



A MILLIMAN GLOBAL FIRM

Milliman*Consultants and Actuaries*

Survey of Rehabilitation and Return-to-Work Practices
Among U.S. Disability Carriers

Prepared by:

Robert W. Beal, FSA
Milliman, Inc.

For:

America's Health Insurance Plans

May 2007

Executive Summary

The following are key findings of the survey:

- Rehabilitation and RTW programs provide important benefits to employers and to disabled employees. The rehabilitation and RTW programs offered by disability insurers very often play the key role in returning disabled employees to productivity and financial independence.
- For reporting insurers, RTW closures represented 29% of all claim closures in 2005 and 42% of all closures excluding claims closed due to death or the end of the maximum benefit period.
- The participating companies reported annual budgets dedicated to RTW and rehabilitation that range from \$450,000 to over \$10 million.
- On average, participating LTD carriers spent \$3,200 on each disabled employee receiving rehabilitation and RTW services. The range of disability insurer investment extended as high as \$7,600 per return-to-work client.
- Rehabilitation and RTW programs offer a wide range of services to disabled employees, including:
 - Medical case management,
 - Vocational and employment assessment,
 - Worksite modification,
 - Purchasing adaptive equipment,
 - Business and financial planning,
 - Retraining for a new occupation, and
 - Education expenses.
- A number of provisions in disability insurance policies play a role in supporting claimant rehabilitation and RTW. Such provisions include:
 - work incentive benefits,
 - rehabilitation benefits,
 - workplace accommodation benefits, and
 - child or dependent care benefits during rehabilitation.

Introduction

Disability insurance provides financial protection for workers who become disabled and are unable to perform their occupations. It is beneficial to both disabled employees and their employers to have their employees return to work as soon as they are able to do so. For disabled employees, benefits are typically 60% to 66 2/3% of their pre-disability income. For employers, an employee's indefinite absence due to a disability involves the

loss of productivity and the extra cost of training a new employee. In addition, the disabled employee often has on-the-job knowledge that may take a new employee many years to acquire.

Many employees who receive disability benefits subsequently recover and return to work. Frequently, the cause of disablement is successfully treated with appropriate medical care, and the employees are able to return to their jobs with no additional assistance. However, for some claimants, the nature of their disability is severe enough to require extra support to facilitate their return.

In the late 1970's, several large group LTD carriers introduced formal programs with the objective of identifying claimants who could benefit from special support services that would facilitate their return to work. These programs were staffed with credentialed professionals trained in rehabilitation and counseling and offer a range of medical, psychological, and vocational services designed to assist the disabled employee return to work.

The popularity of these programs has grown among group LTD carriers. Our survey confirmed that most now offer rehabilitation and RTW programs, which provide a range of services to disabled employees such as:

- Medical case management,
- Vocational and employment assessment,
- Worksite modification,
- Purchasing adaptive equipment,
- Business and financial planning,
- Retraining for a new occupation, and
- Education expenses.

Disability carriers are in a unique position to provide this support. In order to pay disability benefits, they develop a thorough understanding of the claimants' medical conditions and the limitations they create in preventing the claimants from fully performing their occupations.

On behalf of America's Health Insurance Plans (AHIP), Milliman conducted a written and telephone survey of group disability carriers regarding their rehabilitation and return-to-work (RTW) practices. Despite extensive disability insurer investment in rehabilitation and RTW efforts – and the importance of RTW to employees and employers – these efforts receive little public attention. This survey was intended to help quantify disability insurance carrier investment in rehabilitation and RTW; identify key industry practices that support return to work; and highlight the factors that are the most crucial to successful return to work.

Ten group disability carriers, representing 60% of the 12/31/2004 long-term disability (LTD) premium in force¹, were surveyed. A list of the participating group disability carriers is provided in Appendix A. The focus of the survey is primarily LTD plans, although many carriers apply practices in short-term disability (STD) plans, particularly when the STD coverage is followed by LTD coverage. Many individual disability carriers also offer return-to-work rehabilitation programs.

