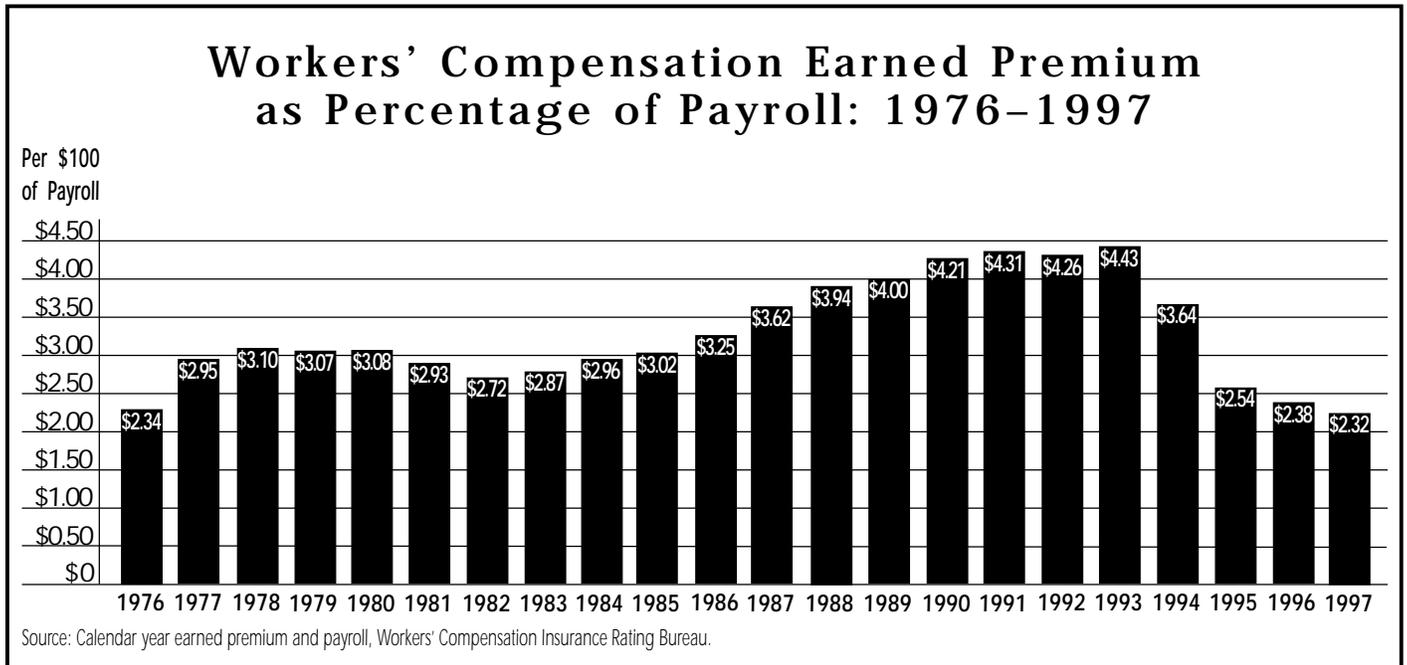


# WORKERS' COMPENSATION REFORM



## THE SUCCESS CONTINUES

### 5th Anniversary Report 1993—1998

California Department of Industrial Relations



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# Introduction

On July 16, 1993, Governor Pete Wilson signed into law a series of bills that accomplished a far reaching and much needed overhaul of California's troubled workers' compensation system. Workers' compensation costs had been escalating rapidly in recent years, exceeding an estimated \$11 billion per year by that point, and the trend was continuing. Benefits for injured workers, on the other hand, had not risen in a number of years and remained low by national standards.

Fraud was rampant. And the regulatory and administrative machinery needed retooling. Fixing the system was widely viewed by virtually all interest groups as their number one priority.

Five years later, as the final pieces of the reform package are put into place and the other ongoing initiatives of the Administration are underway, a very different picture emerges. Overall costs have come down dramatically—to about \$8 billion per year or by about 30 percent—according to most estimates, while benefit levels have increased. The maximum weekly payment for temporary total disability rose in three steps from \$336 per week in 1993 to \$490 per week, a 45 percent increase.

Price competition in the insurance industry, implementation of a series of significant medical cost control measures, vocational rehabilitation reforms, and a continuing crackdown on fraud and uninsured employers have all contributed to the remarkable turnaround.

In addition, administrative reorganization, expanded educational outreach programs for the workers' compensation community, and the increasing use of the advantages of electronic commerce also characterize this period.

This report describes the elements of the reform effort and what has been accomplished.

# The First Steps

During the first two years of the Administration, while the nature and limits of reform were being debated, progress was already being made in addressing some of the more egregious problems through new legislation and vigorous implementation of existing programs.

Workers' compensation fraud and the proliferating number of stress claims, many of which could not be directly tied to work injuries, were two of the first issues to be tackled.

On July 16, 1991, Governor Wilson signed legislation that required employees to have worked at least six months for an employer before a stress claim could be filed. In the same year, he also signed an important bill which made workers' compensation fraud a potential felony and provided dedicated funding for investigations and prosecutions by the Department of Insurance's Bureau of Fraudulent Claims and by local district attorneys.

As a result of closing down the "stress mills" that generated numerous questionable claims, as well as imposing limits on post-termination stress claims, the number of psychiatric claims dropped 93 percent between 1991 and 1993, according to a Commission on Health and Safety and Workers' Compensation study. Total outlays for psychiatric medical-legal exams plunged from \$93.8 million to \$5.9 million.

These steps demonstrated the new state Administration's leadership and determination on the issue of workers' compensation reform to current and prospective California employers.

The next year a pilot "24-hour care" project was begun in four California counties. Under this innovative concept, employers could offer their employees a single medical plan that provided treatment for work-related injuries covered by workers' compensation insurance as well as a group health care plan for non-industrial injuries and illnesses. The pilot projects are now complete and under evaluation.

Another bill strengthened the state's anti-fraud efforts by requiring advertising that solicits workers' compensation claims to disclose that filing a false or fraudulent claim is a felony.

According to the Department of Insurance's Fraud Bureau, the state's anti-fraud efforts have resulted in a total of 14,577 reports of suspected fraudulent claims filed between July 1, 1994 and March 31, 1998. Cases assigned for investigation totaled 2,552 and there were a total of 708 arrests. In the fiscal year ending June 30, 1998, it is expected that approximately 4,460 reports will have been received, 600 investigations conducted, and 192 arrests reported.

Convictions for workers' compensation fraud resulting from arrests by the Department of Insurance Fraud Division, district attorney investigators, and other local and federal law enforcement agencies totaled 1,084 from July 1, 1994 through December 31, 1997.

## 1993: Year of Reform

The groundwork for the 1993 reforms was laid when Governor Wilson appointed the Council on California Competitiveness in December 1991. This 17-member bipartisan panel composed of business and labor representatives took particular aim at the state's workers' compensation system in its final report, issued in April 1992. The report summarized the "inefficient and fraud-ridden" system's detrimental effect on California's economy and the urgent need for reform.

