

An Analysis of Navy Workers' Compensation Costs

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Summary

Background

The Federal Employees' Compensation Act (FECA) provides compensation to federal civilian employees who sustain disability due to work-related injury or disease. Each year, the Department of the Navy (DoN) pays about \$240 million in workers' compensation and related medical benefits under the FECA program. This bill represents a shadow workforce of several thousand who are paid, perhaps for life, even though they are no longer employed.

Management of the DoN FECA program is left primarily to the discretion of the commands. An Injury Compensation Program Administrator (ICPA), usually located in a Human Resources Office (HRO), manages the program at the activity level. Program management relies on these ICPAs and their teamwork with safety staff, health care providers, and the activities in addressing accidents and returning workers promptly to productive jobs. There is no clear leadership for the FECA program at higher levels, but program management and costs do periodically become an issue of concern. In FY 1990, a Department of Defense (DoD) comptroller decision led to charging FECA costs back to individual commands. Costs had been rising rapidly in what was until then a centrally funded program. In conjunction, the Deputy Chief of Naval Operations (Manpower, Personnel, and Training) issued instructions [1] and a commanding officers' guide [2] expressing his concern about the program and requesting that commanding officers and activity heads become more personally involved.

By 1998, the FECA program had again become a source of concern. Costs were declining but only slowly, despite a period of significant cuts in civilian employment. An executive steering group was formed to create a business plan [3] to help DoN commands reduce

compensation costs. The business plan was a joint effort of staff representing the Office of the Assistant Secretary of the Navy (Installations and Environment) (OASN(I&E)), the Assistant Secretary of the Navy (Manpower and Reserve Affairs), the Chief of Naval Operations (N45), the Bureau of Medicine and Surgery (BUMED), and the Commandant of the Marine Corps. The plan made a new call for management commitment to reducing the cost of injury compensation. In addition, it called for specific efforts to address compensation costs, particularly those associated with older cases that drive so much of the FECA bill. A surprising 74 percent of the FECA bill is for workers who were injured at least 7 years ago. As part of the effort to implement the management plan, OASN(I&E) asked us to examine the Navy's workers' compensation program and costs.

Tasking and study approach

We were asked to examine two issues:

- What are the primary factors driving trends in Navy workers' compensation costs—injury rates or case management?
- Are there organizational changes or initiatives the Navy could implement to bring down workers' compensation costs?

To address these issues, we analyzed the workers' compensation data and conducted discussions with personnel at the headquarters and field levels. We focus on two successful programs, Navy Region Southwest and the NAVSEA site offices that handle closed shipyard claims, comparing their performance to that of rest of the DoN. We make an empirical case for building on the lessons learned, estimating the savings that could be generated by more broadly applying best management practices that are already working within the Navy.

Summary of study findings

Our key findings are as follows:

- The formula for success in addressing workers' compensation costs is already well understood [4]. Success is based on

consistent attention to the management of FECA cases and costs by all involved. Program costs can be substantially reduced when commanders and activity managers are committed to supporting return-to-work and light-duty programs, when there is teamwork with safety and occupational health staff, and when ICPAs pay consistent attention to case management.

- The greatest potential for immediate FECA savings is through case management. By case management, we primarily mean getting long-term claimants off the disability rolls and back to work. Effective case management requires staff who are familiar with the interplay of benefits, retirement decisions, and employment procedures. In short, the FECA program is a human resources program.
- The Navy has not done well in applying the lessons learned from its own successful FECA programs. We estimate that the DoN can achieve reductions in FECA costs of \$300 to \$400 million over 10 years if it supports broader application of the successful practices now used by Navy Region Southwest. There is a need for leadership if this is to be achieved.
- We found two approaches worth further consideration. One is represented by Navy Region Southwest, a regional HRO program that handles new claims and older case management for some 250 activities. The other is the use of specialized claims centers to address older cases, as NAVSEA has done with the closed shipyards. Both approaches have been successful. Of the two, Southwest has shown the greater success and has the more proven record in supporting the typical mix of active and closed facilities.
- Navy Region Southwest has shown that there is no inherent reason why human resource offices, if appropriately organized and supported, can't deal effectively and efficiently with both older cases and new claims. Centralizing FECA management at regional headquarters, as was done at Southwest, can offer many potential advantages: higher level attention and support, consistency and faster spread of best practices, staffing efficiency, and the possibility of specialization that allows for

necessary program analysis and balanced attention to both new claims and older case management. Unfortunately, the record of HRO programs has not always been this good.

