

## **Are HMOs a magic bullet for fixing workers' comp?**

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1,102 words

19 May 2003

[Orange County Business Journal](#)

3,19

Volume 26, Issue 20; ISSN: 1051-7480

English

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It sounds like a good idea for California employers: bring in health maintenance organizations and their cost-cutting ways to rein in workers' compensation costs that have spiraled out of control.

That's what Gov. Gray Davis and Insurance Commissioner John Garamendi proposed to do in their recently detailed workers' compensation reform package. They want to set up a pilot program that would allow employers to use the same HMOs to treat employees with general health problems and those injured on the job.

But employers and workers' compensation control advocates are skeptical HMOs will be able to control costs. Some even argue the Davis-Garamendi plan could backfire and spark more cost increases.

Details of the pilot program are included in Senate bill 354 by state Sen. Jackie Speier, D-Palo Alto, which still needs legislative approval. But Davis administration officials say the aim is to make the workers' compensation market more attractive for HMOs, which then could use their administrative savvy to cut costs.

"This is a major part of our plan to rein in the increasing medical, legal and administrative costs burdening the workers' comp system," said Herb Schultz, undersecretary of the Labor and Workforce Development Agency.

Other components of the Davis-Garamendi plan: incorporating legislation by state Sen. Richard Alarcon, D-Van Nuys, which would set up fees for industrial medical providers, cracking down on fraudulent claims and billing practices and giving incentives for the use of generic drugs.

Bringing HMOs into the workers' compensation market also marks the first step in a long-cherished goal of Garamendi: 24-hour care, where a single provider is responsible for all healthcare, whether from injuries in the workplace or general health problems.

Such a system could cut out the networks of doctors and attorneys that now act as middlemen in a workers' compensation system with the highest employer premiums in the nation and among the lowest benefits for injured workers.

But the concept of bringing HMOs into the market is getting a cool reception from employers and consultants who specialize in workers' compensation cost control.

"This HMO proposal shifts around who is responsible for workers' comp costs, but it doesn't get at controlling the costs themselves," said Lori Kammerer, president and chief executive of Sacramento-based California Coalition on Workers' Compensation, an employer advocacy group.

Kammerer and other cost-control advocates said HMOs lack the expertise in managing workplace injuries. Unlike general healthcare, where the overall well being of the patient is supposed to come first, the goal in treating workers' comp injuries is to get the employee back to work as fast as possible.

"The very first thing that HMOs would do is sign contracts with the major industrial clinics-the same clinics that are charging the exorbitant fees in the first place," said Stu Baron, president of Workers' Comp Claims Control Co. of Los Alamitos. "It's likely the clinics will try to take advantage of the HMOs on rates."

Critics of the Davis-Garamendi proposal also point to an existing program created 10 years ago to try to bring managed care to workers' compensation. This law allowed managed care companies and independent entrepreneurs to form Health Care Organizations, or HCOs, which are essentially provider networks for workers' compensation.

The HCOs were given one critical tool: the ability to have sole control over medical treatment of a claim for the first six months after the claim is filed. After that, the injured worker has the right to go to his or her own physician. Typically, employer-funded providers only have 30 days of control over a claim before the injured worker can turn to their own doctor.

Nonetheless, HCOs for years languished as workers' compensation insurance rates plummeted. Even now, with employers desperate to control costs, nine HCOs only cover 2% of the state's employers.

Davis administration officials said the biggest barrier to these HCOs has been their inability to figure out how to keep a lid on per-patient treatment costs. Under the 1993 law, if a managed care company wanted to form an HCO, it had to have this lid on per-patient costs, known in the industry as capitation.

"HMOs simply didn't have the experience of managing workers' comp claims to be able to stick with capitated rates and so they abandoned the workers' comp field," Schultz said. "So our proposal calls for the temporary lifting of that capitation requirement, until HMOs can get enough experience with treating workplace injuries."

But employer groups and workers' comp cost-control advocates argued that lifting the capitation requirement is not the answer. They said with HMOs allowed to charge fee-for-service rates for treating workplace injuries, doctors would have an incentive to shift patients into the workers' compensation side of the business, where fees would be higher.

"This almost certainly will result in the shifting of patients into the workers' comp side who don't really belong there," said Bruce Carlin, chief executive of Irvine-based **CompPartners** Inc., the largest of nine HCOs in the state. "This one provision alone could nullify all the other gains from this reform proposal."

Even if such shifting doesn't take place, critics pointed to another potential problem: the amount of time the employer-appointed provider retains sole control over a claim. So far, the proposal makes no mention of expanding the 180-day control that HCOs now have to HMOs that would enter the workers' compensation market.

And unless HMOs are given the full six months to treat injured workers instead of 30 days, critics say, attempts to rein in costs will prove futile.

"As soon as the 31st day comes around, the injured worker will go to their own attorney and doctor and then we're right back to the current system of dueling doctors and spiraling costs," Baron said. "All the attempts of the HMO to control costs will be undone in a day."

In the longer run, employers have another concern: that this proposal could prove a stepping-stone to mandatory health care for employers.

"By bringing HMOs into workers' comp, which every employer must provide, it's not too much of a leap to mandate that every employer provide health care, too," said Richard Costigan, a lobbyist with the California Chamber of Commerce. "Especially now that the Burton bill is on the table," he

added, referring to legislation by Senate President John Burton, D-San Francisco, which would require every employer to either provide health insurance or pay into a fund for the uninsured.

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