

CLIENT BRIEFING

BRINGING VALUE-BASED HEALTHCARE TO WORKERS' COMPENSATION

For most insurers, workers' comp is a stodgy, unprofitable line of business. But thanks to healthcare reform and a new approach that pays for results, not treatments, that may be about to change.

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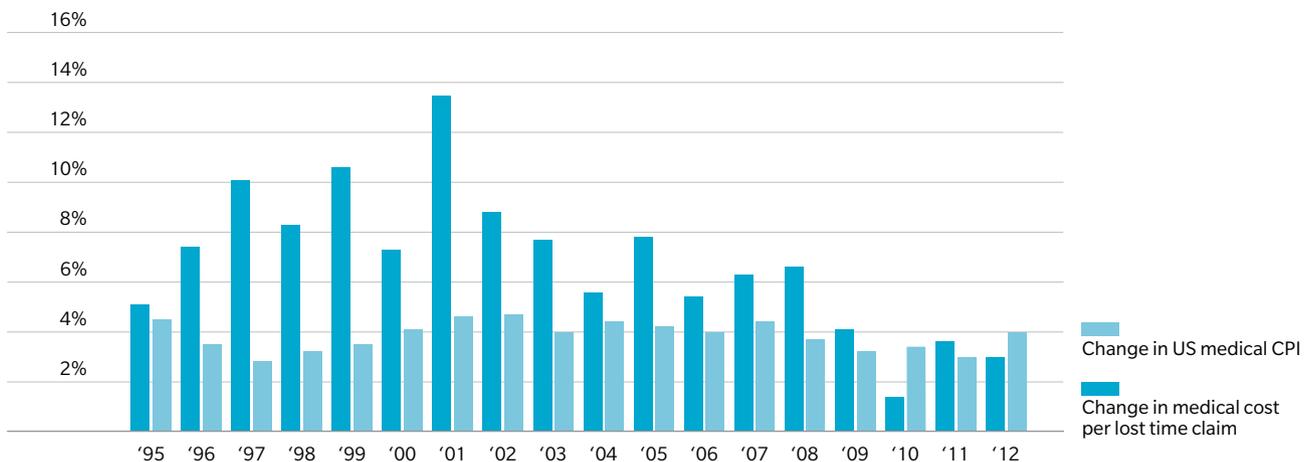
Lisa Zhou

Across the country, health plans and healthcare providers have been adopting the principles of "value-based healthcare" (VBH). Where in traditional healthcare, doctors and hospitals are paid for the volume of services they provide, in VBH compensation is based on the value of services and their impact on patients' health. With a big push from the Affordable Care Act, VBH has been exploding: In the past four years, more than 425 accountable care organizations (ACOs) have been created to deliver value-based care. (See Exhibit 1.) The best of them are remarkably effective: For example, the ACO created by Advocate Health Care Network with Blue Cross Blue Shield of Illinois reduced hospital admissions by 10.6 percent and emergency department visits by 5.4 percent in the first six months of 2011 alone.

But the "volume to value revolution" has had little effect on the world of workers' compensation insurance (WC). That needs to change. Value-based care offers great potential benefits to WC. By reducing costs, it could increase margins in a traditionally unprofitable line of business and help insurers compete for their share of a rapidly growing workforce.

EXHIBIT 2: WORKERS' COMPENSATION MEDICAL COSTS HAVE RISEN FASTER THAN GENERAL HEALTHCARE COSTS

PERCENT CHANGE PER YEAR



Source: NCCL, "State of the Line", May 2013.

- 3. State-by-state regulation:** These problems are exacerbated by the fact that insurance is regulated by state. While some states have fee schedules that control how much physicians can be reimbursed for their services, others are more hands-off. As a result, the highest-reimbursing states pay more than three times as much as the lowest-reimbursing states. States also differ in how much they allow employers to steer injured employees to preferred physicians or hospitals. While in theory it is good for employees to have a choice, in practice they lack the information to select a good physician, and often end up with low quality or poorly coordinated care.

