



The Hidden Costs of Indemnity Payments

Traditional indemnity payment costs may result in higher workers' compensation claim costs.

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Introduction

Indemnity payments represent a significant portion of workers' compensation spend – anywhere from 40 to 60 percent of claim costs. While they don't receive a lot of attention, increasing administrative burdens and processing fees associated with indemnity expenses are thwarting payers' abilities to manage total claim costs.

While traditional methods of processing indemnity payments, such as check writing or electronic funds transfer (EFT) were once efficient and cost-effective, the workers' compensation landscape has become increasingly complex. Payers are now navigating challenges such as administering benefits to a remote workforce, evolving jurisdictional requirements, rising instances of corporate and external fraud, and increasing injury severity rates (meaning more workers are receiving indemnity payments).

As a result, payers are beginning to reevaluate the way they process indemnity payments. This paper provides insight into indemnity payment challenges and the pros and cons of the various payment solutions available to payers.

New workforce dynamics add complexity to indemnity payment processing

While most of the workforce still heads to the office, factory or jobsite daily, this number continues to decline steadily as more employees work from their homes, on the road or in a remote location. Let's take a look at a few workforce trends to gain some perspective.

These stats and facts represent an interesting trend – an increasing number of workers who either do not have regular access to their hometown bank or maintain a consistent bank account. For those who are underbanked, it's often because they do not have enough income to sustain an account or they live in a rural or urban area where banks aren't easily accessible.

Why this is a game changer

Should these individuals become injured on the job and eligible to receive indemnity payments, then sending them a check may not be an option due to their inability to travel to a bank or maintain an account. And, while electronic funds transfers may be another option, the same challenge may apply – no convenient access to the bank – which places an additional burden on the injured worker to incur check cashing fees at another institution. Other administrative obstacles also come into play. These workers may not have a permanent mailing address – meaning an increase in escheatment issues or lost and stolen payments. Or, the injured worker may change banks frequently, resulting in the payment never reaching its destination.

3
million

The number of migrant and seasonal farmworkers in the United States¹

Of these, **42%** migrate each year and **58%** are seasonal agriculture workers²

25
million

The number of unbanked³ or underbanked individuals in the United States

79%

Percentage increase in the number of workers who worked remotely between 2005 and 2012⁴

3.5
million

The number of truck drivers in the United States, a number that is expected to continue growing⁵

Claim severity and duration make it more difficult to manage indemnity payments

According to the National Council on Compensation Insurance, claim severity is on the rise.⁶ Thus, the more severe the injury, the more likely an injured worker will receive indemnity and for a longer duration. Healthcare, for example, has continued to see an increase in workplace injuries which often stem from frequent heavy lifting and direct interaction with patients. While claim frequency has declined over the last 10 years, severity (which includes expenses for medical, indemnity and defense) has seen a steady increase of two percent per year.⁷ As a result, indemnity payments average more than \$18,000 per injured healthcare worker each year.⁸

Interestingly, the rise in indemnity is not industry specific; states are seeing an increase as well. A study released by the California Workers' Compensation Institute in July 2014 showed that self-insured indemnity frequency had its largest increase in a decade.⁹ We project that other states may begin processing lengthier indemnity payments if issues such as claim severity and comorbidities are not addressed. For example, a recent NCCI analysis determined that injured workers with the obesity comorbidity marker have an indemnity benefit duration that is five times the value of those who do not.¹⁰

Why this is a game changer

An increase in indemnity payment processing poses a significant challenge for workers' compensation revenue managers who use traditional payment methods. Payers must make more rigorous efforts to reduce the opportunity for missed, duplicate, or incorrect payments to injured workers. This also affects adjusters as they field a larger volume of inquiries from injured workers regarding payment status.

