California workers’ compensation
Getting proactive about employee health—
can it increase productivity and lower costs?

A few years ago, corporate executives labeled California as the least favorable place in America to do business. Companies struggled with workers’ compensation costs that were at an all-time high. Although the system has improved, workers’ compensation remains a burden for many businesses. This insurance is a mandatory operating expense, and businesses are looking for ways to reduce workers’ compensation costs and get more value from the dollars they do spend by increasing productivity.

How can companies maximize their investment in workers’ compensation? Is there a strategy for cost management that also improves employees’ health and productivity? Is there a real-world model that shows it can be done?

CALIFORNIA WORKERS’ COMPENSATION—THE COST OF DOING BUSINESS

Workers’ compensation laws exist to make sure employees dealing with job-related illnesses or injuries receive prompt, appropriate medical care. Whether a business has 1 or 100,000 employees, it’s required to pay the entire cost of coverage. With the business community footing the tab, the total costs of California workers’ compensation almost tripled in just seven years—from about $9.5 billion in 1995 to $25 billion in 2002! More expensive medical services, greater use of pharmaceuticals, and higher demand for services such as chiropractic and physical therapy all played a key role. As a result, California employers were paying the highest workers’ compensation rates in the country.

Many California businesses simply moved their operations elsewhere. A 2004 survey of senior executives revealed that nearly 40 percent of companies had plans to shift jobs out of state. Any expansion—new factories, new design centers—would take place outside California. The survey included companies of all sizes, from businesses with $1.5 billion in revenue to larger ventures taking in as much as $90 billion. These companies represent more than 95 percent of the state’s industry sectors and employ nearly 500,000 in-state workers. Company decision makers consistently expressed their concern that the California workers’ compensation system did not support a competitive business climate.
Employers weren’t alone—injured workers had their fair share of complaints about the system. When they were surveyed by the California Division of Workers’ Compensation, nearly 40 percent said their medical provider didn’t understand the impact their injuries had on their ability to perform job duties. About one-third of the workers reported their physician did not provide advice about returning to work or preventing reinjury.

**REFORM BRINGS LITTLE RELIEF**

By 2004, it was clear that business as usual wasn’t working. California enacted sweeping legislation to control workers’ compensation costs and to create standards for medical care. There’s been some progress, but California continues to have the fifth-highest workers’ compensation rates in the nation. According to a recent survey of small business owners, the cost of workers’ compensation remains the number-one challenge to running a business in California. But it doesn’t have to be.

**BUSINESSES REACT BY MOVING JOBS OUT OF CALIFORNIA**

Companies of all sizes have reacted to California’s high workers’ comp costs by relocating out of state.
- **Fidelity National Financial, Inc.**, moved 1,400 jobs from Santa Barbara to Jacksonville, Florida.
- **3Com Corporation**, a networking company, was a Silicon Valley landmark until it relocated its senior management staff to its East Coast offices in Marlborough, Massachusetts.
- **Nissan North America, Inc.**, is moving about 1,300 jobs from a suburb of Los Angeles to new headquarters just outside Nashville, Tennessee.
- **Camstar, Inc.**, a software design firm, relocated 100 positions from Campbell to Charlotte, North Carolina.
- **SandenVendo America, Inc.**, a beverage vending machine manufacturer, is moving from Fresno to Dallas, taking 300 jobs.

According to the Commission on Health and Safety and Workers’ Compensation, nearly 750,000 work-related injuries and illnesses occur every year in California. Injury rates are highest in construction, transportation and public utilities, agriculture, and state and local government.

**HEALTHY WORKERS ARE MORE PRODUCTIVE**

Preventing injuries at the workplace

Most employers understand that employee health is a major factor in overall labor costs. Healthy employees help contain costs related to absenteeism, presenteeism, turnover, and loss of productivity. Businesses are discovering that a proactive approach to employee health is the best way to lower their workers’ comp rates. A safe workplace and healthy, productive employees add value to a business. For one thing, healthy employees file fewer disability and workers’ compensation claims.

Occupational health authority Edward Bernacki, MD, MPH of Johns Hopkins University, urges employers to think of injury and illness reduction as opportunities to increase productivity. He’s shown that a proactive mix of safety measures and health awareness efforts can have a significant impact on
workers’ compensation costs. As proof, his health and safety programs, designed to protect Johns Hopkins employees, have cut workers’ compensation costs by $4 million a year.9

**FINDING THE RIGHT CARE FOR INJURED WORKERS**

Every employer wants injured employees to receive the high-quality specialty care that helps them get back on the job safely and quickly. While all patients should receive such care, employees injured on the job require a very specific clinical focus. Occupational medicine needs to be dedicated to the prevention and management of workplace injury, illness, and disability, as well as the promotion of health and productivity on the job.

