

Workers' Compensation in 2030 Scenarios

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Not Today's Approach



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Questions Addressed

- Can we imagine a plausible scenario for 2030 where
 - Systems fall grossly out of balance
 - WC Reform process is ineffective in adapting
- What caused the imbalance?
- Why was the Reform Process unable to respond effectively?

Scenario for 2030

System is badly out
of balance

- WC costs to employers triple
- Benefits for injured workers are little changed or even reduced

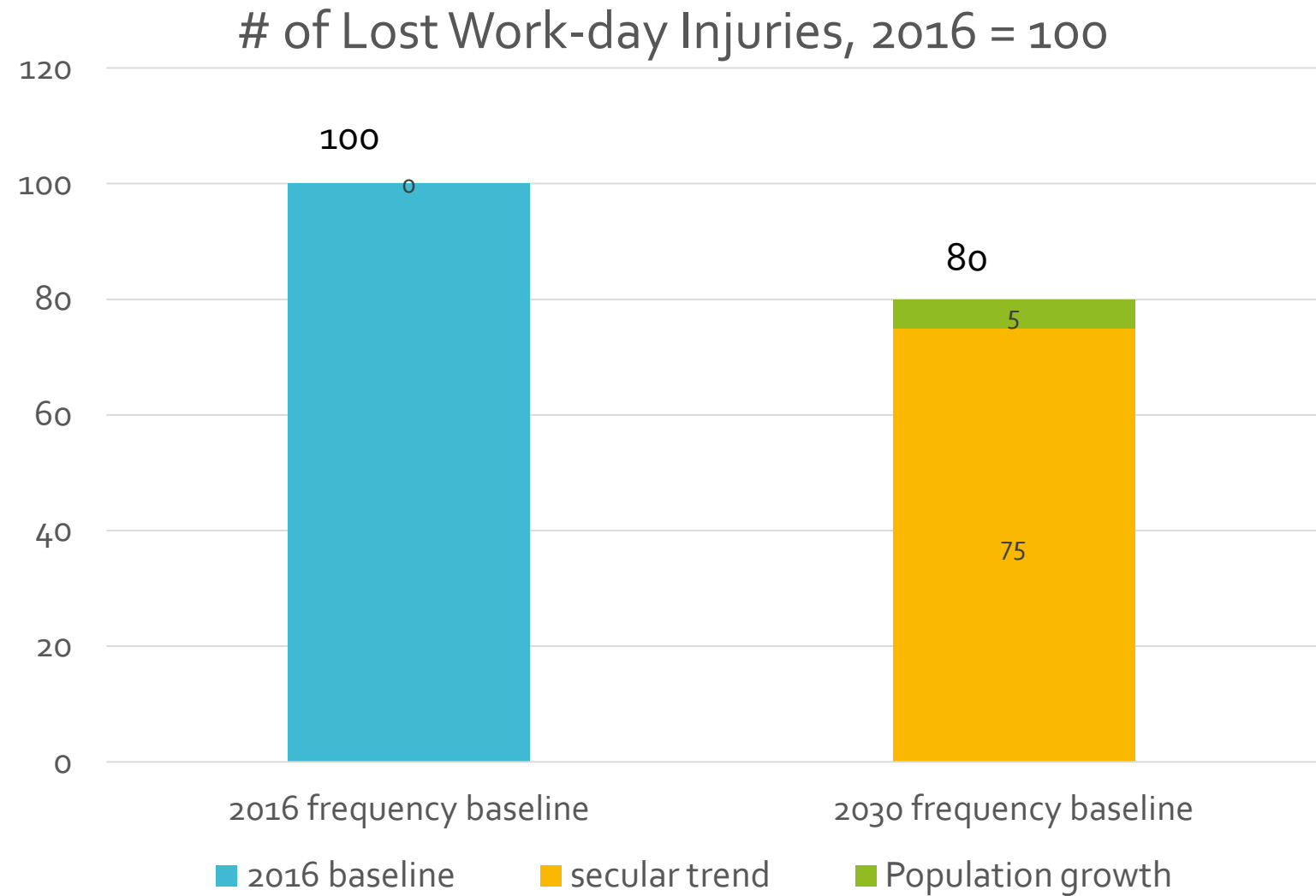
Outline

- Baseline WC costs and scenario for 2030
- Examine the external forces that triple WC costs
- Examine the external forces that limit system adaptation by WC Reform
- Scenarios for WC after 2030

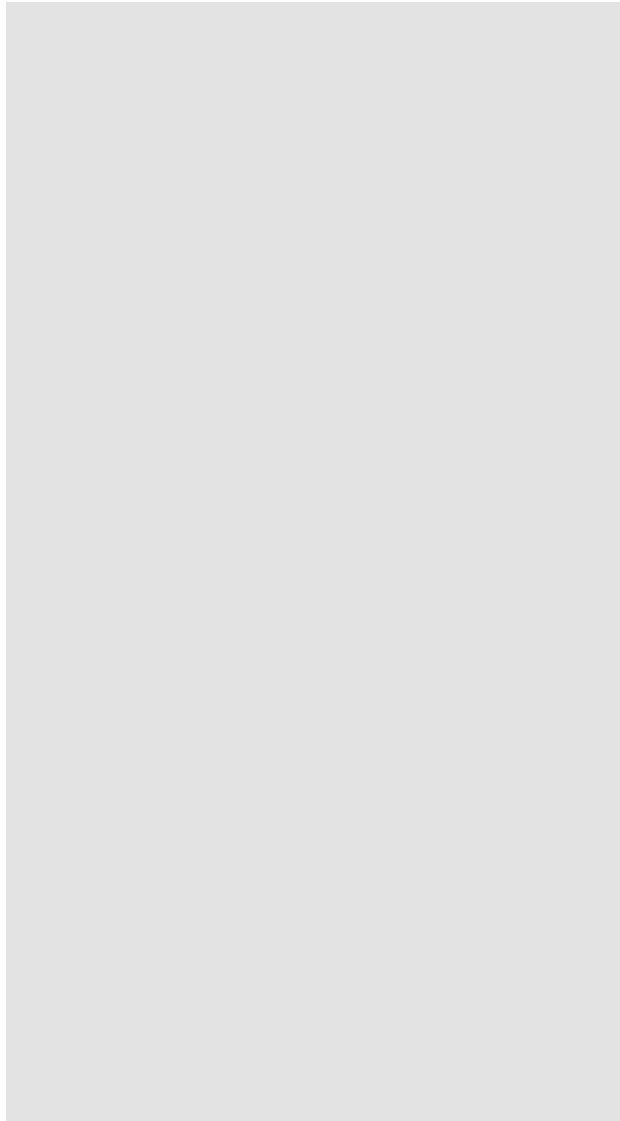
Baseline 2030 vs 2016

Injury Frequency:

-20%



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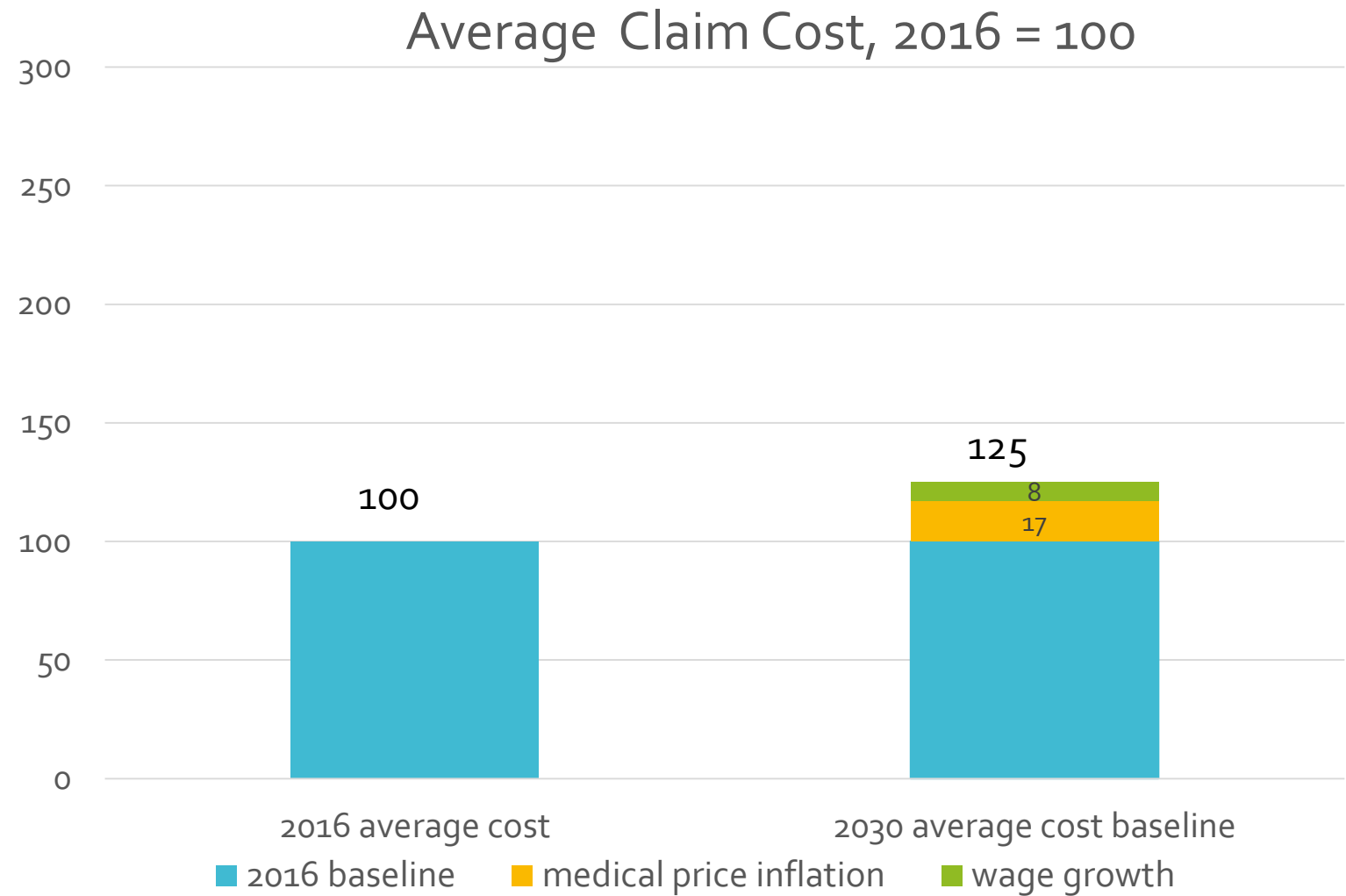


