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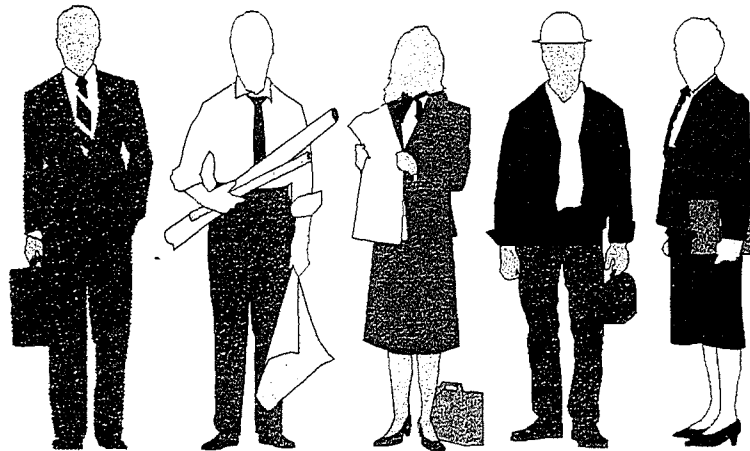


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Maine State Employees Workers' Compensation System

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Annual Report - Fiscal Year 1997



Maine Health Information Center

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AUG 6 1998

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EXECUTIVE SUMMARY

Total expenses for fiscal year 1997 were \$12.3 million. Total expenses peaked in 1993 at \$13 million.

Weekly indemnity payments decreased in fiscal year 1997 by over \$300,000 from the previous fiscal year. Medical payments showed a modest decrease of \$70,000.

Lump sum settlements totaled more than \$2 million dollars in fiscal year 1997 or 18% of total payments. This is the highest amount ever paid.

Older injuries, with date of injury earlier than current and prior fiscal year, contributed 82% of total cost for FY 1997.

Six departments account for 80% of total cost for FY 1997. These departments are:

<i>Administration & Financial Services</i>	<i>Mental Health & Mental Retardation</i>
<i>Corrections</i>	<i>Public Safety</i>
<i>Human Services</i>	<i>Transportation</i>

After adjusting for the number of employees, there is wide variation in the rates of WC cost for these departments.

Average payments for the two years following an injury have been steadily declining since the early 1990's.

Total work days lost and the total number of workers out have declined steadily since the late 1980's for a 2 year cohort of workers. The total number of work days lost was 29,101 for 1988 injuries compared to 10,654 for 1995 injuries.

There are more medical only claims than lost time claims, however, cost for lost time claims significantly exceeds that for medical only claims. For fiscal year 1996 injuries, lost time claims represent 35% of all claims and 83% of all cost.

Back/Neck injuries are the most costly type of injury - they account for 23% of total claims and 40% of total cost.

**MAINE HEALTH
INFORMATION CENTER
WORKERS'
COMPENSATION
SYSTEM (MHICWCS)**

In 1992 the Workers' Compensation (WC) Division of the Bureau of Human Resources within the Department of Administration and Financial Services contracted with the Maine Health Information Center (MHIC) to develop, implement and maintain a customized WC Information System. The system manages the day to day administration of the program, assists in monitoring patterns in time lost and expenses and provides a comprehensive overview of the workers' compensation experience of state employees through the generation of routine and ad hoc reports.

**MHICWCS HIGHLIGHTS
- FISCAL YEAR 1997**

During fiscal year 1997, a number of system design and operational enhancements were made to improve the MHICWCS. These enhancements include:

- ▶ Addition of job classification codes for all injuries reported between 1992 and the present
- ▶ Implementation of the new fee schedule approved by the WC Board based on relative value units
- ▶ Development of a monthly "MHICWCS Newsletter" highlighting topics of interest
- ▶ Completion of WC Board Audit Report
- ▶ Implementation of First Report Data Entry Software
- ▶ Administrative changes necessary to adhere to new Utilization Review requirements for MRIs and scheduled surgeries

The State implemented several new programs in fiscal year 1997 designed to improve the effectiveness and efficiency of their Workers' Compensation Program including:

- ▶ Utilization review program for medical services
- ▶ Medical case management service contracts
- ▶ Contractual arrangement for onsite physical therapy services
- ▶ Return to work program to assist workers return to work by providing transitional positions

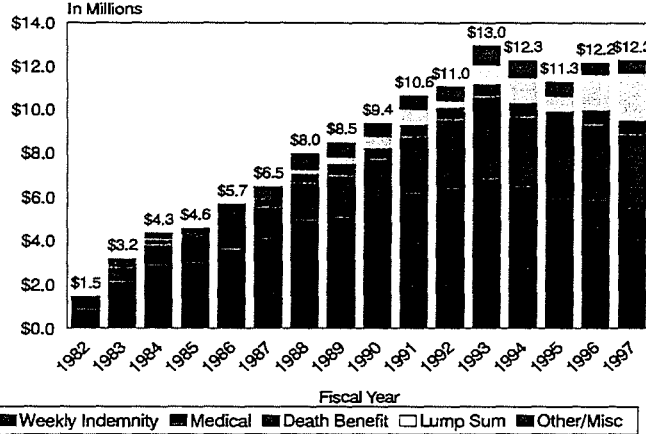
Although it is too early to assess the impact of these programs, data is being collected and analysis is planned for fiscal year 1998.

