

## **WCRI RESEARCH BRIEF:**

### **WORKERS' COMPENSATION COSTS AND PROVIDER CHOICE POLICIES**

There is a long-standing policy discussion over whether the choice of health care provider in workers' compensation cases should be left to workers or to employers. Workers and their advocates have emphasized the importance of trust between workers and medical providers (Ellenberger, 1992), while employer advocates have argued that employer choice helps ensure that costs of provided care are reasonable and appropriate (Morrison, 1990). Prior evidence on the effects of provider choice policies on workers' compensation costs is far from definitive<sup>1</sup> and is generally rather dated. The recently released WCRI study [\*The Effects of Provider Choice Policies on Workers' Compensation Costs\*](#) provides updated evidence regarding the relationships between medical and indemnity costs and statutes concerning control of the choice of provider.

#### **Research Questions:**

- What is the relationship between provider choice policies and workers' compensation medical and indemnity costs?
- Does the relationship differ by type of injury?
- How does this study compare with a previous WCRI study on the relationship between actual choice and medical and indemnity costs?

#### **KEY FINDINGS**

This study indicates a nuanced view of how provider choice policies are related to workers' compensation medical and indemnity costs:

- We found little evidence of differences in average costs between states where policies give employers control over the choice of provider and states where policies give workers the most control of the choice of provider. This is especially true for medical costs, where average cost differences were near zero.
- The evidence, however, masks important differences across injury types. Policies that give workers the most control over the choice of provider were associated with higher medical and indemnity costs among the small share of the most expensive back-related injuries and, more generally, higher indemnity costs for the costliest cases overall. The back-related injuries, which were relatively expensive, appear to at least partially account for higher indemnity costs, overall, in the most expensive cases in states where policies give workers the most control over the choice of provider.

This suggests that policy changes that restrict worker choice across the board may do little to reduce costs

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<sup>1</sup> Some considerably earlier research on this topic suggested that policies that give employers more control over the choice of provider are associated with lower medical payments (Victor and Fleischman, 1990; Durbin and Appel, 1991; Washington Department of Labor and Industries and University of Washington Department of Health Services, 1997), although other studies found essentially no effect (Boden and Fleischman, 1989; Boden, 1992) or even the opposite (Pozzebon, 1994). The approach in a recent analysis by Shraim et al. (2015) is more similar to the present study in focusing on policy differences. Shraim et al. found lower medical costs for low back pain cases in states where employers have more control over the initial provider choice, but higher medical costs in states that limit subsequent provider change relative to states that allow a one-time provider change.

on average. Rather, policymakers in states where policies give workers control of the choice of provider might focus on how to reduce the incidence of high-cost cases that arise for a narrow set of injuries.

## **WHY FOCUS ON PROVIDER CHOICE POLICIES AS OPPOSED TO ACTUAL CHOICE?**

Our estimates of the effects of provider choice policy variation on workers' compensation costs are informative about the likely consequences of different policies regarding provider choice. Our focus on provider choice policies is important since variation in these policies is what policymakers can influence most directly.

This direct focus on provider choice policies is different from a prior WCRI study that looked at the relationships between workers' compensation outcomes and who actually chose the provider (not the provider choice policies). The previous study (Victor, Barth, and Neumark, 2005, [\*The Impact of Provider Choice on Workers' Compensation Costs and Outcomes\*](#)) indicated higher costs when the employee chose the primary provider than when the employer did. The effect seemed to come largely from when workers selected a provider they had not seen previously. In contrast to the Victor, Barth and Neumark study, our current study looks at the relationship between workers' compensation costs and provider choice laws. While provider choice policy *influences* who chooses the provider, it does not fully *determine* who chooses. We observed in our Worker Outcomes Survey data that it is common for employees to choose the medical provider when policies give employers control over provider choice, and for employers to choose the provider when workers have the right to direct this choice. Therefore, the evidence about the impact of actual provider choice can be uninformative about the impact of provider choice policies, potentially understating or overstating the role of policy. For example, it may be that workers with more complicated or expensive cases end up choosing their providers because of contested issues or medical complications. In that case, evidence of higher costs when workers choose their own providers would overstate the effect of policies allowing them to choose their own providers.

The present study, which is the first WCRI research to directly estimate the relationships between policies and costs, provides more reliable evidence on the effects of provider choice policies on workers' compensation costs. As the study explains, though, there are still challenges to establishing a direct causal impact of provider choice policies.

## **DATA AND METHODS**

This study examines the effects of provider choice policies on workers' compensation costs for injuries that occurred mostly between 2007 and 2010 and were evaluated at an average maturity of 36 months. The measures of interest include medical and indemnity costs, both incurred and developed to ultimate. The measure of costs developed to ultimate is potentially most meaningful from a policy perspective due to differences across states in how quickly costs develop and due to policy interest in the ultimate costs of the claim. The analysis includes information on 25 states in which either employers or workers control the choice of provider. It excludes states where workers can choose a provider within their employers' established network.