



# Risk Redirect

**Using group accident and disability insurance to  
reduce illegitimate workers' compensation claims**

The Guardian Life Insurance  
Company of America  
New York, NY

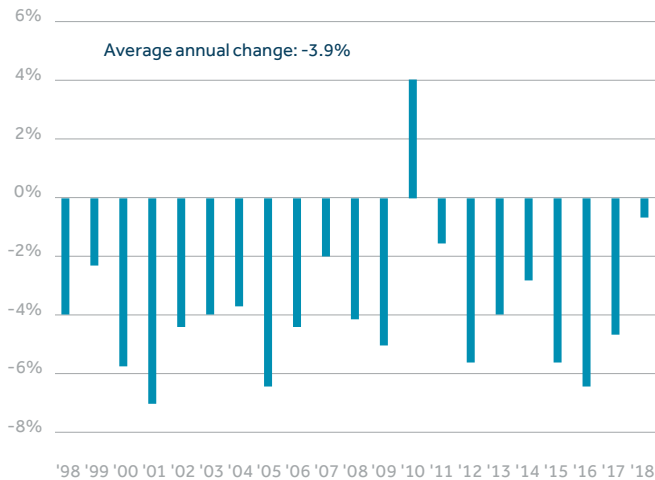
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# Overview

By all accounts, the frequency of workers' compensation insurance claims has been trending lower for several decades. The rate of workers' comp claims in the United States has declined almost every year for more than 20 years and by nearly one-third since 2006.

## Workers' compensation claims frequency<sup>1</sup>

Change in lost-time claims per \$1M pure premium



The 4% average annual decline in claims frequency has occurred across all worker segments, regardless of age, gender, or industry. Workplace technology, such as automation and robotics, and improved workplace safety measures have contributed greatly to the overall frequency decline.<sup>2</sup>

Despite the downward trend in overall workers' comp claim frequency, illegitimate claims have been on the rise the past few years among certain workforce segments. Specifically, research shows that workers in high deductible health plans (HDHPs) have a greater likelihood of reporting off-the-job injuries as workers' compensation claims.<sup>3</sup>

**Fraud accounts for over \$7 billion of the \$62 billion paid out in workers' compensation insurance claims.<sup>4</sup>**

Workers with annual medical plan deductibles of at least \$5,000 and who suffered a serious injury in the past 18 months are much more likely to be financially stressed and have lower overall well-being scores on Guardian's Workforce Well-being Index™ compared to those with deductibles of \$1,200 or less.

Employers offering high deductible health plans are more likely to have experienced an unexpected increase in questionable workers' comp claims. They attribute at least part of their increase in illegitimate claims to workers misrepresenting off-the-job injuries or illnesses as work-related.

The National Insurance Crime Bureau publishes a list of steps to help employers reduce workers' compensation abuse.<sup>5</sup> Another strategy is to offer accident and/or disability insurance plans to help offset out-of-pocket costs and bridge gaps in group medical plan coverage. These benefits can also deter a worker from reporting an off-the-job injury as a workers' comp claim in order to avoid paying for hospital or doctor bills.



**Reduction in workers' comp abuse after offering voluntary accident/disability plans**

Accident and disability benefits available through work not only help in redirecting risk for the employer but also in improving workforce well-being and employee satisfaction with their benefits package.

# Workers' compensation abuse is a problem for one in six US employers

In 2018, 2.8 million nonfatal injuries occurred at the workplace, or roughly three injuries for every 100 full-time US workers. The number of workers' compensation claims is virtually unchanged from 2017, but the downward trend of the past decade continues.<sup>6</sup>