**BACKGROUND ON THE
MAINE HEALTH
INFORMATION CENTER**

The Maine Health Information Center (MHIC) is a nonprofit organization incorporated in 1976 as Maine's statewide health data consortium. The MHIC operates as a private consulting firm providing data collection, processing and analysis services on a fee-for-service and/or contractual basis. The MHIC is committed to performing a public service function and enhancing the quality of life of the people of Maine by promoting the use of high quality, accurate and timely data by members of the Maine health care community.

TRENDS IN TOTAL EXPENSES

Trends in Expense Categories by Fiscal Year



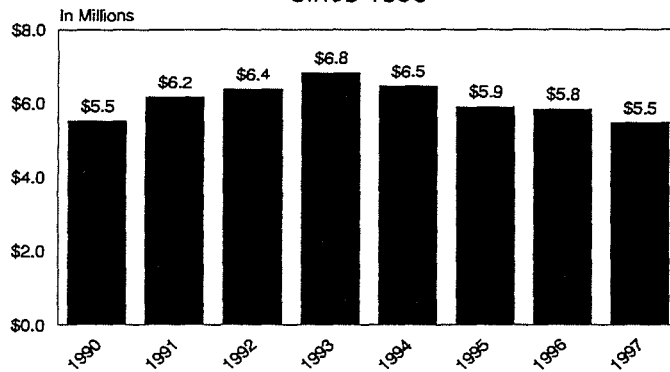
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The graphic to the left presents trends in overall expenses and individual components over the last 15 years. The expenses are for all claims paid in a fiscal year regardless of the date of injury.

Throughout the 1980's expenses rose at a steady rate, peaking in 1993. Since that time total expenses decreased and have leveled off over the last several fiscal years. Expenses for the fiscal year 1997 totaled \$12.3 million, an increase of less than 1% over fiscal year 1996.

Weekly Indemnity Expense

Trends in Weekly Indemnity Expense Since 1990

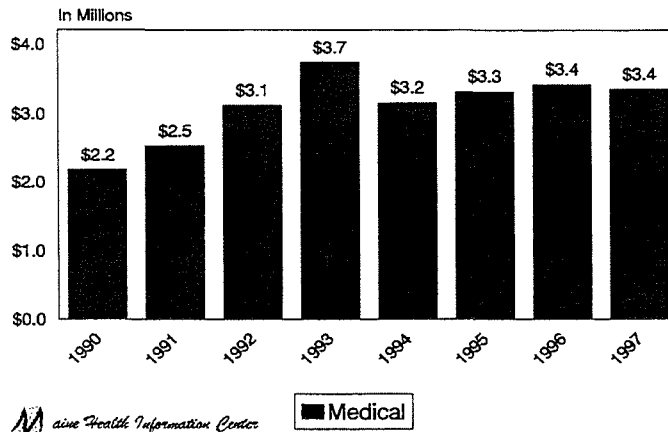


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The largest portion of total Workers' Compensation cost is for scheduled payments to workers for lost wages or weekly indemnity payments (excluding death benefits and lump sum settlements). Total weekly indemnity expenses for 1997 were \$5.5 million, down from \$5.8 million in fiscal year 1996. The decrease was the result of fewer new lost time claims filed coupled with an increase in the number of lump sum settlements.

Medical Expense

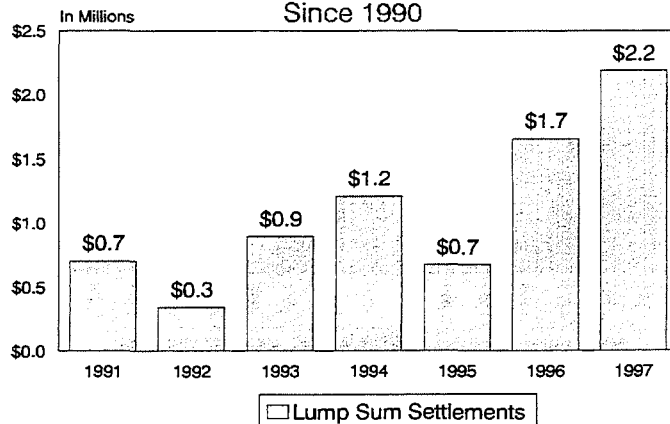
Trends in Medical Expenses
Since 1990



The second largest portion of total Workers' Compensation cost is for medical expenses related to injuries on the job. Medical expenses include payments to physicians, hospitals, physical therapists, rehabilitation providers and pharmacies to name a few. Medical expenses total \$3.4 million in fiscal year 1997. This amount is essentially unchanged from 1996.

