

How to Control Leakage

What Is Leakage

Leakage is dollars lost through **over payment** of medical expenses, indemnity benefits, and claims handling cost, all ultimately resulting in higher workers' compensation premiums for the employer.

Another way to think of leakage is as the **difference** between what an adjuster **should have spent** and the **amount actually paid** on a claim; OR as a **lost opportunity** to save money.

Types of Leakage

Hard Leakage: Payment should never have been made, such as:

- No coverage.
- Payment is not owed.
- An unquestionable overpayment.

Soft Leakage: Payment is more subjective, such as:

- Paying a questionable compensability claim.
- A high negotiated settlement.

Need to Know

Your workers' compensation premiums tie directly to the frequency and severity of your claims. The leakage of your insurance company becomes *YOUR* expense through higher insurance premiums.

Causes of Leakage

Some of the many causes of leakage found in the claims office:

1. Inadequate claims handling.
2. Judgmental mistakes.
3. Poor claim processes.
4. Over payments.
5. Bad customer service.

While any one of these areas may cause leakage, usually a combination of causes are contributing factors.

Paying even a small claim that should not have been paid is leakage.

Use these time-proven methods to better control leakage.

1. Establish best practices rules for workers' compensation claims.
2. Provide training for the adjuster including state statutes, customer service, and claims handling practices.
3. Proper education and training of all support staff.
4. Linking salaries and pay increases to best practices compliance.
5. Establish and use a workflow process incorporating automation and technology into claims process.
6. Integrate approach using all methods to eliminate most leakage.

Leakage Claim Audits

Use a **claim audit** to identify the various forms of leakage.

An experienced quality assurance auditor will:

- point out where leakage has already occurred; and
- identify previous mistakes and how to make corrections before paying additional money.

An **independent claim auditor** performs an objective review of the claim file.

Adjusters, supervisors, and claim managers focus their file reviews on compliance with service standards, not looking for financial mistakes.

From the claim auditor's perspective, the auditor is assisting the claims office to identify areas where financial mistakes (leakage) are made and providing guidance to avoid the same mistakes in the future. In some situations, part or all the leakage may be recovered.

Leakage Identification Checklist

During a claim audit the auditor identifies both hard and soft leakage by looking at these financial areas:

1. Accuracy of the average weekly wage calculation.
2. Accuracy of the weekly indemnity calculation.
3. Paying for the correct number of lost workdays, including both waiting and retroactive periods.
4. Continuing indemnity benefits after the employee returns to work.
5. Failing to arrange modified duty when the medical provider permits the employee to return to work with restrictions.
6. Paying the same medical bills more than once.
7. Paying medical bills without appropriate fee schedule reductions.
8. Over- or under-utilization of medical case management.
9. Identification and pursuit of subrogation opportunities.
10. Proper application of offsets such as Social Security, unemployment benefits, and other types of government compensation.
11. Proper use of utilization reviews for pre-certification of treatment, concurrent treatment, and retrospective reviews.
12. Management of defense counsel so the litigation process is not prolonged.
13. Settlement of disputed cases at the optimum cost point.
14. Payment of claims that are not compensable.
15. Failure to recover reinsurance for claims exceeding the self-insurance retention.
16. Failure to evaluate appropriately the disability rating.
17. Failure to evaluate appropriately the value of future medical benefits when settling the claim.
18. Failure to reserve properly for medical, indemnity, and expenses

Need to Know

Even the most experienced workers' compensation claim auditor will not uncover every occurrence of leakage.

Chapter 13: Additional Vendor Solutions for Indemnity Cost Containment

Introduction

Sometimes the extent of an employee's injury is such that it requires a more hands-on approach to returning to work.

If you cannot get the employee into a transitional duty assignment, consider other options – as opposed to letting the employee remain at home over an extended period of time.

These return-to-work alternatives can be used when transitional duty is not an option.

Need to Know

Often off-site services are used as a prerequisite to transitional duty. Then, depending on the employee's progress, the employee works into transitional duty gradually.

The goal is the same: to reduce the length of time an employee is out of the workplace.

These alternative options include:

- Work Hardening
- Independent Medical Evaluation
- Functional Capacity Evaluation
- Vocational Rehabilitation
- Retraining Programs
- Telephonic Disability Intervention

Work Hardening

Work hardening is a re-conditioning program taking place in an off-site, job-simulated environment.

Need to Know

Work hardening is usually facilitated by an interdisciplinary team that often includes physical therapists, vocational rehabilitation counselors, occupational rehabilitation specialists, and sometimes, psychological therapists.

- Physical requirements of the injured employee's job description are simulated.
- The employee engages in the job simulation until regaining a certain level of proficiency.
- At some point, depending on team consensus, the employee is ready to return to work in either a transitional duty or full-time position.
- Work hardening is adapted to keep pace with the employee's changing medical restrictions.
- During the work hardening program an employee follows normal work rules and schedules -- the employee arrives at the work-hardening facility dressed for work at the normal start time.