IBI Research Insights

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It Is What It Is – Or Is It?
– Disparities in Disability Incidence across and within Industries –

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Background

In the early 1990s, I served as Research Director at the California Workers' Compensation Institute in San Francisco. Workers' compensation covers only job-related injuries and illnesses, thus it focuses on reducing risks in occupations and industries. In 1990, the Upjohn Institute published important research[1] showing that there was a greater variation in workers' compensation claims *within* industries than *between* industries. The major finding of the research: significant opportunities exist to improve safety for employers within industries – employers weren't just stuck with risk they couldn't do anything about.

Since we started IBI in 1995, I've wondered if there is similar variability in disability experience across industries. This issue is particularly germane for employers since the incidence of short-term disability claims is about seven times that of lost-time workers' compensation claims nationwide and thus a key part of employer health and productivity costs.[2]

This analysis is based on incidence data from IBI's 2011 benchmarking database[3] and includes information from 6,679 employers and more than 820,000 claims. We include in this investigation the six industries that contribute about two-thirds of all U.S, private-sector activity.[4] These industries are: manufacturing, real estate and insurance, finance, healthcare, professional services and retail.

Noteworthy Differences in Incidence

We observe striking differences in disability incidence rates across these six critical industries. Overall, employers meeting the criteria for this analysis[5] had 5.1 new claims for every 100 covered lives in 2011.

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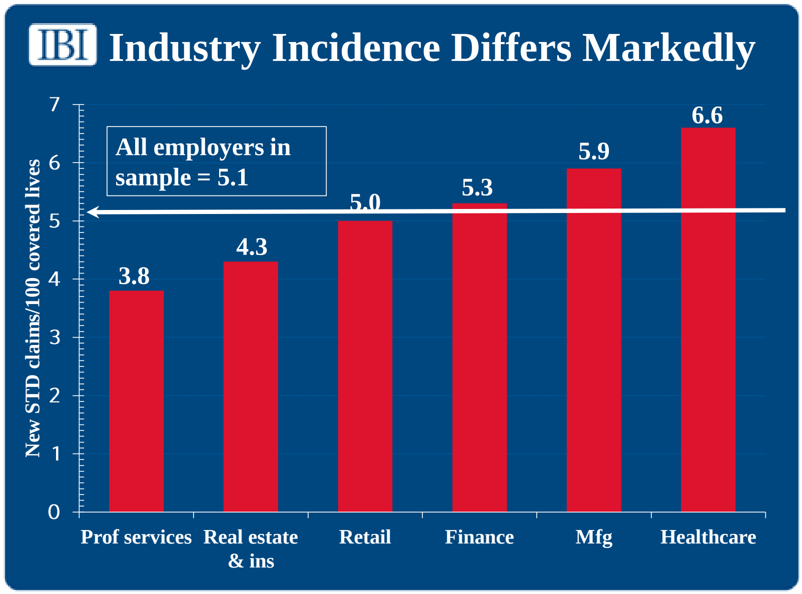
[1] H. Hunt and R. Habeck, *Employer Factors in the Incidence and Cost of Workers' Compensation Claims*, May 1990, Upjohn Institute for Employment Research, Kalamazoo, MI. http://research.upjohn.org/reports/165

[2] Bureau of Labor Statistics http://www.bls.gov/news.release/osh2.nr0.htm; IBI benchmarking database http://ibiweb.org/do/PublicAccess?documentId=780

[3] The IBI benchmarking database contains experience data on 62,500 employers; STD data are provided for 19,500 of these employers.

[4] Bureau of Economic Analysis, Industry Economic Accounts; <http://www.bea.gov/industry/index.htm>

[5] We include employers in this analysis in industries with more than 30 employers in the IBI database and employers that had more than 100 covered lives in their companies. We removed outliers defined by 3 standard deviations above the mean incidence rate.

