California Workers' Compensation Institute

1111 Broadway #2350, Oakland, CA 94607 (510) 251-9470 www.cwci.org

ICIS SAYS…

Percentage of California Workers' Compensation Temporary Disability Claims and Benefit Payments Made After 2 Years

The Industry Claims Information System (ICIS) is a transactional level data warehouse developed by the California Workers' Compensation Institute to meet the changing and expanding research and analysis requirements of the workers' compensation industry and CWCI's membership. ICIS currently encompasses data on more than 2.1 million 1993-2002 California workers' compensation claims contributed by 9 insurers representing about 70 percent of the California workers' compensation market.

The value of data depends on its practical applications. The Institute often relies on ICIS to generate "hard numbers" that can be used to advance the public policy debate on a wide variety of workers' compensation issues and concerns. In many cases, ICIS is the first and only source for this much needed empirical data. This ICIS Says Report gauges the proportion of temporary disability (TD) claims and costs as measured 2 years after the date of injury; 2 years after the first date of TD; and for claims in which there are 2 years (730 days) worth of paid TD days.

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Background: Current California law requires that temporary disability (TD) be paid at the weekly rate in effect on the date of injury, but any TD payment made 2 years or more from the date of injury must be increased to the current TD rate (Labor Code 4661.5), compounding the cost of these claims. Furthermore, in 2002, state lawmakers enacted AB 749, incrementally increasing maximum weekly TD payments from the $490 level that had been in effect since July 1996 to $602 for 2003 injuries; $728 for 2004 injuries; and $840 for 2005 injuries. For injuries in 2006 and annually thereafter, AB 749 requires adjustments in maximum weekly TD payments based on increases in the state average weekly wage. These increases will drive up temporary disability costs, not only for new claims, but for any existing claims in which TD extends beyond 2 years of the date of injury.

More than 30 percent of all California workers' compensation claims include temporary disability benefits, and total benefits (including medical care, temporary disability, permanent disability and vocational rehabilitation payments) on TD claims account for nearly 89 percent of all benefits paid in the system. In an effort to reduce TD costs, state lawmakers are considering a proposal to cap the payment of temporary disability "beyond two years." To evaluate the potential impact of such a move, policymakers need to know what proportion of claims involve more than two years of paid TD benefits and the proportion of TD paid after the two-year threshold. Those results, of course, hinge on the specific start and stop points state lawmakers use to define the "two-year" time frame.

The first date of TD is usually within a week of the injury date, but sometimes there are significant delays between the injury date and the start of TD, and in some cases an injured worker may go on TD, return to work for a while, but then go back on TD. Table 1 summarizes the cumulative percentage of claims by the time lag between the date of injury and the first date of disability.

Table 1. Cumulative Percent of Claims by Days between Date of Injury and First TD Date

Days Between DOI & First TD Date	Cumulative Pcnt of TD Claims
7 days or less	76.1%
14 days or less	81.7%
30 days or less	85.9%
60 days or less	89.4%
90 days or less	91.5%
180 days or less	94.5%
One Year days or less	96.9%
Two Years days or less	98.6%

This analysis estimates the proportion of TD claims and costs that would be affected by the proposed cap under three scenarios:

- if the state caps TD benefits paid 2 years after the date of injury;
- if the state caps TD benefits paid 2 years after the first day of disability; and
- if the state caps TD benefits for claims in which there are 2 years (730 days) of paid TD.[1]

ICIS Data: The Institute used ICIS to compile a sample of more than 300,000 California workers' compensation claims on which TD payments were made. Claims in the sample all had dates of injury between 1993 and 1996, and the Institute calculated the total payments on those claims as of June 2002, so the results are based on a minimum of 6-1/2 years worth of experience for each claim. From this sample, the Institute identified subsamples of claims that had at least 2 years of disability and calculated the proportion of TD payments made after the 2-year mark under each of the 3 potential time frames. Specific ICIS data elements used in the analysis include:

- The total count of all claims with TD payments
- The count of TD claims with more than 2 years of TD paid
    - Based on a 2-year period starting at the date of injury
    - Based on a 2-year period starting at the first day of disability
    - Based on at least 2 years (730 days) of paid TD days
- Total TD payments on all claims in the sample
- Total TD payments made after 2 years

[1] The authors acknowledge Frank Neuhauser for his suggestions and refinements to the methodology for calculating the length of paid temporary disability days.

- Based on a 2-year period starting at the date of injury
- Based on a 2-year period starting the first date of disability
- Based on at least 2 years (730 days) of paid TD

Results: The Institute identified a sample of 304,851 claims with temporary disability payments from the ICIS database. Table 2 shows the number and proportion of these TD claims that fell into each of the two-year timeline scenarios.

Table 2. Number and % of TD Claims by 2-Year Scenario

	Claim Count		
2–Year Scenario	All TD Claims	# of Claims In This Scenario	% of All TD Claims
Claims w/TD Paid More Than 2 Yrs Post Injury	304,851	38,456	12.6%
Claims w/TD Paid More Than 2 Yrs Post 1st TD Date	304,851	25,776	8.5%
Claims w/More Than 730 Paid TD Days	304,851	3,126	1.0%

One out of every 8 TD claims (12.6 percent) had temporary disability payments made more than 2 years after the date of injury, while one in 12 (8.5 percent) involved temporary disability payments more than 2 years after the first TD date. In contrast, only 1 percent of all TD claims involved more than 2 years (730 days) of temporary disability payments.

