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Potential Effects of the Affordable Care Act on Workers' Compensation

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Potential Effects of the Affordable Care Act on Workers' Compensation

This article draws from the author's chapter in The Economics of Health (Donald J. Meyer, ed.), which was just published by the Upjohn Institute. See p. 7 for more information.

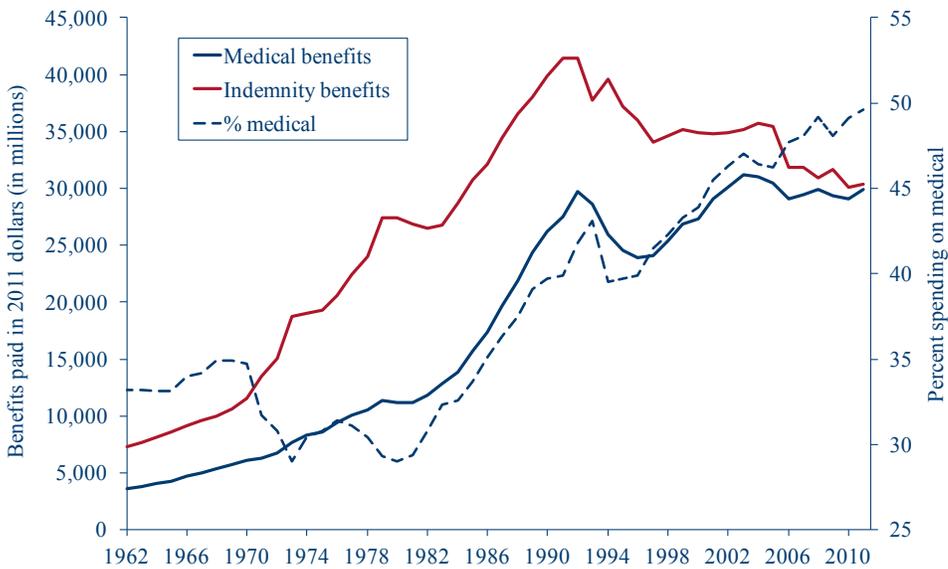
The passage of the Affordable Care Act (ACA) represents one of the largest overhauls to the U.S. health care system since the introduction of Medicare and Medicaid. Among the reform's many provisions are an employer mandate, an individual mandate, an expansion of Medicaid, subsidies for low-income people to purchase coverage, and the establishment of health insurance exchanges. The ACA also reforms the individual market and implements many measures aimed at reducing medical costs. Despite its many changes to the health care system, the ACA largely ignores workers' compensation insurance, which also deals with medical issues and has an overlapping agenda with health insurance. Although the ACA does not address workers' compensation, it could have potentially major spillover effects on these state-level programs. This article considers the possible interactions between workers' compensation insurance and the ACA.

WORKERS' COMPENSATION OVERVIEW

Workers' compensation insurance pays all medical bills for individuals with work-related injuries and diseases.

Because workers' compensation is a state-level program, each state's is a little different. In some states, private insurance companies administer workers' compensation, while in others, the states are the sole providers of insurance. For workers who miss more than 3–7 days of work, workers' compensation also replaces lost wages through indemnity benefits. The injured workers' weekly benefits are a function of their weekly earnings and are subject to state-level maximums. In all states except Texas and Oklahoma, workers' compensation insurance is mandatory for employers.

In 2011, nearly 126 million workers were covered by workers' compensation insurance (Sengupta, Baldwin, and Reno 2013). Employers paid over \$77 billion for coverage, and workers received over \$60 billion from the system. The majority of workers' compensation cases—around 76 percent—are medical-only cases and do not involve payments for missed work. Figure 1 shows workers' compensation spending on medical and wage replacement over time. Spending for wage replacement has been falling since the early 1990s, while medical spending has continued to rise. The share of medical benefits as a percentage of the total benefits paid for workers' compensation rose from around 30 percent in the early 1980s to approximately 50 percent in 2011.

Figure 1 Workers' Compensation Medical and Indemnity Benefits by Year

SOURCE: Sengupta, Baldwin, and Reno (2013).

THE ACA'S POTENTIAL EFFECT ON WORKERS' COMPENSATION

Filing Claims

The ACA can affect claiming in a variety of ways. As discussed later, it can change the labor force composition and affect the number of people who have work-related injuries, but it can also affect who files for workers' compensation. People without health insurance theoretically have an increased incentive to claim that their medical issues are work related even if they are not so that workers' compensation will pay the bills. Thus, having health insurance may lower the incidence of people misclassifying non-work-related injuries. But even if an injury occurs at work, health insurance may still deter workers from filing a claim if they prefer not to file for workers' compensation. If this theoretical relationship between health insurance and workers' compensation claiming holds in practice, the ACA will reduce workers' compensation claims by expanding health insurance coverage.

Empirical research tends to support the notion that having health insurance coverage makes people less likely to file for workers' compensation. Biddle

and Roberts (2003) surveyed Michigan workers identified by physicians as likely having work-related injuries. Of these injured workers, only 30 percent filed for workers' compensation. Of the 70 percent who did not file for workers' compensation, 36 percent cited having health insurance as the reason. Heaton (2012) studies the impact of Massachusetts's health insurance reform on workers' compensation by projecting how many emergency room bills would have been paid for by the state's workers' compensation system in the absence of the 2006 reform based on 2005 Massachusetts data. Heaton finds that the health care reform resulted in workers' compensation paying for 5–10 percent fewer emergency room medical bills.

