

Who Chooses the Provider Affects Workers' Compensation Costs and Outcomes

The medical payments for workers' compensation are rising rapidly in many states. Consequently, policymakers have been exploring options that might reduce these costs—ideally without negative effects on the quality of care and outcomes for injured workers. One option being debated is giving employers more influence over provider choice. A number of states, including California, recently enacted laws that give employers, rather than employees, the right to choose the provider in workers' compensation cases, under certain circumstances. The critical question is how this policy affects costs and outcomes.

To answer that question, the Workers Compensation Research Institute and the Public Policy Institute of California undertook a study to see if and how costs and outcomes differed when employers or employees chose the provider. The results are reported in *The Impact of Provider Choice on Workers' Compensation Costs and Outcomes* by Richard Victor, Peter Barth, and David Neumark. With a notable qualification, they find that, in general, when employers choose the provider, costs are lower, employees return to work sooner, and degree of recovery is the same, although workers are less satisfied with their overall care. Especially important for California, the authors conclude that provisions of a recently passed law, which affect provider choice, are particularly conducive to cutting costs without impairing outcomes other than satisfaction.

The Debate and the Study

Because the health care provider can critically affect the outcomes of workers' compensation cases, selection of that provider is important for all interested parties. Workers and their advocates argue that the employee should choose the provider. They claim that workers should be treated by providers they trust and who have their best interests at heart.

Employer advocates argue that employer choice of provider ensures incentives for keeping cost of care reason-

able and appropriate and helps avoid excessive treatment. They also claim that providers familiar with the employer's workplace can use that knowledge in preparing workers for return to work more quickly. Further, the employer or insurer may have greater clout to help get the worker treated sooner, particularly by specialists.

To sort out the claims and effects, the authors of this report went beyond previous studies, which focused primarily on costs. This study looked not only at costs but also at how long before employees returned to work, how complete they perceived their recovery to be, and how satisfied they were with the care they received. Most relevant to California's provider-choice legislation, this is the only study to look at how costs and outcomes differed when workers chose prior providers—that is, providers who had treated them before—or new providers.

The study used data from 2002 and 2003 in California, Massachusetts, Pennsylvania, and Texas. The employer-employee choice comparisons were based on similar cases, and a complete discussion of the analytical methods can be found in the report.

Major Findings

When the study compared all cases in which employees chose the provider with all cases in which employers made the choice, it found the following: Costs were higher when employees chose, and the rate of return to work was poorer (that is, more people did not return or took longer). Although workers' satisfaction with care was higher, perceived recovery of physical health was the same. The most interesting findings resulted from comparing employer choice with (1) worker choice of a new provider or (2) worker choice of a prior provider—that is, one she or he had previously seen for an unrelated condition:

- Compared to employer choice, when workers chose a prior provider, return to work and recovery were about

the same, and there was only weak evidence that costs were any higher. Although satisfaction with care was higher, it had no apparent relationship to physical recovery or return to work.

- Compared to employer choice, when workers chose a new provider—that is, one she or he had not seen before—costs were much higher, return to work was much poorer, and physical recovery was not different. Still, satisfaction with care was higher than with employer choice but, again, was not associated with physical recovery or time away from work.
- Comparing employee choice of prior or new providers, the study found that a worker treated by a new provider was less likely to return to work (or likely to return more slowly), was less satisfied with care, and perceived about the same physical recovery. Medical costs were about the same, but the income benefit costs may have been higher.

Implications for Policy

The findings lend some support to both sides of the debate. On the one hand, when workers choose providers, costs are higher, health outcomes are not better, and return to work is often poorer than when employers make the choice. These findings suggest that employers, on average, may be better equipped than many workers to select good quality, lower-cost providers. The findings also suggest that employers are not, generally, selecting inferior-quality providers.

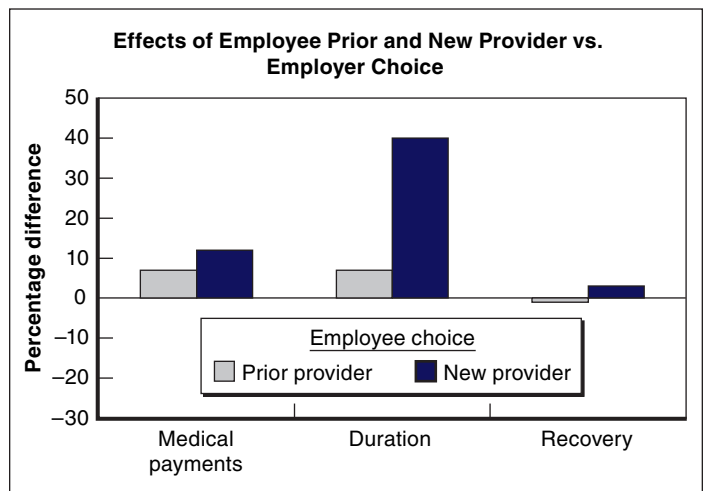
On the other hand, when workers select prior providers, the costs and outcomes are not very different from outcomes when employers choose, although satisfaction is higher. This suggests that state laws that give employers greater influence over the choice of provider may lower costs without adversely affecting return to work or recovery of health but are likely to lead to lower satisfaction with care.

From the California perspective, the study’s findings suggest that the changes made in the recently passed Senate Bill 899 may have struck an effective balance between employer and employee choice. Before passage of the bill, California employers had the right to select the initial provider in workers’ compensation cases, unless the employee had predesignated a provider. After 30 days, however, the

employee had the right to change to a provider of his or her own choice, whether or not that provider had treated the employee before.

Under SB 899, employers are allowed to establish networks of occupational and nonoccupational physicians, and the employer (or the insurer) has the sole right to decide which medical providers are in the network. If the employer has not established such a network, the employee may choose a physician 30 days after reporting an injury. Even if there is such a network, if an employee has notified the employer before the date of the injury that he or she has a personal physician, the employee has the right to be treated by that physician, under certain insurance conditions.

In light of the study’s findings, the critical difference in the new law is that the personal physician must truly be a prior provider: That is, the physician must be the employee’s regular physician, must have previously directed the employee’s care, and must retain the medical records. The authors note, however, that the definition of prior provider in the study was not as stringent as that implied by SB 899. Thus, although the results suggest the potential effectiveness of the law’s provisions, they do not provide a direct test of the effect of the reforms. Such a direct test will not be possible until sometime after the reforms have been in place.



Employee choice of a new provider led to higher costs and much longer time away from work than employer choice. For all but recovery, it also led to worse outcomes and higher costs than employee choice of a prior provider.

This research brief summarizes a report by Richard Victor, Peter Barth, and David Neumark, The Impact of Provider Choice on Workers’ Compensation Costs and Outcomes, a joint publication of the Public Policy Institute of California and the Workers Compensation Research Institute (2005, 172 pp. ISBN 1-931906-39-4). The report is available at www.ppic.org. The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, nonpartisan research on economic, social, and political issues affecting California.