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Baseline 2030 vs 2016

Average Claim Cost

+25%



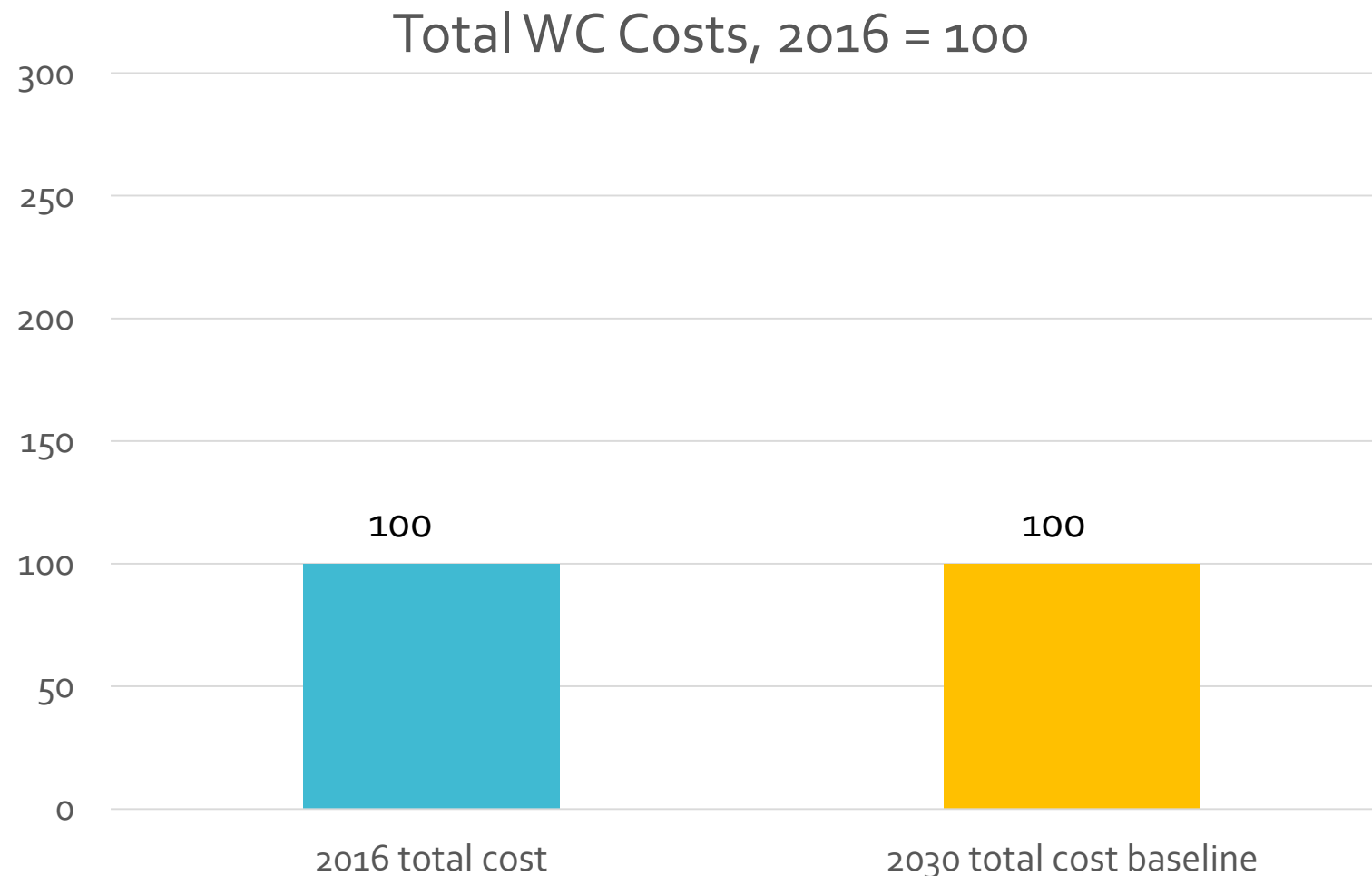
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Baseline 2030 vs 2016

Total WC Cost:

