Hazardous Conditions

Aging and obesity are impacting the U.S. workers' comp industry.

by Kate Smith

> **Key Points**
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> ▶ **The Issues:** The aging and obese workforce is challenging the workers' compensation insurance industry.
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> ▶ **The Age Factor:** The workplace must adapt to accommodate aging workers, who can take longer to recover if injured.
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> ▶ **The Bigger Problem:** Obese workers have more claims and more costly claims than healthy-weight workers.

The dishwasher door lay open in the commercial kitchen. The employee didn't see it as he turned, tripping and injuring his foot.

For some employees, such an accident may have caused minimal damage. In this case, however, it turned into a $60,000 claim as a result of one of the heftiest issues weighing on the workers' compensation industry—obesity.

The employee was obese. His obesity had led to diabetes. The diabetes had prevented the injury from healing. The injury resulted in his foot being amputated.

"Obesity is one of many comorbid conditions," said Rebecca Shafer, a risk consultant and attorney who is president of Amaxx Risk Solutions, Inc. "What that does is make a claim much more complex medically, which makes it a much more expensive claim."

Obesity is one of several "worker conditions" challenging the workers' comp industry. The aging workforce and a rise in comorbidities are also posing challenges for a line that has been struggling to improve results since seeing combined ratios climb as high as 118.1 in 2010.

Though workers' comp results have shown improvement in recent years, with combined ratios in 2013 expected to decrease for the third straight year, experts say the line has plenty of room for improvement.

One area of focus is on creating a healthier workforce.

"If we're talking about two companies in the same industry and one has a healthy workforce and one an unhealthy workforce, the employer with the healthier workers is going to have a better experience not only with health care but with workers' comp," said Robert Hartwig, president of the Insurance Information Institute.

In the past 20 years, the workforce not only has gotten older—a trend that is expected to continue as baby boomers approach retirement age—but it also has gotten larger. In 1994, no U.S. state had an adult obesity rate as high as 20%, according to the Insurance Information Institute. Now all 50 states have adult obesity rates of 20% or more, and in 12 states 30% of adults are obese.

Though solving America's obesity problem is beyond the means of the workers' comp industry, improving workers' health conditions is a top concern.

"The industry needs to evolve to changing conditions," John Santulli III, executive vice president of risk services and sales for PMA Cos., said. "Rather than focusing solely on creating and fostering safer work environments, we should pay much more attention to enhancing workers' overall health and well-being by addressing behaviors inside and outside the workplace."

Aging Workforce

Americans' aging and obese workforce poses significant challenges for insurers.

Both groups are more susceptible to comorbidities such as diabetes and hypertension, which can result in higher medical costs and longer recovery periods.

"Medical severity has been found to be more than 50% higher for older workers," Santulli said. "Older workers tend to be out of work longer after an occupational injury, with disability three times longer for those over age 65. Workers' compensation costs, medical utilization and claims duration are all impacted by a worker's age."

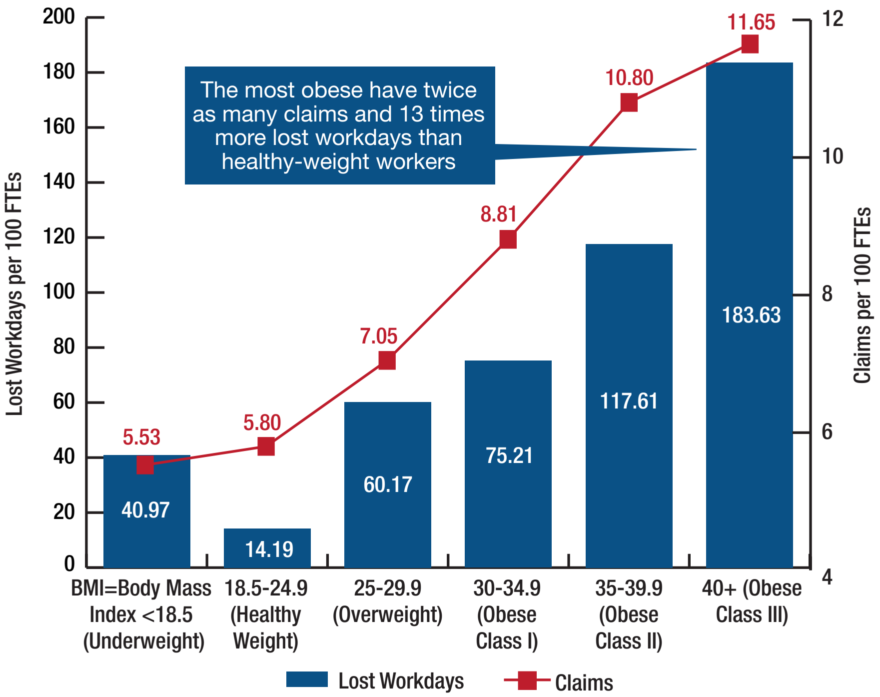
One out of every three Americans age 65 to 69 and one out of five age 70 to 74 are employed, according to the Insurance Information Institute. The labor force participation rate for ages 70 to 74 has increased 50% since