In the fall of 1992 the Governor called a special session of the Legislature to specifically deal with workers' compensation reform. Although the brief session ended without an agreement, it set the stage for a thoroughgoing review of the system and its problems by the Legislature and Administration the following year. Virtually all stakeholders in the system were participants in this exercise, which produced a mutually agreed upon package of reforms that together constituted the most significant overhaul of the system in its 70-year history.

Governor Wilson signed the package on July 16, 1993.

## Controlling Medical Costs

The first piece of the reform legislation actually took place in the spring of 1993, in advance of the major reform package, with passage of legislation which took direct aim at escalating medical costs. Senate Bill 31 allowed the Division of Workers' Compensation (DWC) Administrative Director to develop a realistic administrative fee schedule for medical-legal evaluations of work injuries—widely considered one of the major cost drivers in the system—in place of the inflationary formula that had been used. It also set the circumstances under which these types of fees can be charged, and required that the claim be contested before a medical-legal evaluation was allowed.

This complemented earlier legislation, further improved by the 1993 reforms, which limited the number of evaluations that were allowed in contested cases to two for injured workers represented by an attorney and to that of a Qualified Medical Evaluator, selected from a panel furnished by the Industrial Medical Council, for unrepresented workers.

According to a report by the Commission on Health and Safety and Workers' Compensation, medical-legal costs paid by insured employers, which had hit a record \$395.5 million in 1991, plunged 86 percent to an estimated \$64.5 million by 1994 after the medical-legal fee schedule was adopted. For example, the standard fee for a basic evaluation was set at \$500—less than half the \$1,099 presumed reasonable under the old schedule.

## Bringing Premium Rates Down

The premium rates employers pay for workers' compensation insurance have been regulated since the beginning of the workers' compensation system. Prior to the 1993 reforms, the State Insurance Commissioner would establish "minimum rates," on which all insurance carriers were required to base their premiums.

One of the most dramatic changes brought about by reform was the introduction of competition in the workers' compensation premium arena. In the years leading up to reform, total premium paid for workers' compensation insurance had been skyrocketing from \$1.6 billion in 1976 to about \$9 billion by the beginning of 1993. These costs fell rapidly in the next few years and have now leveled at about \$6 billion per year.

A standard way to measure workers' compensation costs is to look at the percentage of payroll needed to pay for workers' compensation insurance. In 1976 employers were paying, on the average, just under \$2.50 per \$100 of payroll. By 1993 that figure had grown to almost \$4.50 per \$100 of payroll. But by 1996 the number had rapidly declined back down to about \$2.50, nearly the same amount as 20 years earlier.

## Raising Benefit Levels for Injured Workers

One of the major goals of the reform legislation was to improve benefits for workers injured on the job. Although employer costs for workers' compensation coverage had been spiraling virtually out of control, the weekly disability benefits that injured workers received had not risen significantly in a number of years and were low by national standards.

The architects of reform agreed that injured workers should share in the expected cost savings with mandated increases in benefit levels.

As a result, the maximum weekly benefit payment for a temporary disability rose in three steps from \$336 per week in 1993 to \$490 per week—a 45 percent increase.

Measured against the weekly wage, benefits rose from 63 percent in 1993 to 85 percent of the state's average weekly wage in 1997, according to a study by the nonpartisan Workers' Compensation Research Institute of Cambridge, Massachusetts. Although this is still short of an ideal 100 percent of a state's average weekly wage, it shows marked improvement in general and when California is compared against other states, according to the study.

## Claims Frequency

Claims frequency has also continued to decline, from a high of 140 claims per \$1 million of adjusted earned premium in 1990 to approximately 93 per \$1 million in 1996.

## Changes in the Way the Premium Dollar is Spent

In addition to dramatically lowered overall premium costs, the way premium dollars are spent has also changed. The costs for treating industrial injuries, which were spiraling out of control before reform, have diminished as a percentage of the total, as have vocational rehabilitation expenses. The percentage of indemnity costs and overhead expenses have increased as a portion of the total lowered costs.

Recent analysis of total premium costs and the distribution of costs shows that for every premium dollar:

- 29 cents covers medical care, including physician costs, hospital costs, medical-legal evaluations and pharmacy needs.
- 41 cents is spent on vocational rehabilitation and indemnity costs, such as temporary disability payments, permanent and total and partial disability claims, and pensions.
- 30 cents goes to insurance overhead, including general expenses, taxes and legal expenses.

## California Compared to Other States

In the years since the reforms got underway, California has seen a dramatic improvement in its standings compared against other states in premium costs paid by employers as well as benefit levels for the injured worker.

In 1995, two years after reform, Actuarial and Technical Solutions, Inc. ranked California 16th out of 44 states in terms of cost. By 1996 the number had improved to 23rd. The State of Oregon also ranks states by cost. In 1990 and 1992 it had ranked California ninth and eighth, respectively—that number dropped down to 15th in 1994, then rose slightly to 13th in 1996.

California's maximum weekly benefits paid to injured workers ranked among the lowest, 7th of 50 states and the District of Columbia in 1993, according to national AFL-CIO statistics. In 1996 the increased benefits brought about by reform resulted in California's ranking increasing to 27th. In terms of benefit levels as a percentage of average wage, California had ranked second to last in 1993. That ranking improved to 42nd on the list by 1996.

## Managed Care and the Health Care Organization Program

One of the most closely watched of the new initiatives brought in under the 1993 reforms was the managed care program, under which qualified medical providers could be certified as *Health Care Organizations* (HCOs), which then contract with carriers and employers to provide medical treatment to injured workers in a managed care setting. Injured workers who sign up for one of these programs are assured of quality care from a certified HCO, while employers benefit from the cost controls that managed care provides.

There are now eleven certified HCOs, including several of the largest health care providers in the state, such as Kaiser Permanente, PacifiCare and United Health Care's MetraComp. Several more applications are under review.

Interest in making this approach available to employers was originally fueled largely by the dramatic increases in medical treatment and medical-legal costs in the 1989-92 period preceding reform. However, declining insurance premium rates, as well as injury/illness and claims rates, have had a dramatic effect on lowering overall costs, reducing somewhat expanded interest in new initiatives such as this one.

In 1998 a patient satisfaction survey was completed as part of this program, making California one of the first states to measure injured worker satisfaction with medical care in the workers' compensation system.

DWC plans to work with employer purchasing groups, carriers, managed care organizations and others to conduct surveys to determine how injured workers feel about their medical care and how their recovery is going, including their progress in getting back to work.

## Medical Fee Schedules

Prior to reform, medical costs accounted for nearly half the cost of workers' compensation benefits and were growing out of control. Major goals of the reform legislation were to provide mechanisms which could help bring these costs under control, improve the quality of medical care for injured workers, and facilitate early return to work.

### Medical-legal Costs

One of the first accomplishments of the reforms was to replace an inflationary formula that had been used to determine the fee for a medical-legal evaluation, used to prove or disprove a claim, with an administrative fee schedule. As a result, fees for virtually every type of evaluation have dropped.