In Dillender (2015a), I compare workers in Texas just before and after they turn 26, the age at which young adults lose access to dependent coverage under the ACA. This approach yields estimates of the causal effect of health insurance on workers' compensation filing. I find that immediately after people turn 26, initial claims filed for injuries with easy-to-delay reporting increase, while the overall amount of medical treatment that workers' compensation pays for increases by 8 percent. Despite these increases, overall workers'

compensation medical costs do not rise dramatically for 26-year-olds because the majority of this increased care is for less expensive services. These results suggest that health insurance affects workers' compensation filing, particularly at the intensive margin, but not necessarily for the types of services that drive medical costs.

By influencing some people to file claims with health insurance instead of workers' compensation, the ACA may result in cost savings to the workers' compensation system. However, the ACA may also change the type of insurance plans people have by encouraging the use of more high-deductible plans because it institutes a 40 percent excise tax on health plans with individual premiums above \$10,200 and family premiums above \$27,500 starting in 2018 (Zuckerman 2010). Since people will lack first-dollar coverage, they may be more likely to shift claims onto workers' compensation, which will still provide first-dollar coverage.

Reimbursement Rates

One of the ACA's measures aimed at reducing Medicare costs is establishing the Independent Payment Advisory Board (IPAB), which will make recommendations to cut Medicare costs if they grow larger than the per capita GDP plus one percentage point. If Congress fails to pass an alternative proposal with the same cost savings, the IPAB recommendations will become law. The IPAB curtailing Medicare costs by cutting reimbursement rates could affect workers' compensation reimbursement rates since some workers' compensation programs tie their workers' compensation reimbursement rates to Medicare's.

While this provision of the ACA may lower the amount of money workers' compensation spends on medical care, it may also cause providers in these states to be less likely to accept workers' compensation patients since they will receive less money for treating them. Even in states that do not tie their reimbursement rates to Medicare, changes in Medicare rates may affect workers' compensation. Auerbach, Heaton, and Brantley (2014) argue that

when Medicare pays physicians less, it may cause physicians to increase prices for other payers or provide more services to other patients that provide higher margins. If Medicare no longer pays providers for certain readmissions, it may have the same effect if it decreases physicians' profits from Medicare patients.

Labor Force Composition

Auerbach, Heaton, and Brantley (2014) also argue that the ACA could change the composition of the labor force. A large literature in economics finds that the need for health insurance has induced people to participate in the labor force (Antwi, Moriya, and Simon 2013; Blau and Gilleskie 2001; Buchmueller and Carpenter 2012; Dillender 2015b; Nyce et al. 2013; Strumpf 2010). Prior to the ACA, there were few good health insurance options for the near elderly outside of employment. Auerbach, Heaton, and Brantley argue that the exchanges and subsidies will allow older people to retire sooner, which may reduce costs since older workers typically take longer to recover from injuries and require more treatment.

Population Health

If the ACA improves people's health, it may lower the likelihood that people suffer injuries while at work. The notion that health insurance improves health finds broad empirical support (Card, Dobkin, and Maestas 2009; Doyle 2005; Finkelstein et al. 2012), and Courtemanche and Zapata (2014) find that people reported being in better health as a result of the Massachusetts reform. The ACA also has a focus on prevention by eliminating copayments for preventive services and including an annual wellness visit as a part of Medicare.

Identifying More Efficient Treatment

By identifying effective treatments and digitizing medical records, the ACA has the potential to lower costs for medical care paid under workers' compensation. An example of one of the ACA's

strategies to make medical treatment less expensive is the establishment of the Patient-Centered Outcomes Research Institute, which focuses on identifying effective treatments. The ACA also implements rules that establish electronic health records, which could also reduce costs while improving care.

Shared Medical Resources

A potential issue with the dramatic increase in insurance coverage promised by the ACA is that it will put more stress on existing medical resources. Hofer, Abraham, and Moscovice (2011) point out that there was already a shortage of primary care doctors before the ACA and suggest that the increased demand from the ACA could increase the shortages. Huang and Finegold (2013) find that certain areas will be hit hard by an increase in demand. They estimate that 7 million people live in areas where demand for primary care may exceed supply by 10 percent after the ACA. Physician shortages may increase wait times for injured workers before they can receive medical care.

CONCLUSION

By overhauling the health insurance system and making many broad changes to medical care, the ACA promises to change the health care landscape. This article describes the implications of the ACA for workers' compensation insurance. It reviews the considerable evidence that points to a reduction in the claiming rate for workers' compensation. The evidence also suggests that health insurance covers some of the costs that workers' compensation insurance was previously paying.

Apart from affecting claiming behavior, the ACA will likely affect workers' compensation insurance in other ways as well. The ACA's many cost-saving measures—especially those that aim to identify the most effective treatments—will likely have spillover effects. The aspects of the ACA that aim to improve population health may also result in fewer work-related injuries, thereby saving workers' compensation programs money. One negative aspect of

the ACA for workers' compensation is that the increase in insurance coverage may put more strain on medical resources, which could make seeing a doctor more difficult.

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- **Kevin Callison**, *Grand Valley State University*
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- **Bo Cowgill**, *Columbia University*
"Labor Market Effects of Algorithmic Hiring: Evidence from Field and Natural Experiments"
- **Jeff Denning**, *Brigham Young University*
"The Effects of Credit Constraints in College on Human Capital and Labor Supply"
- **Rafael Dix-Carneiro**, *Duke University*
"The Impact of Labor Market Shocks on Household Financial Outcomes and Migration"
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