

Business Insurance®

Copyright 1997 by
Crain Communications, Inc.
All rights reserved.

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / \$4

Spotlight Report: Poor oversight may reward hurt workers too richly

By MEG FLETCHER

Most companies are incurring needless costs to compensate employees injured on the job because the administration of benefit programs for those workers is not sufficiently coordinated by the company.

Because of that lack of coordination, experts say, recuperating employees may get greater compensation when they are off work than when they are working, which creates a disincentive for them to return to work. And companies may spend unnecessarily for duplicate benefits and replacement staff.

Employees injured on the job may have access to a variety of state-mandated and voluntary benefits from their employers, some of which should offset others. These collateral source benefits may include: workers compensation, salary and wage continuation, occupational pay supplements, standard disability benefits, state disability benefits and Social Security disability (see story, page 14).

"Three-fourths of companies have some redundancies" among collateral source benefits, estimates Rebecca S. Bruce, president and CEO of Aon Management Institute in Glastonbury, Conn., a consulting unit affiliated with Aon Group Inc. in Chicago.

"In one large company with 13 unions, it was possible to earn more when not

working," Ms. Bruce said. The combination of all collateral source benefits allowed employees to receive 122% of pay while they were off the job, she said.

Redundant benefits are probably costing large U.S. businesses about 0.5% of payroll costs, said Jack Bredehorn, president of VPA Inc., a third-party administrator in Calabasas, Calif.

A 1996 survey of 241 employer respondents by Bethesda, Md.-based consultant Watson Wyatt Worldwide and the Washington Business Group on Health, a national coalition of large employers, also supports the need for action.

Two-thirds of companies that do not integrate their disability programs reported incurring annual direct disability costs of 5.4% of payroll, while those that did integrate these benefits reported incurring direct costs of only 2.7% of payroll, the survey indicates (BI, Oct. 28, 1996).

A company's payment of duplicate or excessive benefits often results from in-house administration problems.

"In most companies, workers comp (administration) is under human resources, and in other companies it is under risk management and finance. Whenever you have workers comp separate from HR, there is the possibility there will not be cooperation and

communication," said Diana Rich, workers comp manager for Freedom Communications Inc., an Irvine, Calif.-based media conglomerate that operates in 15 states.

In addition, managers of individual company operations can exacerbate the situation by not notifying a company's in-house workers compensation manager if a health benefit claim turns out to be a workers comp claim, she said. For example, without that information, the workers comp manager would not be able to inform the employee about-or enforce-company policy that requires offsetting the leave allowed under the Family and Medical Leave Act with the workers comp leave taken during the year.

Other problems that contribute to duplicate and excessive payments include lack of internal company awareness or support for solving the problem, as well as a lack of benchmarking data, according to the Watson Wyatt survey.

However, companies can adopt policies and procedures to correct the situation.

For example, companies should try to limit excessive payments by basing wage supplements on the employee's net take-home pay. In some cases, that may require giving an employee full salary as long as his sick time lasts. In return, the company should require employees to sign all workers comp checks over to the

company, Aon's Ms. Bruce said.

Procedurally, companies should consider consolidating departments, adopting an employee-centered approach so injuries can be reported to a single source and implementing a return-to-work program, said Catherine Cather, senior vp-integrated benefits with Aon/Alexander & Alexander in Costa Mesa, Calif.

Companies in states that mandate disability insurance programs should consider establishing a self-insured plan, said VPA's Mr. Bredehorn. That approach gives some companies greater control over the method of benefit payments, he said.

Other companies may prefer to buy integrated disability services like those available to CIGNA Corp. clients, said Jacalyn Reinberg, assistant vp in the 24-hour business unit of CIGNA Corp. A company using CIGNA's telephone reporting, case management, return-to-work guidelines, and other services is expected to save 15% or more in total loss costs, she said.

"The key is not to let employees get disconnected," said Aon/A&A consultant Ms. Cather. ■