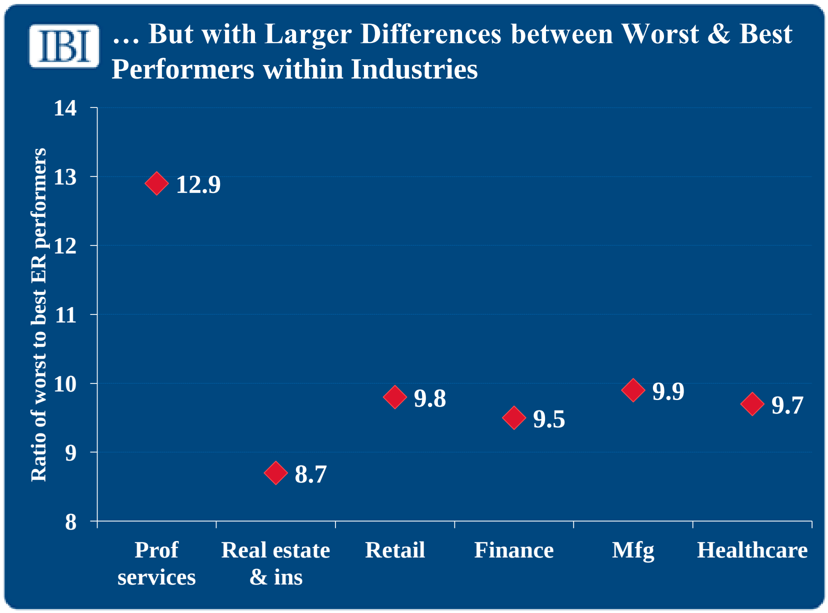


On the low end of disability incidence around this mean are companies classified as "professional services" (such as legal services, advertising, consulting, and accounting) – with just 3.8 claims per 100 covered lives. Retail and financial services companies were close to the average in the sample, while healthcare companies had the highest average claims rate at 6.6 per 100 FTEs. Thus, employers in the high-incidence industry of healthcare had 73% more claims per 100 lives than employers in the professional services sector. Although we see these striking differences across industries, do disparities *within* each of these industry groups imply major opportunities for employers to improve experience?

The Best and Worst within Industries

Employers always look to make improvements in areas that drive productivity gains, whether in benefits or in the mainstream business. In benefits management, large differences in disability incidence among employers within industries would lead us to believe there are opportunities to improve experience for individual employers. The graph below shows the difference[6] in disability incidence between the best and worst groups of employers in each industry segment.

[6] The differential is calculated as the ratio between the averages of the worst 20% of employers and the best 20% of employers in each industry group.



Comparing results in these two exhibits highlights two fascinating points:

1) The first exhibit shows that the ratio of average disability incidence *between* the worst and best industry groups is about 1.7 (healthcare compared to professional services). The second exhibit illustrates that the smallest differences between worst and best employers *within* an industry is 8.7 (real estate and insurance) – five times larger than the difference across industries. In addition, professional services is the worst-performing industry in the second exhibit with a whopping 13-fold difference between the best- and worst-performing employers in that sector.

2) Second, the industry with the highest disability incidence – healthcare – has a substantially lower ratio of high-to-low performers than the industry with the lowest disability incidence – professional services. Thus, in this case, we see wider variation in employer performance within a low incidence industry compared to that of a high-incidence industry. These results imply significant opportunities for employers to improve within each of the industry groups analyzed here, but the greatest opportunity is likely in the professional services sector.

Comment

As employers seek health and productivity improvements through the way they approach disability management, they of course need to distinguish between what they can and can't change[7]. Industry, company demographic composition and geographic location, for example, tend to be fixed, at least in the short term. Dimensions of disability plan design[8] (elimination period, wage-replacement rate and maximum duration of benefits), strategies for disease management and approaches to wellness and prevention are areas where employers can have an impact on

[7] Results reported here are not controlled for differences among employer demographics of benefits program designs.
[8] IBI's benchmarking database includes information on plan design (elimination period and maximum duration of benefits), major diagnostic class, claimant characteristics and geographic location.

disability experience. Plan design characteristics[9] can influence both disability incidence and duration, but are relatively short-term fixes, while better disease/case management and wellness/prevention strategies may be longer-lasting and bring more fundamental changes to both incidence and duration of disability, while at the same time improving health and performance at work. IBI's benchmarking program can provide members with comparative information on plan design, diagnoses, regional breakdowns and claimant characteristics to better understand where opportunities for improvements may exist.

[9] IBI will examine in a future Research Insights the total absence implications of plan-design characteristics.