

Complex Risk

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Workers' Compensation: A Quick Past, Present, and Future Overview

Despite a stable pricing environment, macroeconomic forces are challenging the outlook for workers' compensation. Vince Gaffigan, EVP, at Lockton Companies, led a panel discussion of insurers and TPAs at the 2023 Lockton Complex Risk Symposium that examined how clients can improve outcomes.

Gaffigan began the discussion by citing 2022 as the ninth straight year of workers' compensation profitability. Medical inflation has stayed oddly below general inflation, and premiums at the end of 2022 were up by about 11%. According to the Kaiser Family Foundation, medical care prices and overall health spending typically outpace growth in the rest of the economy. However, while overall prices grew by 6% in February 2023 from the previous year, prices for medical care increased only 2.3%. "This is unusual, as healthcare prices historically outpace prices in the rest of the economy."

Yet at the Symposium, Gaffigan wondered whether we should be worried.

The National Council on Compensation Insurance (NCCI) is the nation's oldest and most comprehensive source for workers' compensation data. However, Mark Walls, VP Client Engagement at Safety National, noted that NCCI data only reflects about one third of workers' compensation industry data, so the positive numbers aren't entirely accurate. NCCI offers loss cost recommendations for 35 states and the District of Columbia, but some other states have their own reporting entity.

Walls also explained that "because NCCI only collects data for 10 years, nasty claims continue to develop over time." Currently there is no one source for comprehensive, longitudinal workers' compensation data that includes every state.

Large claims are a concern throughout the industry, and according to the panel, will continue to escalate because of the tremendous advances in healthcare. Medical helicopter transportation, for example, has become far more common and as a result, claims have increased. Newer technologies also allow patients such as young quadriplegics to live longer. Who pays in those situations?

The panelists also agreed that more states are recognizing mental health issues and trying to be proactive because those claims will continue to increase.

John Boettcher, Claim Unit Manager at Old Republic Risk Management, described the need to start thinking about medical inflation. “Work on controlling costs now and focus on issues such as home healthcare...don’t ignore the question of severity.”

In addition to inflation, Joe Zinga, Senior VP of Risk Management at Gallagher Bassett, explained that other factors influencing the workers’ compensation industry need to be addressed. For example, Zinga wondered how we can better monitor workload as the number of new files is increasing. He advised that we need to look at adjuster workload versus caseload. The concept of a “weekly standard” needs more scrutiny because quality metrics are important. “What used to be a benchmark no longer applies, and we need to innovate to help our frontline people make better, smarter decisions every day.”

According to Zinga, the issue of attracting and retaining workers’ compensation talent is real. The industry’s concern of “a retirement hill has actually been more a retirement cliff.” Cultural changes have also resulted in a fundamental difference between the adjusters of today versus those of the past. Cost and salaries have increased, but so have the skills required for the job. The old “shut up and do your job” paradigm doesn’t exist anymore. Zinger described how in the past few years, 200 employees from Gallagher Bassett left to take higher paying jobs, but then came back to the company. Workplace culture is important.

Boettcher agreed that the industry is competing for talent, and Walls described the added challenge of working from home, which makes creating and maintaining culture more difficult.

The question of workplace culture is greatly impacting our industry. Boettcher explained that responsiveness is directly related to personal relationships and advised that “risk managers need to educate each other and celebrate success as a team.” Walls agreed and explained that some adjuster turnover happens because of partnership or lack thereof.

“The number one thing people want is respect.”

The issue of culture can be seen across the industry in how medical claims are handled. Zinga explained that industry perception and the way claimants are treated has also changed significantly. He described that 20 years ago, claimants were viewed as potentially trying to scam the system. “We now understand that most people really just want to get back to work.”

Beyond the scope of inflation and culture, though, are larger issues of governance. How is the political landscape impacting workers' compensation? Walls believes that the issue isn't "red state versus blue state," though he is concerned when one party takes political control over an entire state. That "legislative trifecta" can result in new laws that greatly increase workers' compensation costs. Colorado and Michigan, for example, have been a concern, but state fiscal committees have the power to kill bills that are cost prohibitive. Louisiana is a state to watch in the next election that may result in a legislative trifecta.

At the same time, some states have initiated positive reforms, but fiscal committees have killed those potentially helpful pieces of legislation. The state of Washington is also worth watching, because its new PTSD presumption bill applies to the private sector, and similar legislation will likely be introduced around the country.

When asked how predictive modeling is impacting workers' compensation, Zinga explained that though models are working fairly well, they won't save us. Data helps in decision making, but the adjuster needs to have the autonomy to interpret and make informed decisions. The industry is still trying to understand the impact of AI. Walls explained that models don't solve problems: "It's what we do with the model." Analytics allows people to focus on the things that matter.

How can our industry better manage the workers' compensation landscape?

1. Be mindful of the evolving home healthcare industry and its potential severity.
2. Investigate how your organization can innovate both adjuster workload and culture.

Watch for legislative trifectas that may impact new laws and regulations.