No change

Total Cost =
injuries x Ave Cost
 $80\% \times 125\% = 100\%$

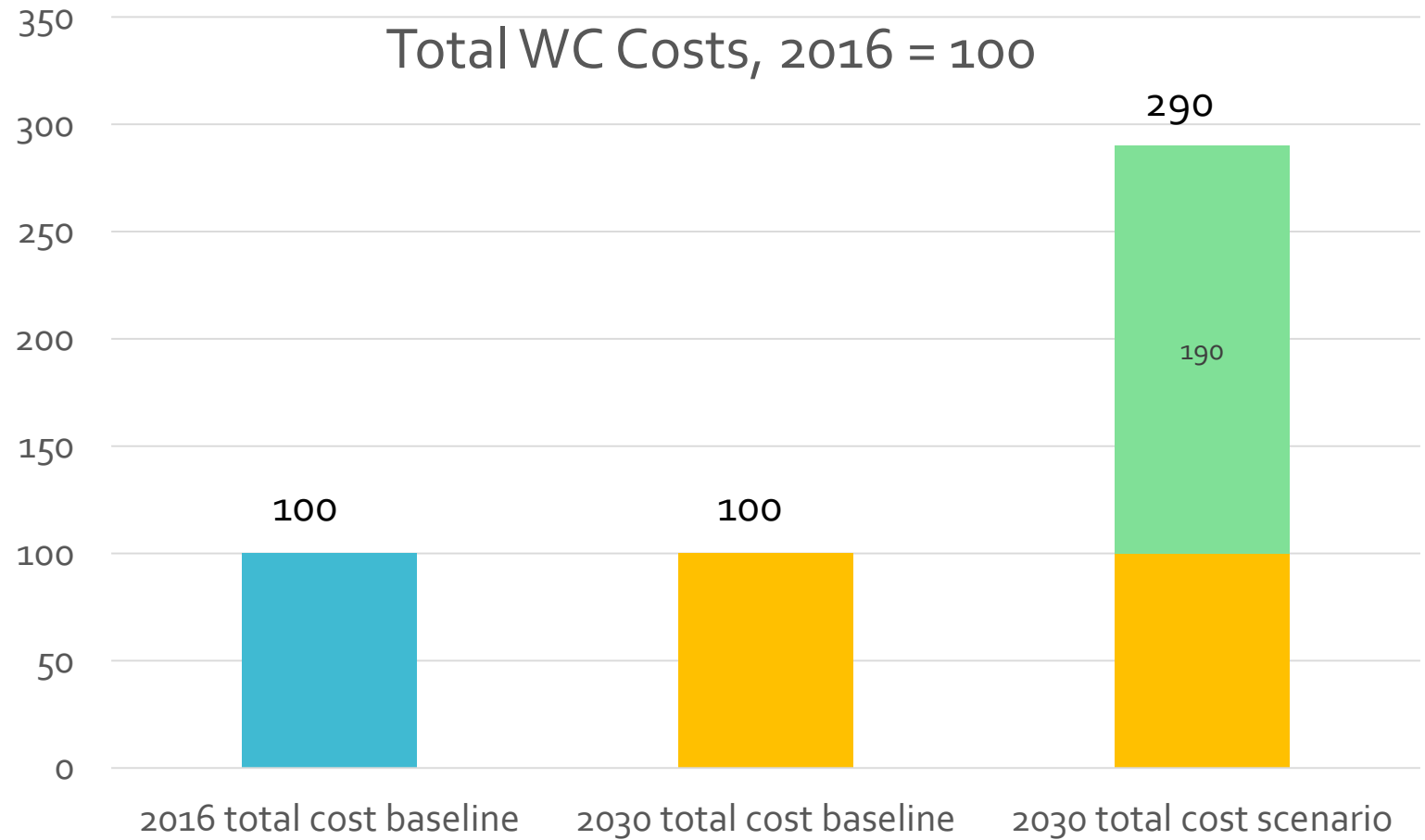


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Scenario 2030

Total WC Cost

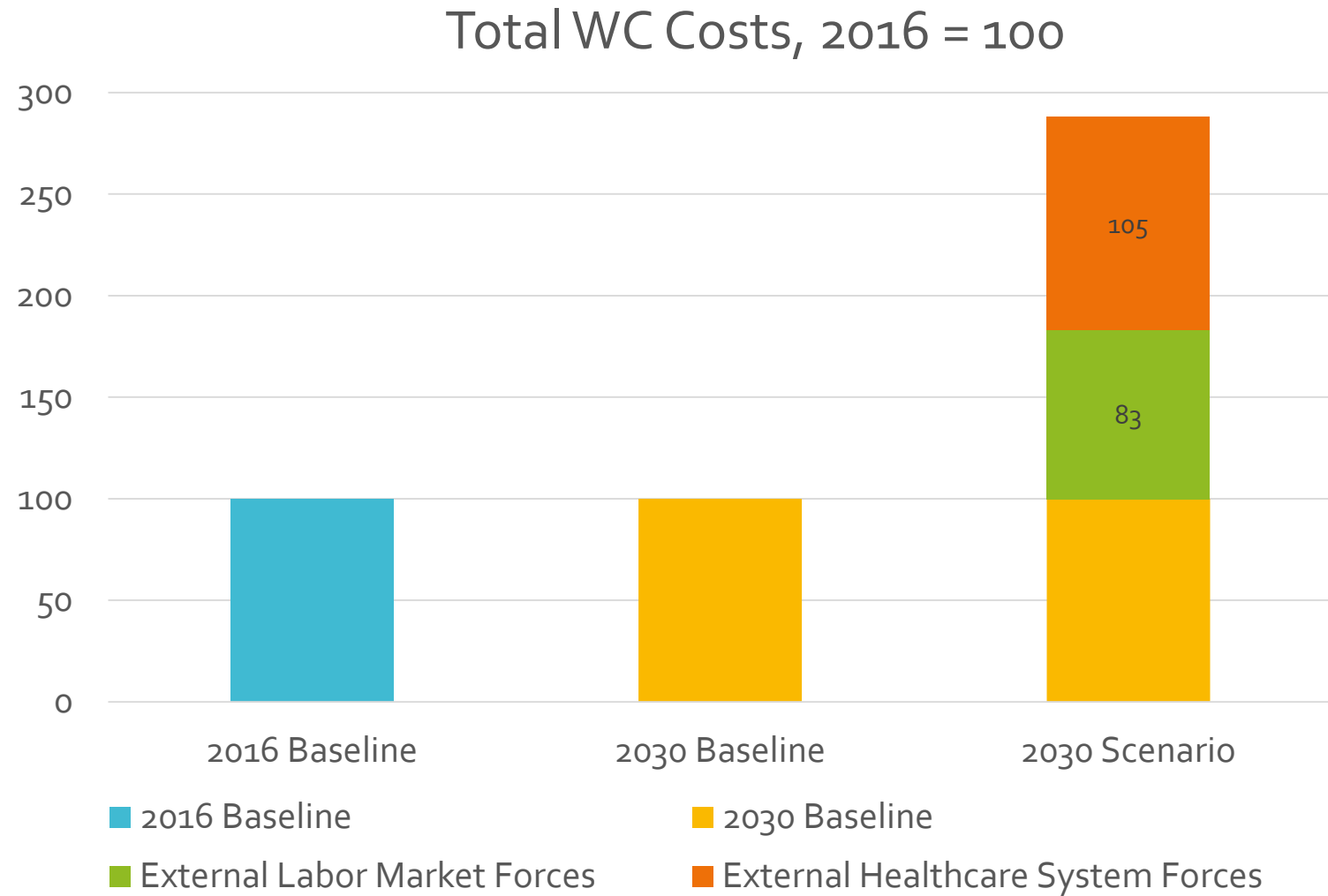
Nearly triples due to external forces



Scenario 2030

Costs Driven By External Forces

- Labor market
- Healthcare system



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Labor Market Forces Driving Costs Upwards

	Effect on WC Costs
Historic labor shortages	More injuries Slower RTW
Medical provider shortages	Delays in care Higher medical prices
Restrictive immigration practices and rhetoric	Magnifies effects of shortages
*Aging population	Small direct effect
Will automation alleviate the shortages?	

*not addressed today

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2030: Historic
Labor Shortages

Very Low
Unemployment
Rate

Heading Lower

Unemployment Rate, 1990-2018



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In 2018,
Unemployment
Rates Hit
Historic Lows
in 16 states

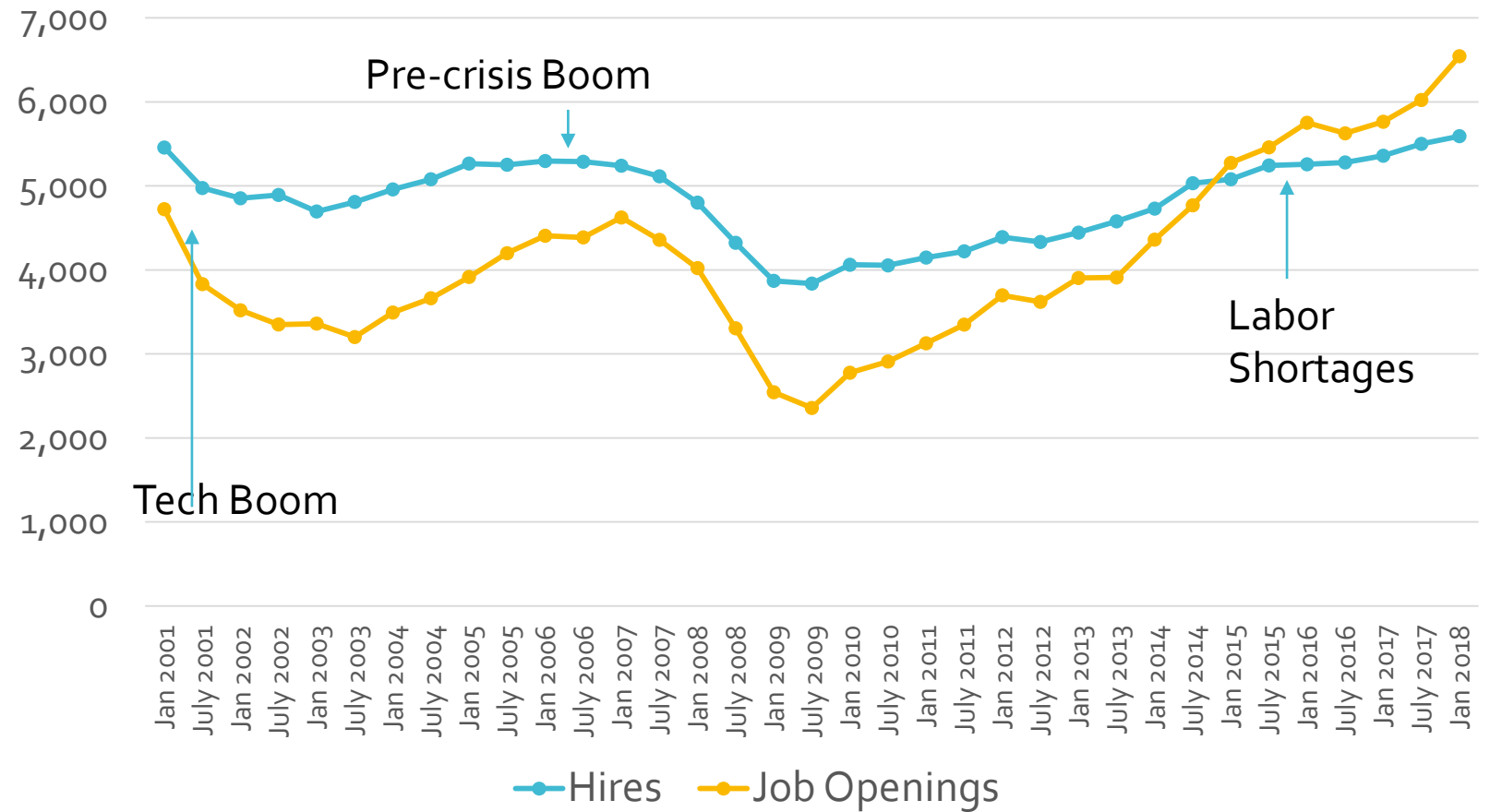
State	Unemployment Rate (August 2018)	Historical Low Rate
Idaho	2.8%	2.8%
Oregon	3.8%	3.8%
Washington	4.5%	4.5%

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Job Openings Are Harder to Fill

