

Insurance Practice

# How workers' compensation carriers can build better models of care in the US

Value-based care models hold promise for treating injured workers. For workers' compensation carriers, the time to get involved is now.

*by Tamara Baer, MD, Celia Pohani Huber, Elixabete Larrea, and Swapnil Prabha*



**Every player involved** in healthcare in the United States—from patients and providers to insurers and employers—feels the heat of expensive care and a complex system that is difficult to navigate. Though healthcare spending represented 17.9 percent of GDP in 2017,<sup>1</sup> the quality of care can be lower than in many other developed countries. As a result, the national dialogue on value-based care is gaining ground.

Workers' compensation carriers have traditionally been excluded from the healthcare conversation, but they should be very much a part of it. Medical services now account for 60 percent of all workers' comp costs,<sup>2</sup> up from 40 percent in the early 1980s, and the average medical cost per claim has increased more than threefold in the past 20 years.<sup>3</sup> Steady increases in out-of-pocket expenses (for example, through higher-deductible plans), which are likely to keep rising by about 5 percent annually for at least the next five years,<sup>4</sup> are contributing to case shifting from group health to workers' comp claims.<sup>5</sup>

Despite the role of workers' compensation in an employee's health, most workers' comp leaders still believe they are in the insurance business instead of healthcare. They see their organization playing a reactive role versus a proactive one. Flipping the script, though, could have benefits across all dimensions: healthcare cost savings, improved employee productivity, and greater client satisfaction. For example, an injured worker with a good care experience could have a more effective recovery and return to work faster with less likelihood of reinjuring and being absent from work again, which would benefit employers and carriers alike. By rethinking their role as one in healthcare, workers' compensation carriers can not only gain a competitive advantage but also play a more integral role in employee health and productivity.

## **The time to bridge workers' compensation and healthcare is now**

Innovative approaches—such as value-based care models, outcomes-based analytics, and an emphasis on preventive care and patient-managed wellness technology—are already taking hold across the health value chain. Workers' compensation carriers have an opportunity to move to the front lines of innovation, too. They already have much of the groundwork for participating in healthcare: data, analytical know-how, and tools to generate insights. Claims adjusters have vast stores of data and frequent touchpoints with claimants, both of which can help inform strategy.<sup>6</sup> They also review claimants' histories in detail to determine whether their claim qualifies for coverage and then assist claimants on their recovery journeys, including by analyzing their medical data and directing care management accordingly.

Additionally, and perhaps most importantly, workers' compensation carriers' incentives align employers' and employees' best interests—for example, a focus on health and outcomes rather than on illness and treatments enables employees' successful return to work.

Yet workers' compensation organizations have held back in the area of healthcare, likely because entering the larger, highly complex healthcare ecosystem can be challenging. Many workers' compensation leaders feel they do not have the expertise or know-how to form networks, quantify value-based payment models, or negotiate in a complicated landscape with little leverage. Early workers' compensation entrants, however, stand to benefit. Innovative carriers can sharpen their competitive advantage and play a larger role in the workforce's health and productivity.

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<sup>1</sup> "CMS Office of the Actuary releases 2017 national health expenditures," Centers for Medicare & Medicaid Services, December 6, 2018, cms.gov.

<sup>2</sup> NCCI Holdings, "Medical cost trends: Then and now," November 6, 2017, workerscompensation.com.

<sup>3</sup> NCCI Holdings, "2019 state of the line guide," 2018, ncci.com.

<sup>4</sup> "National health expenditure projections 2018–2027," Centers for Medicare & Medicaid Services, accessed February 17, 2020, cms.gov.

<sup>5</sup> Roger Rabb, "The impact of rising group health deductibles on workers' compensation claims," February 22, 2019, lexisnexis.com.

<sup>6</sup> Marc Berg, David Nuzum, and Seema Parmar, "The seven characteristics of successful alternative payment models," January 2019, McKinsey.com.

## How workers' compensation carriers can apply learnings from other healthcare payers and break down barriers

The path forward starts with adopting a more value-based mindset, which can help workers' compensation carriers identify better solutions for their organization, the employers (their clients), and the employees (the injured workers). Based on our work in insurance and other industries, we believe that six value-based mindset action areas can help workers' compensation carriers break through traditional silos in healthcare. Making moves in these areas can result in 5 to 8 percent savings across books of business, all while leading to better results for employers and their employees.