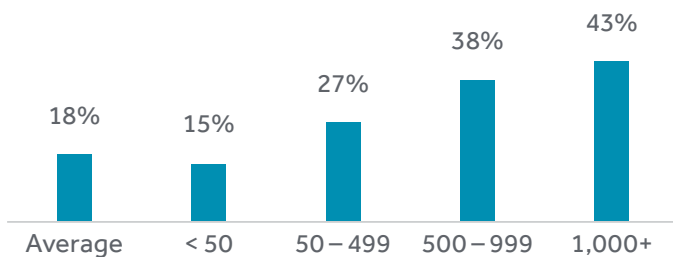
Most of the nearly 3 million annual workers' compensation insurance claims are legitimate; however, research suggests at least 2% are questionable — mostly abuse committed by employee claimants.<sup>7</sup>

## Fraudulent workers' compensation claims are the fastest growing segment of insurance abuse in the US.<sup>8</sup>

On average, 18% of all employers agree that workers' compensation insurance abuse is a serious problem for their organization. The larger the employer, the greater the level of concern about questionable workers' comp claims.

### "Illegitimate workers' comp claims are a problem for our organization"

Agreement by number of employees



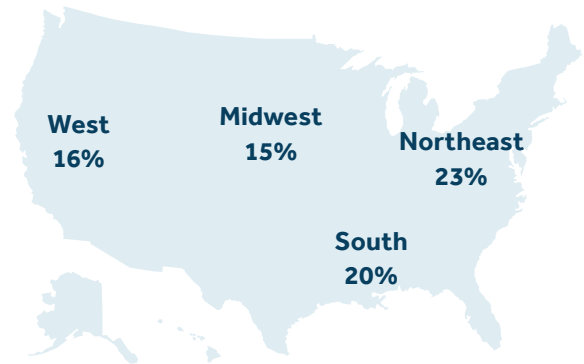
### Three primary forms of illegitimate claims

- 1. Bogus claims:** The injury never occurred or was misrepresented as a work-related injury when it occurred off the job.
- 2. Double-dipping:** A claimant collects workers' compensation benefits from one employer while working at another job.
- 3. Embellishment:** A worker with a legitimate injury exaggerates its severity to extend their workers' comp benefits.

Concern about workers' comp abuse is somewhat higher in the Northeastern and Southern United States — particularly in New England and East South Central (Alabama, Kentucky, Mississippi, and Tennessee).

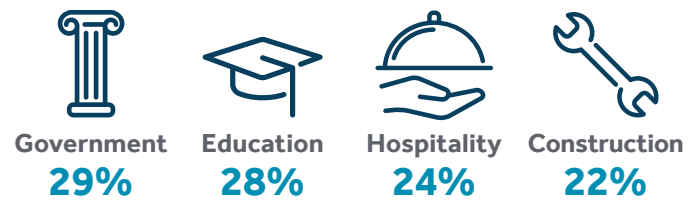
### Concern about illegitimate workers' comp claims by US region

Employers agreeing workers' comp abuse is a problem



More than 20% of employers in government, education, hospitality, and construction agree that illegitimate workers' comp claims are a significant problem for their organizations.

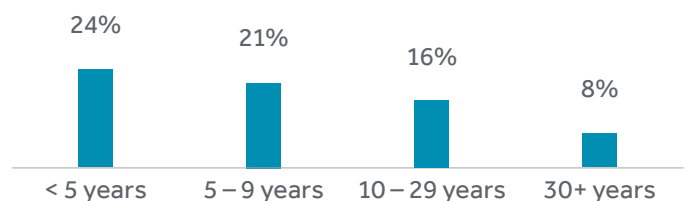
### Industries most likely to be concerned about illegitimate workers' comp claims



Younger organizations (based on years in business) are also more likely to be concerned about workers' comp abuse compared to more mature organizations.