Non-farm Job Openings and Hires, 2001-2018

(thousands of workers)

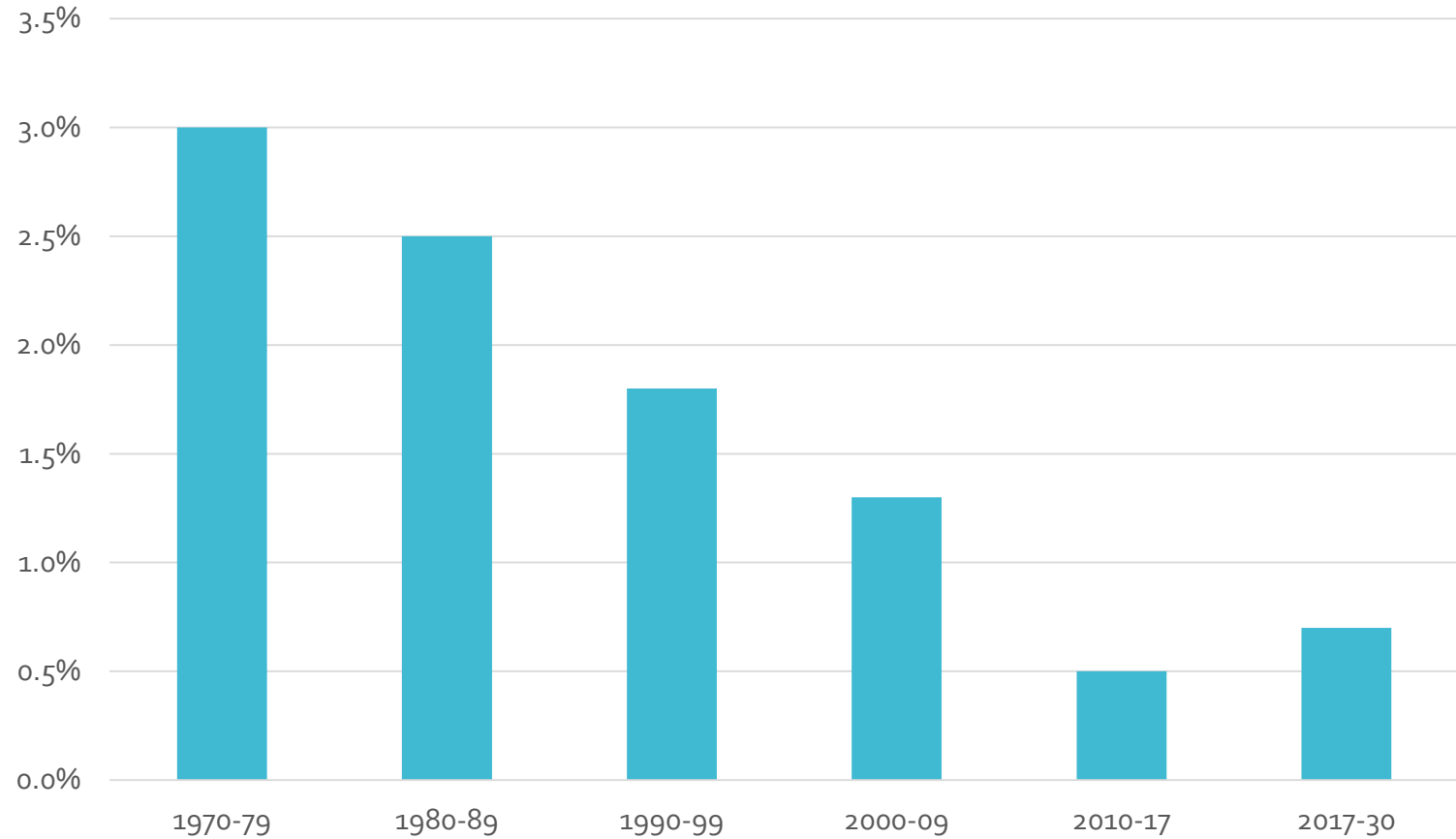


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2010-2030:

Unusually Slow
Growth in
Labor Supply
Causes
Shortages

Annual Average Growth Rate in Labor Supply, 1970-2030



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Why Labor Shortages Increase Injuries and Slow RTW

- Employers hire workers who would not otherwise be hired for a given job
- Less qualified – skills, experience
- More concerns about organizational “fit”
- Weaker attachments to the workforce
- These workers have . . .
 - More injuries
 - Less likely to RTW
 - Longer durations of disability

Survey Data Says Hiring Has Changed

Two examples

- 2018 Manpower Inc. survey of hiring managers
 - 46% difficulty recruiting qualified employees – 36% in 2014
 - 29% lowered education/experience requirements – 20% in 2014
 - 44% now recruiting “outside of the talent pool”
- 2016 Survey of HR managers and recruiters
 - 53% hired “not well-qualified applicants” – urgency to hire

Evidence That Labor Shortage Raises WC Costs

- Study by Gardner, et.al., Workers Compensation Research Institute, 1996
- Cost drivers in Massachusetts during a period of rapid cost growth
- Hiring was very difficult -- unemployment rate was as low as 3.1%

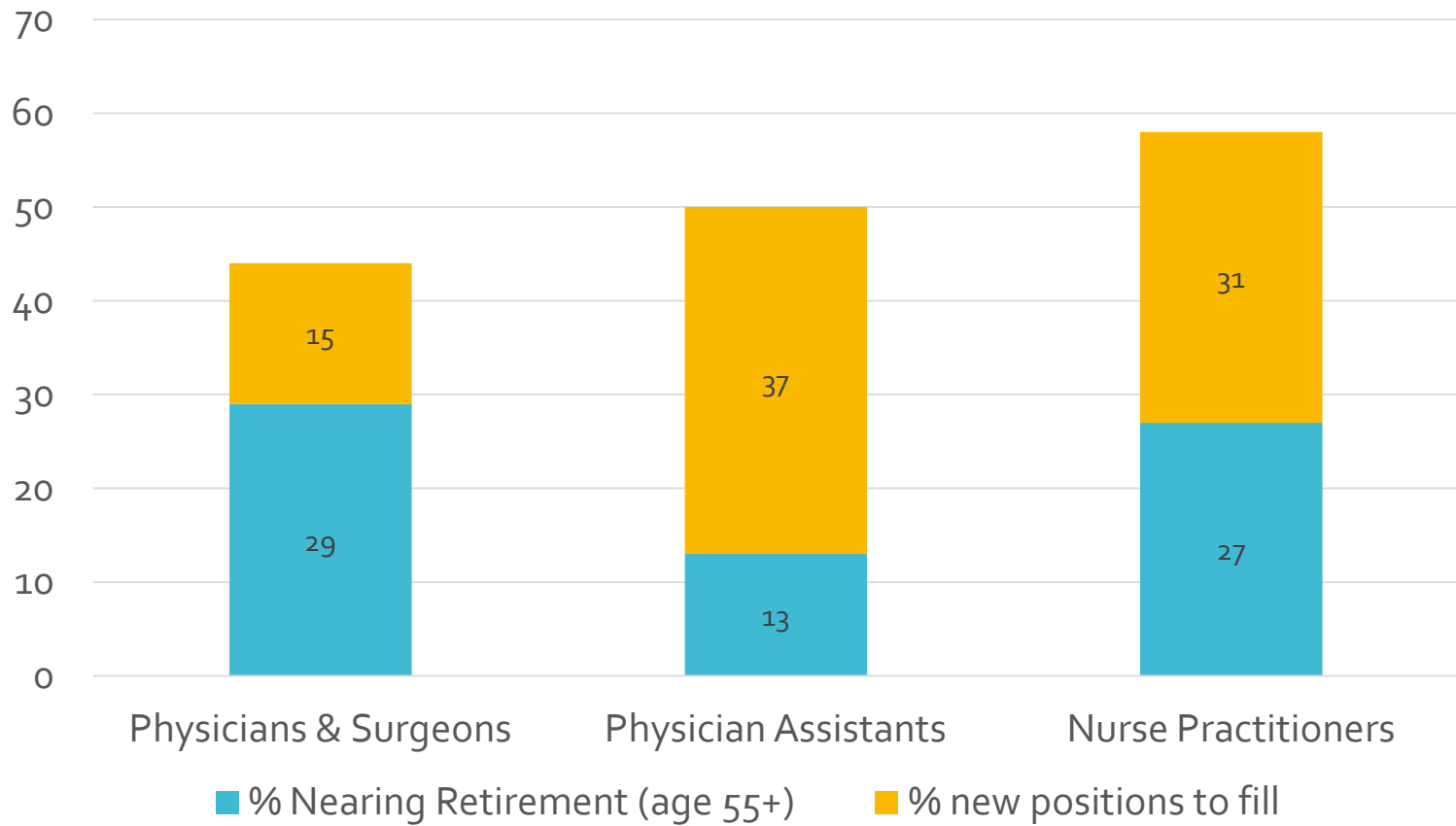
• 1983	1984	1986	1987	1988	1989	1990
• 6.7%	4.5%	4.0%	3.1	3.2%	4.2%	6.3%
- Study found
 - Injuries rose by 2.8% per year due to shortage
 - Duration of disability grew by 25% over 5 years