MOVING TOWARD VALUE

Some insurers think value-based healthcare is less suitable for workers' compensation than for conventional healthcare. Actually, in many ways, the opposite is true. Because workplace injuries are much rarer than ordinary health issues, employees often have lower expectations for the care they receive under workers' comp. They are more willing to accept an unfamiliar model or a narrow, value-based network (in states where they are legal). There is less need for employers to educate the workforce. Workers' compensation is also rich in forms of treatment that lend themselves to bundled or value-based payment, such as orthopedic surgery, physical therapy, and rehabilitation. Interestingly, workers' compensation cases are easier for accountable care organizations to manage as well: Attribution is the great challenge for ACOs; their patients receive part of their care within the organization and part outside, and it is not always clear which of them "belong" to the ACO. In states where employers can steer injured workers to specific physicians, those physicians know exactly which patients are part of the population they must manage.

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There are several basic ways to move a workers' compensation plan toward VBH. In some cases, insurers can simply contract with an existing ACO. In the simplest and most effective version of this strategy, the ACO becomes the network for the plan in its catchment area. (One caution: Due diligence is crucial. Value-based care is in its infancy, and many ACOs are not yet able to deliver on the promises of the model.) More commonly, the ACO takes on the crucial role of care coordinator and contracts with outside organizations for the services it cannot provide internally. It is also possible for an insurer to work with its existing network to transform it into a virtual ACO, with quality metrics, coordinated care, and payment by results.

In the short run, many workers' compensation plans may find it best to adopt some elements of value-based care while preparing for more sweeping change later. For example, they could enter into value-based, bundled contracts for particular episodes of care (such as knee replacement) or particular conditions (such as long-term pain management).

The rapid growth of ACOs and VBH has led to a proliferation of specialty surgical centers, wellness companies, and other care providers that can be woven together to complete a network. There is at least one value-based specialty provider targeting the workers' compensation sector: Paradigm Management Services takes comprehensive care of catastrophic injuries (for example, spinal cord injuries and traumatic brain injuries) and guarantees both financial and medical performance. If they are able to provide care less expensively and with higher quality than the fixed fee they charge, they keep the difference, whereas if costs are higher than the fee, they take the loss. Incentives are aligned with efficient, quality care.

This paradigm represents a glimpse of the future but, at minimum, many more medical payments for work injuries should be based on outcomes. Options include a fixed fee per injury, adjusted for the severity of the injury, or shared savings relative to a benchmark.

LOOKING FORWARD

If there is one lesson VBH teaches, it is that care coordination leads to better outcomes, lower costs, and greater patient satisfaction. And for the workers' compensation industry, this raises a key question: As the standard healthcare system itself becomes more coordinated, would it make sense to integrate the healthcare associated with workplace injuries as well?

Intuitively, the answer is yes. A single population health manager managing health issues whether due to work or leisure would have benefits across quality of care, cost, and patient satisfaction. Coordination of care would prevent situations in which one condition interferes with the treatment of another; for example, a foot injury that prevents the patient from exercising to combat obesity. Moreover, treatment of work injuries could piggyback on what hospitals and physicians are already setting up for the standard health insurance market. These medical providers are creating different

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end-to-end coordinated care models centered around populations with different conditions (as opposed to today's specialization segmented by function; for example, cardiology versus oncology), and workers' compensation can take advantage of this coordination rather than trying to re-create it.

This unified medical provider model across both core and occupational health can be achieved in different ways with varying impact for all the stakeholders involved. We invite each player to take a hard look at the opportunities provided by the changing landscape.

Employers: Think about workers' compensation and group health plan benefits in an integrated way to drive improved workforce health and productivity. Consider enabling a "unified health, wellness, and safety model," either directly partnering with providers or in conjunction with a health or workers' compensation intermediary. Employers who don't directly provide healthcare (e.g., employers with defined contribution-based private exchanges) can still reap benefits by moving to an outcome-based incentive model for their workers' compensation claims.

Providers/ACOs: Be receptive to closer partnership with workers' compensation and group health insurers. Be prepared to embrace additional risk sharing and the occupational medicine expertise that will be required to maintain fast return-to-work.

Workers' compensation insurers: Set up the proper risk sharing models, reduce the administrative burden, stop micromanaging physicians, and instead build networks that include only physicians who have proven they can support good health outcomes. Evaluate closer partnerships with healthcare insurers and employers, especially those that have integrated.

Regulators: Consider accelerating adoption of outcome-based arrangements in workers' compensation by providing legislative incentives for these programs.

As we said earlier, select companies are already migrating toward outcome-based healthcare for workplace injuries. More will likely follow, but the goal should be higher: for a unified model that treats all injuries, regardless of where they occur. When combined with preventive safety and wellness programs, this will help to give employers what they need: a healthy, happy, and productive workforce.

ABOUT THE AUTHORS

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