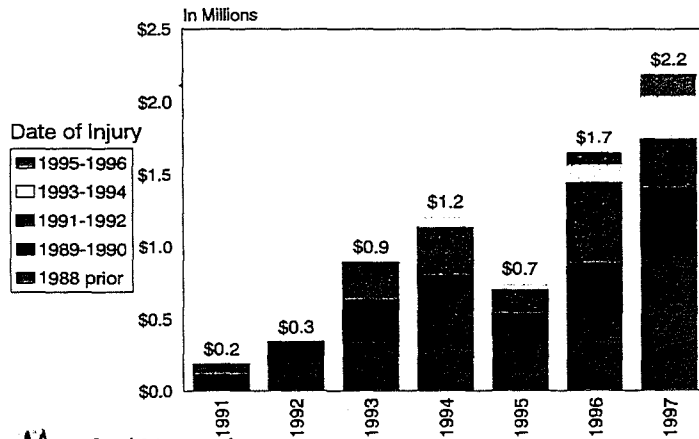
Lump Sum Settlements

Trends in Lump Sum Payments
Since 1990



Lump sum payments were a small share of total expenses until the late 1980's. For fiscal year 1997, lump sum settlements account for the largest total dollar amount (\$2.2 million) and the largest percentage of total dollars (18%) to date. These payments are significant in that they eliminate future liability for both medical and indemnity payments.

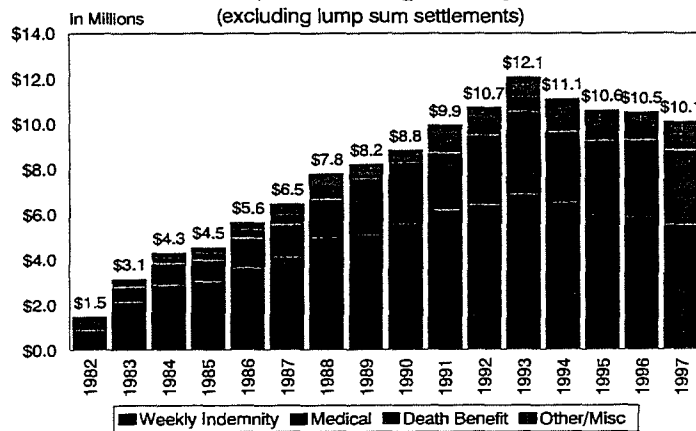
Lump Sum Settlements by Year



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The graphic at left shows the date of injury settled by year. In most years, one-third to one-half of the claims settled are for dates of injury in 1988 and prior. The average age of a settled claim in fiscal year 1997 was 7 years, up from an average age of 5 years in the early 1990's. These older claims are subject to an annual cost of living adjustment and are not subject to limits on the duration or maximum payment amount. For these reasons, it is more advantageous to settle claims for injury dates prior to 1993.

Trends in Expense Categories by Fiscal Year



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When lump sum settlements are excluded from total payments, fiscal year 1997 expenses went down. This reduction is due to a decrease in both the weekly indemnity and medical care components.

Death Benefit

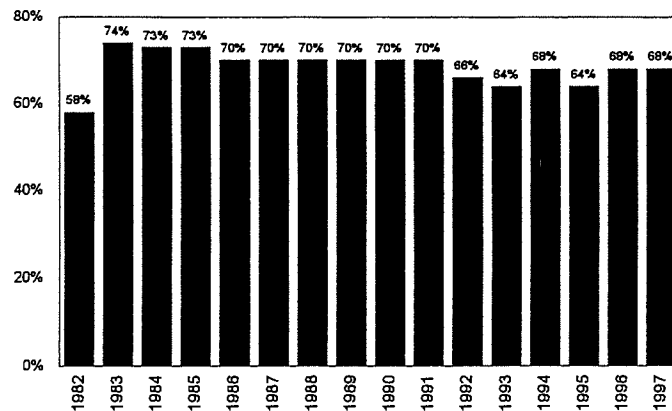
Death benefit payments include weekly indemnity costs as well as burial expenses for work related fatalities. Death benefits have consistently hovered around 6% of total expenses. For fiscal year 1997, the total payments for death benefits was \$685,455.

Miscellaneous/Other

Other expenses include legal fees, rehabilitation expenses, travel costs and other related expenses. These miscellaneous expenses totaled slightly less than \$600,000 for fiscal year 1997.

Relationship Between Indemnity and Medical Expenses

Trends in Indemnity Cost (all DOIs) as % of Total



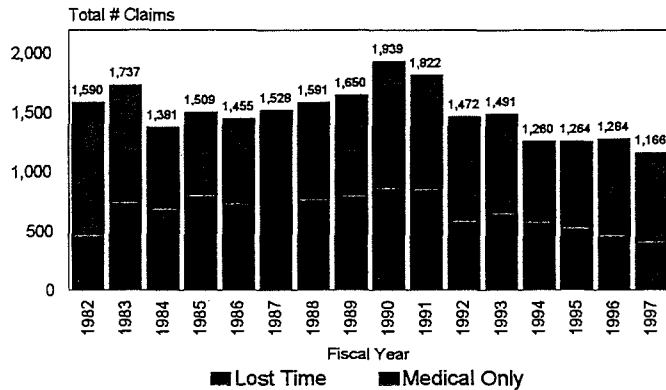
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Total expenses are often summarized into two mutually exclusive categories: indemnity and medical expenses. The indemnity component includes those expenses directly related to lost time including lost wages, death benefits and lump sum settlements. Medical expenses are typically defined as all other expenses though not always strictly medical in nature.

The relationship between indemnity and medical expenses is often used as a surrogate measure to assess the effectiveness of a WC program; the lower the ratio of indemnity expenses, the more effective the plan in preventing serious injuries and returning people to work.