Obesity Rates Ranked by Occupation

Occupation	% Obese
Transportation	36.4
Manufacturing or Production	29.9
Installation or Repair Worker	28.3
Clerical or Office	26.6
Manager, Executive or Official	25.6
Service Worker	25.6
Nurse	25.2
Farming, Fishing or Forestry	24.7
Construction or Mining	24.0
Sales	23.2
Professional (excluding physicians and teachers)	22.1
Teacher K-12	20.9
Business Owner	20.4
Physician	14.0

Source: Gallup Healthways Well-Being Index January-September 2012

The Most Obese Workers File Twice as Many WC Claims As Healthy-Weight Workers



Source: Ostbye, T. et al, "Obesity and Workers Compensation," *Archives of Internal Medicine*, April 23, 2007.

1998, a trend that is expected to continue with baby boomers delaying retirement.

To address the challenges posed by older workers, Santulli suggested employers seek to understand the impact of aging on overall health.

"This information needs to be integrated with a comprehensive assessment of older workers' job duties and responsibilities," he said. "Based on this information, employers should ensure that work processes and workplace environments are appropriate for older workers' needs. This may involve making physical accommodations and instituting safety measures that directly address the older workers' needs."

Some of the more common injuries affecting this group can be avoided through adjustments to the work environment.

"The workplace can often be adapted to older workers," Hartwig said. "So if older workers are more prone to fractures from a slip or fall, there are simple solutions like rubberized flooring or carpeting. These sorts of things can reduce the severity of these accidents."

Shafer suggesting bringing in physical therapists, ergonomic specialists or, in some cases, chiropractors to evaluate the workplace and give recommendations for making it more accessible.

"You need to identify trip-and-fall hazards, areas with poor lighting, etc.," she said. "And if you do those things proactively, it's not really a huge investment."

Hartwig said the aging workforce has had less of an impact than the industry originally had feared.

"In some sense there's nothing we can do about the aging workforce; the demographics are set in motion," Hartwig said. "The good news, however, is that though there are some additional costs associated with aging workers, they haven't been as severe as many were anticipating a decade ago when we were first looking at that larger number of baby boomers moving toward their later years. The larger concern by far is the issue of obesity."

Americans' growing waistlines are having a profound effect on workers' compensation lines.

"Obesity is a very significant issue for workers' compensation," Santulli said. "The health effects of obesity are well known and can include comorbidities of heart disease, high cholesterol, high blood pressure, osteoarthritis, sleep apnea, asthma and depression.

"As the 2007 Duke University Medical Center study indicates, obesity can directly impact workers' compensation costs with more claims filed, higher medical costs from the claims and a greater number of lost work days from work injury and work illness."

Big Problem

Indemnity costs are 11 times greater and medical costs nearly seven times greater for the most obese workers, categorized as those with a body mass index of 40 or higher, than for healthy-weight employees, according to the Insurance Information Institute.

"The fact is, it costs more—and frequently much more—to treat an individual who is obese and to bring them back to work," Hartwig

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—Robert Hartwig, Insurance Information Institute

said. "That's both in terms of the medical treatment and the indemnity costs."

The most obese workers have twice as many claims and 13 times as many lost workdays as healthy-weight workers.

"Obesity causes a lot of medical problems—cardiovascular problems, high blood pressure, cellulitis, diabetes," Shafer said.

"In many cases it impedes recovery and return to work is extended. You can imagine the scenario from there. People can't get back to work, then they become depressed. So you really have a totally disabled person and the kind of care you need to give them is much greater."