Shortages of Medical Providers

- Aging population raises demand for healthcare providers
- Shrinking supply of providers as many Boomers retire
- Resulting shortages raise WC costs
 - Delay care and return to work
 - Increase medical prices paid by WC to access care

Nearly 500,000
Positions for
Physicians, PA
& NP Need
Filling by 2030

Positions to Fill by 2030
as % of 2016 Staffing Levels



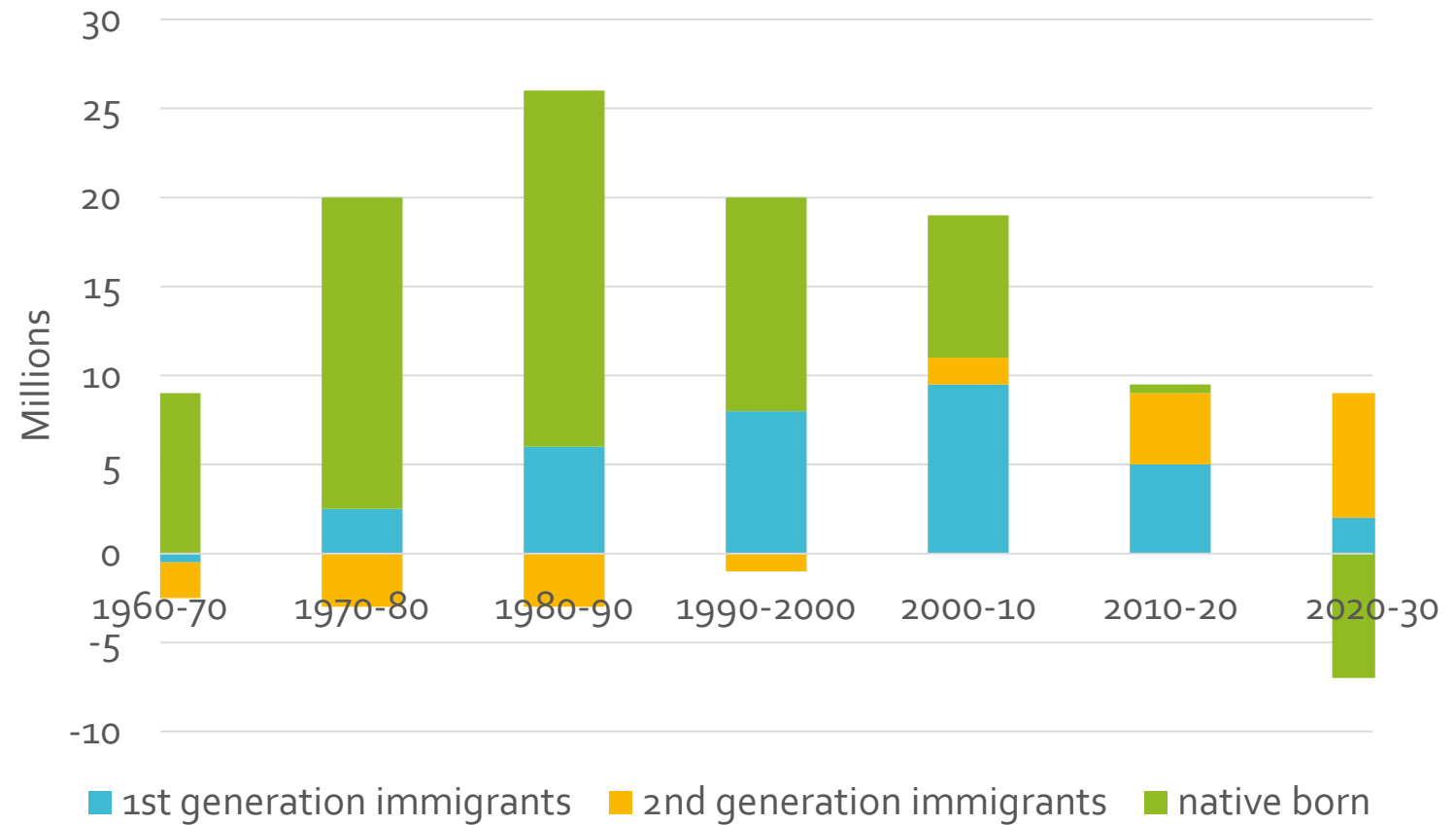
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New Immigration Restrictions Worsen Shortages and Magnify Effect on WC

- All of the projected growth in U.S. labor supply is immigration (2010-2030)
- 29% of physicians and 16% of all healthcare workers are immigrants

Immigration
Restrictions
Worsen Labor
Shortages

Growth of Working Age Population,
by Nativity, 1960-2030



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The U.S. Healthcare Systems Depends Heavily on Immigrant Workers

Profession	% of US Workers Who Are Immigrants
Physicians and surgeons	29%
RNs	16%
Medical technologists	13%
PT, OT	10%
LPNs, home health aides, psych aides	24%

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Lessons From British Experience

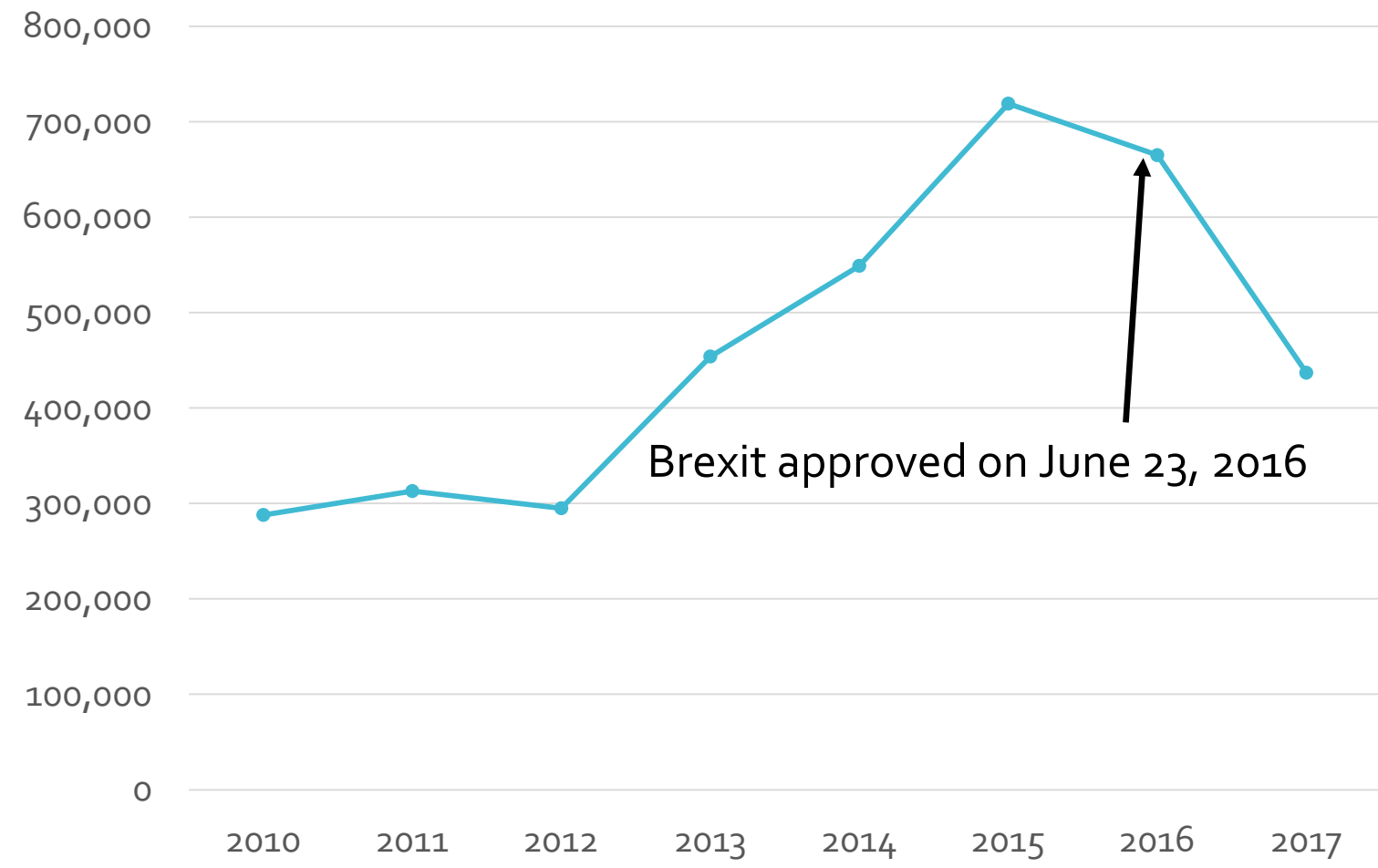
“Brexit”

- Talented immigrants have many choices about where to live and work
- Rhetoric matters, as does the law and its implementation
- When potential immigrants feel unwelcome or face added uncertainty, immigration falls
- Same applies to resident immigrants, accelerating out-migration

