Savings Generated by Providing Vocational Rehabilitation Services in Workers Compensation Cases

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Medical services can be divided into three phases: prevention, cure, and rehabilitation. This article will focus on the third phase and attempt to show the relationship between vocational rehabilitation and workers compensation claim costs.

Rehabilitation is defined as that set of services required to assist a disabled person from dependency to an appropriate stage of independence. This definition is a product of the author's readings and experience. The words “dependency” and “independence” are acknowledged as relative and no attempt is made to define them for this article.

Two models of rehabilitation are discussed by rehabilitation professionals. First is the medical model which involves medical professionals making decisions and, generally, doing something for the disabled person. This is seen as an extension of the acute care phase or cure of a medical condition. The second model is loosely defined as the “helping professions” model. Vocational rehabilitation falls into this model. It is defined as that group of services designed to provide people with disabilities an opportunity to help themselves to have as independent a life as possible. The ultimate objective in many of these cases would be gainful employment. A vocational rehabilitation counselor would listen, counsel and guide a disabled person to identify and reach a vocational goal.

Workers compensation is a social legislation which compromises the employee's right to sue the employer and the employer's right to use common law defenses against claims for benefits. In return, the employee is eligible for certain benefits as defined by the state/jurisdiction covering the injury. The employers also benefit by virtue of their freedom from law suits arising out of work related injuries, and the employers ability to forecast, with relative certainty, the costs of the workers compensation insurance.

Implied in the laws of almost every jurisdiction today is the employee's right to receive both lost time (indemnity) and medical benefits until such time as he/she is able to return to the job he/she did prior to the injury. In the event that the person will never achieve that level of recovery, the law may require that the employer/insurance carrier provide medical and/or vocational rehabilitation services or continued benefits. A number of states have amended their workers compensation laws in the past nine years to specifically require that vocational rehabilitation services be provided to those workers who will be unable to return to their usual and customary employment following an industrial accident or disease.

Vocational rehabilitation and workers (then workmen's) compensation laws first appeared in the United States in the first decades of the 1900's. They are a relatively new phenomenon in this country. Interestingly, the first workers compensation laws considered the need for vocational rehabilitation of injured workers. For a period of almost fifty years following the passing of the first workers compensation law, however, the laws moved away from restoration to the more liberal provision of benefits. Finally, in the early 1970's, President Nixon commissioned a national study of state workers compensation laws which uncovered the fact that the provision of benefits failed to return workers to a productive status in society. The commission recommended that a number of steps be taken to improve the workers compensation system. Two specific recommendations involved increased levels of compensation benefits and the provision of vocational rehabilitation services for those needing them.

Medical rehabilitation has been considered a legitimate medical expense for many years, by most states, but vocational rehabilitation has had difficulty gaining this status. California amended it's workers compensation law in 1975 to require that vocational rehabilitation services be provided. These services might include vocational assessment, vocational counseling, job training, job placement, purchases of equipment or books, schooling or job modifications. Initially the bills were paid either as medical or “incurred indemnity”, but now vocational rehabilitation is paid only as “incurred indemnity”. This fact becomes significant as one begins to gather data upon which to evaluate the relationship of vocational rehabilitation costs/benefits to workers compensation costs/benefits.

Historically, vocational rehabilitation has been endorsed not only because of the humanistic implications, but clearly because rehabilitationists have been able to demonstrate the positive cost-benefit relationship which exists. The early efforts
to document this relationship pointed to the government benefits no longer being used, and the income taxes paid to the government on wages earned. Estimates varied, but approximately eleven dollars was realized from each dollar spent for vocational rehabilitation services in 1965.\textsuperscript{13}

A 1971 study conducted by the Social Security Administration concluded that over 15 million people are limited in their ability to work because of a disabling condition.\textsuperscript{14} The study also points out the high percentage of disabled people living in poverty and their dependence on government support.\textsuperscript{15} The Social Security Administration requires that a disabled person be evaluated for vocational rehabilitation services before he/she can receive Social Security Disability Income, but many of these people have been rejected after a superficial assessment.

In neither the social security nor workers compensation system is there an overwhelming requirement that vocational rehabilitation be part of a program to restore normalcy to the lives of disabled people. While isolated administrators in the social security system remain adamant, and only a handful of state workers compensation laws mandate vocational rehabilitation services, millions of disabled people are living out their lives without jobs or hope of obtaining them. In most cases they are eligible for Social Security or workers compensation benefits or both, but these benefits usually result in the injured worker receiving substantially less than he/she earned prior to the injury.\textsuperscript{16}

When benefit levels were much lower than they are in 1984, there was relatively little support for rehabilitation among employers/insurers. As the benefit levels rose substantially in the mid 1970's, coalitions of workers and employers were formed to reduce the cost of workers compensation insurance and increase an injured workers chances of returning to work.\textsuperscript{17} With rehabilitation services being provided in at least some cases in all workers compensation jurisdictions, employers, insurers, and state agencies have been searching to determine the savings which have resulted from the provision of vocational rehabilitation services.

Several comprehensive studies have been done to examine the effectiveness of vocational rehabilitation in the workers compensation system. Fox and Company, Certified Public Accountants, were commissioned to study rehabilitation services in Minnesota.\textsuperscript{18} Their detailed study added substance to the widely held belief that early referral for rehabilitation is a critical factor in both the rate of successful outcome and the ultimate cost of services. Their study also indicated that the average cost of vocational rehabilitation services for employees who returned to work was about $2,080-$3,200.\textsuperscript{19} In a similar study cited in this same report, the average cost for cases involving injured employees who returned to work was $2,723.13.

