medicare, Medicaid, or private healthcare. In fact, the long-standing provisions related to Medicare set-asides are directly related to concerns of cost shifting from workers compensation to Medicare.

We will be watching developments regarding the expansion of Medicaid with an eye toward two specific effects. Specifically, will low reimbursement rates in Medicaid provide an incentive for providers to try to shift injuries to workers compensation? Alternatively, will the anticipated reduction in unreimbursed indigent care reduce the financial pressure to shift costs to workers compensation?

Healthcare Reforms Proceeding Even Without ACA
Although the ACA remains controversial and the subject of much political wrangling, it should be noted that a broad array of structural changes to the country’s healthcare system was being implemented well before becoming part of the ACA. These changes largely reflect the private sector’s response to the unsustainably high rates of growth in healthcare spending in the United States over the past several years.

The most significant changes are linked, either directly or indirectly, to payment reform. At the center is the goal to move from a volume-based system of fee-for-service to outcome-based pay-for-performance.

Key terms in this initiative include:
- Cost-effectiveness research
- Evidence-based medicine
- Best practices
- Accountable care organizations
- Reducing medical errors (so-called “never events”)
- Electronic medical records

These efforts are reinforced by one key change imposed by the ACA on health insurers in the private individual market.

This change is a paradigm shift from an underwriting-based system, where insurers have the ability to turn down applicants or to set premiums based on an individual’s health risks, to a system where insurers must accept all applicants at a community-based premium. In this new environment, financial performance will be determined by success in managing the outcomes of high-risk patients.

Looking Ahead
Despite the challenges surrounding the implementation of the ACA, it is important to note that most of the important reform components do not require full implementation of the ACA. For example, the structural reforms linked to the shift from fee-for-service to compensation based on outcomes will continue, regardless of the final disposition of the ACA. Furthermore, many of the challenges have been limited to aspects affecting the market for private individual health coverage, which impacts a relatively small portion of the workforce.

Nevertheless, provisions within the ACA that are designed to help control costs in our nation’s healthcare system have the potential to also benefit the workers compensation system. A focus on wellness and disease prevention may ultimately lead to a healthier workforce; a healthcare system that is evaluated and compensated based on the quality of outcomes also has the potential to deliver significant benefits.

The key to reaping such benefits will lie in the hands of policy-makers and other workers compensation stakeholders as they strive to identify the most valuable aspects of the ACA and seek to integrate them into the workers compensation system. Clearly, that will take time.

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ASSESSING THE IMPACT OF HEALTHCARE REFORM ON WORKERS COMPENSATION IN MASSACHUSETTS

A recent study from the RAND Corporation on the impact on workers compensation of healthcare reform in Massachusetts—The Impact of Health Care Reform on Workers’ Compensation Medical Care: Evidence From Massachusetts—has received considerable attention in the industry.

The study’s key findings are related to utilization of emergency room and inpatient services—both of which fell as the reforms were implemented and the number of people with insurance coverage expanded. The primary growth was in Medicaid.

At NCCI, we view this as a serious study that used a range of methods to try to isolate the impact of reform from other potential factors, particularly the onset of the recession, which began just as the reforms were being fully implemented.

Limitations
At the same time, NCCI’s economists have noted that while the study’s findings are suggestive, they are limited by at least two factors.

First is the timing issue with regard to the recession. The author’s reasonable attempts to isolate the impact of the recession likely fail to capture the full impact of the economic downturn.

Second, the analysis is based on hospital billing data. A chart in the RAND study indicates that the number of reported workers comp injuries dropped materially during a time period that emergency room (ER) visits paid for by workers comp also exhibited a material drop. Data issues appear to prevent the direct inclusion of this data in the RAND analysis.

A comprehensive analysis would need to try to determine whether, say, visits to a primary care physician replaced the ER visits.

Similarly, a comprehensive analysis would need to examine the extent to which outpatient visits replaced hospital inpatient services. It seems reasonable to believe that newly insured workers would be less likely to use ER and hospital inpatient services once they had established a relationship with a primary care physician.

The study also is unable to address the issue of cost shifting. Prior to the expansion of insurance, primarily via Medicaid, there was an incentive for providers, including ER and inpatient services, to try to bill workers comp for what otherwise might have been limited or uncompensated indigent care.

The study mentions that the workers comp medical fee schedule in Massachusetts is less generous than those in other states. (Indeed, the workers compensation reimbursement rate for ER services is actually slightly less than the rate under Medicaid.) This provides a slight incentive for providers now to shift billing to Medicaid.

The Key Observation
Trying to assess the impact of reform on the delivery of healthcare services is complicated. The RAND study is a thoughtful early attempt to examine this important question. But it will take more time and more and different data to move to a focused understanding of the relationship between expanded access to health insurance and workers compensation claims experience.