Statistics from the California Workers' Compensation Institute show that in the first two years of reform alone, the fee for an orthopedic evaluation, which was "presumed reasonable" at \$1,070 in 1992, dropped to an average of \$575. Fees for cardiovascular or internal medicine evaluations, presumed reasonable at \$1,121 in 1992, dropped to an average of \$683. Other fees which dropped significantly include those for neurological and psychiatric evaluations.

### **Official Medical Fee Schedule**

In 1993 the DWC Administrative Director promulgated new regulations, effective January 1, 1994, that completely revised the Official Medical Fee Schedule. The new regulations provided a major overhaul and modernization of the schedule, which is used for billing medical treatment under workers' compensation.

The new schedule was based on a standardized coding system developed by the American Medical Association and used by most non-workers' compensation health care providers. The schedule included a set of prescriptive billing rules, and for the first time, hospital outpatient services as well as pharmaceuticals and supplies were included. Expanding and clarifying the medical treatment descriptions contained in the schedule helped reduce the number of billing disputes that have plagued the system.

The new rules provided for regular updating of the schedule to keep it current, with new editions of the schedule issued in 1996 and further revisions presently under review.

### **Inpatient Hospital Fee Schedule**

The reforms also mandated that DWC develop a fee schedule establishing maximum charges for inpatient hospital services, which had never before been regulated in the Official Medical Fee Schedule.

The new regulations were set to go into effect on April 1, 1997, but were delayed because of litigation over accompanying instructions. As a result, this schedule has been revised slightly and is now expected to go into effect at the same time as the new Official Medical Fee Schedule and Medical-legal Fee Schedule that are now under public review.

### **Utilization Review Standards**

The 1993 reforms also gave DWC oversight authority over utilization review systems. Utilization review is commonly used by claims administrators to help determine, using medically based standards, whether treatment provided is or was reasonably required to cure or relieve the effects of the injury. It is a way to manage costs and improve patient care by establishing standards for the frequency, duration, level and appropriateness of medical care and services on a case-by-case basis.

In 1995 DWC adopted new regulations which implemented the legislation. Insurers and self-insured employers who opt to engage in case-by-case review of the medical treatment provided to injured employees must comply with these standards, which provide that:

- Medical providers who request authorization for a specific course of treatment for an injured worker must receive a prompt response.

- Credible, physician developed, medically-based criteria must be used in the utilization review process, and the criteria must be made available to affected parties on request.
- Only physicians with appropriate training and experience may deny authorization for medical treatment recommended by the treating physician.

## Vocational Rehabilitation Reforms

Prior to reform, vocational rehabilitation costs were viewed as one of the major cost drivers in the workers' compensation system. This important benefit, when aptly administered, assists workers to return to other productive employment when their injuries permanently preclude them from returning to the job they had at the time of their initial injury.

To maintain these costs at a reasonable level, the reform legislation provided a cap of \$16,000 on all vocational rehabilitation benefits and services. It also encouraged employers to provide a bona fide offer of modified or alternative work that the employee can perform with his/her limitations. Employers who offer an alternative job meet their vocational rehabilitation liability, and employees benefit by returning to work with their current employer.

The growing success of this new emphasis is demonstrated by the statistics: during 1997 a total of 3,085 injured employees returned to work with their previous employer as a result of this process, a significant increase from the 2,372 reported for the 1996 year.

Overall vocational rehabilitation costs have declined markedly in recent years, according to statistics from the Workers' Compensation Insurance Rating Bureau. In 1990 vocational rehabilitation costs stood at over \$750 million per year or about 12.3 percent of all workers' compensation costs. Both the 1989 and 1993 reforms have had a significant impact, and these costs have declined substantially, to about \$236 million per year or about 7.5 percent of all costs in 1995.

In 1996 DWC adopted a revised set of standards governing the effective delivery of vocational rehabilitation services to industrially injured employees. The new standards took into account the \$16,000 cap and other vocational rehabilitation mandates contained in the 1993 reforms. The following year a revised set of administrative guidelines was adopted, providing policy and procedure direction for the day-to-day activities of DWC's rehabilitation consultants. This new policy document represented the first comprehensive overhaul of the guidelines in 13 years, and will help ensure that vocational rehabilitation laws and regulations are interpreted and implemented consistently across the state.

In developing both the standards and the guidelines DWC sought and considered the views of practicing rehabilitation professionals, claims administrators, insurers, employee organizations and others. Revisions to the guidelines were the direct result of over a year's work by DWC rehabilitation staff working together with the Rehabilitation Advisory Committee, which will continue to assist DWC by providing the views and real-world experience of employers, employees, applicants' attorneys, the insurance industry, and the vocational rehabilitation community.

## Rating Permanent Disabilities

California's system for rating permanent disabilities for workers' compensation purposes had not changed materially since the early days of the system. The *Permanent Disability Rating Schedule* (PDRS) used by disability evaluators dated back to the 1940s. The 1993 reforms mandated that this system be updated and modernized to reflect today's occupations and labor market conditions.

Revising the PDRS to meet these objectives became one of the highest priorities of the Administration. At the beginning of 1997, after a great deal of hard work by DWC's Disability Evaluation Unit staff working together with the regulated community, a completely revamped PDRS was adopted, effective for injuries which occur on or after April 1, 1997. The new schedule improved the predictability of permanent disability ratings by benchmarking frequently used disabilities, removed some archaic provisions and added some 900 new occupations. By mid-1998 approximately half of the requests for ratings had come under the new schedule.

The law also required an update of the standard disability ratings to reflect changes in the labor market, which is not part of the PDRS revision. The Commission on Health and Safety and Workers' Compensation, which must approve any change in standard disability ratings, has contracted with the RAND Institute to obtain information that will assist in this effort. The update is currently underway.

Another high priority issue for the workers' compensation community at the time of reform was the backlog of summary ratings that had developed at district offices as a result of earlier changes in the law. The backlog peaked at over 22,000 ratings by November 1994.

Targeting this backlog became a high priority for DWC's administration, and by the end of 1995 it had been essentially eliminated. A combination of strategies were deployed to accomplish this goal: adding staff, changing procedures, redistributing workloads among the offices and allowing parties to submit settlements with their own self ratings.

## Auditing Claims Administrator Performance

DWC has had an active program during the 1990s to audit claims administrators to ensure that their claims handling practices result in the correct benefits being paid to injured workers within the time frames the law mandates.

The 1997 annual report on the program's activities, recently forwarded to the Governor and Legislature, showed that during the previous year 9,030 penalty assessments were issued to workers' compensation claims administrators, totaling \$1,164,120. The unpaid compensation due to injured workers that was found in the 55 audits conducted during the year added up to

\$473,961. The largest amount, \$261,733, was for unpaid permanent disability benefits.

The audit reports generally indicate that claims administrators need to improve their performance, and the most recent one is no different. However, they also show many claims administrators do a very good job, and those who have had problems in one audit generally show marked improvement in follow-up audits, indicating the success of this approach.

During 1998 regulatory changes are under consideration which will bring some further improvements to the audit program. The changes will allow state auditors to better target audit subjects and spend more time at adjusting locations where problems are likely to be found, and less time at locations when initial results indicate the auditors should move on. In addition, both the California Commission on Health and Safety and Workers' Compensation and the Legislature are looking at possible ways to improve this important program.