We have relied upon the responses and data provided by the disability carriers participating in the survey. We did not audit or independently verify the survey responses, except that we did review the responses for reasonableness and consistency. To the extent that any of the data or other information supplied was incorrect or inaccurate, the results of our analysis could be affected. Milliman does not intend to benefit any third party recipient of its work product.

The Definition of Disability

LTD contracts specify the definition of disability that covered employees must satisfy in order to receive disability benefits. Definitions of disability may vary among disability carriers, and each carrier may offer a variety of definitions to employers. However, a typical requirement during the “own occupation” period, which is often 24 months following the elimination period, is that the employee must be unable to perform most of the material and substantial duties of his or her own occupation and is unable to earn more than a specified percent (e.g., 80%) of his or her pre-disability income due to an accident or sickness. After the own occupation period, the definition of disability typically changes to an “any occupation” definition. That is, the claimant continues to be eligible for disability benefits if he or she is unable to perform the material and substantial duties of any occupation for which the claimant is or may reasonably become qualified based on education, training, or experience.

The definition of disability typically allows the disabled employee to work part-time and still receive benefits, if the employee is able to perform some but not all of the material and substantial duties of the occupation (or for not as long as usual) due to the accident or sickness. In these situations, the disability benefits are reduced by earned income by various formulas offered by the disability carrier. However, the combined disability benefit and earned income are generally greater than if the employee remained totally disabled.

The Value of Rehabilitation and RTW Programs

Rehabilitation and RTW programs provide important benefits to employers and disabled employees. Employers’ productivity improves when disabled employees are able to return to their occupations. Disabled employees, who are motivated to work but unable to do so because of the limitations of their disabilities, may lead productive lives once again through the assistance offered by the trained staff of these programs.

¹ Based on the JHA 2005 U.S. Group Disability Market Survey.

Appendix B summarizes representative examples of successful return-to-work through insurer rehabilitation and RTW programs.

Likelihood of Return to Work

Claims close and disability benefits cease for a number of reasons. The primary reasons include death, recovery, and end of maximum benefit period. Of the companies participating in the survey, six were able to separate their total 2005 LTD claim closures (including both approved and unapproved claims) into these categories. RTW closures represented 29% of all claim closures in 2005 for these six companies and 42% of all closures excluding deaths and claims reaching the end of their maximum benefit periods.

The Investment and Return in Rehabilitation and RTW Services

Effective rehabilitation and RTW programs require upfront and ongoing investments of time and resources from both disability carriers and employers. Disability carriers must hire professionals with the appropriate backgrounds who can deliver valuable services to claimants directed toward assisting their return to work. They must integrate these resources into their claim management teams and be willing to pay for the necessary outside resources in support of these objectives.

The participating companies reported annual budgets dedicated to RTW and rehabilitation that range from \$450,000 to over \$10 million. These budgets depend on the size of each company’s claim block as well as on the types of services they provide. Seven of the participating disability carriers provided information regarding their average cost for rehabilitation and RTW services in 2005 per client (i.e., disabled employee receiving rehabilitation and RTW services). These results are summarized in Table 1.

<u>Table 1</u> Average Rehabilitation and RTW Cost Per Client For 7 Participating Companies	
Company	Average Cost Per Client
A	\$4,000
B	\$5,200
C	\$475
D	\$3,000
E	\$1,200
F	\$7,600
G	\$1,200
Average	\$3,200

The reported rehabilitation and RTW costs per client ranged from \$475 to \$7,600 with an overall average of \$3,200. The outlay for rehabilitation and RTW services per client is significant.

Employers invest in rehabilitation and RTW programs that coordinate with the efforts of the disability carriers by developing a corporate culture that supports continued productivity and guides employees and management, creating a flexible work site that allows for continued productivity as temporary work restrictions and limitations arise, and assigning specific accountability for RTW planning within the management of the organization.

Measuring the investment as well as the return associated with rehabilitation and RTW programs can be a daunting task because much of the investment and benefits do not lend themselves to precise quantification. Some disability carriers have attempted to calculate the ROI from their RTW programs. Research and analysis conducted at one company² found the following outcomes resulting from the application of a well defined RTW program:

A 7:1 ROI with the application of a transitional work program.