Shafer said some states have required insurers to pay for bariatric surgery to help an injured obese worker heal.

"We saw a string of cases 10-15 years ago when employees needed aids such as air conditioning," Shafer said.

"Now you see durable medical equipment like walkers and mobility carts being provided. Bariatric surgery is being seen as an extension of that, as an aid."

The most common focus of wellness programs is weight loss and fitness, followed by smoking cessation.

In addition to smoking and obesity, other common risk factors addressed through these wellness programs include stress management, back care, nutrition, alcohol consumption, blood pressure and preventive care.

"We are seeing increasing interest in integrating risk management and wellness programs, with the goals of reducing medical losses and increasing productivity, as well as reducing the frequency and severity of workers' compensation claims," Santulli said. "It is also a good idea to engage specialized staff, such as ergonomic and occupational health professionals, to help address these challenges."

Shafer encourages companies to offer chiropractic and physical therapy sessions in the workplace, as well as allow employees to use modalities that might not be covered by insurance, such as acupuncture, hypnosis, massage and pain management.

"There are a lot of things that can be done to integrate wellness programs into the workplace," she said.

Establishing on-site yoga rooms or gyms, planting vegetable gardens on corporate lawns (for the employees to tend or to use the fresh foods in the cafeteria), and offering health screenings or exercise initiatives such as walking programs are simple yet cost-effective programs.

"We have a society of adults who were raised on McDonald's and large portions," Shafer said. "So for a while it will keep going because we're all working longer and everyone is getting heavier every year. Adults gain an average of one pound a year. So the more proactive employers can be, the lower the costs will be."

A 2010 Harvard University study of costs and savings associated with workplace disease prevention and wellness programs found that medical costs fall by $3.27 for every dollar spent on wellness programs and that absenteeism costs fall by $2.73 for every dollar spent.

"If an employer fosters a culture of healthiness among employees, it's a win-win-win situation," Hartwig said. "It's a win for the employer, it's a win for the employee, it's a win for the health insurer, it's a win for the disability insurer, it's a win for the workers' comp insurer. There's no question. It's absolutely unambiguous." BR

U.S. Workers' Compensation – Top 25 Carriers (2012)

Ranked by 2012 workers' compensation net premiums written.

($ Millions)

		Net Premiums Written			Market Share (%)	
Rank	Group/Unaffilated Single Company	2011	2012	Y/Y Change (%)	2011	2012
1	Liberty Mutual Insurance Cos	$3,594.0	$3,829.3	6.5%	9.6%	9.3%
2	Travelers Group	2,987.9	3,436.3	15.0	8.0	8.4
3	Hartford Insurance Group	2,916.5	2,994.5	2.7	7.8	7.3
4	American International Group	3,260.2	2,823.0	-13.4	8.7	6.9
5	State Insurance Fund of New York	1,495.9	1,943.8	29.9	4.0	4.7
6	Berkshire Hathaway Insurance Group	534.2	1,037.4	94.2	1.4	2.5
7	Chubb Group of Insurance Cos	827.2	960.8	16.2	2.2	2.3
8	Zurich Financial Services NA Group	852.8	950.6	11.5	2.3	2.3
9	Texas Mutual Insurance Co.	741.6	926.5	24.9	2.0	2.3
10	State Compensation Insurance Fund of CA	995.3	887.6	-10.8	2.7	2.2
11	Fairfax Financial (USA) Group	733.1	833.1	13.6	2.0	2.0
12	CNA Insurance Cos	937.5	824.1	-12.1	2.5	2.0
13	W.R. Berkley Group	687.8	805.3	17.1	1.8	2.0
14	Old Republic Insurance Group	687.3	759.4	10.5	1.8	1.9
15	Accident Fund Group	602.3	644.3	7.0	1.6	1.6
16	Employers Insurance Group	410.0	569.7	38.9	1.1	1.4
17	ACE INA Group	587.7	556.6	-5.3	1.6	1.4
18	NJM Insurance Group	395.8	441.2	11.5	1.1	1.1
19	Pinnacol Assurance Co.	382.6	431.4	12.8	1.0	1.1
20	SAIF Corp.	373.0	416.1	11.6	1.0	1.0
21	Farmers Insurance Group	411.4	396.7	-3.6	1.1	1.0
22	Nationwide Group	236.4	370.2	56.6	0.6	0.9
23	Great American P&C Insurance Group	278.3	356.2	28.0	0.7	0.9
24	Auto-Owners Insurance Group	328.3	345.2	5.1	0.9	0.8
25	Meadowbrook Insurance Group	305.5	345.0	12.9	0.8	0.8
	Total Top 25	**$25,562.9**	**$27,884.5**	**9.1%**	**68.2%**	**68.0%**
	Total Workers' Compensation Line	**$37,466.0**	**$41,018.5**	**9.5%**	**100.0%**	**100.0%**