- Much of Navy Region Southwest's success is due to its reemployment efforts. It has been able to offer reemployment to long-term FECA claimants with little burden on local activities. Unexpected savings have resulted from the many claimants who turn down offers and can be dropped from the rolls. Additional Navy savings would be possible if it were easier to place claimants outside their original activity. This is an issue especially with respect to claimants from closed facilities.
- The NAVSEA claims centers have generated savings of \$45 to \$60 million over 5 years through aggressive management of closed shipyards cases. Their results are impressive given the lack of options for returning claimants to work at closed facilities. In the absence of a commitment to improve existing HRO programs, claims centers could prove to be the best alternative. However, their lack of experience in working with active facilities raises some doubts about proposals to have the claims centers take responsibility for older case management away from existing FECA programs. For now, our concerns are:
 - The outside claims centers have not yet proven themselves in working with active facilities, particularly on reemployment. Our results show that their methods alone do not generate the savings that Region Southwest is able to produce with its integrated approach to case management.
 - To be effective at reemployment, the claims centers would have to rely on local support and manpower. An outside center might find it difficult to get that support and establish effective working relations with local human resources offices, commanders, and supervisors.
 - Establishing outside claims centers for older cases could further undercut existing HRO FECA programs and weaken their incentives. Why staff and work on cases that will soon be someone else's problem or success?

- Understanding local data trends is essential to effective program management. The FECAMIS database maintained by NAVSEA offers the timeliness, flexibility, accuracy, and level of detail needed to support program analysis. The primary DoD database does not currently offer that same support.

Recommendations

Our recommendations are as follows:

- Have the regional shore commands and their executive steering committees take the lead in duplicating the success of Navy Region Southwest. Establish a handful of strong regional human resources FECA offices. Provide them with the command support needed to establish mandatory light-duty and return-to-work programs.
- Establish competition and evaluate HRO offices based on metrics of performance that are meaningfully related to effective FECA case management. Civilian personnel offices in headquarters should take the lead. Examples of appropriate metrics are those that measure:
 - Success in returning claimants to work from periodic rolls
 - Success in light-duty programs, as reflected in fewer lost workdays.

Metrics used by the Naval Inspector General NAVOSH Oversight Inspection Unit in a pilot evaluation of injury compensation cost control provide a starting point.

- Do not establish new claims centers for the resolution of older cases at active facilities—if doing so is at the expense of weakening regional FECA programs. The two centers already established by NAVSEA to address closed shipyards cases have done well. However, the argument for having such offices take on claims management for active facilities is unproven. For now, we suggest that the NAVSEA site offices look for a role in supporting the regional HRO programs rather than engage in what could be a destructive competition for customers.

- Train ICPAs in effective case management. Develop a handbook of claims management practices. Establish meetings to bring ICPAs, regional HRO directors, and managers from high cost activities together to hear about successful management practices. Civilian personnel offices in headquarters should take the lead.
- Enhance return-to-work efforts. The payoff to return-to-work efforts is so high that Navy should consider creative approaches, even beyond those used by Navy Region Southwest. Support efforts to make it easier to place claimants outside their original activity, particularly claimants from closed facilities. Realize, however, that the Department of Labor determines the suitability of such job offers. To help temporarily fund reemployment, a centralized program such as the Air Force's Pipeline program might be helpful.
- Maintain support for the Navy's FECAMIS database, at least until there is assurance that DoD's database can provide the equivalent analytic capabilities that ICPAs and others need for effective local program management.

Organization of this report

In the first section, we give an overview of the FECA program, including descriptive statistics. In the second section, we present our empirical assessment of the savings that might result if more attention were paid to FECA management and suggest how management might best direct its future efforts.

Overview of the FECA program

In this section, we briefly describe the major elements of the FECA program and its management. We then provide some descriptive statistics on the DoN workers' compensation program.

The FECA Workers' Compensation Program

The Federal Employees' Compensation Act (FECA) provides compensation to federal civilian employees who are injured on the job [5, 6]. Like most workers' compensation programs, it is a no-fault system, with FECA being the sole avenue by which an injured worker may recover damages. The program is administered by the Department of Labor, Office of Workers' Compensation (OWCP). OWCP has final authority in decisions on eligibility and case status.