New Claims

Trends in New Claims Filed
FY 1982 to Present



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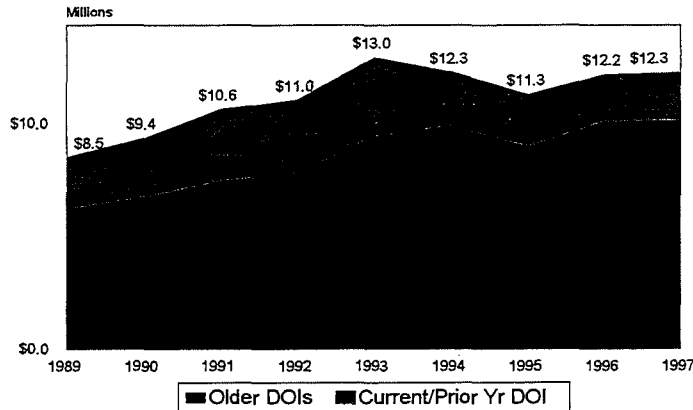
The graphic at left displays the number of new claims filed by year since 1982 broken down by lost time and medical only. Although the number of medical only claims exceeds the number of lost time, lost time claims tend to be much more expensive.

The number of new claims peaked in 1990 and has declined steadily through the 1990's. The number of new claims filed in fiscal year 1997 represented the lowest number of new claims filed in over 15 years.

The ratio of new lost time claims to all claims shifted from more than 50% during the mid 1980's to 34% for fiscal year 1997. This shift indicates more serious lost time injuries are being averted.

Old Claims/Dates of Injury (DOI)

Trends in % of Expenses from Older Injuries

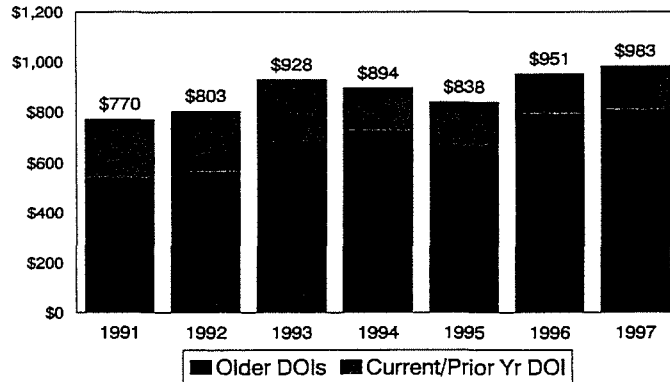


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Injuries incurred in the current and prior fiscal years contribute only a small proportion to the total current fiscal year expenditures. Most expenses in a given fiscal year are attributable to injuries outside of the current or previous fiscal year. As demonstrated in the graphic at left, 82% of total cost for fiscal year 1997 can be attributed to these "older" injuries.

Per Employee Cost

Trends in Per Employee Average Total Cost
All Departments



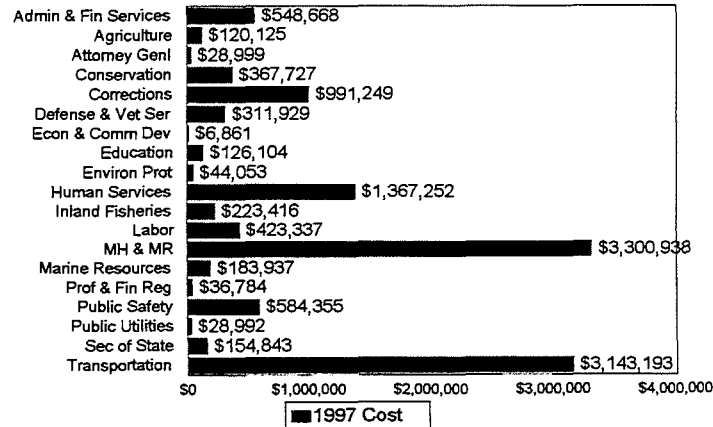
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The total per employee cost shown at left is represented as the sum of older injury (Older DOIs) cost and current injury (Current DOIs) cost. For fiscal year 1997 per employee cost can be broken down into \$806 attributable to older injuries and \$177 to current injuries for a total of \$983. The proportion of the average cost attributable to older claims is increasing. Expenses associated with newer claims are going down, leaving older, more expensive injuries as greater proportion of the total claims expense.

1997 FISCAL YEAR COSTS

Costs by Department Breakdown

Breakdown of 1997 Costs by All Departments

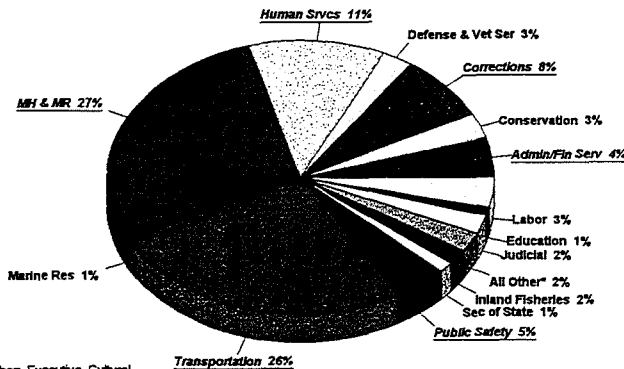


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The total cost for fiscal year 1997 is \$12.3 million. Total cost broken down by department is displayed on the graph to the left.

