

California Workers' Compensation Institute

BULLETIN

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A new Institute study on California temporary disability (TD) claims finds significant reductions in the average number of paid TD days and average TD payments, faster injury reporting, and quicker claim closures following the implementation of the SB 899 workers' compensation reforms in 2004. The study also notes only marginal changes in the percentage of claims with diagnoses exempted from the 2-year cap on TD payments, and estimates that the cap could affect about 11 percent of total TD payments.

The element of SB 899 that most directly addressed temporary disability was the new 2-year cap on TD payments, which allows a maximum of 104 weeks of paid TD within two years of the first TD payment. But, because the cap did not begin to impact TD payments until two years after the bill's April 19, 2004 effective date, available data only allows a preliminary estimate of the effect of the cap. In the meantime, however, other 2004 reforms (i.e. the first-day medical care requirement, return-to-work incentives, permanent disability rating schedule changes, greater reliance on utilization review and the use of Medical Provider Networks) also may be impacting TD claims. To gauge the early effects of such changes, the Institute used its Industry Claims Information System database to compile a sample of nearly 260,000 pre-reform (AY 2002 and 2003) and post-reform (AY 2004) TD claims and to measure changes in the notification time frames, the average amount of TD paid, and TD duration.

Prompt reporting has long been considered a key component of establishing an appropriate medical protocol and facilitating return-to-work. To measure changes in how quickly the initial stages of TD claims unfold, the study looked at three key reporting milestones: date of injury to employer notification; date of injury to claims administrator notification; and the number of days between employer notification and claims administrator notification. In all three cases, the average time lags declined following the reforms. The average time elapsed from the injury date to employer notice dropped from 8.9 days prior to SB 899 to 5.5 days after the reforms took effect; the injury date to claims administrator notification time lag fell from an average of 19.3 days to 14.2 days (-26 percent); and the time between employer and claims administrator notification fell from an average of 9.3 days to 8.1 days (-13 percent). There was little to no change in the median number of days for all three of these reporting time frames, however, indicating a reduction in either the number or magnitude of reporting outliers rather than a shift in the reporting processes.

As noted earlier, a complete analysis of the impact of the 2-year cap on TD payments will require more fully developed data, as this study used accident year 2002-2004 claims, with the data from each year truncated at 20 months post injury to allow accurate comparisons. This data set did allow an analysis of changes in the average amount of TD paid and the average number of paid TD days within one year of the first TD payment. Because AB 749 mandated increases in the maximum weekly TD rate in 2003 and 2004, the TD payment figures were adjusted to control for these changes. The results show the average amount of TD paid within one year of the first TD payment for post-SB 899 claims fell to \$5,679, down 11.9 percent from the average adjusted pre-reform level of \$6,446, while the median TD

payment fell from \$2,665 to \$2,181, an 18.1 percent drop. Under the reforms, TD claims averaged 6.8 fewer days of paid temporary disability, while the median number of paid TD days fell 23 percent, from 30 to 23 days.

To estimate of the percentage of TD claims and the percentage of TD payments that may be impacted by the 2-year payment cap, the Institute examined accident year 2002 claims data and found that of the 90,962 open and closed TD claims, 7,738 claims (8.5 percent) had TD payments made more than two years after the initial TD payment date. The TD paid on those claims after the two-year period amounted to 11.3 percent of all TD benefits paid on the accident year 2002 claims, suggesting that the two-year cap as currently structured could save about one out of every nine dollars paid in temporary disability.

The study also found that after the TD reforms took effect, the proportion of injuries exempt from the seven medical diagnoses that are exempt from the cap remained very small, though it did increase from 1.2 percent to 2.2 percent of all TD claims. The largest increase among the exempt injuries was in high velocity eye injuries, which rose from 0.9 percent of the pre-reform TD claims to 1.6 percent of the post-reform TD cases.

A review of claim closure rates shows that post-SB 899 TD claims are associated with higher rates of claim closures within the first 18 months of the date of injury. After SB 899 took effect, the claim closure rate for TD claims at 12 months post injury increased from 40.3 percent to 44.9 percent, while at 18 months the rate increased from 45.6 to 48.3 percent. As the claims approach 20 months from the date of injury however, the gap between pre- and post-reform claim closure rates becomes negligible, narrowing to less than one percentage point.

CWCI's Research Update report on the study, "Analysis of California Workers' Compensation Reforms, Part 2: Temporary Disability Benefits" is in the ICIS section of the Institute's website (www.cwci.org). The report includes pre- and post-reform breakdowns of the top 20 diagnostic categories for TD claims; distribution curves showing changes in injury notification time frames for TD claims; data on AY 2002 claims showing the percent of TD claims and TD payments made more than two years after the first payment; and pre- and post-reform TD claim closure rates at 12-, 18- and 20-months post injury. The report is the second in a 4-part series measuring claims outcomes since the implementation of recent reforms to the California workers' compensation system. The next report in the series will examine changes in the utilization of medical provider networks since the introduction of workers' compensation Medical Provider Networks.

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