## Alternative Approaches for the Construction Industry

One of the innovative programs contained in the 1993 reforms allowed parties to a collective bargaining agreement in the construction industry to agree to an exclusive panel of medical treatment providers, vocational rehabilitation providers, and an alternative dispute resolution process. DWC has the responsibility to ensure those who enter these arrangements, commonly known as "carve-outs," are qualified to do so under the law, and to evaluate these new arrangements.

Now entering its fourth year, the carve-out program continues to demonstrate less litigation and lower overall costs for the participants, according to a recent annual report on the program to the Governor and Legislature.

By the middle of 1998, the DWC Administrative Director had issued letters of eligibility to the parties to 13 collective bargaining agreements. Nine of them are traditional agreements between unions and contractors, covering construction employees of the contractor on whatever projects the employees might be working. Three of these involve one employer and one union, and five are contracts between one union and a multi-employer group. The other four agreements are project labor agreements which cover all construction employees, regardless of the employer, who work at any time on the covered project.

The 1997 report on the program, covering calendar year 1996, showed that the active and reporting carve-out programs reported a total of 11.6 million person-hours—equivalent to 5,187 full-time employees, figuring 2,000 person-hours for one employee-year—with a total payroll of \$272 million.

Although the carve-out approach is still very new and it is still too early to come to any definitive conclusions, overall the programs that have been approved to date seem to be meeting the objectives and achieving the results that were hoped for, the report states.

## **Making the Connection: Workers' Compensation and Occupational Safety and Health**

Over the years, the administration of the workers' compensation system and the enforcement of occupational safety and health standards at the workplace had been growing apart. To reestablish that all-important connection, the 1993 reforms established a new commission with a broad mandate. The California Commission on Health and Safety and Workers' Compensation is charged with overseeing both the health and safety and workers' compensation systems in California and recommending administrative or legislative modifications to improve their operation.

The eight-member panel, composed of an equal number of employer and labor representatives, and its staff have studied and recommended improvements in a variety of areas: injured worker services, vocational rehabilitation reform, medical-legal evaluations, physician reports, the permanent disability rating system, workers' compensation fraud, young workers' health and safety, carve-out programs, operational improvement projects, and an Internet guide.

In addition the 1993 workers' compensation insurance reform legislation established the targeted inspection and consultation program within the Division of Occupational Safety and Health. The purpose is to identify employers with the greatest number of workplace injury/illness and workers' compensation losses, and to offer them consultative assistance.

## **Ethical Standards for Workers' Compensation Referees**

Workers' compensation referees are required to adhere to the California Code of Judicial Ethics. As part of the 1993 reforms, the ethical standards for workers' compensation referees were expanded to require that the gift, honoraria and travel restrictions on judges also apply to workers' compensation referees, and the DWC Administrative Director was required to adopt regulations to enforce these requirements. At the end of 1995, the DWC Administrative Director promulgated these regulations.

The regulations adopted imposed ethical standards on workers' compensation referees that actually exceed the standards required of judges in the California superior and municipal courts. This was necessitated in part by the limited size and informal nature of the workers' compensation communities in many regions of California. The same group of attorneys, claims professionals, interpreters, liens claimants and vocational rehabilitation counselors may appear

before a specific referee repeatedly each month.

It is also important that injured workers, particularly those who are representing themselves in a case, have confidence in the workers' compensation adjudication system.

The regulations also established an enforcement mechanism—the Workers' Compensation Ethics Advisory Committee—to receive, review and monitor complaints of misconduct made against workers' compensation referees. The nine members are appointed by the DWC Administrative Director and represent a good cross section of people in the workers' compensation community, as well as members of the public totally removed from the workers' compensation community. It is currently chaired by a superior court judge.

In its 1997 report the Ethics Advisory Committee said that it had received a total of 26 complaints about the ethical conduct of workers' compensation referees during 1996, of which 23 were reviewed during the year. Six of those were forwarded to the DWC Administrative Director for further investigation. Other statistics in the report show that the DWC Administrative Director received over 100 requests for written approval to receive teaching fees, meals, honoraria, and other gifts, as well as to participate in various educational events. Advance written approval to receive any such item that exceeds five dollars in value is required under new ethics regulations.

The relatively small number of complaints, considering that there were 166 working referees during the year, and the large number of requests for approval of outside activities indicate that the new system to establish and enforce strict ethical standards for workers' compensation referees is working well and achieving its goals.

## Eliminating the Lien Backlog

One of the most widely recognized problems facing DWC in 1993 was the growing backlog of unresolved liens filed by medical providers and other third parties in workers' compensation cases. To begin the process of eliminating this long-standing problem, two special units of workers' compensation referees were set up specifically to handle lien disputes, one in Santa Monica and the other in Van Nuys.

Through the hard work and efforts of the referees assigned to these special units, backlogs of liens have essentially been eliminated, allowing the offices to be closed at the beginning of 1998 and the workers' compensation referees there reassigned.

Beginning in January 1998, all districts are handling their own lien disputes pursuant to the Uniform Lien Policy, which mandates that a good faith effort be made at the mandatory settlement conference to resolve all lien issues. Separate proceedings are not allowed unless such efforts have been made.

## Administrative Reorganization

At the end of 1995, the 27 (now 26) district offices of DWC/Workers' Compensation Appeals Board (WCAB) were reorganized into three regions. The presiding referee in each office now reports to a regional manager, who reports to the DWC assistant chief in San Francisco. This first step provided a more realistic management system for the all-important claims adjudication function.

In March 1996 DWC retained KPMG Peat Marwick LLP, a nationally renowned firm, to conduct a business process re-engineering study of its claims adjudication, disability evaluation, information and assistance, and vocational rehabilitation units. The results of this study helped DWC plan to restructure the functions performed by these units, and laid the basis for a feasibility study report and budget proposals to implement the automated information systems that are needed in the electronic information age. The restructured DWC will have three regional centers that will relieve district offices of work unrelated to the adjudication of individual cases, and district offices will have control of all the resources required to resolve disputed cases.

This restructuring is currently underway and the first regional center, in San Bernardino, is expected to become operational later this year.

Regional centers will receive and respond to public information calls, provide summary ratings and other disability evaluation services not provided at district offices, and provide education and training to the workers' compensation community within their region.

The regional center concept is expected to greatly alleviate the problem of immediately being able to reach someone for professional assistance. The bulk of calls, letters and electronic communications will be routed to the appropriate regional center, which will have a larger pool of professional consultants and technicians who would have electronic case file information sufficient to answer most of the incoming calls.

## Educational Outreach: Helping Injured Workers, Educating the Workers' Compensation Community

The years since reform have witnessed greatly expanded outreach efforts to help injured workers and the community in general understand the complex system, the vast changes it was undergoing, and how to get answers to the specific question or problem they were facing.

### **Injured Worker Workshops**

The Information and Assistance Unit holds workshops for injured workers at local district

offices. Some 700 people attended the workshops between March and December 1997.