### Workers' comp abuse is a concern particularly for start-ups

By years in business

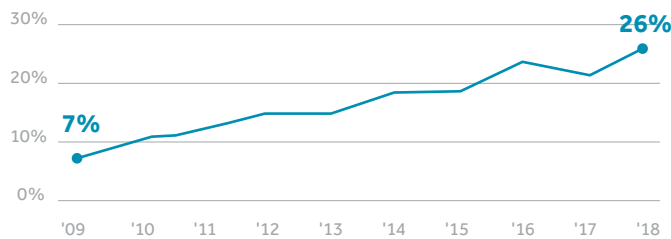


# High out-of-pocket medical costs contribute to financial stress for many working Americans

Growth in high deductible health plans rose sharply in the 10 years following the passage of the Affordable Care Act. In 2019, 52% of employers offered at least one high deductible health plan — up from 24% in 2012. Today, roughly one in four covered workers has an individual medical plan deductible of at least \$2,000 — up from just 7% 10 years ago.

## Covered workers with annual medical deductible of \$2,000 or more<sup>9</sup>

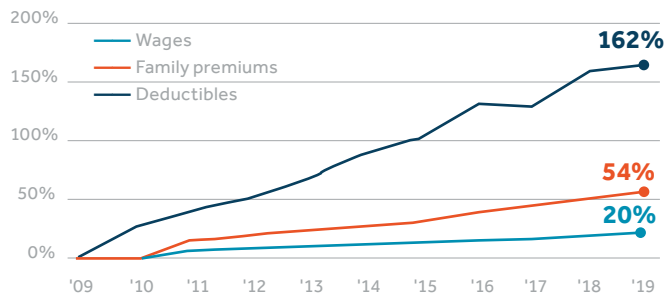
Individual coverage, national figures



While average out-of-pocket healthcare costs have been soaring in the past decade, US wage growth has been much slower — 20% since 2009, compared to 162% for medical plan deductibles and 54% for family medical plan premiums.

## Medical premiums and deductibles are rising faster than workers' wages<sup>9</sup>

Indexed — 2009 to 2019



Having adequate and affordable health insurance is a top financial concern for 80% of working Americans.

Higher out-of-pocket medical costs have taken a toll on working Americans, particularly those in middle-to-low income households earning less than \$40,000 annually. Workers with an annual deductible above \$5,000 are among the most likely to say they are struggling financially; they also have some of the lowest scores on Guardian's Workforce Well-being Index™.



**Three in five** full-time, working Americans would have to **borrow** the money to pay for a \$3,000 medical bill (credit card, bank, friends/family, college or retirement savings)

## Medical debt is the leading source of personal bankruptcy in the US.<sup>10</sup>

Greater financial stress is contributing to lower overall well-being, as many workers skip needed medical care or prescriptions to avoid paying out-of-pocket for their first \$2,000 to \$4,000 of healthcare costs each year.



**Two in five** workers did at least one of the following in 2019 because of their high medical plan deductible ...

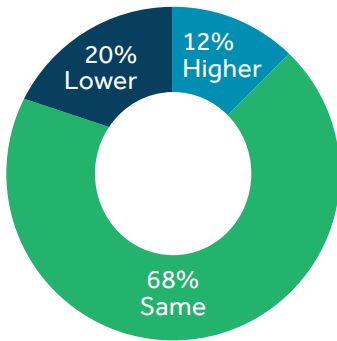
- Delayed a recommended procedure/surgery
- Avoided blood tests
- Skipped a doctor visit
- Avoided X-rays
- Did not fill a prescription

# Workers' comp abuse is more common among employers with high deductible health plans

On average, 12% of employers have experienced an increase in questionable workers' comp claims in the past two years. Organizations in the hospitality (31%), government (22%), healthcare/social services (17%), and construction (15%) sectors are more likely to report increased claims abuse.

## Change in illegitimate workers' comp claims

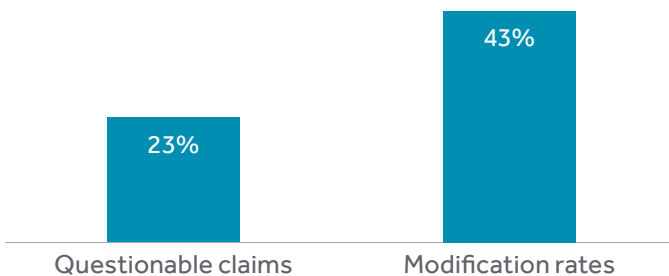
In past two years



One in four employers believe that the ACA has contributed to more questionable workers' comp claims, particularly among lower-income workers with high medical deductibles. Relatedly, another two in five employers feel that the ACA has impacted their workers' comp modification factor (i.e., the factor by which a workers' comp premium is multiplied to reflect an employer's actual loss experience).