Financing

FECA operations are financed by OWCP with costs reimbursed by the federal agencies. Each year, OWCP provides the DoN with a statement of payments made. DoN includes these expenses in the next budget request to Congress and reimburses OWCP when the funds are received. For example, 1999 FECA expenses were included in the FY 2001 budget. So payment to OWCP is made 2 years after the original costs were incurred. Correspondingly, budget savings will not be seen until two years after management has made the efforts to achieve them. Since 1990, Navy FECA bills have been internally charged back to individual activities in order to encourage cost awareness.

Benefits

An employee who suffers injury or illness related to employment is eligible for the following types of benefits:

- *Medical benefits.* Payments are made for necessary medical services. The employee has the choice of physician. Medical benefits may continue indefinitely.
- *Continuation of pay (COP).* An injured employee may continue to receive pay for up to 45 calendar days, pending an OWCP ruling on his or her claim. This is a continuation of a regular paycheck, and the cost is not reflected in annual FECA bills.
- *Disability compensation.* Employees may receive several types of compensation for wage loss, with payment depending primarily on whether disability is total or partial. Compensation is tax free. It continues as long as the disability, even after retirement age and perhaps for life.
 - With total disability, an employee receives two-thirds of his or her salary if there are no dependents and three-quarters of salary if there are dependents.
 - With partial disability, compensation is paid for loss of wage earning capacity.
- *Schedule awards.* Payment is provided for the loss of body parts or functions. Each body part is rated for the number of weeks that compensation is paid in addition to full salary.
- *Vocational rehabilitation.* Vocational training may be provided. After training, a claimant is expected to seek work. Compensation will be reduced to reflect wage earning capacity.
- *Death benefits.* If a death is job-related, dependents are entitled to compensation. For example, a surviving spouse with two children would receive 75 percent of the worker's pay until death or remarriage.

Reemployment

Injured workers retain restoration rights for one year; if fully recovered within the year, an employee has unconditional rights to his or her former position. Partially recovered employees are not guaranteed their original job, but if they return within the year are to be placed in a suitable, comparable position. DoD policy [6] encourages

use of light-duty positions to bring injured workers back quickly into temporary positions that are compatible with physical limitations. A prompt return to work can enhance morale and recovery and reduce the risk of abuse of disability status.

Workers who recover after a year are entitled only to priority consideration for reemployment. Reemployment of such claimants usually makes sense. The employee is paid anyway; it makes sense to receive services for the dollars expended. DoD components already have the authority to exempt claimants from hiring freezes in reemploying workers [6].

Offers of light duty or reemployment require concurrence of OWCP as to suitability. Claimants who turn down an offer of a suitable position may have their benefits terminated. Once reemployed, workers are subject to normal personnel actions, including reduction in force (RIF). Partially disabled workers subject to a RIF would continue to receive the compensation for any lost earning capacity and medical benefits to which they were previously entitled.

The OWCP is responsible for periodically checking on a claimant's ability to return to work. The frequency with which it does so should depend upon the nature of the injury. Although this is a responsibility of OWCP, effective ICPAs do not take a passive role. Instead, they screen files and work with OWCP to determine candidates for reemployment.

Program responsibilities and management

Program management within DoN

Management responsibility for the DoN injury compensation program is left to the commands. Commanding officers and heads of activities are responsible for controlling costs and budgeting. ICPAs are responsible for the day-to-day management of claims. Their duties are to process new claims, monitor past claims, coordinate with activity managers and medical officers on light-duty assignments and return to work, coordinate with safety officials on accident

investigation, and advise activities on FECA data trends. Activity managers are responsible for ensuring safety, seeing that claims forms are completed, returning injured workers to productive work promptly, maintaining awareness of FECA costs, and supporting efforts to reduce costs.

Although many human resource functions were moved to the eight regional Human Resources Service Centers (HRSCs), injury compensation was left to local human resources offices. That was done in order to maintain a local face—people who were familiar with the cases and with a sense of responsibility for cost. Still, over the last few years, there has been an effort to centralize the ICPAs. Previously, each major installation might have had one or two people working on FECA, perhaps with other shared responsibilities. Now, FECA programs are being consolidated to varying degrees under the regional commands. Navy Region Southwest has done so to the greatest extent so far, with seven people in the San Diego regional headquarters now handling 260 customer activities. A similar process is ongoing in other regions.