A 25% to 30% reduction in lost work days per claim.

A 40% to 60% reduction in short term disability claims that go on long term disability.

A 20% to 25% reduction in repeat short term disability claims.

A 35% reduction in lost work days on work related lost time claims.

A 40% reduction in healthcare costs for individuals on short term disability.

Although this research was directed primarily to the impact of rehabilitation and RTW programs on STD results, many of these results can be extended to LTD.

RTW and Rehabilitation Programs Among Group Disability Carriers

All ten group disability companies participating in the survey have formal rehabilitation and RTW and programs. These programs typically include the following components:

1. Rehabilitation and vocational counselors
2. Rehabilitation and vocational services
3. External vendors
4. Contractual policy provisions supporting the RTW and rehabilitation efforts

² Unum under the guidance of Ken Mitchell, Ph.D., Vice President for Return to Work.

5. Early intervention
6. Employer partnerships.

Rehabilitation and Vocational Counselors

These staff members are trained in rehabilitation and vocational counseling. Counselors have often earned a Masters degree in vocational counseling or earned professional credentials such as Certified Rehabilitation Counselor (CRC) and Certified Case Manager (CCM). Personnel with nurse training are also common.

Rehabilitation and Vocational Services

These programs typically provide the following services:

- Medical case management, including the coordination of medical services;
- Vocational and employment assessment;
- Worksite modification;
- Purchasing adaptive equipment;
- Business and financial planning;
- Retraining for a new occupation;
- Education expenses.

The first objective of the disability carriers is to facilitate the claimants' return to their own occupations with their employers. Given the functional capacity of the employees, this may require disability insurance carriers to work with employers to provide worksite modifications or purchase of adaptive equipment. It may also involve bringing the employees back on a part-time basis and increasing their hours over time. Employer cooperation is critical at this step.

If the employee is unable to perform his or her previous occupation, for example, due to the physical demands of that work, and worksite modification is not a reasonable option, then the disability carrier may work with the employer and employee to find other comparable work with the employer.

If returning to the current employer or the current occupation is not a feasible option, the disability carrier may provide financial assistance to the employee for retraining or education in a new occupation. If the disabled employee has the potential to move to a different occupation, education and retraining can be key factors in a successful transition for the employee. Disability carriers provide additional support by performing labor market surveys, identifying work opportunities, and teaching employment skills such as interviewing and resume writing.

External Vendors

All ten participating carriers utilize external vendors, in addition to their home office staffs, to provide some of these services. Some of these vendors provide vocational case

management to claimants at their homes or places of employment. Some companies use executive placement firms to assist claimants who are pursuing other occupations or to perform labor market surveys. Some companies hire ergonomic experts to design office equipment that will allow a claimant to return to work. Nurse case managers are used by some carriers as intermediaries between the disability carrier and the attending physician to ensure that the medical treatment is appropriate for the condition causing the disability and is designed to return the employee to work.

Contractual Policy Provisions

Group disability contracts may offer a variety of provisions or benefits intended to assist and encourage claimants to return to work as soon as they are able, including the following:

1. *Work incentive benefit*

During the first 12 months that the claimant returns to work during a disability, disability income benefits will be reduced by earned income only to the extent that the combined benefit and earned income exceed 100% of the pre-disability income.

2. *Rehabilitation services*

A claimant may qualify to participate in a rehabilitation program. The disability carrier will work with the employee, employer, and the employee's attending physician to develop an individualized rehabilitation program intended to assist the employee to return to work. The disability carrier will pay a reasonable portion, if not all, of the expenses.

3. *Child-care and dependent care while in rehabilitation*

This benefit will provide an additional benefit while the claimant is in a qualified rehabilitation program to cover child-care and dependent care.

4. *An increase in benefits (e.g.,5%) while in a qualified rehabilitation program and before returning to work*

To encourage a claimant to participate in a rehabilitation plan, the benefit will be increased once he or she begins the rehabilitation plan and prior to returning to work.