- ***Work beyond traditional boundaries and mindsets and increase integration within the healthcare ecosystem.*** Innovative carriers will recognize their vital role in protecting the health of millions of workers and adopt healthcare mindsets to make sure workers who are injured receive the most effective care.
- ***Deepen partnerships with employers to test new models of prevention and recovery.*** As employers struggle with rising premiums and increasing complexity in the healthcare ecosystem, some look to prevent illness and injury and promote wellness on their own. Employers are offering employees incentives to live healthier, contracting directly with healthcare facilities for healthcare at set prices, and partnering with other stakeholders to change the system. Workers' compensation carriers, with their decades of experience and vast pools of data, could be partners in building and testing these new models through specific insights and prevention-oriented interventions for workers.
- ***Focusing even more keenly on outcomes.*** Unprecedented advances in the ability to collect, store, and analyze data is revolutionizing the prevention of illness and injury and allowing providers to tailor comprehensive care for each patient. The most innovative workers' comp organizations could develop new analytical capabilities to track three outcomes: injury prevention, injury recovery, and successful return to work. Using a value-based analytical lens, they could compare outcomes and costs for each type of injury to uncover variability in utilization trends by condition, understand whether patients are receiving care aligned with evidence-based standards, and optimize provider networks for high-quality care.
- ***Rethink networks to improve claimants' access to high-quality providers.*** Workers' comp leaders could shift from using third-party networks with little to no performance management to value-based networks. Traditional networks seek to include providers that the payer already has advantageous rates with, while value-based networks are built around the highest-value providers and aim to concentrate as much care as possible in them. Workers' comp carriers have an opportunity to manage their third-party network providers' performance using the value-based approach—for example, by awarding higher compensation for improving utilization of high-value providers.
- ***Experiment with bundled payment models to give providers incentives to focus more on outcomes than on procedures.*** Bundled payment models are one type of value-based payment mechanism that can improve the quality and coordination of care while controlling costs by aligning financial incentives to the services delivered across the patient journey for a specific medical condition or injury. The financial structures of bundled payments vary from upside risk-only models, in which a provider's incentives are based on cost and quality performance, to full-risk models, in which insurers negotiate a set price for relevant care within an episode. Bundled payments are now transitioning from pilots and local initiatives to scaled multipayer and national programs through Medicare and commercial and private healthcare payers, especially in orthopedics. Employers are turning to bundled-payment

contracts in group health plans. Bundled payments have had limited traction in P&C so far but, given the episodic nature of injuries, could be a natural fit for workers' comp.

## Where workers' comp organizations should start

The race to the healthcare space is on for workers' compensation carriers, and the first step is entering the market. To broaden their knowledge and thinking, workers' comp leaders will need to spend more time in the healthcare ecosystem, attending conferences, talking to health payers and providers, learning about new health-service technologies, and supplementing their teams with more healthcare talent. Some carriers are well on this path, and we believe others will follow. Keeping track of what is happening in healthcare is key to building a more effective—and competitive—healthcare program. In addition, more workers' comp leaders will talk with employers about how they're advancing the health and wellness of employees and forge new partnerships to accelerate those efforts. Understanding what is on an employer's mind and how the carrier can help promote employees' health and recovery are the first steps in making necessary practice changes.

Next, shifting operations will also be essential to bridge the gap between traditional workers' compensation approaches and modern healthcare strategies. Companies can learn from other data-driven industries that have successfully entered new markets and achieved innovation with speed and scale. One hallmark shift is adopting agile operating models that include cross-functional teams. The most effective of these will include representatives from underwriting, claims, case

management, products, technology, data and analytics, and customer experience—all working to enhance prevention and improve outcomes for injured workers. Partnering with healthcare experts to deliver these aspirations is also a strong option.

Finally, we expect industry leaders to build outcome-measurement engines using a value-based care approach. Measuring results by value and impact could create a wealth of data to source analytical models, which carriers could then use to influence treatment plans (within the bounds of regulation) for improved treatment outcomes. It could also offer performance-management tools for case managers or adjusters, provider partners, and more. An organization might do so by picking one or two injuries common in workers' comp—such as lower-back pain or repetitive stress injuries—and look at variability in medical utilization by geography, provider, and employer across a group of claimants with similar medical complexity.

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High-quality healthcare is a priority for everyone: providers, payers, employers, and patients. Workers' comp carriers are positioned to help align those stakeholders and lead innovation in injury prevention and recovery. Enhancing healthcare-management capabilities and partnering with employers to improve employee health and wellness can also aid group benefits and both first- and third-party personal insurance coverages, where severity of claims (average cost of a claim) has been rising due to healthcare costs. The winners will offer more to employers and individuals and gain ground on competitors.

**Tamara Baer, MD** is a consultant in McKinsey's Boston office, where **Elixabete Larrea** is a partner and **Swapnil Prabha** is an associate partner; **Celia Pohani Huber** is a senior partner in the Silicon Valley office.

The authors wish to thank Christa Moss for her contributions to this article.

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**Contact**

For more information, please contact:



**Tamara Baer, MD**  
Consultant, Boston  
tamara\_baer@mckinsey.com



**Celia Pohani Huber**  
Senior Partner, Silicon Valley  
celia\_huber@mckinsey.com



**Elixabete Larrea**  
Partner, Boston  
elixabete\_larrea\_tamayo@mckinsey.com



**Swapnil Prabha**  
Associate Partner, Boston  
swapnil\_prabha@mckinsey.com