Aggregate TD payments for the ICIS sample of 304,851 temporary disability claims totaled $1,268,749,743. After identifying the total amount of TD paid after 2 years for claims in each of the three scenarios, the Institute divided these amounts into the total TD payment figure to determine the proportion of TD payments that fall under each scenario. Table 3 displays the results.

Table 3. Amount and Proportion of TD Payments Under Each 2-Year Scenario

	TD Payments (All TD Claims)		
2-Year Scenario	Total TD Pmts	TD Pmts Beyond 2 Yrs	TD Pmts Beyond 2 Yrs as % of All TD
Claims w/TD Paid More Than 2 Yrs Post Injury	$1,268,749,743	$330,295,472	26.0%
Claims w/TD Paid MoreThan 2 Years Post 1st TD Date	$1,268,749,743	$236,501,843	18.6%
Claims w/More Than 730 Paid TD Days	$1,268,749,743	$ 68,292,102	5.4%

Claims in which temporary disability payments were made 2 years after the date of injury accounted for more than $330 million, or 26 percent, of the $1.268 billion in aggregate TD payments in this sample. Using the first TD date as the starting point for the 2-year timetable, temporary disability payments totaled $236.5 million, or 18.6 percent of all TD paid, while TD benefits on claims with more than 730 paid TD days totaled about $68.3 million, or 5.4 percent of total TD.

The Institute next looked at only those claims with more than 2 years of TD, and determined the total amount of TD paid for claims in each of the three scenarios. TD payments after 2 years ranged from a low of $68.3 million for claims involving more than 730 TD days to a high of $330.3 million for claims in which TD was paid more than 2 years after the date of injury. The amount paid after the 2-year mark was then divided into the total TD payments for those claims to derive the percentage of TD benefits paid beyond 2 years for each scenario. Results are noted in Table 4.

Table 4. TD Payments Made After 2 Years (Claims w/More Than 2 Years of TD Only)

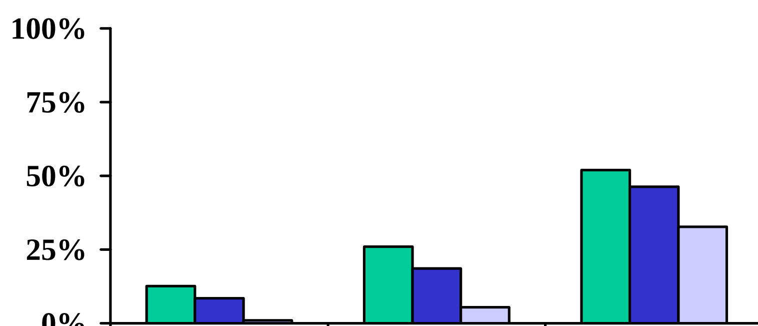
	TD Payments (Claims with > 2 Years of TD only)		
2-Year Scenario	Total TD Payments	TD Pmts Beyond 2 Yrs	TD Pmts Beyond 2 Yrs as % of Total TD
Claims w/TD Paid More Than 2 Yrs Post Injury	$635,379,133	$330,295,472	52.0%
Claims w/TD Paid More Than 2 Yrs Post 1st TD Date	$511,131,008	$236,501,843	46.3%
Claims w/More Than 730 Paid TD Days	$209,024,670	$68,292,102	32.7%

Using the date of injury as the starting point for the 2-year timetable, more than half (52 percent) of all TD benefits on claims with more than 2 years of TD were paid after the second year. On the other hand, if the 2-year time frame begins on the first date of TD, that proportion falls to 46.3 percent, while for claims with more than 730 days of TD, less than one-third (32.7 percent) of the TD payments were made beyond the second year.

Conclusion:

Chart 1 summarizes the results of this analysis and illustrates the significant variation in the proportion of TD claims and payments that would be impacted under the three scenarios that could be used to impose a 2-year cap on TD payments.

Chart 1. Percentage of TD Claims and Payments Affected Under Various 2-Year Caps



	% of All TD Claims	% of All TD Pmts (All TD Claims)	% of TD After 2 yrs (2 yr+Claims Only)
Pmt Cap @ 2Y Post DOI	12.6%	26.0%	52.0%
Pmt Cap @ 2Y Post 1st TD Date	8.5%	18.6%	46.3%
Pmt Cap @ 730 Paid TD Days	1.0%	5.4%	32.7%

Capping temporary disability payments beyond two years from the date of injury would be the most stringent restriction, affecting one out of every 8 TD claims. It would also provide the greatest potential savings, however, eliminating 26 percent of all TD payments, and more than half of all TD paid on TD claims where the benefit extends beyond the two-year time frame.

In comparison, if the starting point for the 2-year TD cap was set at the first TD date, about one out of every 12 temporary disability claims would be affected. This would reduce overall TD payments by 18.6 percent, and pare down TD costs on those TD claims that extend beyond two years by 46.3 percent.

Finally, if the 2-year cap was imposed only after 730 days of TD had been paid, only 1 percent of all TD claims would be affected, and the cap would save 5.4 percent of TD payments overall, though temporary disability payments on claims that currently extend more than 730 days would be reduced by nearly one-third (32.7 percent).

The Institute prepared this analysis at the request of the Governor's office, and the information has been forwarded to Sacramento so that state policymakers can better understand the potential implications and savings that would attach to the various options for implementing a 2-year TD cap.