Brexit Rhetoric and Vote

Net migration fell by 30%

Net Migration to Britain By E.U. Citizens

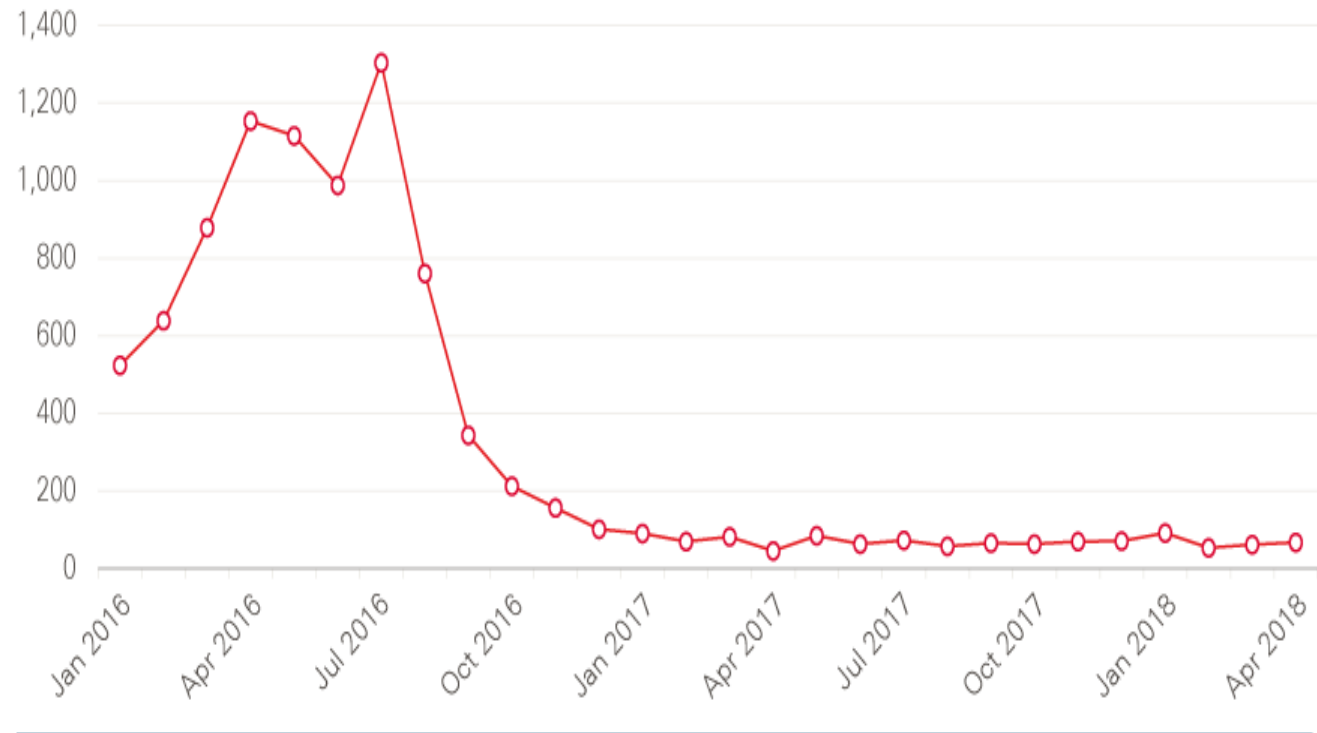


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Immigration of EU Nurses to Britain Fell By 85%

New nurse registrants from the EU

Total number of new EU nurse registrants in the UK, January 2016–April 2018



 The Health Foundation
© 2018

Source: Nursing and Midwifery Council data

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Labor Market Forces

Impact on WC injuries and costs

External Forces	Effect on WC Costs
Historic labor shortages	More injuries Slower RTW
Medical provider shortages	Delays in care Higher medical prices
Restrictive immigration practices and rhetoric	Magnifies effects of shortages

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Immigration Restrictions

Scenario 2030

- Small changes in immigration have large effects on labor shortages
- Scenario: Each year for a decade
 - 2% of prospective working-age immigrants are deterred
 - 0.5% of resident working-age immigrants leave
 - 0.3% of the working-age offspring of immigrants leave

Small Changes In Migration Have Large Effects on Labor Shortages

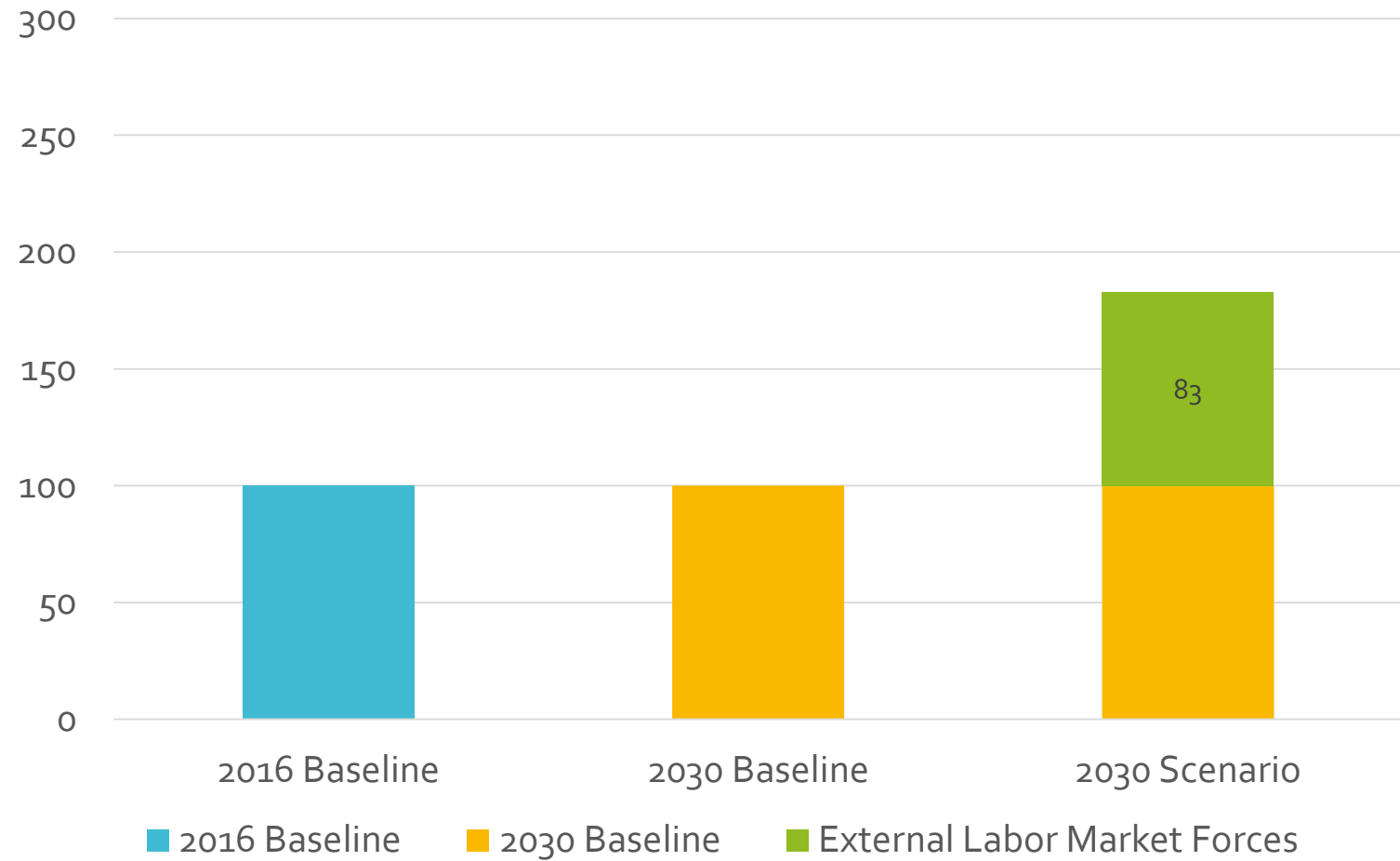
- Workforce would grow by 10 million without restrictive immigration practices and rhetoric
- Scenario: US workforce would grow by 7.5 million from 2016-2030
- Significantly worsen labor shortage and magnify effect on WC
 - August 2018 – a record 7.1 million job openings and growing
 - Losing 2.5 million working age residents worsens shortages

Scenario 2030

Labor Market Forces Raise WC Costs

+83%

Total WC Costs, 2016 = 100



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Automation: Headlines fan fears of devastating job losses

- *Automation Could Kill 73 Million U.S. Jobs by 2030* (USA Today)
- *Robot Automation Will 'Take 800 Million Jobs by 2030'* (BBC News)
- *A Study Finds Nearly **Half of Jobs Are Vulnerable** to Automation* (The Economist)
- *New Study Predicts Nearly **Half of All Work** Will Be Automated* (Futurism)
- *Robots Could Steal **40% of U.S. Jobs** by 2030* (Fortune)
- *Are You a '**Surplus Human**'? These Are the Jobs Robots Are Coming after Next* (Money)
- *When Robots Take All the Work, **What'll Be Left for Us** to Do?* (Wired)

Real Effects of Automation Will Be Moderate

- Automation will accelerate
- New jobs will be created
- Some jobs eliminated
- Most jobs will be modified, not eliminated

MORE RECENT HEADLINES MORE CAUTIOUS

- “Job Loss Fears From Automation Overblown, Says OECD”
- “Why Automation Might Not Be as Bad For Jobs as Predicted”

Example:

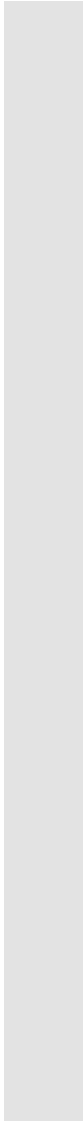

How did ATMs affect # of bank teller jobs?