Source: BESTLINK *Best's Insurance Expense Exhibit (IEE) – P/C, U.S.*, annual statements from Injured Workers Insurance Fund, State Compensation Fund of California and State Insurance Fund of New York.

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On the Mend

Workers' compensation lines are showing improvement

After climbing as high as 118.1 in 2010, combined ratios decreased to 110.3 in 2012, according to the Best's Special Report *U.S. Workers' Comp—Segment Review.*

After years of adverse claims trends and a soft commercial lines market in which carriers were cutting the price of workers' comp coverage, rates are firming and premiums are growing with the recovering economy.

"Things are moving in the right direction," Robert Hartwig, president of the Insurance Information Institute, said.

John Santulli III

Net premiums written grew 9.5% in 2012 to $41 billion, marking the second consecutive year of growth after increasing 10% to $37.5 billion in 2011.

"Sustained growth in 2012 premium reflects the increasing payroll base as economic conditions improve; ongoing rate increases in an improving pricing environment; and firming market conditions," the A.M. Best report found. "While the economic recovery remained somewhat stagnant for an extended period, the sustained growth in manufacturing payrolls beginning in early 2010 and construction payrolls beginning in 2011 has been the basis for the segment's recent growth in premium."

Construction and manufacturing collectively account for one-third of all workers' comp premiums, Hartwig said.

"To the extent that these sectors of the economy continue to improve, this will help grow the top line for workers' comp insurers," he said. "The energy sector is also growing quite well in the United States with our newfound energy resources. So the energy sector is strong, and construction and manufacturing have done reasonably well the last couple of years. With GDP growth expected to rise to about 3% in 2014, which will be up a bit from 2013, we hope it translates to more robust job growth and also larger gains in terms of wages for already employed workers. That would increase the top line for insurers."

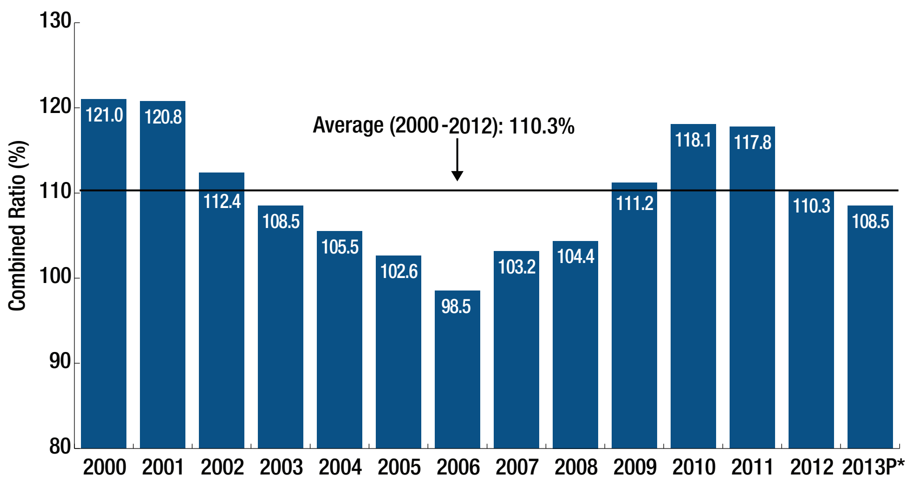
Rebecca Shafer

Though the pace of premium growth exceeded the overall commercial lines segment (4.7%), workers' comp lines are not yet out of the woods.