The Department of Mental Health and Mental Retardation (MH & MR) has the largest cost with \$3.3 million in expenses followed by Transportation with \$3.1 million. Human Services accounts for \$1.4 million; Corrections \$991,000; Public Safety \$584,000; and Administration and Financial Services \$548,000.

Breakdown of 1997 Costs by All Departments



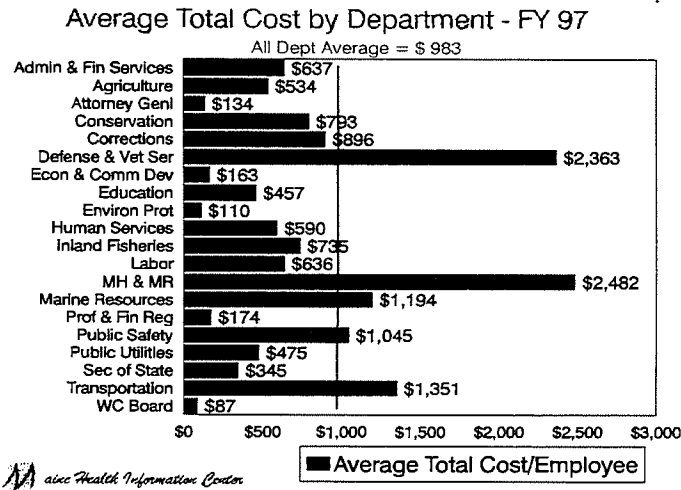
*All Other: Executive, Cultural Svcs, Human Rights, Legislature, Prof&Fin Reg, Atty Genl, WC Brd, Econ/Comm Dev, Public Util, Envir Prot, Agriculture

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These 6 depts account for over 80% of expenses

These 6 departments account for over 80% of total expenses. The pie graph to the left shows the percentage of the total dollars expended by each department as a portion of the total.

Average Cost by Department



At left, the per employee average cost is compared across departments. The average per employee cost is an important indicator of the *rate* of WC utilization as total cost alone does not adjust for the number of employees that could potentially utilize WC benefits. As shown, the highest per employee average cost is for MH & MR. Caution is advised when comparing smaller departments, such as Defense and Veterans Services as a high average cost can reflect one or two injuries during a fiscal year rather than a significant department trend.

2 YEAR COHORT

Explanation of Concept, Benefits

Because of the high percentage of total cost produced by extended lost time injuries, a special analysis was done to assess the recent progress that has been made to control costs. To remove the impact of these older injuries and allow a standardized analysis over the same amount of time, data on injuries over a two year period from the date of injury has been extracted and analyzed separately. This *2 Year Cohort* allows all expenses to be attributed to the fiscal year of injury and all injuries to be followed for a consistent time frame. Injuries occurring in 1988 to 1995 (to allow for 2 year run out) are analyzed, including both medical and indemnity payments. The influence of medical and wage inflation has not been accounted for so cost decreases may be understated.

Trends in Average Year 1 & 2 Payments

Fiscal Year of Injury	Avg Year 1 Payts	Avg Year 2 Payts	Total Year 1 & Year 2
1988-89	\$1426	\$4054	\$5480
1989-90	\$1546	\$4326	\$5872
1990-91	\$2111	\$4995	\$7106
1991-92	\$2047	\$4823	\$6870
1992-93	\$1893	\$3786	\$5679
1993-94	\$1759	\$3528	\$5287
1994-95	\$1904	\$3084	\$4988
1995-96	\$1693	n/a	n/a

Looking at the trends in average year 1 payments by year of injury (see table at left), payments within the first year from DOI increased steadily from 1988 and peaked in 1990-1991. From that point there were incremental decreases. For injuries incurred in 1996, the average first year payments stabilized at \$1693.

Focusing on trends in average year 2 payments, the average year 2 payments are much higher than year 1. This is to be expected since more severe injuries would tend to be of longer duration with cost continuing into year 2. In addition, medical only claims with typically lower expenses are focused in year 1, reducing average year 1 costs.

The average year 2 payments peaked in 1990-1991. When the year 1 and year 2 expenses are combined, there is a downward trend from a total of over \$7,000 in 1990-1991 to under \$5,000 for injuries occurring in 1994-1995. Combined expenses can be analyzed only on injuries occurring through the 1994-1995 fiscal period to allow for a consistent 2 year expense run out.

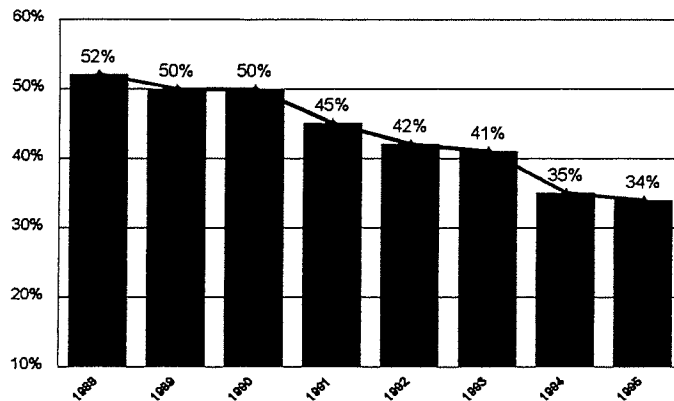
Trends in Total Expenses

Fiscal Year of Injury	Total Year 1 Payts	Total Year 2 Payts	Total Year 1 & Year 2
1988-89	\$1,868,498	\$1,106,793	\$2,975,291
1989-90	\$2,291,120	\$1,349,748	\$3,640,868
1990-91	\$2,953,719	\$1,533,384	\$4,487,103
1991-92	\$2,417,594	\$1,702,460	\$4,120,054
1992-93	\$2,049,766	\$1,014,610	\$3,064,376
1993-94	\$1,688,436	\$ 895,992	\$2,584,428
1994-95	\$1,763,323	\$660,040	\$2,423,363
1995-96	\$1,729,748	n/a	n/a