5. *Workplace accommodation benefit*

The company will reimburse an employer or the employee for expenses incurred to modify the workplace to allow the employee to return to work, subject to a

maximum dollar amount specified in the LTD plan. Expenses may include the cost of tools, equipment, furniture, or any other changes to the worksite or environment that the company agrees will allow the disabled employee to return to work.

6. *Pre-disability intervention services*

The company may offer to pay reasonable work accommodation benefits to the employer in the case of an employee who is currently working but who has a medical condition that may likely lead to his or her inability to perform the important duties of the occupation.

7. *Mandatory participation in a rehabilitation plan*

The company may require a disabled employee to participate in an individualized rehabilitation plan at the expense of the company. If the employee refuses to participate in the plan or does not comply with it, without good cause, all benefits will cease to be payable, where “good cause” means a medical reason that prevents implementation of the rehabilitation plan.

A disability carrier may not offer all of the above benefits or provisions. The work incentives and rehabilitation services benefits are generally standard in most LTD contracts today. Of the ten companies participating in the survey, seven include the mandatory participation in a rehabilitation plan provision in their standard LTD contracts. The others may offer this provision if an employer requests it.

Early Intervention

Early intervention means identifying appropriate candidates for participation in rehabilitation plans as early as possible during their disablement. Table 2 shows the distribution of expected distribution of recoveries during the first ten years of disablement for a male disabled at age 42, with a 90-day elimination period, based on an industry table³.

³ Table 95a, male age 42, 90-day elimination period and a 24-month own occupation period, non-mental & nervous cause of disability.

Table 2 Percent of Expected Recoveries in the First 10 Years By Year of Disablement (90-day Elimination Period)	
Year of Disablement	% Recoveries
1	66.1%
2	14.7%
3	6.1%
4	4.8%
5	3.5%
6	2.1%
7	1.0%
8	0.7%
9	0.6%
10	0.5%
Total	100.0%

Given the very high percentage of expected recoveries occurring in the first year of disablement, identification of potential candidates early in the disablement is a critical factor to achieving a successful rehabilitation.

RTW and rehabilitation staff members work with the disability benefit specialists to identify candidates for whom participation in a rehabilitation plan will increase the likelihood that they can return to work. At that time, the disabled employee, the employer, and the attending physician are brought into the discussion to develop an individualized plan for the employee. In LTD plans where the disability carriers also provide the STD plans, the early intervention process may begin while STD benefits are payable.

Employer Partnerships

The employer's willingness to participate in a disabled employee's rehabilitation plan is a crucial factor in achieving a successful return to work. For the four participating disability carriers who were able to provide the necessary statistics, 89% of all claimants who returned to work returned to their own employer while the other 11% went to a new employer.

Disability carriers face a wide range of cooperation among employers. Some are more than willing to bring back disabled employees and make the necessary accommodations, while other employers are only interested if the employee can return on a full-time basis. The level of employer partnership also depends on the nature of the work and the ability of employers to support rehabilitation or part-time solutions. Of course, employers must be cognizant of the requirements related to disabled employees from the Americans with Disabilities Act (ADA) and Family and Medical Leave Act (FMLA).

The RTW and rehabilitation staffs of disability carriers spend considerable effort in educating employers on the benefits of bringing disabled employees back. One of the carriers participating in the survey indicated that they educate all new employers with over 1000 covered employees even before a disability occurs. As a result, employers understand the carrier’s philosophy with respect to rehabilitation and RTW and the employer’s expected role.

Relative Effectiveness of Aspects of RTW and Rehabilitation Programs

Disability carriers participating in the survey were asked to rank the relative effectiveness of various tools comprising rehabilitation and RTW programs. The ranking was from 1 to 6 with 1 representing the most effective tool and 6 the least effective. Table 3 shows the listing of each of the six tools and the average rank given to it.