"Workers' comp is a line of coverage where pricing is more sensitive to investment return," Hartwig said. "And interest rates remain very low, so there's more pricing pressure in workers' comp today than there was prior to the financial crisis or than there was 10 years ago. A greater share of the burden in terms of financing these claims has to be borne through price because less is being earned on the investment side of the equation. So things such as loss control remain very important, as is fraud management and keeping an eye on utilization of pharmaceuticals."

We asked two experts for their take on how employers can improve their workers' comp results. Here's what they had to say:

U.S. Workers' Compensation – Combined Ratio (2000-2013P*)



* P = Projected

Note: Favorable development on prior accident year reserves in the amount of approximately $1.4 billion as of June 30, 2013. The State Insurance Fund of New York accounts for an approximate 8.8 points benefit to the combined ratio.

Source: BESTLINK *Best's Insurance Expense Exhibit (IEE) - P/C, U.S.*; Annual statements from Injured Workers Insurance Fund, State Compensation Insurance Fund of California and State Insurance Fund New York

John Santulli III, executive vice president of risk services and sales for PMA Companies:

What can employers do to keep costs down?

The good news is that employers can dramatically impact their workers' compensation costs. To do so, employers and carriers need to take a holistic approach that incorporates both pre-loss, loss-reduction and post-loss strategies into their workers' compensation programs.

It starts with understanding your workers' compensation claims history and cost drivers and encouraging your workforce to become as healthy as possible. Employers should learn how to maximize their insurance carriers' pharmacy benefits management program to address prescription drug costs and narcotics abuse among injured employees.

Achieving good workers' compensation results also requires employers to execute good employee recruiting and hiring practices, enhance employee engagement with education and job recognition programs, demonstrate leadership commitment to maintaining a safe work environment and establish a "culture of safety" within their companies.

How are medical spending and pharmaceutical spending affecting workers' comp?

Medical spending now represents approximately 60% of workers' compensation claims costs. It continues to have a very significant impact on overall workers' compensation costs. To contain these expenses, employers should fully utilize their carrier's managed care programs, including pharmacy benefits management programs. Insurers and TPAs should be very proactive in mitigating medical expenses, and offer a multifaceted managed care and pharmacy benefit management program that addresses both cost and utilization and begins intervening on the first day of the claim.

Prescription drug costs continue to be a growing part of the medical spend for workers' compensation, approximately 19% of medical costs. Traditional approaches are not effective enough given today's issues—narcotics epidemic, physician dispensing, worker conditions, aged claims, pharmacy abuse, lack of controls and utilization issues. Carriers need to execute strong controls from the very beginning of a claim and intervene throughout the claim's life cycle to drive costs down and help ensure the quality of care for injured workers. This can only happen if a carrier's claims and managed care are integrated and work in tandem to target these costs.

Rebecca Shafer, president of Amaxx Risk Solutions Inc.

Where do you see room for improvement among employers?

The problem is there are too many claims that last too long. That's the bottom line. Employers don't know how to take control of the situation. They don't know how to get employees back to work. They know they should have a return-to-work program, but they just don't know how to do it.

If I'm in a room of 200 people and ask for a show of hands of who has a brochure showing employees what to do if they're injured on the job, maybe 25% will raise their hand.

In 2010, there was a RIMS benchmarking survey across all business units that showed only 47% of employers had a return-to-work program. The goal of a return-to-work program is to have 90% to 100% of your employees return to work within four days of an accident. The reason for that is that in most states you don't pay indemnity costs until after four days.

How much money can a company save through a return-to-work program?

Once you get 90% of employees back within those first four days, you're going to be saving that 50% because you're not going to be having a lot of claims where a lot of employees are out for a long time.

The average cost of a day out of work is about $250 per day, across industries, in my experience. If you can save 150 days at $250 per day, that's about $37,000 you're saving.

Then there's also the outside cost of replacement labor and re-training. If you take into consideration what it costs to replace that $37,000 on the bottom line, if say the company has a 6% profit margin, the real cost is about $580,000. In order to replace the money that you lost while an employee was out of work for four months, it's costing you more than $500,000 in sales.

So it's easier to bring the employee back sooner within the appropriate number of days for their injury and put them in a transitional duty position than it is to come up with an extra half million dollars in sales.

That's just the direct costs. So the savings generally comes from improving your return-to-work ratio. You'll improve that ratio by taking a number of steps: improving your employee communications, having a very active fraud program and having a post-injury response procedure.