### **Injured Worker Guides and Fact Sheets**

DWC also developed a series of 14 fact sheets to guide injured workers in completing WCAB forms and petitions, or performing other actions in their cases. These complement a set of six prototype fact sheets and a video that were designed and tested by U.C. Berkeley's Labor Occupational Health Program under contract with the Commission on Health and Safety and Workers' Compensation. The prototype educational materials provide general information in an understandable format that can be distributed by employers, claims administrators, medical providers, attorneys, rehabilitation counselors, unions, injured worker support groups, libraries and schools. In addition, a guide for employers is also under development by DWC.

### **Toll-free Telephone Number**

DWC maintains a centralized toll-free phone number that provides pre-recorded information and a way to request forms and other printed information. The system was set up to handle multiple calls simultaneously and gives information to as many as 1,000 callers daily.

### **Annual Educational Conferences**

In 1994 DWC held the first annual education conference in which senior staff, other state agencies and experts from the private sector presented sessions to help the various segments of the workers' compensation community understand the new systemic changes that were underway. This is now an annual event and has become the most highly attended state-run workers' compensation educational event in the country. Nearly 1,000 claims administrators, medical providers, attorneys, rehabilitation counselors and others attended the 1996 and 1997 conferences.

### **Full-service Internet Website**

A full-service DWC website was also established by the end of 1997. From this website, injured workers, employers, claims administrators, attorneys, medical service providers, researchers and the public can access a wide variety of information about the state's workers' compensation system—as well as download electronic versions of forms, documents and publications.

# Electronic Commerce

## **Workers' Compensation Information System**

One of the most eagerly awaited mandates of the 1993 reforms is the California Workers' Compensation Information System (WCIS), a system which will, for the first time, provide the data needed to monitor the performance of the entire system and evaluate the effects of policy changes when they are made. The lack of a comprehensive data information system has made it difficult to gain an overview of how the workers' compensation system is working, where the problem areas are, and what the solutions to those problems could be.

An important milestone was reached at the end of 1997, when Governor Wilson signed a bill that provided funds for the actual implementation of this important project. This had been preceded by a lengthy period of planning and development during which the required feasibility study report and budget change proposals were prepared and approved by state control agencies.

The new system is being developed with the full participation of the state's workers' compensation community and coordinated with ongoing national efforts to create standards for electronic data interchange, the method by which much of the data for this system will be collected. It is currently estimated that the first reports will be submitted into the system on a voluntary basis for the first six months of 1999, and mandatory reporting would begin in the second half of the year.

## **EDEX**

DWC's first significant foray onto the information superhighway took place in August 1994 with the announcement of the introduction of a new electronic data exchange system dubbed EDEX, which will allow parties to request and obtain information about specific workers' compensation cases, as well as to file liens electronically.

The new system was developed by DWC to allow subscribers and their clients to electronically file liens, including pre-application liens, receive notification of significant events in a case, and make inquiries about cases that are before the WCAB.

Providing these services electronically, instead of manually as in the past, has produced major cost and time savings for both DWC staff and clients.

In the second half of 1998, DWC plans further upgrades to the system which had grown substantially since it was first introduced. By the end of 1997, there were more than 350 EDEX subscribers with some 3,000 authorized clients. Nearly half a million EDEX transactions were initiated during the year, and the number of authorized vendors of the software required to access the system grew to five.

# Afterword

The final chapter on the workers' compensation reforms of 1993 has yet to be written. However, the process, which is now in its fifth year, has achieved results that in many instances have exceeded even the most optimistic expectations of its originators.

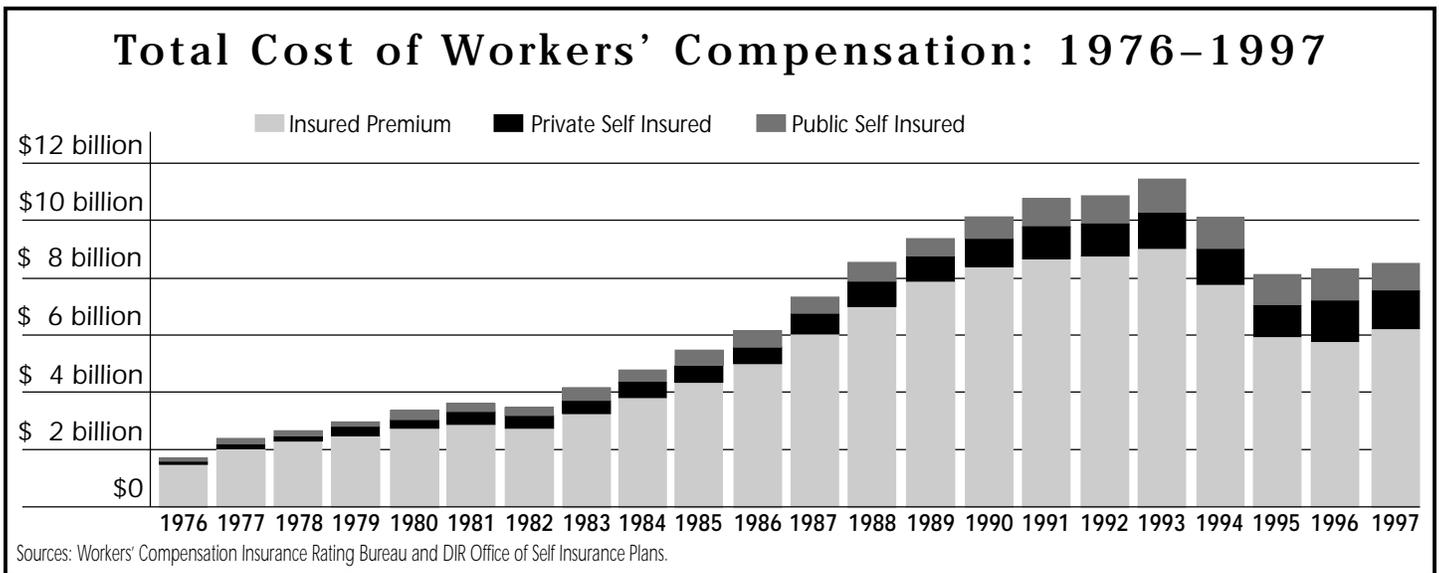
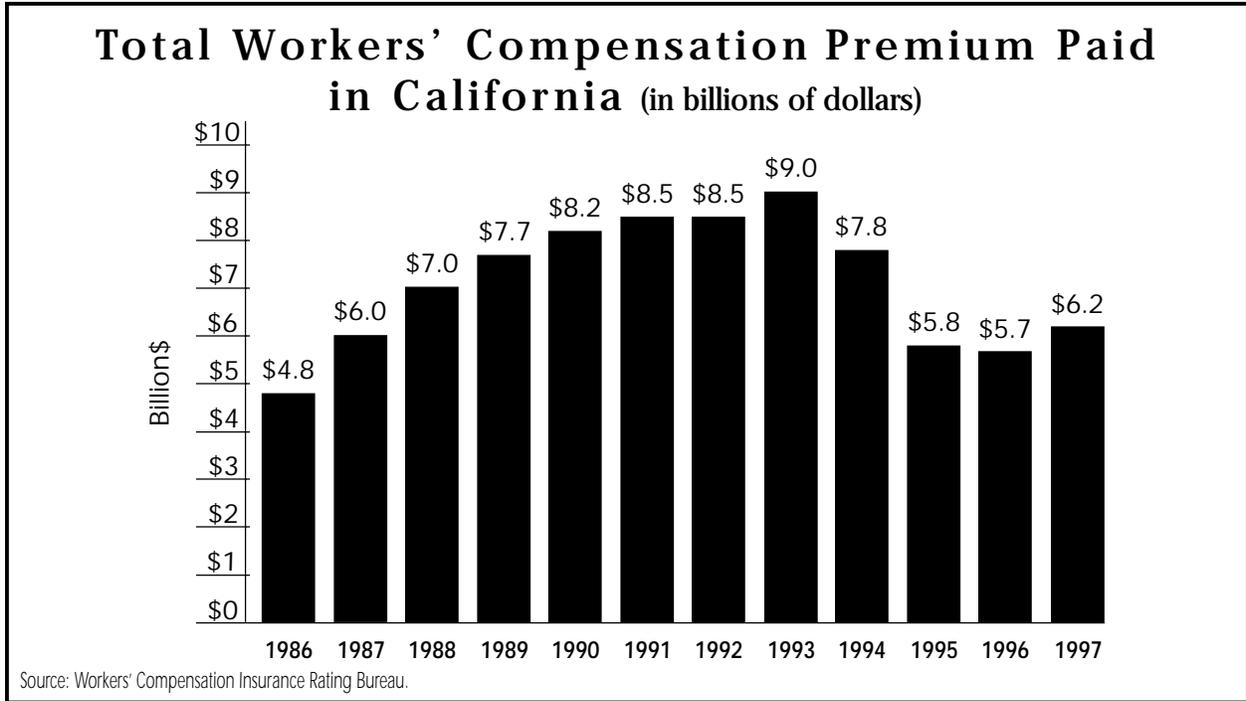
The costs of this huge, complex and sometimes unwieldy system have plummeted dramatically and are still holding steady, even in the midst of California's booming economy. Benefits levels have also been markedly improved. Innovative programs have been put into place and most show great promise.