<u>Table 3</u> Relative Ranking of the Effectiveness of Specific Rehabilitation and RTW Tools 1 = Most Effective; 6 = Least Effective	
Rehabilitation and RTW Tool	Average Ranking
Development of employee specific RTW plans	2.0
LTD plan design with provisions supporting rehabilitation and RTW	2.5
Early intervention	2.8
Medical case management	3.6
Mandatory rehabilitation provision	4.1

The development of employee-specific RTW plans is considered the most important on average. Plan development involves the teamwork of the disability benefit specialist managing the claim, the rehabilitation and RTW staff members and vendors, the employer, and the claimant’s attending physician. With respect to overall effectiveness, development of employee specific RTW plans was followed by supportive LTD plan designs and early intervention.

The least important tool, on average, was the mandatory rehabilitation provision. Many of the representatives from the participating companies pointed out that a successful rehabilitation and RTW depends heavily on the motivation of the disabled employee to return to work. If that motivation is not present, the disabled employee will find some way not to cooperate with the specific plan developed for him or her, in spite of the existence of a mandatory rehabilitation provision.

On the other hand, several company representatives indicated that it was their experience that the mandatory rehabilitation provision could be very effective if used correctly. Once a well-thought out rehabilitation plan exists, the company lays the groundwork by explaining its expectations for the employee upfront. Benefit reduction occurs only after a stated number of instances of non-compliance with the program.

Conclusions

Group LTD carriers have invested significant resources and developed a variety of tools to provide rehabilitation services to disability claimants and to assist their return to work. The rehabilitation and RTW programs of all ten participating companies shared essentially the same key components, e.g., rehabilitation and vocational counselors and services, the use of external vendors, supporting contractual policy provisions, early intervention and the employer partnerships.

To achieve effective results, a carrier's dedicated and trained rehabilitation staff must work closely with the claimant, the attending physician, external vendors, and the employer. As a result of these efforts, many disabled employees have been able to return to productive positions in the work force.

Appendix A

Participating Group LTD Carriers:

- Aetna
- Assurant
- CIGNA
- Guardian
- Lincoln Financial
- Mutual of Omaha
- Principal Financial
- Prudential
- Standard
- Unum

Appendix B

Examples of Successful Return to Work:

These examples illustrate how the rehabilitation and RTW programs of private disability insurers can serve the best interests of employees and employers as well as insurers – and why they have become a key component of effective disability claims management programs.

1. A foreman in a large factory developed severe arthritis in his legs, which prevented him from walking the long distances around the factory needed to perform his work. The disability carrier purchased an electronic cart to give the employee the mobility he needed around the factory. With the employer's agreement, the claimant was able to resume his foreman duties.
2. A highly paid professional in an educational setting had coronary by-pass surgery. Following surgery, the employee was reluctant to return to work although his medical condition allowed it. From discussions with the attending physician, the carrier identified that the claimant had a developed fear of doing anything strenuous that might endanger his health. With agreement from the attending physician, the disability carrier introduced the claimant to a psychologist who helped the claimant address these fears. Subsequently, a RTW plan was developed whereby the claimant returned to work initially for a few hours a day, gradually increasing to full-time.
3. A manager was going blind from a medical condition. Although reasonable accommodations were being made by the employer to assist the employee, she was ultimately unable to perform her duties. A nurse rehabilitation specialist interviewed the employee, employer, and the attending physician. Through her research, the nurse was able to identify a new surgery by which the employee could regain her sight. Following this surgery, the employee was able to return to work full-time.
4. An engineer had a heart and lung transplant. The disability carrier worked closely with the attending physician and the employer. A gradual RTW schedule was developed. Initially the employee was able to work out of his home. In six months, the employee had returned to work full time.
5. A customer service representative for a medical laboratory lost the use of her arms and legs as a result of a blood infection. The rehabilitation specialist for the disability carrier worked with the claimant to use prosthetic limbs, and a rehabilitation engineer performed an ergonomic evaluation to bring the demands of the job within the physical capability of the employee. The disability carrier paid for the physical therapy and counseling and the employee returned work at her occupation after one year.

6. A farmer working in the agricultural department of a large university lost his hearing. The employee's medical insurance did not cover hearing aids, so the disability carrier purchased them. This allowed the employee to return to his work.