The downward trend in average payments is mirrored in total expenses. Over the past five years, cost for newer claims declined from \$4.5 million to \$2.4 million, a 46% decline.

Trends in % Indemnity Expense

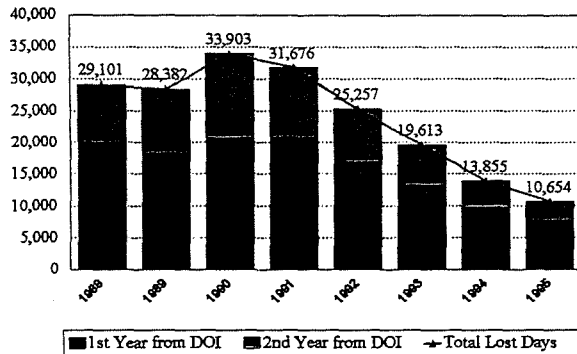
Trends in % Indemnity Expense
All Employees



As mentioned earlier, the ratio of medical or indemnity expense to the total is used as a surrogate for assessment of the efficiency of a WC program. Looking at injuries for 2 years following the original date of injury only, the percentage of indemnity expense has steadily decreased from 52% for 1988 to 34% for 1994 injuries.

Trends in Lost Days/Number of Workers Out

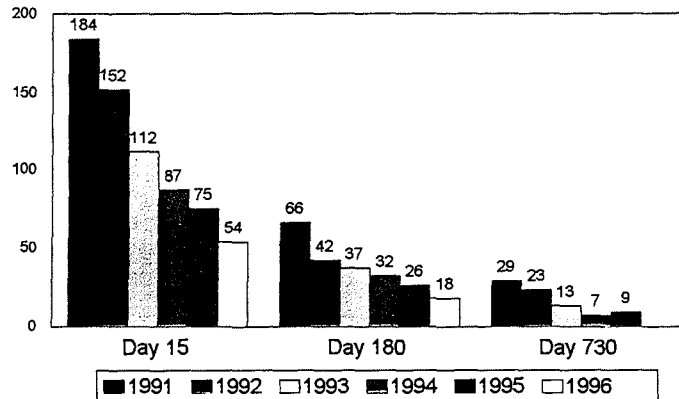
Trends in Compensated Lost Days - First and Second Year from DOI



Looking at trends in the number of compensated work days lost, there have been significant declines in work days lost for injuries occurring in 1988 to 1995 both in the first and second year from the date of injury. In both cases the number of days lost has been cut by more than 50%. As demonstrated in the last several exhibits, this decline in total lost days is having an impact on total expenses and the percent of indemnity expense.

Trend in Number of Workers Out

Trends in Number of Workers Out at Various Points from DOI



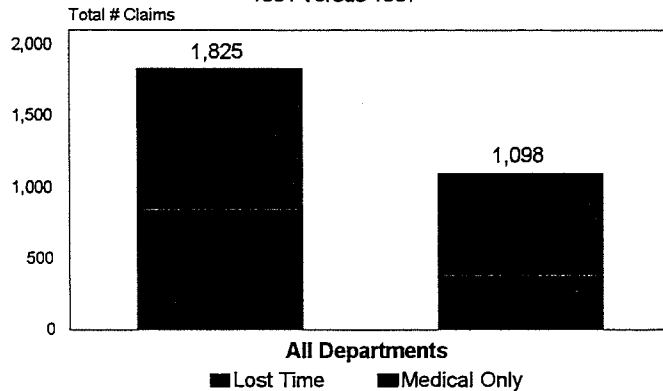
Continuing to look at the 2 year cohort of workers, the graphic at left examines the number of workers out on total incapacity at various points from the original date of injury. The total number of workers out has been reduced at all points, a result of the reduced number of injuries.

Notably, the number of workers out at the two year point, day 730, has decreased significantly.

Trends in Number of New Claims Filed

Trends in New Claims Filed

1991 versus 1997



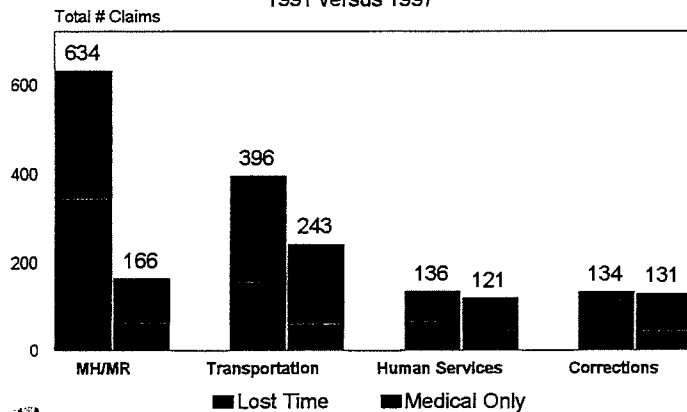
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The graphic at left compares the number of new claims filed for injuries in 1991 versus 1997. The number of new claims has decreased by 40% statewide while the percentage of lost time claims has been reduced from 46% of the claims filed to 34%.