A potentially conflicting development is coming from the commands. Concerned that regionalization may mean less attention to their individual activities, NAVSEA and NAVFAC are considering the use of claims centers. The claims centers would handle older cases, taking that case management responsibility away from existing FECA programs. The centers would initially grow from offices NAVSEA established to manage closed shipyards claims.

DoD's Civilian Personnel Management Service

The Civilian Personnel Management Service (CPMS), Injury and Unemployment Compensation Division, was established within DoD to provide operational support and training to the services in injury compensation matters. Division staff serve as the primary contact with the Department of Labor. They maintain the program database with data from weekly OWCP tapes, and they initiate the internal charge-back process. CPMS also provides regional liaisons who serve as the point of contact between the services and local OWCP offices.

CPMS manages the Pipeline reemployment program for the Air Force. With downsizing, reemployment of workers has been made difficult by a lack of positions and funds. The Air Force implemented its Pipeline program in 1986. Under this program, installations receive one year of funding and the overhire authority needed to reemploy any partially disabled worker—but they are expected to move the worker to a regularly funded position within one year. About 500 positions have been funded through the program to date.

The CPMS data system has been an issue for the Navy. There have been problems matching individual claims to the appropriate Human Resource Office and activity responsible for the bill. Also troubling is the lack of relevant analytic support offered. The ICPAs are unable to generate the ad hoc reports and queries they need to understand their local program. NAVSEA maintains a database (FECAMIS) that is updated with data obtained through CPMS. Many in the Navy rely on FECAMIS for its flexibility and the ability to track costs down to individual work centers. There is concern that the NAVSEA database may not be supported in the future.

The business plan and program metrics

Headquarters responsibility for the FECA program was under the Naval Occupational Safety and Health (NAVOSH) before it moved to Human Resources in the 1980s. NAVOSH still has a strong interest in the FECA program. It took the lead in developing the recent business plan for cost reduction. The plan [3] calls for attention in three areas:

- Management commitment
 - Hold quarterly meetings of a Senior Executive Service/Flag Steering Committee
 - Develop performance metrics to drive accountability
 - Brief senior military leaders on potential to control costs
 - Obtain command support in backing return to work and in requiring supervisors to maintain contact with injured employees

- Information systems
 - Explore the analytic capabilities of the CPMS data systems
 - Explore the source of data errors in assigning claims
- Specific case reduction strategies
 - Obtain funds to establish claims centers for the resolution of older cases, expanding on the two centers that NAVSEA has already established to address closed shipyards cases
 - Develop standardized training for ICPAs on the teamwork needed to effectively manage claims
 - Publish a handbook of claims management practices
 - Develop a medical utilization oversight process.

The metrics developed in response to the business plan include general statistics on costs, cases, and mishaps that provide an overview of program status. However, they seem to lack a direct focus on the specific elements that would distinguish successful program performance at the ground level. A set of metrics that could drive accountability and performance has already been developed for the Naval Inspector General NAVOSH Oversight Inspection Unit. This unit conducts management process reviews of safety programs [7] and recently experimented with evaluating injury compensation cost control. The components of this evaluation were:

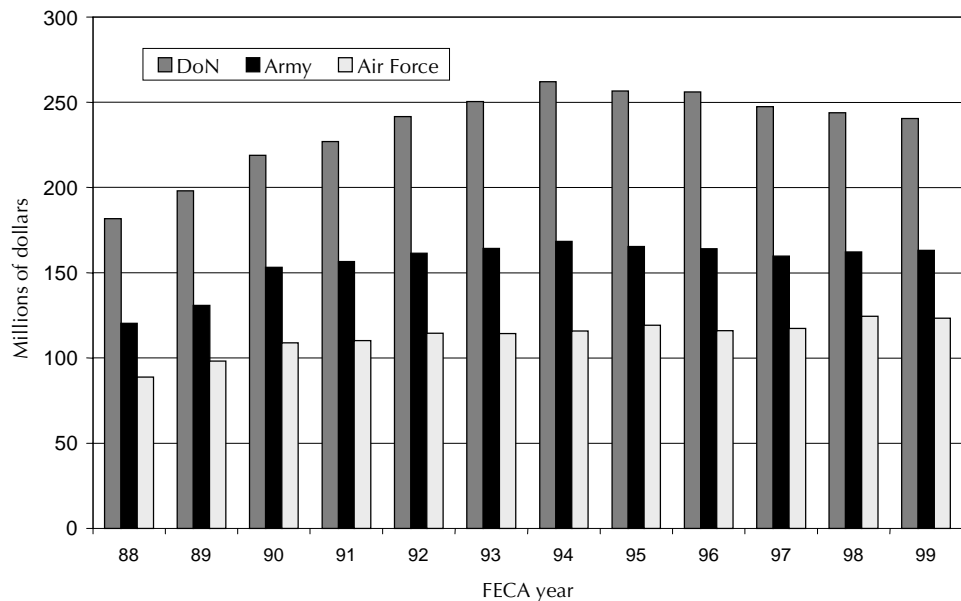
- A review of the processes for claims processing, medical case management, review of claims, and return-to-work practices
- Performance metrics that measure the effectiveness of light duty programs, return to work, and general case management
 - $(\text{COP days}) / (45 \text{ days} * \text{number of COP cases})$
 - $(\text{FECA lost workdays}) / (\text{Number of lost workday cases})$
 - $(\text{Personnel returned to work}) / (\text{Cases on periodic rolls})$
 - $(\text{Cases removed from rolls}) / (\text{Cases on periodic rolls})$