The Fox study sampled 100 cases and found that 82 of these people returned to work. In the similar study cited, approximately 60% were reported returning to work.\textsuperscript{20}

In calculating the cost/benefit relationship, the Fox study chose a common approach to the problem. They considered the average age of an injured worker to be about 35. By considering his/her life expectancy and the maximum they could receive in weekly benefits for the duration of their life, it is estimated that the injured worker would have been paid $1,025,002.60 (using both an escalation factor applied annually to benefits paid, and a discount factor representing investment income) if the injured worker did not return to work. This study would suggest that there is a return of $320-$493 for each dollar spent on rehabilitation, for those who return to work.\textsuperscript{21}

The second comprehensive study was conducted by the California Workers Compensation Institute (CWCI).\textsuperscript{22} In this study the CWCI found that rehabilitation costs, once estimated to be about 2.7% of California's total workers compensation costs, were found to be about 7% of the total in 1982. They estimate that up to $130 million was spent on rehabilitation in 1982. About 10% of all lost-time accidents in California are considered for vocational rehabilitation services. It is estimated that about 30% of those will complete the rehabilitation plan designed for them.\textsuperscript{23} In the more recent study, CWCI estimates that about 85% of those who complete either a "modified or alternative work" program will return to work. The new wages will average about 95% of pre-injury wages and fully 54% of the workers will receive as much or more than they had previously earned.\textsuperscript{24}

The CWCI study does not attempt to determine the relationship between the cost of a rehabilitation program and the savings realized. It was determined that the average cost of a rehabilitation program for those who completed a program was about $6,927 in 1980.\textsuperscript{25} This figure includes the "maintenance benefit" which is equivalent to weekly lost time benefits which would be paid (not included in the Fox study of rehabilitation costs in Minnesota). Without this benefit, the average cost would be $3,382. To calculate the cost/benefit relationship, it would be necessary to multiply the weekly benefit rate of $154 (applicable in 1980) by 52 weeks, times the individual's life expectancy, and discount that for investment income.

Many less formal studies have been attempted, but they have lacked the scope of the Fox and CWCI studies. Many of these studies have relied on broad assumptions which have never been fully tested. As an example, even the Fox and CWCI studies assume that the injured worker will never return to work without rehabilitation services, and that the injured worker will live a normal life expectancy. It also assumes that no further claims for benefits
will be filed. It is possible that an injured worker may have a reoccurrence of the same injury and be entitled to continued benefits under the same claim.

It is reasonable to assume that a statistical analysis of a large group of claims could reduce all assumptions to probabilities, but there is nothing in the literature which suggests that this has been done, or that it is being done. Any study which attempts to state the relationship between rehabilitation costs and benefits in the workers compensation system must now depend on assumptions which have never been properly tested. Despite the best of attempts (the Fox and CWCI studies are included here) there is little that could be considered more than an estimate of the cost/benefit relationship.

Despite the problems inherent in documenting savings, there is considerable support for vocational rehabilitation in workers compensation among those who work within the system. The Insurance Rehabilitation Study Group (IRSG) has written “Model Rehabilitation Language” for workers compensation laws, endorsing the concept of insurance rehabilitation. The IRSG is a non-profit organization comprised of rehabilitation directors/ coordinators for many of the largest insurance companies in the United States. Their commitment to rehabilitation can result in millions of dollars paid out for rehabilitation services. In the best of times, such expenditures are carefully scrutinized, and these are not the best of times for those selling workers compensation insurance.

Conclusion

There are many flaws in the attempts to state a cost/benefit relationship for vocational rehabilitation. Despite these flaws, however, there is considerable support for vocational rehabilitation in workers compensation insurance. The support is based on the intuitive belief that vocational rehabilitation saves money in the long run, and that it is more in keeping with the spirit of laws which were designed to protect and help those hurt on the job.

Notes

7. Obermann, op. cit. p. 149.
15. Ibid, p. 38.
23. Ibid, p. 3. (Note: Although the pages are not numbered in this document, a page number is indicated to provide the reader with a specific place to search.)
Calendar of Events

April 30th - May 3rd, 1985

The 40th Annual Meeting of the Canadian Life Insurance Medical Officers Association

Place: Holiday Inn (City Centre), London, Ontario, Canada

For further information, contact:
Dr. T. E. Bugg
Associate Medical Director
London Life Insurance Company
255 Dufferin Avenue
London, Ontario N6A 4K1
Telephone: (519) 432-5281

June 8th - 12th, 1985

Annual Meeting of the Medical Section of the American Council of Life Insurance

Place: The Breakers, Palm Beach, Florida

The majority of the scientific portion of the program will be provided by faculty members of the University of Florida. A wide variety of subjects will be covered.

For further information, contact:
Dr. H. G. Howe, Jr.
Senior Vice President & Medical Director
Liberty Life Insurance Company
P. O. Box 789
Greenville, SC 29602
Telephone: (803) 268-8372

Physicians Seeking Positions

Dr. Colin B. Cook, 373 Strawberry Hill Ave., Stamford, Conn. 06902. Telephone (203) 348-9091. Board certified by American Board of Psychiatry and Neurology (P). Seven years experience in Insurance Medicine with a major reinsurance company attaining Associate Medical Director status. Employment was half-time with flexibility of full-time. Seeking similar arrangement. Available immediately.


Dr. Donald F. Blair, P.O. Box 644, Oak Bluffs, MA 02557, telephone (617) 693-3430. Retired in September 1983 as Captain, Medical Corps, U.S. Navy. Graduated 1948, Columbia University College of Physicians & Surgeons. Experience includes five years as Vice President/Medical Director, Navy Mutual Aid Association, seven years with the Navy and later the Veterans Administration Disability Evaluation Services, and five years heading the Navy's Medical Records & Physical Standards Division. Dr. Blair would like full or part-time employment in the insurance field as a Medical Director or in claims/disability evaluations. Would be willing to relocate.