Clearly, work remains to be done to improve the structure and functioning of California's workers' compensation system. As in other systems dealing with medical-legal issues, its complexity still makes it difficult for claims administrators to manage cases and for injured workers to navigate through the claims process. The level of disputes and litigation remains unacceptably high, and the level of benefits, although improved, will be the subject of continued study.

The overall consensus of opinion is that the reform effort was a job well done. The continued success of these reforms, however, will undoubtedly be dependent upon the continued efforts, oversight and commitment of all sectors of the workers' compensation community.

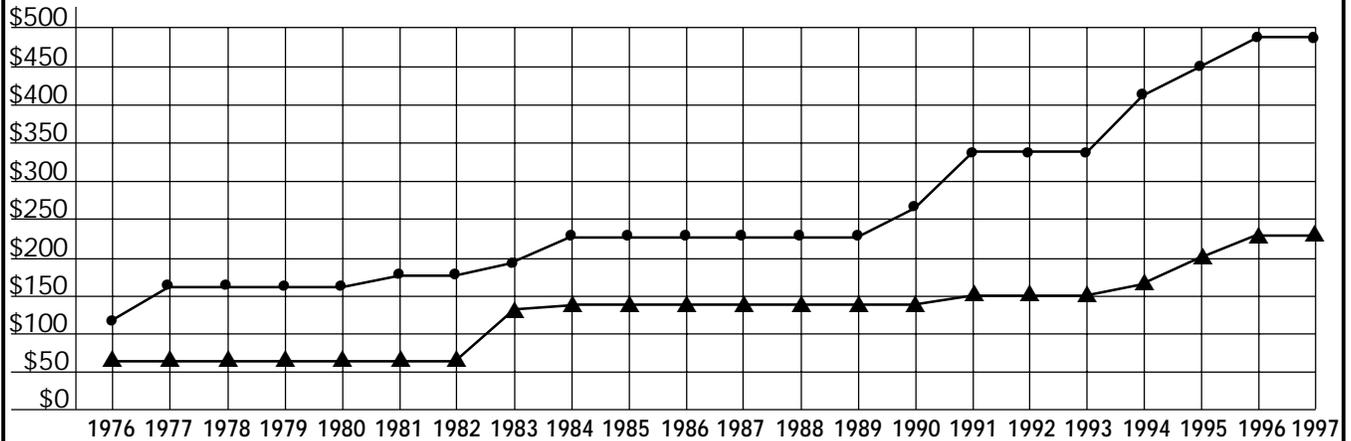
The taming of California's out-of-control system was a remarkable achievement. The ongoing task of making further improvements can now proceed without the crisis atmosphere that existed when this Administration assumed office in 1991.

# Charts and Graphs



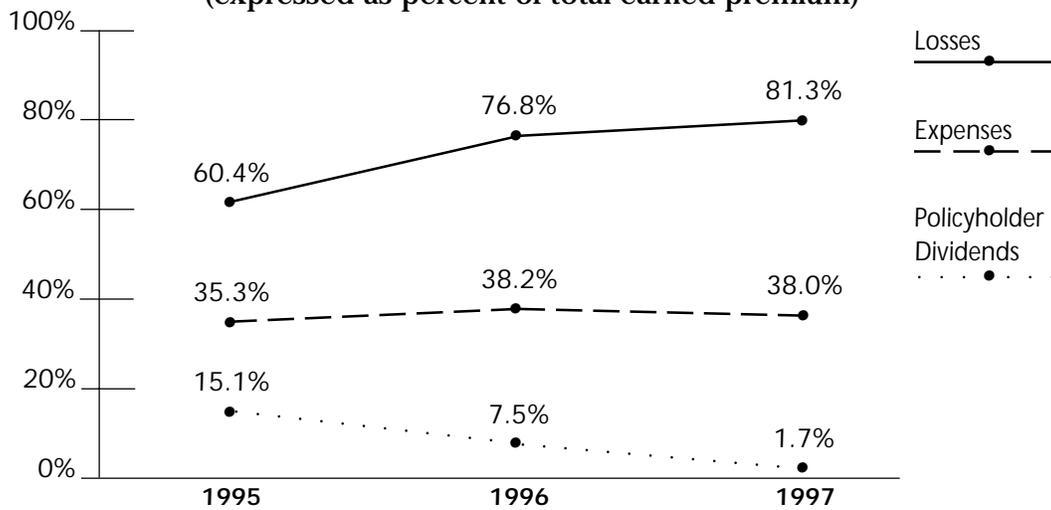
## Maximum Weekly Temporary and Permanent Disability Benefits: 1976-1997