These are measures that highlight effective FECA cost control efforts. It has apparently proved difficult for activities to provide these performance metrics, particularly COP days. That's unfortunate because ICPAs should know the numbers. It is unclear why this is part of a safety review, rather than a human resources review.

Descriptive statistics on the DON FECA program

DoN pays some \$240 million annually in FECA compensation and related medical expenses. Figure 1 shows the bills from 1988 to 1999 in current dollars. Costs are down from a 1994 peak but remain high considering declining employment and incident rates. DoN civilian employment declined steadily from 296,000 in 1992 to 195,000 by 1998. New FECA case rates have dropped from 5.7 to 3.7 cases annually per 100 employees over the same period. Medical expenses account for 19 percent of the 1999 bill. The 2000 FECA bill (not shown) has now come in at slightly higher than the 1999 bill, at least in part because of rising medical expenses.

Figure 1. FECA bills over time, by DoD component



DoN costs are high in comparison to the other services, even after accounting for employment differences. For example, the 1998 DoN FECA bill was \$1,220 per civilian employee while the equivalent Air

Force bill was \$960. The difference seems to be largely explained by the Navy shipyards. Not surprisingly, the heavily industrial shipyards have case rates that are more than twice as high as those of the rest of DoN. They account for almost 40 percent of the DoN FECA bill. Costs at Navy shipyards seem comparable to those at private yards, with fewer cases but more time lost per case [8]. We won't spend a lot of time comparing DoN to other services or the private sector because it is quite clear, as we will show later, that there are opportunities to bring down Navy costs.

Figure 2 shows the distribution of the 1999 FECA bill by command. It is no surprise that most of the bill is associated with commands that have big industrial activities such as shipyards, aviation depots, warfare and weapons centers, and public works centers.

Figure 2. DoN 1999 FECA bill, by command

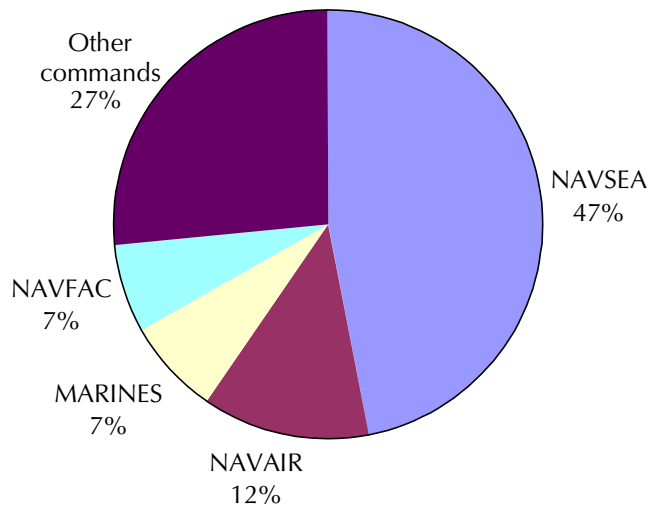


Figure 3 is a breakdown of the 1999 FECA bill by date of incident. Older cases are very much the issue. Over 70 percent of the bill is for cases that have been on the books for at least 7 years (1993 or earlier). These cases represent 11,500 out of 27,492 active cases on the rolls. It is these older cases that explain why it has been so hard to bring down program costs.