Leading injuries for workers include musculoskeletal impairments such as sprains, strains, fractures, cuts, and other traumatic conditions.10,11 Back pain is the most frequently treated and costly type of these conditions.

Specially trained providers who understand an employee’s job requirements and workplace hazards can best coordinate care for these injuries. The ideal occupational health program should be part of an integrated delivery system, in which skilled multidisciplinary care teams can respond efficiently to the distinct needs of injured workers. Ideally, employers should be able to see reduced medical costs and an expedited return to work.

**THE NUMBERS ADD UP QUICKLY**

Health risks that reduce productivity include smoking, excessive alcohol consumption, physical inactivity, high blood pressure, high cholesterol, and stress. A landmark four-year study of 3,338 Xerox employees found:8

- Total workers’ compensation costs jumped from $2,178 per person for low-risk employees to $15,162 per person for high-risk employees.
- Only 4.9 percent of low-risk employees filed workers’ compensation claims, compared with 8.2 percent of high-risk employees.

**KAISER ON-THE-JOB®**

A holistic, team-based approach to occupational medicine

High-quality care delivered by medical providers specially trained in occupational health—that’s a good start. But integration and teamwork are the keys to cost relief. Kaiser On-the-Job provides a full range of occupational health services, from injury and illness care to preventive care that encourages employees to take an active role in improving their health. Board-certified physicians in occupational medicine coordinate care for ill or injured workers. Skilled case coordinators identify and prioritize return-to-work issues. Whether it’s a sprained ankle or a more serious injury, employees have the support of a fully integrated health care delivery system—and they don’t have to be health plan members.

A California institution takes its revenue out of state: Buck Knives, a family business, knew it could no longer afford to operate in California. The company had deep roots in the state, but the cost of staying—including workers’ compensation—was simply too great. So, in 2004, Buck Knives moved to Idaho, taking with it $33 million in annual sales and approximately 200 jobs.7

**TOPICS IN HEALTH AND PRODUCTIVITY: California workers’ compensation**
Solutions that keep a business productive
It’s easier to run a profitable business when your workforce is healthy and productive. Kaiser On-the-Job provides injury care that’s proven to keep disability costs 25 percent lower, while resulting in 19 percent fewer temporary disability days! With customized health screenings, wellness programs, and self-care tools, employees are empowered to be their best—and that’s good for business. Employees don’t even have to be Kaiser Permanente members to benefit from these services.

Some examples of our fee-for-service products:

- **Medical evaluations:** post-offer, fitness-for-duty, return-to-work, and disability evaluations
- **Screening and monitoring:** Department of Transportation/DMV evaluations, asbestos evaluation reports, respirator clearance evaluations, lead evaluation reports, hazardous waste worker evaluations, and emergency medical response worker evaluation reports
- **Onsite drug and alcohol testing (including after-hours collections):** SAMHSA 5 and 9 Panel, including lab and medical review, urine specimen collection, and breath alcohol screening and confirmation
- **Worksite services:** immunizations, ergonomic evaluations, health-risk appraisals, health fairs, training classes, and worksite assessment for job safety

**Kaiser On-the-Job reduces costs and increases productivity**

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<th>Costs*</th>
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**Education for prevention**
There’s no cookie-cutter approach to employee well-being. It all begins with integrating educational and preventive activities into the broader framework of worksite safety. That’s why Kaiser On-the-Job occupational health centers offer a wide range of fee-for-service health care classes, including:

- Ergonomics
- Smoking cessation
- Avoiding workplace injuries
- Stress reduction

**Kaiser Permanente HealthWorks: Customize a program for your workforce**

Contact your Kaiser Permanente account representative to create customized programs tailored to employees’ health needs, including in-depth consultations, healthy lifestyle classes, onsite screenings, worksite wellness activities, online services, downloadable podcasts, and rewards for healthy living.

A team that understands business needs

With Kaiser On-the-Job, employers have plenty of help looking after their workers’ health. A skilled team of occupational health professionals staffs each of the nearly 50 Kaiser On-the-Job occupational health centers. They know how to respond quickly and efficiently to work-related injuries.

For more information about Kaiser On-the-Job or our health plans, contact your Kaiser Permanente representative or call 1-888-KOJ-WORK (565-9675) toll free.

Endnotes


Information in this publication was accurate at the time of production. However, details may have changed since publication. For the most current information on our plans and services, check with your sales executive or account manager.