

## Workers' Compensation Claims Closure Projects Offer Solutions for Adjusters

Effective Project Management, Teamwork, Analytics, Case Assignment Keys to Achieving Results

By Steven C. Testan and Misty Price

Across the entire workers' compensation industry, many insurance companies and employers are sitting on large-tail claims that have exceeded the ultimate values forecast in prior years. Today, more employers, insurance carriers and claims adjusters are looking for innovative ways to close their paid claims and drive down incurred losses.

For those facing such challenges, carefully orchestrated closure initiatives that address complex and legacy workers' compensation claims can help make a difference in an insurance company's loss ratios and ultimately its financial position.

Among adjusters, the rising costs are all too familiar: According to NCCI, the average indemnity cost of a lost-time claim rose by 47 percent during the last decade. Meanwhile, the medical portion of these claims jumped 95 percent, to \$27,700 in 2010, from \$14,200 in 2000.

Even though determining whether and when to settle a claim involves both science and art, there are several guide posts for structuring closure initiatives that have proven more effective at producing results. Here are some best practices for claims professionals:

- **Do your homework.** Before starting a claims closure initiative, develop a complete picture of the claims your organization faces and their collective impact on the bottom line. An audit can uncover the value of the costliest legacy claims and those trending in that direction.
- **Understand the opportunities and limitations imposed by specific jurisdictions.** Know where you can obtain a full and final closure and where you can't. Understand where you have some control over the choice of medical providers, where you can have input on treatment for comorbidities and other complicating conditions, and where you don't.
- **Set goals based on what you can expect to achieve in specific time increments, such as six months, one year, two years, etc.** As you analyze your book of claims, consider what you've learned and look for opportunities to improve.
- **Widen your focus beyond the tip of the iceberg.** In developing a strategy, don't focus exclusively on resolving a single large claim or group of claims, even when they may be your most significant cost drivers; consider your entire book and don't overlook smaller exposures that might be settled quickly so they don't eventually develop into larger exposures.
- **Sort claims involving comorbidities, obesity and narcotic use.** As the recent NCCI study revealed, claims involving comorbidities and obesity can involve dramatically greater costs over time, as can those involving narcotic use.

In any closing initiatives, these claims need careful strategy. Many claims also come up against Medicare Set Aside (MSA) requirements as they grow in size and duration. You do not want to begin the MSA process if you have the possibility of altering the claim's trajectory. Consider experts or partners that can strategically provide intervention strategies before moving into the settlement phase of the closure initiative. These claims require frequent monitoring by experienced professionals and careful evaluation and reevaluation over the course of treatment with respect to any potential for settlement.

- **Consolidate outside resources.** Whether your book of claims is concentrated in a handful of jurisdictions or spread over several dozen, providers that can satisfy your requirements for quality performance geographically across multiple states can save both time and money. It's often easier to manage a handful of external resources than several dozen or more. One insurer trimmed the number of law firms handling its multi-state cases from over 40 to one. Strategically, there's a better chance of having everyone on the same page with fewer providers. Administratively, it's faster and more efficient to gather critical information and track results. And financially, fewer providers may mean economies of scale to help manage costs.
- **Effective technology can make a big difference.** Choose partners with technology and systems that facilitate streamlined and efficient analytics. A project run with the intent of continuous process improvement should provide predictive or leading indicators that allow you to adjust so your project doesn't fall short of desired goals. Closure goals are typically established for six, 12 or 18 months. However, along the way, tracking and reporting on appropriate leading indicators of the claims in the queue will predict the results of your initiative. This also helps the team make necessary adjustments before results are in. It can take months to change the direction of a claim or position it for final closure. So, you need robust systems with the ability to track all appropriate data elements.
- **Communicate frequently to keep everyone on the same page.** A common thread among claim executives with successful closure initiatives is their ability to communicate to all team members, including internal and external resources, as well as to encourage and foster collaboration among team members. Many use a steering committee of internal team members and representatives from each external organization who meet and communicate regularly and

are informed of results and progress.

- **Share relevant financial information discretely with leaders of external team members.** As appropriate, sharing financial information about your organization's costs associated with an overall book and trends with respect to certain files or groups of cases can help law firms and other providers set priorities and allocate critical resources to achieve the best result.
- **Track results and monitor performance of external providers.** Insurers with successful closure initiatives carefully monitor progress against overall goals. A number of entities stratify claims by size, beginning with those involving costs above \$500,000, those between \$100,000 and \$500,000, and those below \$100,000. In addition to claim size, it's often useful to track what closed in litigation and the entire closure pipeline, including: claims closed full and final; claims partly settled with additional exposure; claims in chief settlements that remained open for contribution or lien resolution; and the overall financial implications on the entire claims book.

Finally, it doesn't hurt to aim high. Many clients involved in well-run closure initiatives have been impressed with their results. One large self-insurer improved its 12-month closure rate to a 53 percent resolution in legacy claims in some of the most difficult jurisdictions. Of the claims closed, more than half are full and final. That percentage increases to 70 percent in states allowing for full closure outside of a disputed claim.

Similarly, an insurer involved in a closure initiative reduced its case reserves by \$10 million in 12 months, achieving a \$1.2 million reduction in litigation expenses over the prior year. And it reduced outstanding claims by nearly 60 percent. Indeed, when you work with effective partners, use innovative analytics, and bring it all together with excellent project management you can achieve superior outcomes.



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