Figure 3. DoN 1999 FECA bill, by date of incident

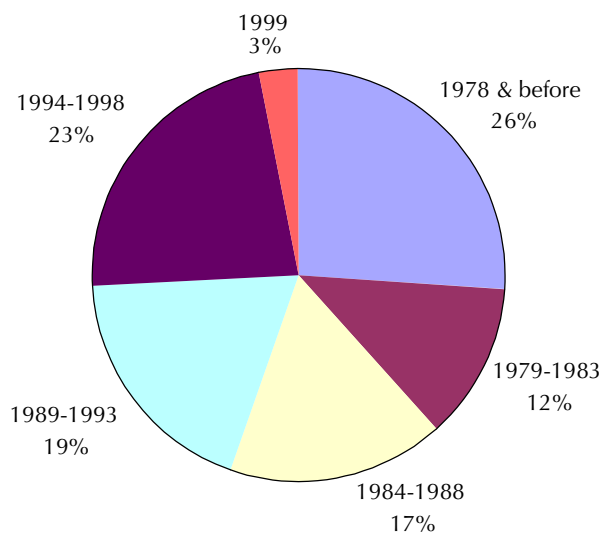


Table 1 gives a better sense of just how hard it is to turn around the program without addressing older cases. In the table, the 1999 and 1994 FECA bills are compared. Each bill is broken down by date of incident. Costs attributable to recent incidents (those that occurred during the most recent 6 years) are down almost 50 percent relative to comparable amounts in the 1994 bill. So far, that has led to only an 8-percent reduction in the FECA bill. This should also make it clear that even dramatic reductions in mishap rates will not lead to quick reductions in the FECA bill.

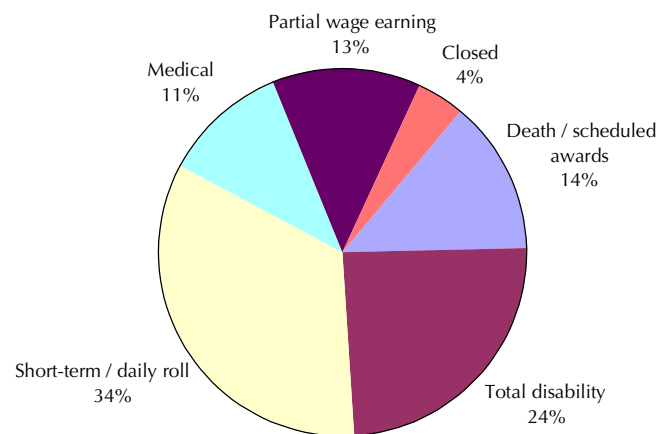
Table 1. DoN 1994 and 1999 FECA bills, by date of incident (\$ millions)

	Date of injury (years before current)						Total
	Current	1-5	6-10	11-15	16-20	21+	
1994	14.3	90.9	49.8	34.4	36.0	35.6	260.9
1999	7.4	54.6	45.6	40.6	29.2	62.7	240.3

Table 1 does raise interesting questions. Does the lower cost for new incidents mean that program problems have already been resolved? Is it now just a matter of patience in waiting for overall costs to come down? We will show that although the program has improved, there are in fact still opportunities to significantly and quickly lower the overall bill by addressing older cases.

Figure 4 shows a breakdown of the FECA bill based on case status. Scheduled awards for loss of body parts and death benefits together account for 14 percent. Total disabilities account for 24 percent of the bill. These are costs that will not be easily managed away. The OWCP designation of a claimant as having total disability, with no wage earning capacity for the indefinite future, is not done without deliberation. At best, just a few such cases will be identified where re-employment is possible—but lifetime savings from doing so are large.

Figure 4. DoN 1999 FECA bill, by case status



Cases approved for medical benefits (no compensation) account for 11 percent of costs. These need watching to ensure that bills are for treatment related to the underlying disability. Claimants in partial wage earning status account for 13 percent. These cases require watching for any change in earnings. The short-term and daily rolls account for 34 percent of the FECA bill. These are cases of temporary disability or where loss of earning capacity is not yet established. This is the primary focus for aggressive case management. There is often a potential for speeding return to work or for reemployment, and these are cases that, if ignored, can easily slip into extended disability.