● Maximum Temporary Disability      ▲ Maximum Permanent Disability



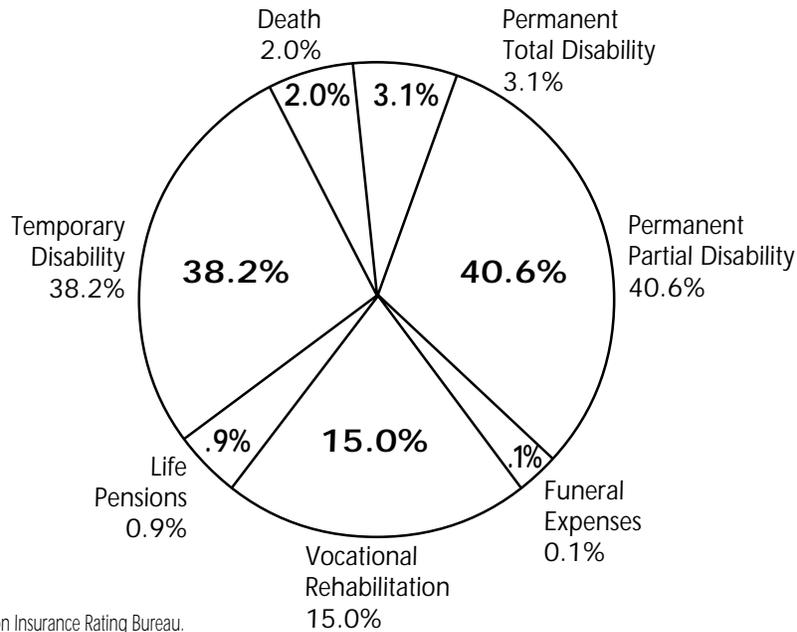
Source: California Labor Code, figures for permanent partial disability for 1990-1997 apply to disabilities of 25 percent or greater.

## California Workers' Compensation Underwriting Experience (expressed as percent of total earned premium)



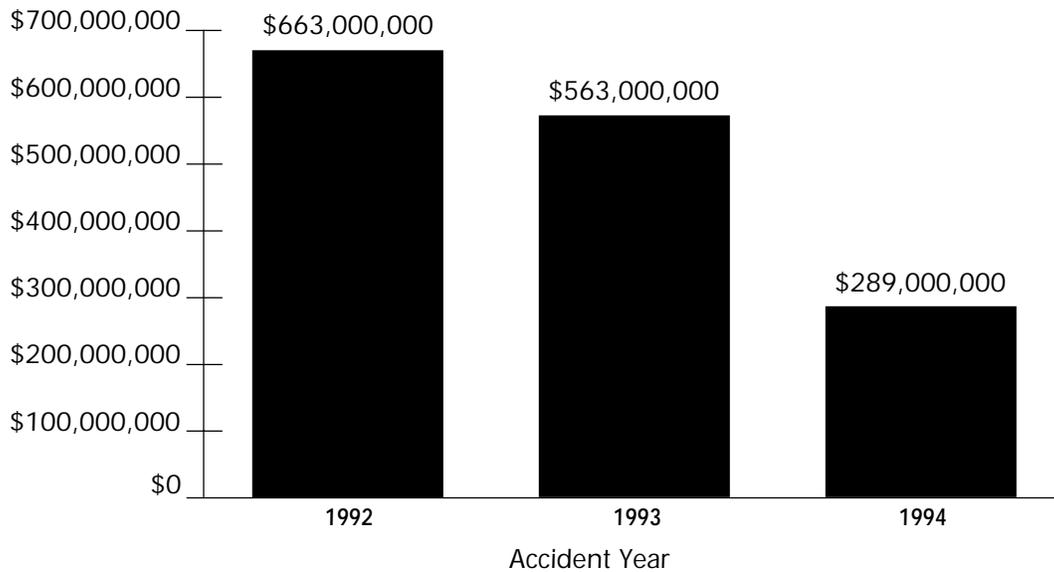
Source: Workers' Compensation Insurance Rating Bureau.

## Workers' Compensation Indemnity Benefits Paid in California in 1997



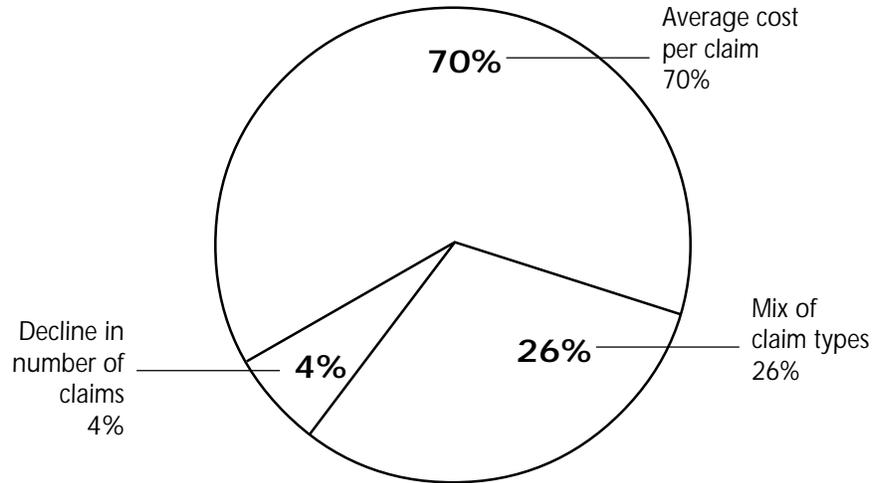
Source: Workers' Compensation Insurance Rating Bureau.

## Total Vocational Rehabilitation Benefit Cost by Accident Year



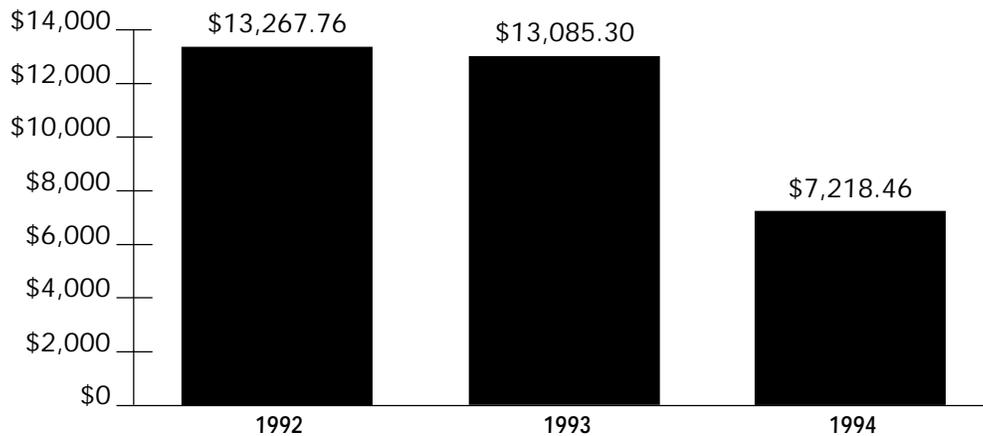
Source: Commission on Health and Safety and Workers' Compensation Vocational Rehabilitation Study.

## Sources of Decline in Vocational Rehabilitation Costs: 1993 to 1994



Source: Commission on Health and Safety and Workers' Compensation Vocational Rehabilitation Study.