Below are graphics that demonstrate the number of new claims filed in 1991 versus 1997 by department. Note that the scale showing the number of total claims changes between graphics.

Trends in New Claims Filed

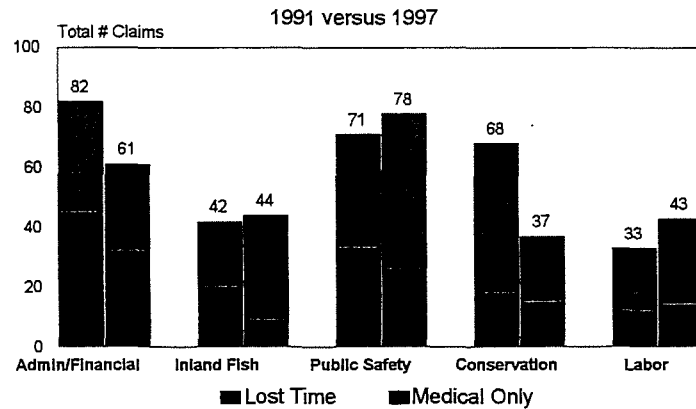
1991 versus 1997



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The Departments of Mental Health and Mental Retardation and Human Services showed significant improvement in lowering the number of new claims filed as well as the ratio of lost time claims to the total. Comparing the two-year cohorts (1991 to 1995), lost days for Mental Health and Mental Retardation have declined from 11,589 to 2,006. Similar declines were found for Transportation (7,141 to 2,371), Corrections (2,871 to 1,571) and Human Services (2,895 to 2,165). In total, lost days for newer injuries have declined from 31,676 in 1991 to 10,654 for 1995.

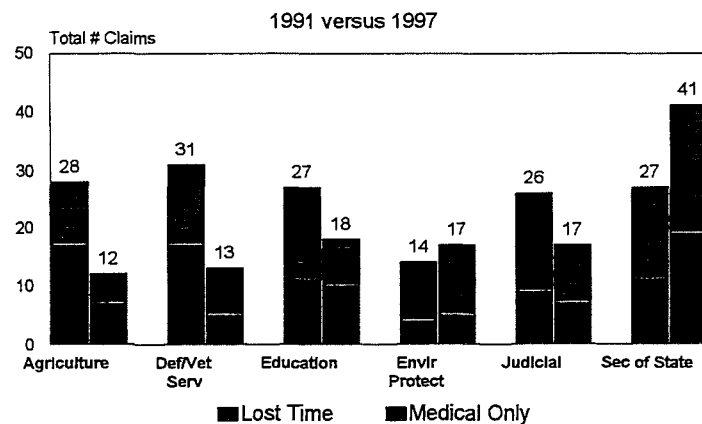
Trends in New Claims Filed



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The Departments of Administration and Financial Services and Conservation showed a significant decrease in the number of new claims filed in fiscal year 1997 compared to fiscal year 1991. Lost days for Administration and Financial Services declined from 2,661 in 1991 to 443 in 1995.

Trends in New Claims Filed



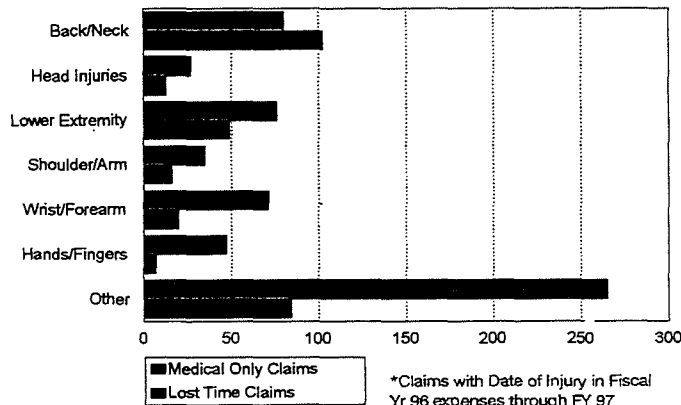
NA State Health Information Center

The Department of Defense and Veterans Services showed a decrease in the number of new claims and the percentage of lost time claims. The departments at left are smaller so keep in mind that one year may represent an aberration rather than a significant trend in the number of new claims.