A changing business climate is driving another look at revenue cycle processes

Just as workers' compensation claims have increased in complexity since the first lost wages legislation was passed in Wisconsin in 1911¹¹, so has the world in which carriers do business. Here are a few examples that directly impact the cost of effectively managing the workers' compensation revenue cycle as it relates to indemnity payment processing:

- Average check processing can cost \$1.61 to \$8 per transaction, plus postage¹²
- Issuing 10,000 indemnity checks per year could = \$90,000 alone in just administrative processing fees
- Workers' compensation fraud remains high at approximately \$7.2 billion per year according to the National Insurance Crime Board¹³
- The way business payments are transacted is also changing. Card payments increased by \$17.8 billion while non-card payments decreased by as much as \$3.1 billion between 2009 and 2012¹⁴
- A top initiative of the insurance industry is to identify ways to streamline and automate payment processes
- Rising check cashing fees place additional economic burden on injured workers

Why this is a game changer

As businesses look to streamline costs and initiatives, traditional processes such as check writing are no longer efficient. As data breaches and corporate fraud continue to rise, it's essential to put more stringent controls on workers' compensation payments. Injured workers may feel uncomfortable providing their bank information to a payer after watching stories in the news of private consumer data being leaked. Automating processes is critical, but it must be done in such a way that gives payers the opportunity to reduce fraud and errors.

How to determine the ideal indemnity payment solution

Traditionally, indemnity payments have been issued via check. However, as the cost of writing and managing checks continues to increase, payers have begun to turn to options such as EFT and card-based solutions. For the latter, there are two types of offerings – pre-paid debit cards issued through a bank or cards issued through a third-party partner of MasterCard® or Visa®. The table below indicates features of each solution.

	Checks	EFT / ACH	Pre-Paid Debit	Bank-Issued Debit Cards	Third Party
Pros of a Payment Solution					
Ability to track and manage payments through one portal				●	●
Bank Neutral				●	●
Reduces escheatment			●	●	●
Stop payments on the fly				●	●
Offers protection when the payment is lost or stolen				●	●
Seamlessly integrates with claim portal					●
Offers ability to batch payments					●
Reduces duplication of payments					●
Cons of a Payment Solution					
Processing Fees		●	●		
Transaction Fees		●	●		
Burden of processing and administering each indemnity transaction is on payer		●	●	●	
Injured worker contacts adjuster with payment inquiries		●	●	●	
Printing and postage fees		●			
Requires injured worker to provide bank information		●	●		

As you can see, an approach that automates indemnity payments by providing workers a bank-neutral card offers payers the most advantages. With today’s complex environment, a bank-neutral, card-based solution can help organizations:

- Lower operational expenses
- Reduce errors
- Decrease escheatment
- Ensure all workers receive accurate, timely payments
- Mitigate internal and external fraud
- Lets adjusters focus on critical priorities
- Protects the payer from payment liabilities

Ten questions to ask when considering a card-based solution

If your organization is considering a card-based indemnity payment solution, there are ten major questions you should ask:

- 1.** Does the payment solution tie-in with our EDI?
- 2.** Who mails the cards to the injured workers?
- 3.** Is the card bank neutral?
- 4.** Does it fulfill jurisdictional requirements?
- 5.** Are payments processed in house or through multiple vendors?
- 6.** Who handles lost or stolen cards?
- 7.** Can we transfer all the funds via an ACH transaction so you manage the payments?
- 8.** Can we stop a payment immediately?
- 9.** Are reports available to track and manage payments?
- 10.** Is the card customizable?

Conclusion

The needs of today's workforce have evolved as have the challenges of operating a business efficiently and cost-effectively. Traditional methods of indemnity payments may be adding hundreds of thousands of unnecessary dollars to your claims each year. With breaches on the rise, you need a secure method of ensuring that injured workers receive their payments easily, accurately, and in a timely manner. A technology-focused partner who is experienced in administering payments may provide the most ideal solution through a card-based offering.

About DataPath:

Little Rock-based DataPath has provided flexible financial and administrative solutions since 1984. DataPath's workers' compensation solutions include secure, card-based indemnity payment processing and a provider payment offering that makes it easier to distribute and track payments for workers' compensation medical services. Learn more at www.dpath.com.

About the Author:

With more than 20 years of experience in the insurance market space, Dave Stair has a long history of successfully providing service and business development in workers' compensation. Throughout his career, he's worked in sales management and business development, specializing in providing managed care, claims adjustment and fraud prevention. He has played a vital role in providing payment solutions for insurance carriers, workers' compensation and group health TPAs, and self-insured/self-administered employers nationwide. Today, he serves as the Director of Insurance Payment Solutions at DataPath, overseeing the development of the RenewCard and Provider Payment solutions.

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