



Oregon Workers' Compensation System: Trends in Claim Costs at Closure, 1990 to 2005

Information Management Division

Department of Consumer & Business Services

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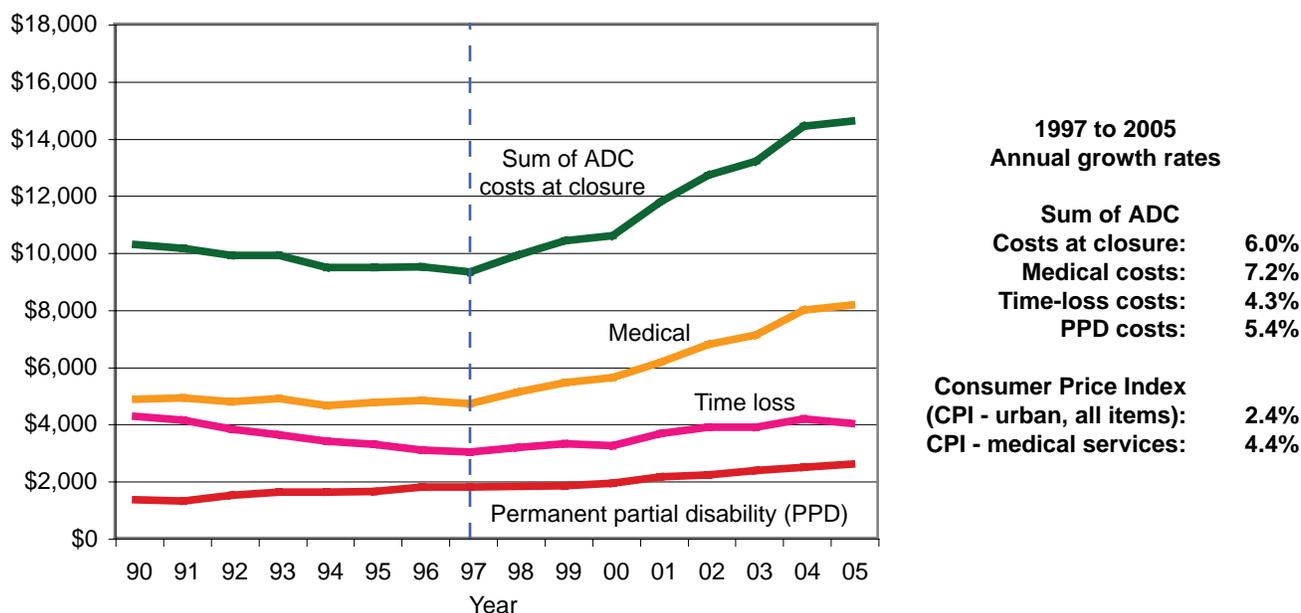
By Bryan Skalberg

In 2005, the Oregon Department of Consumer and Business Services, Workers' Compensation Division (WCD) created the Medical Quality Initiative (MQI) to look at ways of controlling increasing medical and overall costs in Oregon's workers' compensation system while ensuring that injured workers have adequate access to quality health care that results in a high return-to-work rate. At the same time, the division wanted to minimize disputes and litigation as well as reduce the administrative process of medical reporting for medical providers and insurance companies. The Information Management Division (IMD) worked with the WCD to provide data showing changes in the cost and use of medical services in Oregon's workers' compensation system. This report is one of several research alerts and looks at trends in claim costs as reported at time of closure. All annual data corresponds to the year of first claim closure.

Review of closed accepted disabling claims (ADCs)¹ from 1990 to 2005 shows that average claim costs rose at a pace exceeding the general inflation rate. From 1990 to 2005, the average sum of ADC costs at time of closure increased at an average annual growth rate (AAGR) of 2.6 percent, compared with a 2.5 percent AAGR in the Consumer Price Index (all urban consumers, U.S. city average). However, there has been a sharper increase in costs in recent years.

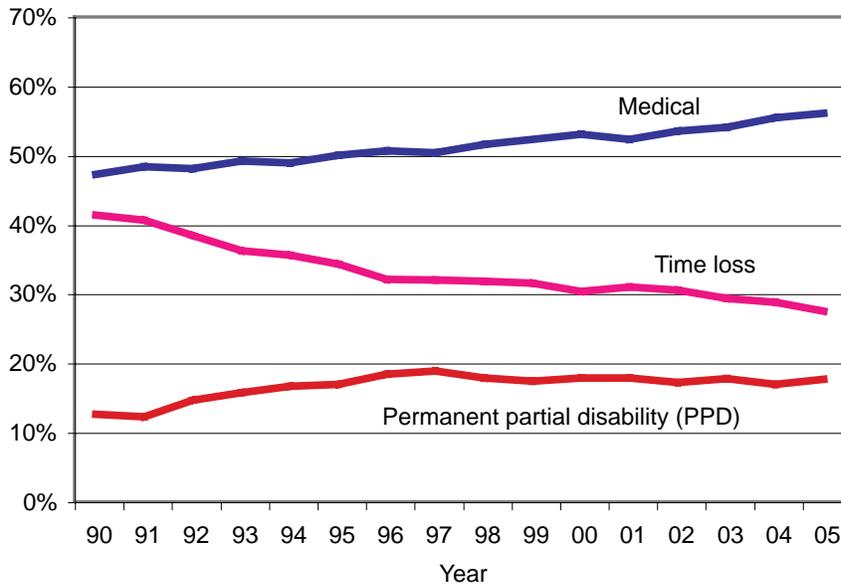
Figure 1 displays the trend in the average costs at closure for ADCs. The vertical line in the center of the graph identifies a turning point in 1997, when average medical costs and average time-loss costs changed from a decreasing trend to an increasing trend. This change in direction is most prominent for medical costs. When using 1997 as a baseline, the AAGR in the sum of costs at closure increases to 6.0 percent (compared with a corresponding 2.4 percent inflation rate). From 1997 to 2005, the medical component of ADC costs increased at an AAGR of 7.2 percent.

Figure 1. Average costs at closure for ADCs by year of closure (1990-2005)



¹An accepted disabling claim is a claim, accepted by the insurer, arising from an occupational injury or disease that results in compensable time loss, a permanent partial disability award, or a hospital inpatient admission.

Figure 2. Component percent of ADC costs at closure by year of closure (1990-2005)



	1997	2005
Medical:	50%	56%
Time loss:	32%	27%
PPD:	18%	17%

Figure 2 displays the trend in the components of costs at closure for ADCs from 1990 to 2005. As would be expected, the graph shows that medical costs are representing an ever-increasing share of claim costs. In 2005, medical costs represented 56 percent of claim costs compared with only a 50 percent share in 1997 and an even lower share before 1997. Since 1990, the share of costs attributable to time-loss payments has steadily decreased while permanent partial disability (PPD) costs have maintained a relatively constant share.

Notes on the data

Disabling claims with claim disposition agreements (CDA)² are not included in this analysis. CDA claims may have much higher (two to three times) medical costs. However, because no medical costs or time-loss costs are reported to the department, we are unable to include them in this analysis. Costs also exclude permanent total disability (PTD) and fatal indemnity payments; vocational assistance; medical-only claim costs; settlements; time loss paid before claim denial and before settlement where a claim was never closed; and compensation modified on appeal. Average permanent partial disability (PPD) costs are calculated for all claims, rather than just those claims with PPD payments.

²A claim disposition agreement is an agreement that permits the parties to a workers' compensation claim to dispose of all matters regarding the accepted claim (e.g., rights to compensation, attorney fees, expenses) except medical benefits.

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