INJURY/PROVIDER TYPES

Claims/Cost by Injury Type

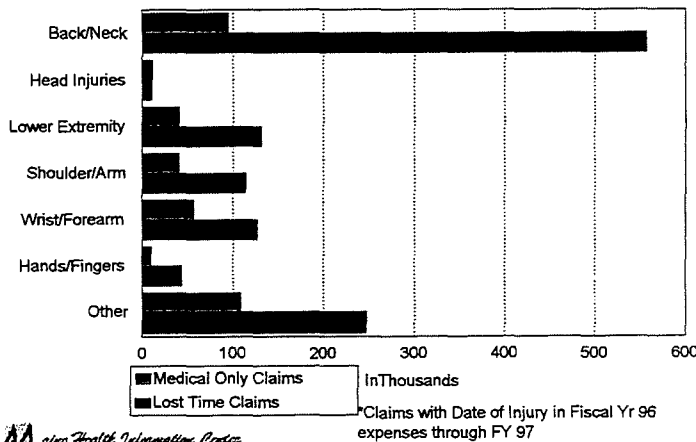
Number of Claims by Injury Type*



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Looking at the number of claims by type of injury, the number of medical only claims can be compared to the number of lost time claims. In the case of Back/Neck injuries, the number of lost time claims exceeds the number of medical only. For all other injury types the number of medical only claims exceeds the number of lost time claims. The ratio of the number of medical only to lost time for hand/finger injuries, for example, is 6:1. So, for every lost time claim filed there are six with medical expenses only and no lost time.

Claims Cost by Injury Type



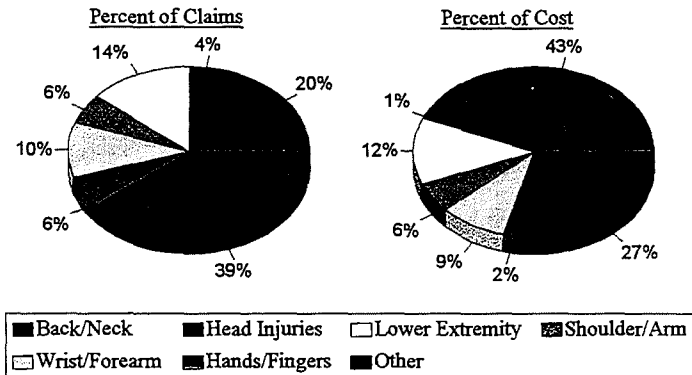
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Although medical only claims are much more frequent, lost time claims are much more expensive. The cost of lost time claims exceeds that of medical only for every injury type.

Back/Neck injuries have the highest expenses followed by Other as an injury type. Other injuries include limb pain, rheumatism, foreign bodies, burns and other fractures. Total cost for a back injury occurring in fiscal year 1996 followed through the end of fiscal year 1997 were over \$900,000.

Comparison of Total Claims/Cost by Injury Type

Comparison of % of Total Claims to % of Total Cost by Injury Type

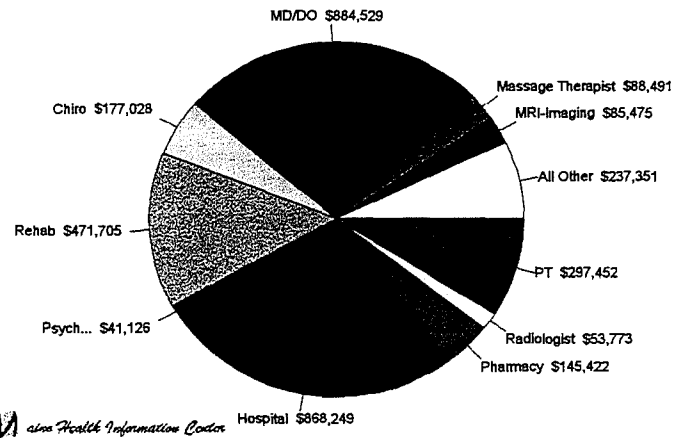


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Putting all medical only and lost time claims together and comparing injury types, back injuries account for 23% of the claims but 41% of the total cost. Hand and finger injuries, on the other hand, account for 10% of the claims but only 4% of the total cost.

Provider Payments

Medical Payments by Provider Type



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Provider payments are made for medical services to injured workers. At left is a breakdown of medical payments by provider type. The greatest percentage of total payments went to hospitals for both inpatient and outpatient services followed by payments to physicians.

Definitions (for use in the context of this report only)

Cohort	A group of similar people clustered together and followed over a period of time for comparative purposes.
Compensated Lost Days	The number of days for which indemnity payments were made excluding any uncompensated waiting period.
Date of Injury (DOI)	Date the injury actually occurred. Used for calculation of wages, lost time and other benefits.
Death Benefit	Benefits paid to compensate for lost wages and to cover burial and incidental expenses associated with a work related fatality.
Fiscal Year	The 12 month period used for accounting purposes from July 1 to June 30 for State of Maine government.
Indemnity Payments	Payments made to injured employees to compensate for lost wages or permanent impairment.
Lost Time (LT) Claims	A Workers' Compensation claim that includes indemnity payments for lost wages.
Lump Sum Settlement	A fixed payment agreement made to injured workers to partially or fully discharge any liability for Compensation. Payment may be made in one lump sum or spread over time.
Medical Only (MO) Claims	A Workers' Compensation claim that does not include indemnity payments for lost wages and may or may not include medical payment.
Medical Payments	Payments made to providers for medical services related to work related injuries. In a broader context sometimes all non-indemnity payments are referred to as medical payments and may include legal and miscellaneous payments.
Per Employee Average Cost	The total cost (payments made to employees and to providers) for a given amount of time divided by the total number of employees.
Primary Diagnosis	The primary diagnosis that occurs most frequently after reviewing all medical claims related to a particular injury.