Both ATMs and bank teller jobs increased

- Since 1990, over 300,000 new ATMs were installed
- The number of bank tellers increased by about 50,000

Effect of Automation

- # of tellers per branch bank fell substantially
- Job content of tellers expanded – sales & customer retention
- # of now-less-expensive branches increased



External Forces in the Healthcare System

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Healthcare System Changes Shift Cases to WC

External Force	Effect on WC Costs
Growing worker “cost sharing” (deductibles) in health insurance	Insured workers shift soft-tissue cases to WC
Erosion of Affordable Care Act → More uninsured workers	Uninsured workers shift soft-tissue cases to WC
Alternative payment methods for providers replace fee-for-service	Providers shift soft-tissue cases to WC

Case-shifting to WC

More workers
facing large
deductibles
learn to file
under WC

- More workers face larger and larger deductibles in GH
- Large deductibles lead workers to avoid seeking care under GH
- Incentives grow for workers to find alternative paths to care
- WC provides “free care” and is increasingly attractive

Scenario:

Only soft-tissue cases can be shifted from other payers to WC

- Many soft-tissue cases have causes that are inherently ambiguous or unknowable
- Others have both work and non-work causes
- Filing a soft tissue case under WC does not require “fraud”
- Over time, more workers will have the knowledge and motivation to file WC when they have soft tissue injuries

More workers face larger deductibles

Plan type	Feature	2006	2011	2016	% change
Employer Plans					
% workers with zero deductible		45%	26%	17%	-28% points
-- PPO	Deductible	\$1034	\$1854	\$2147	+108%
--HSA,HRA	Deductible	\$3511	\$3666	\$4343	+24%

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Studies Finding More Workers' Avoid Care When Cost Is Higher

Most relevant
examples

Source	Treatment group	Control Group	% fewer episodes of care	Population
Rand	25% cost-sharing	Free care	-22%	Random, 4 states
Rand	95% cost-sharing	Free care	-36%	Random, 4 states
Brot-Goldberg	\$3000-4000 deductible	Free care	-42%*	1 large employer
Finkelstein	Newly insured	uninsured	+35%	Random, Oregon Medicaid
Ku	\$3 office visit copay	No copay	-50% visits	Utah Medicaid

*until deductible was satisfied, then smaller effect

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Patients More Often Avoid Care for Common WC Medical Conditions

[Rand studies]

Medical Condition	% fewer visits vs. free care due to cost
Chest pain	0%
Back & neck pain	-55%
Sprains	-37%
Arthritis/bursitis	-55%

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Lower Income Workers More Often Avoid Care When Not Free

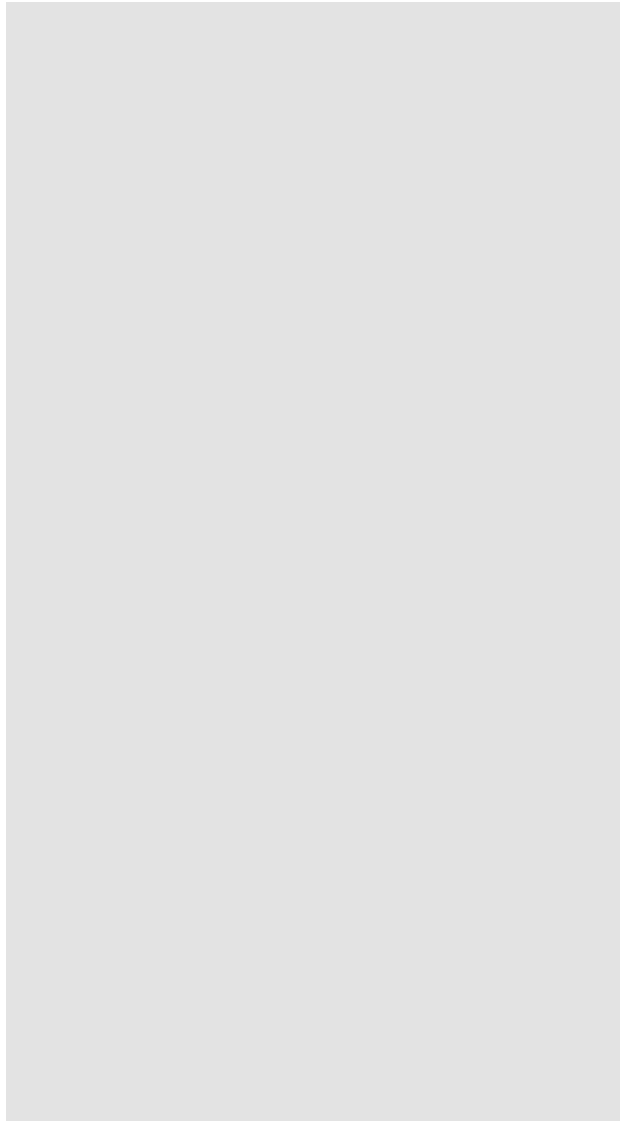
[Rand studies]

Household income	% of households with no visits in plan year		
	Free care plan	25% co-insurance	95% co-insurance
Lowest one-third of households	17%	28%	38%
Middle one-third of households	13%	24%	31%
Upper one-third of households	10%	18%	26%

Case-shifting more likely as Affordable Care Act is eroded

Erosion of ACA Increases # of Uninsured Who Shift Cases to WC

- Actions by Congress and the Administration seek to erode key elements of the ACA
- Early effect – more people uninsured
- CBO estimated 20 million lose insurance if ACA repealed
- Free care under WC is attractive option for soft tissue cases



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Scenario:

Workers with soft-tissue conditions may shift cases to WC

- Scenario for worker case-shifting
 - 4% of workers get new soft tissue injuries each year
 - 11% of injured workers gain knowledge of WC and have willingness to file WC (up from 7% in 2016)
- Commercial insurance and individual plans
 - Deductibles continue to increase
 - 45% of workers covered by HSA/HRA
- More states expand Medicaid coverage
- 10 million workers lose insurance coverage as ACA eroded by federal government actions

Providers Shift More Soft-tissue Cases to WC

- Payers and providers moving away from fee-for-service payments
- WC will remain fee for service (except a few payment bundles)
- Alternative payment methods (APM) contain incentives for providers to shift

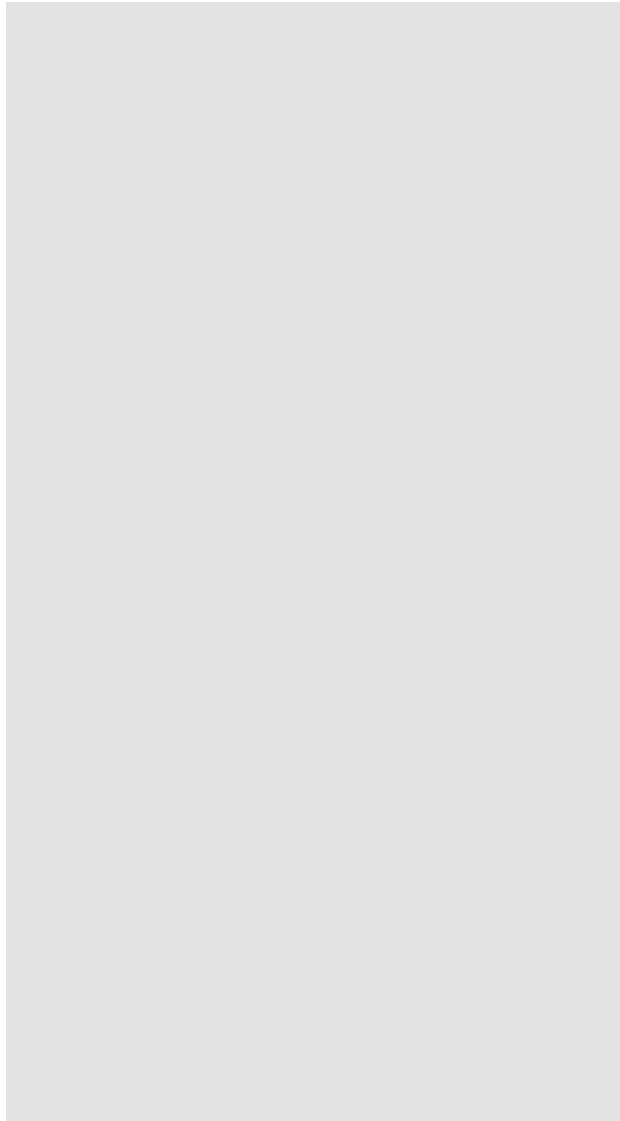
Case-shift incentives:

WC continues fee-for-service and other payers introduce Alternative Payment Methods (APM)

Alternative Payment Method	How are Providers Paid
Capitation (e.g. HMO)	Fixed fee per patient per month
Shared Risk	Fee for service + bonus/penalty for cost & quality targets

Alternative Payment Incentives	Revenue from a new back injury patient with GH insurance	
	<i>If not work related</i>	<i>If work-related</i>
Capitation (e.g. HMO)	No new revenue	Fee-for-service
Shared Risk	Reduced bonus	Bonus unaffected

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Fomenko & Gruber (2017) found substantial shifting of soft-tissue cases

	WC Soft-tissue claims	WC fractures, lacerations, contusions
HMOs are common	+25%	none
HMOs are not common	none	none

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HMOs are
Common in
Many Western
States – and
Growing

% Private Insured in HMOs	2014	2016
Idaho	7%	9%
Montana	4%	4%
Colorado	17%	17%
Washington	23%	32%
Utah	28%	30%
Nevada	31%	37%
Oregon	38%	40%
California	56%	59%

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Scenario 2030

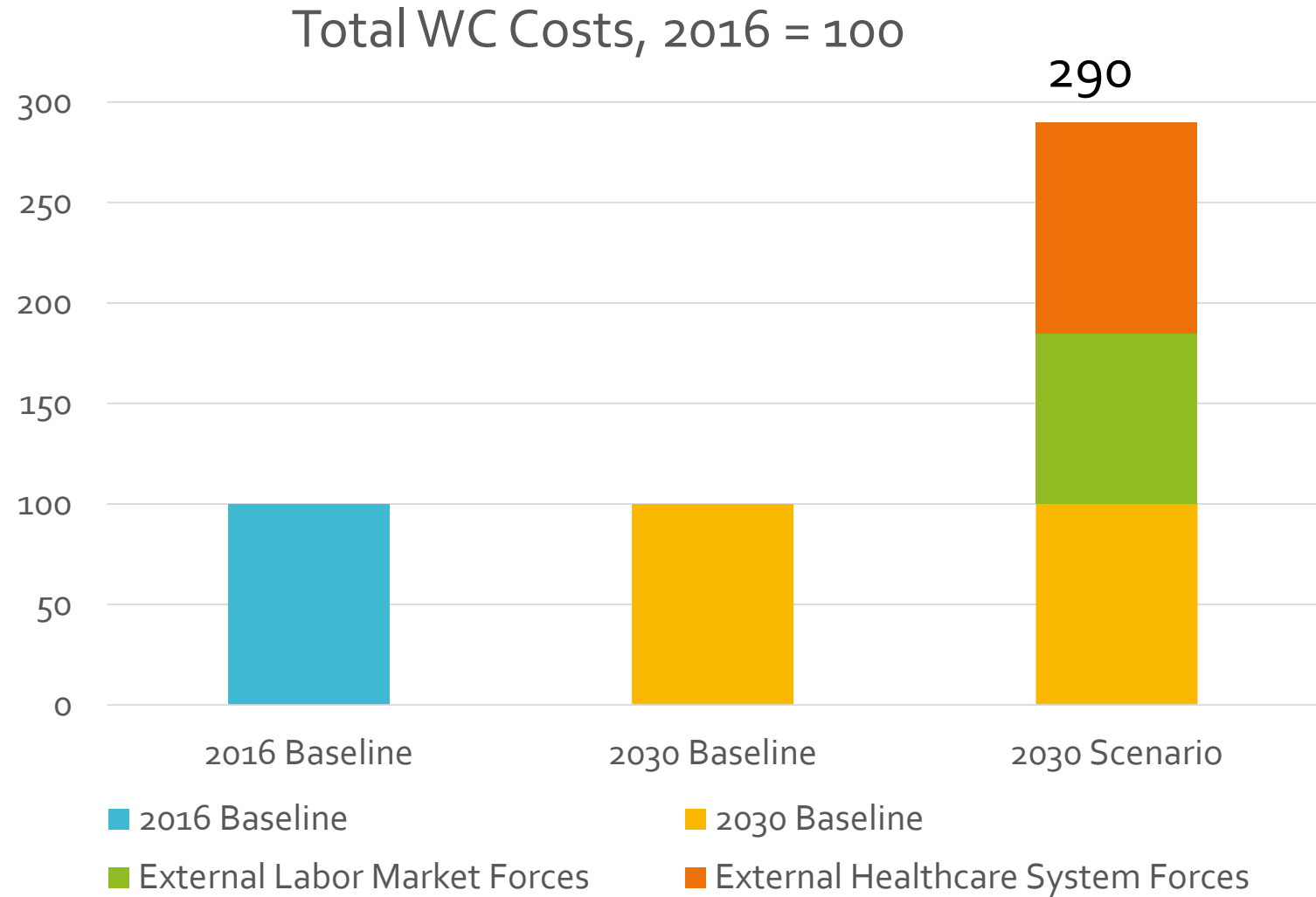
Provider case-shifting to WC

- COMMERCIAL INSURANCE – APM increases
 - Capitation is 25 market share – up from 15%
 - Shared risk grows from 5% to 25%
 - Fee-for-service and shared savings – 50%
- MEDICAID – capitation increases from 70% to 85%

Scenario 2030

Healthcare system changes raise WC costs

+105%



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Scenario 2030

Systems badly out of balance

- Employers' costs triple
- Workers' benefits not increase
- WC Reform Unlikely to Successfully Address

Why WC Reform May Have Difficulty Addressing The Imbalance

- Cost drivers and solutions are external to WC
- Sclerotic government decision-making
- Pragmatic compromise solutions needed, but no longer the norm

By 2030, A Major Political Paradigm Shift

Examples

- Political debates reshaped
- Elected officials focused with urgency on:
 - Spending cuts to prevent a doubling of all taxes and fees
 - Helping US firms meet intense competition from low-cost African competitors

Massive Government Debt and Unfunded Liabilities Come Due

2016-17 Unfunded Government Obligations	\$ Trillion
FEDERAL OBLIGATIONS	
Debt instruments	25.7
Social insurance programs	49.0
Civilian/military retiree & disability benefits	7.7
Environmental & disposal liabilities	0.5
Insurance and loan guarantees	0.2
Subtotal	83.1
STATE AND LOCAL GOV'T OBLIGATIONS	
Public purpose debt instruments	2.5
Government retiree benefits	3.8
Deferred maintenance on public infrastructure	4.4
Subtotal	10.7
TOTAL	93.8

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Intensifying Globalization Puts More Pressure on US Firms to Cut Costs

- Unstoppable globalization – driven by technology
- Technology allows even remote villagers in Africa and Asia to compete globally

Intensifying Globalization Puts More Pressure on US Firms to Cut Costs

- World population growth: 2.2 billion from 2015-2050
 - 26% in 5 African countries
 - 24% in India, Indonesia and Pakistan
- New low-wage competitors flourish throughout the world
- Developed economies – population declines or slow growth

Key Driver of US Politics in the 2030s

- Intergenerational conflict
 - Boomers (age 66-84) incurred massive debt for others to repay
 - Millennials (age 32-49) face massive tax increases on top of student loans, higher housing prices, slower economic growth, etc.
- Balance of power begins shift to Millennial voters

Scenario 2030

Millennial Voters Come Of Age Politically

- Shrinking number of Boomer voters
 - 2016: age 52-70 2030: age 66-84
- Boomer voter participation rate steady at 69%
- Growing number of Millennial voters
 - 2016: age 18-35 2030: age 32-49
- Millennial voter participation rate rises from 50% to 66%

Millennial Voters Demand Change

Boomers' Sacred Cows Get Slaughtered

Examples

- Increased scrutiny on spending
 - Consolidation of government entities
 - Subsidies & tax breaks to many industries
- Increased scrutiny on effective tax rates paid individuals
 - Lift income caps on social security
 - Eliminate popular individual tax deductions

Scenario 2030

Implications for WC

- As employers costs rise, pressure to cut workers benefits
- Worker advocates first resist – legislatively and in courts
- Recognizing government sclerosis, worker advocates become open to alternatives to WC
- Employers press for cost cuts -- benefits, medical, compensability
- Recognizing government sclerosis, employers advocate for alternatives to WC

Scenarios for WC

Illustrations

- Scenario A – WC reform delivers improved balance that is acceptable to both worker advocates and employers
- Scenario B – Alternatives to WC are authorized and widely used
 - Scenario B-1: ERISA-like alternative with terms determined by employers
 - Scenario B-2: Federal WC system
 - Scenario B-3: Federally authorized private system under the US Labor Department
 - Scenario B-4: Super-carve out system – terms set by joint board of employers and worker representatives