## Perceived impact of ACA on workers' comp abuse and modification rates

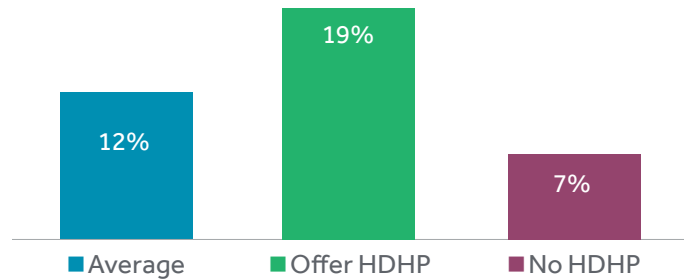
Employers reporting moderate or high impact



Organizations offering high deductible health plans are more likely to have experienced a rise in questionable workers' comp claims and to feel claimant abuse is a significant problem. Nearly one in five employers with an HDHP report an increase in illegitimate workers' comp claims since 2017 — almost three times as many as those without an HDHP.

## Increase in questionable workers' comp claims

With and without an HDHP — in past two years

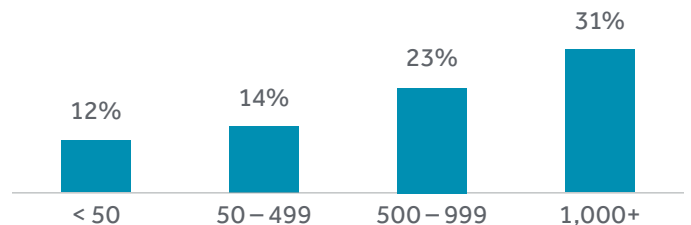


## Employers offering only high deductible medical coverage are even more likely to report increased workers' comp abuse.

Larger organizations, which are more likely to offer HDHPs, are also more likely to report increased workers' comp abuse in the past two years.

## Increase in questionable workers' comp claims

By employer size (number of employees) — in past two years





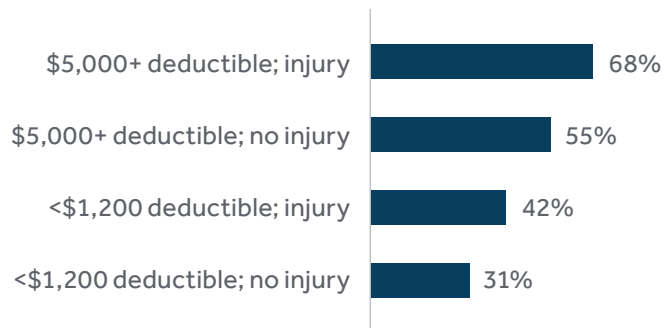
# Injured workers with high medical plan deductibles are more likely to file a workers' compensation claim



Individuals who are out of work for an extended period due to a serious injury (whether on or off the job) and who have medical plan deductibles in excess of \$5,000 tend to experience greater financial stress and have lower well-being scores, as measured by Guardian's Workforce Well-being Index™.

## Workers reporting high levels of financial stress

By medical deductible and injury in past 18 months



Workers who are injured while on the job may or may not file for workers' compensation; however, among the factors that influence that decision is the amount of their medical plan deductible.

A recently published study from the Workers Compensation Research Institute (WCRI)<sup>11</sup> found that injured workers who have a high medical plan deductible are more likely to file a workers' compensation claim than a group medical insurance claim.

