

Lessons from California

by Presley Reed, MD

Picture this: Your company has long been committed to disability coverage for your employees, lest they become incapacitated due to illness or injury. But the number of disability claims filed—and their duration—has soared of late. Before long, the survival of your disability program appears to be in jeopardy.

That's what happened in California to the State Disability Insurance Program, which covers 10.5 million employees of private companies. Administered by the state's Employment Development Department, the program is mandatory for California workers unless a company and its employees elect their own private coverage. Employees fund the Disability Insurance Program with premiums deducted from their pay.

From 1989 to 1992, the annual number of new claims rose by 8 percent to nearly 1 million. At the same time, the average length of a disability claim lengthened from 12.5 to 15.5 weeks, peaking at 16 weeks in early 1993, while the percentage of claims lasting a full year doubled from 4 percent to 8 percent. Raising employees' premiums to offset the rising costs was not an option. Legislation not only prevented this potential remedy but actually increased the dollar benefits paid to claimants.

The result: By 1993, the disability insurance fund—one of five such state-run programs in the country—was insolvent.

Turning the Tides

To maintain the integrity of the fund, the state temporarily reduced benefits for one year. It then launched a new program to bring the number and duration of disability claims under control. This effort has not only helped to restore the fund's financial health, but also led to a reduction in the premiums paid by workers. Employers have benefited as well, since many employees return to work sooner.

How did California turn the fund around? The answer to that question offers some lessons for all types of employers who need to manage their disability coverage more effectively. In fact, a growing number of companies have adopted the approaches used in California. Among them:

- Improving the management of claims. This area of focus proved central to the revival of the insurance fund, says Christeen S. Gomez, deputy director of the Disability Insurance Program and the leader of the state's efforts. Key elements included the following:
 - Automated medical disability guidelines. The state developed a new system to identify the normal range of work-absence durations for 2,000 diagnoses. A major source for this system was The Medical Disability Advisor--Workplace Guidelines for Disability Duration, which lists the disability duration ranges considered normal, based on nationwide healthcare and insurance industry data and clinical modifications by a panel of international occupational healthcare experts.
 - Uniform use of ICD codes. The state adopted the International Classification of Disease codes—the global standard for specifying medical diagnoses—to classify the exact diagnosis of each disability claim. By using these codes uniformly, the fund was able to develop a more sophisticated tracking system to identify medical conditions that often cause longer-than-normal disabilities, as well as physicians who certify unusually protracted work absences.
 - Standard workflows and strengthened expertise. The state defined standard workflows that help its claims examiners decide what actions to take when disabilities extend longer than usual. They also enhanced the examiners' expertise by supplying them with new training

and reference materials and communication tools, including questionnaires designed to gain detailed information on unusually protracted claims examiners to discuss lengthy disabilities with healthcare providers more effectively and determine how best to manage the claims.

- Emphasizing personal contact with workers. Claims examiners began to increase their personal contact with injured employees and their medical providers. This contact gave them quicker access to information built goodwill with claimants and allowed for closer monitoring of employee improvement. In all, the extra contact proved cost-effective in reducing disability durations.
 - Improving other aspects of the system. The state made a variety of other improvements to enhance the integrity and management of the Disability Insurance Program. These included new administrative systems to assure that benefits were paid accurately, and staff awareness, training and coordination programs to better detect and control fraud. Finally, a new process for reviewing benefits eligibility netted savings of \$6.5 million.
 - Forming partnerships. The fund formed a broad range of public and private partnerships to tap outside sources of expertise and build a collaborative environment in which to manage claims and return employees to work. For example, the program reached out to providers in the medical community—hospitals, individual practitioners, drug rehabilitation centers, independent medical examiners and professional associations—to explain its goals and seek their input and collaboration. Similarly, the fund teamed up with outside consultants and other government entities, both internal and external, to access additional counsel and resources. The workers of California also provided input about the insurance fund through customer satisfaction surveys.

The Results

By the end of 1994, the State Disability Insurance Program had reduced the average duration of a short-term disability claim by more than 2.5 weeks, from 16 weeks to 13.5 weeks. As of June 1995, the average disability duration had continued to drop to less than 13 weeks. The fund also achieved a savings of \$310 million in disability benefits paid in 1994, according to data from the Employment Development Department.

As a result, Californians enjoyed a major reduction in their disability insurance premiums, effective January 1995. Payroll deductions for covered employees dropped from 1.3 percent in 1994 to 1.0 percent in 1995 on the first \$31,767 of annual wages or salary. Taken together, all California workers will experience an estimated savings of 23 percent in disability insurance taxes paid—for a total of \$649 million—this year.

As California has shown, and as many private employers also continue to prove, there is significant room to reduce waste and cut costs by managing medical disabilities more effectively. Indeed, the integration of a range of sound management practices can dramatically reduce this major area of expense for employers today.

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