Figure 5 shows the corresponding distribution of the number of cases by status. Notice that many of the 27,492 cases that were active in 1999 were closed in less than the 45-day COP period (either with no lost time (3,411 cases), coverage denied (1,081), or some COP time (4,629)). Fewer cases were closed after 45 days (1,413). Medical benefits are authorized for 7,800 claimants. About 2,000 claimants

were classified as having total disability, a similar number had partial wage earning capacity, 1,500 received scheduled awards or death benefits, and about 3,000 were on short-term rolls. A relatively small number of short-term and total disability cases account for the bulk of program costs.

Figure 5. DoN cases active in 1999, percentage of claimants by status

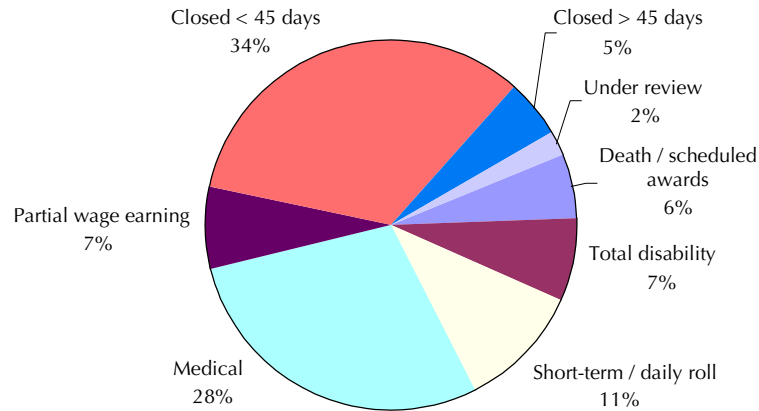


Figure 6 shows the number of new FECA cases generated in each year from 1989 to 1997 and their status as of the end of 1999. Most cases eventually close. From each year, though, some 2.5 percent of cases eventually move into long-term disability status. Another 15 percent will receive long-term medical benefits.

Figure 6. Current status as of 1999 for FECA cases, by year of incident

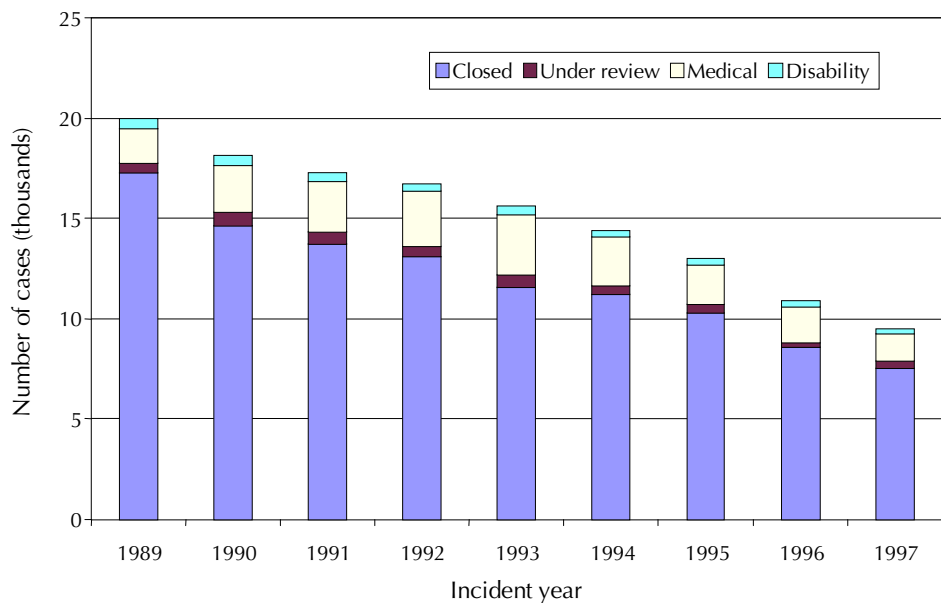
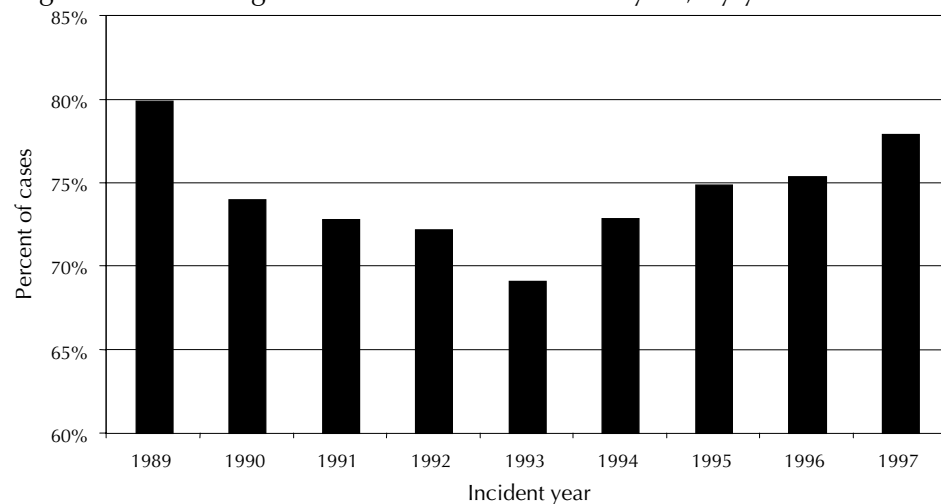