According to WCRI, an injured employee with an average of \$550 remaining on their medical deductible was 1.4% more likely to file a workers' comp claim than someone with no deductible at the time of injury. The difference amounts to a 5.3% increase in the volume of workers' compensation claims. The study also found that workers with soft tissue conditions (e.g., sprain or strain) are even more likely to file for workers' compensation when they have a high deductible.

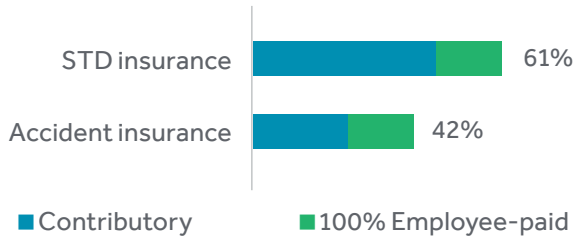
WCRI estimates that the decline in workers' compensation claims over the past decade potentially could have been larger had group medical plan deductibles remained constant.

# Group accident and disability insurance plans help reduce questionable workers' compensation claims

A majority of US employers (61%) currently offer short-term disability (STD) insurance to their workforce, generally on a contributory basis with the employer paying most of the cost. More than four in ten employers offer accident insurance and about half of those plans are voluntary, or employee-paid.

## Prevalence of group accident and STD plans

All employers — 2019



Upon offering an accident or STD insurance plan, many organizations experienced an overall decline in workers' compensation claims. Moreover, nearly 40% of those reporting lower workers' comp claims saw a reduction in questionable claims and attribute much of the decline to implementing an accident or short-term disability plan.



Accident insurance

**One in four** employers experienced a **decline** in workers' compensation claims after offering voluntary accident insurance

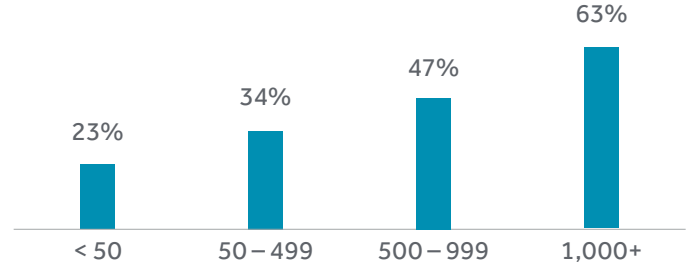


Disability insurance

**One in eight** employers experienced a **decline** in workers' compensation claims after offering voluntary short-term disability insurance

The larger the employer, the more likely they are to have experienced a reduction in workers' comp claims after offering an accident or STD plan. Nearly two-thirds of firms with at least 1,000 employees report improved workers' comp results and fewer illegitimate claims.

## Employers reporting reduced WC claims after offering an accident and/or STD plan



On average, employers report a 46% decline in workers' compensation claims after offering an employee-paid accident or STD plan to their workforce — 42% report declines of 50% or more, while another 22% cite declines of 25% to 49%.



Average decline in workers' comp claims among **large employers** after offering a voluntary accident or STD plan

## Voluntary benefit strategies designed to improve risk management are linked to better outcomes on workers' comp abuse.

Employer-funded accident and disability plans, by their very nature, have much higher participation than employee-pay-all plans; therefore, they have even greater potential to reduce illegitimate workers' comp claims.

# Is the Risk Redirect strategy right for your organization?

More employers are seeking ways to better coordinate and leverage group health and welfare benefits with statutory entitlement programs, such as workers' compensation insurance. Along with effective communication and training for employees and their managers, accident and short-term disability benefits offer several advantages as part of an overall risk management strategy:



## Quickly address questionable workers' compensation claims

- Provide coverage that will deter employees from reporting off-the-job injuries as workers' compensation
- Potential to improve the organization's experience modification factor and workers' compensation premium rate
- Increase bottom-line profit
- Correctly report and track group medical plan claims
- Spend less time on workers' compensation claims investigation