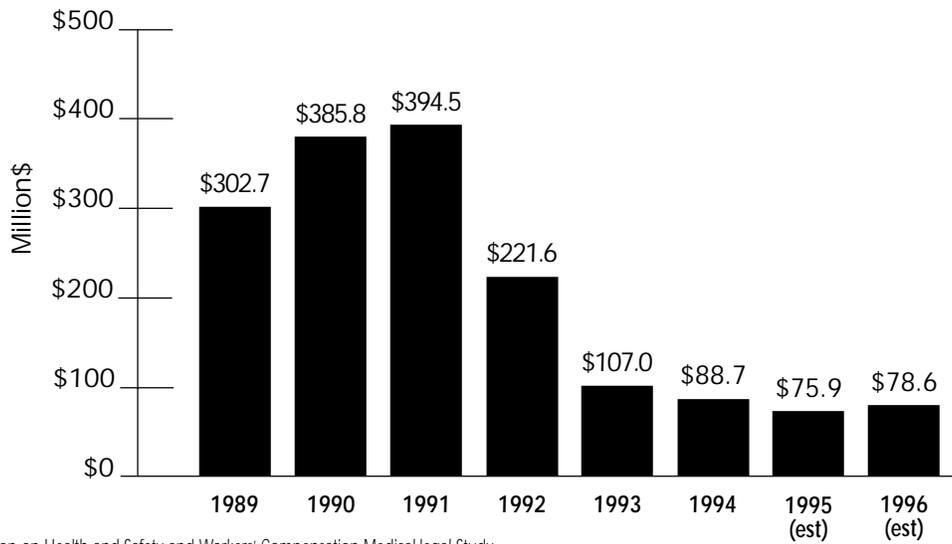
## Mean Total Cost per Rehabilitation Claim by Year of Injury



Source: Commission on Health and Safety and Workers' Compensation Vocational Rehabilitation Study.

## Medical-legal Costs on PD Claims

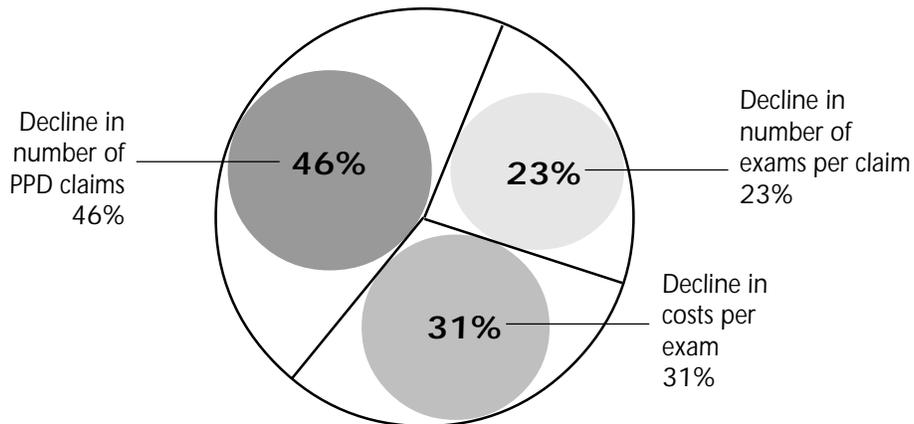
(in millions, insured employers, 40 months after beginning of accident year)



Source: Commission on Health and Safety and Workers' Compensation Medical-Legal Study.

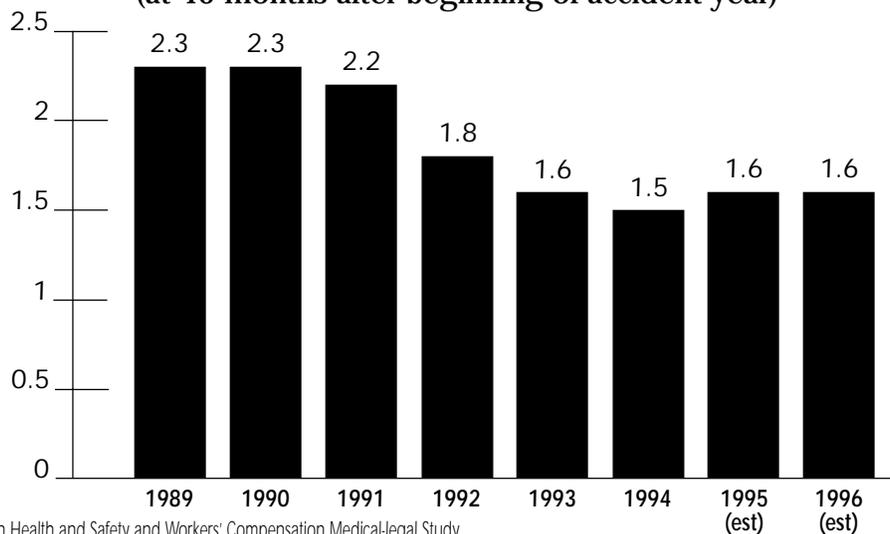
## Sources of Savings

### Medical-legal Costs on PD Claims 1991-1996 in California



Source: Commission on Health and Safety and Workers' Compensation Medical-Legal Study.

## Medical-legal Examinations per Claim (at 40 months after beginning of accident year)



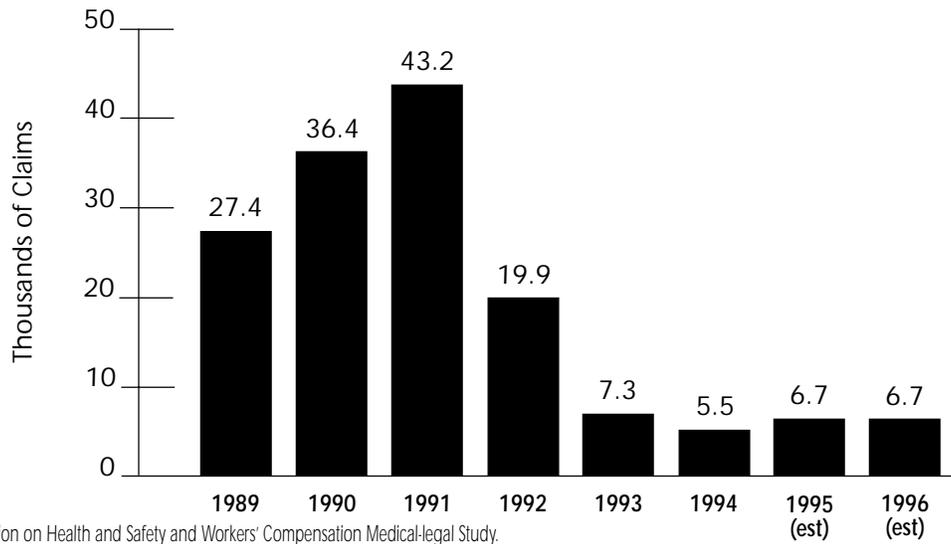
Source: Commission on Health and Safety and Workers' Compensation Medical-Legal Study.

## Total Cost of Psychiatric Exams (in millions of dollars, 40 months after beginning of accident year)



Source: Commission on Health and Safety and Workers' Compensation Medical-Legal Study.

## PPD Claims with Psychiatric Exam(s) (in thousands, 40 months after beginning of accident year)



## OSHA Injury and Illness Rates in California