## Improve workforce health and productivity

- Encourage more appropriate and timely healthcare/treatment
- Reduce absenteeism



## Reduce employee financial stress and anxiety

- Provide coverage to fill gaps in existing benefits package, especially for the most financially fragile employees (e.g., those with lower income, high deductible health plans, no disability insurance)
- Improve employee appreciation of their benefits package and aid retention

### Organizations that implement a Risk Redirect strategy by offering group accident or short-term disability benefits often share one or more of the following characteristics:

- Experiencing a high or increasing frequency of questionable workers' compensation claims (e.g., abnormal volume of "Monday morning" claims)
- Recently implemented or adjusted a high deductible health plan (e.g., offering HDHP as only medical plan option)
- Seeking to exit a high-risk insurance pool
- Experiencing a negative impact on profit margins due to high modification factor
- Do not qualify for securing contracts as a vendor due to high modification factor
- Is an industry with typically high workers' comp frequency (e.g., manufacturing, healthcare, construction, retail, hospitality, local government)



# Appendix

## Methodology and Sample Characteristics

The 7<sup>th</sup> Annual Workplace Benefits Study<sup>SM</sup> was fielded in the spring of 2019 and consisted of two online surveys: one among benefits decision-makers (employers) and another among working Americans (employees), allowing us to explore benefits issues from both perspectives. The study was conducted for Guardian by Zeldis Research, an independent market research firm in Ewing, NJ.

Unless noted otherwise, all data referenced in this report is from Guardian's 7<sup>th</sup> Annual Workplace Benefits Study.

## Employer Survey

Employer results are based on a national online survey of 1,500 employee benefits decision-makers. Respondents include business executives, business owners, human resources professionals, and financial management professionals. The survey covers all industries and is nationally representative of US businesses with at least five full-time employees.

Data shown in this report have been weighted to reflect the actual proportion of US businesses by company size, based on data from the US Census Bureau. The margin of error at the 95% confidence level is +/- 2.3%.

## Employee Survey

Employee results are based on a survey conducted among 2,000 employees age 22 or older who work full-time for a company with at least five employees. The survey sample is nationally representative of US workers at companies of at least five full-time employees.

Data shown in this report have been collected in a way to reflect the actual proportion of US workers by gender, region, race, ethnicity, education level, household income, age, and employer size, based on data from the Bureau of Labor Statistics and the Census Bureau. The margin of error at the 95% confidence level is +/- 2.3%.

## Notes

- 1 National Council on Compensation Insurance, [\*NCCI 2019 State of the Line\*](#), May 2019.
- 2 National Council on Compensation Insurance, [\*Changing Workforce Demographics and Workplace Injury Frequency\*](#), April 2019.
- 3 Workers Compensation Research Institute, [\*Do Higher Deductibles in Group Health Plans Increase Injured Workers' Propensity to File for Workers' Compensation?\*](#), February 2019.
- 4 National Insurance Crime Bureau, <http://www.eains.com/about/fraud-prevention.aspx>.
- 5 National Insurance Crime Bureau, <https://www.nicb.org/sites/files/2017-10/WorkersCompMedFraud.pdf>.
- 6 US Bureau of Labor Statistics, [\*Employer-Reported Workplace Injuries and Accidents\*](#), November 2019.
- 7 Coalition Against Insurance Fraud, "By the Numbers: Fraud Statistics," <https://www.insurancefraud.org/statistics.htm#9>.
- 8 National Insurance Crime Bureau, <http://www.eains.com/about/fraud-prevention.aspx>.
- 9 Kaiser Family Foundation, [\*2019 Employer Health Benefits Survey\*](#), September 2019.
- 10 American Journal of Public Health, [\*Medical Bankruptcy: Still Common Despite the Affordable Care Act\*](#), February 2019.
- 11 Workers Compensation Research Institute, [\*Do Higher Deductibles in Group Health Plans Increase Injured Workers' Propensity to File for Workers' Compensation?\*](#), February 2019.



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