Figure 6 also hints at problems in the FECA program in the early 1990s. The percentage of cases closed declines steadily from 1989 to 1993 then rises in later years. Although 86 percent of the 1989 cases and 80 percent of the 1997 cases have closed, only 74 percent of the 1993 cases have closed. We can only speculate about the cause, but it is probably related to the combination of base closures and a lack of attention to FECA case management. This is one of several indications though that program management has been on an upswing since a low point in 1993.

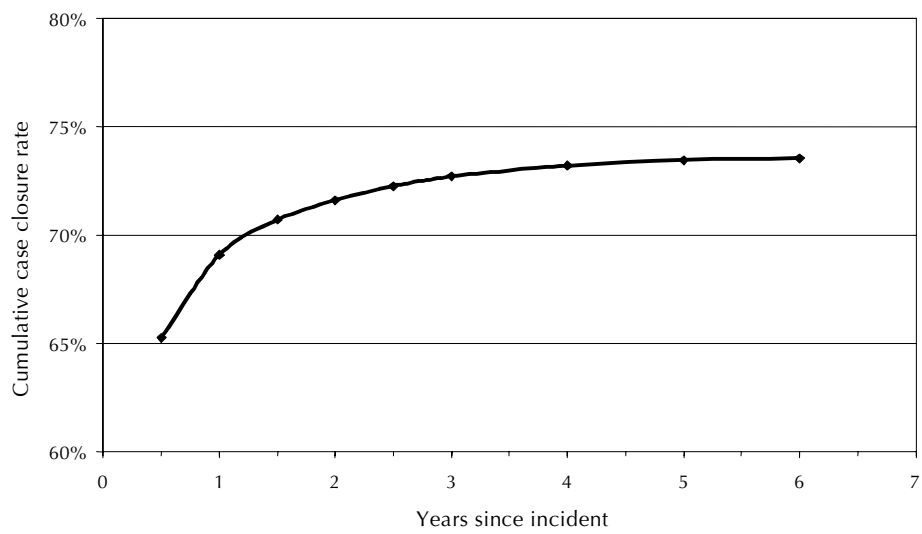
Figure 7 emphasizes the point by showing the percentage of cases closed within one year, for cases created in 1989 through 1997. This closure rate is not directly comparable to figure 6, which shows cases closed by 1999. The measure in figure 7, however, more clearly focuses on management actions taken during the incident year.

Figure 7. Percentage of cases closed within one year, by year of incident



Relatively few cases that have been unresolved for more than a year or two ever close. In figure 8, we show the cumulative closure rate over time for DoN cases initiated in 1993. This is a pattern that is fairly typical, although the curve is shifted up by 5 or more percentage points in better years. The difficulty of closing cases after extended periods on the disability rolls is apparent. Of course, closing cases is not the only indicator of successful cost control; there are other opportunities to contain costs among active cases.

Figure 8. Cumulative percentage of 1993 FECA cases closed over time



The payoff to FECA case management

Our primary goal was to look at successful DoN FECA programs and determine the savings they generate in comparison to others. Two programs are widely applauded: the NAVSEA site offices for the closed shipyards and Navy Region Southwest. We wanted to address the following questions:

- What savings have been generated by the site offices in managing closed shipyard cases? What savings are possible from continued operation of the site offices?
- Does Navy Region Southwest do better at case management than the rest of the Navy?
- What savings can be generated by applying their best management practices to the Navy as a whole?

In addition, we wanted to address the question of where effort is best applied:

- Are there greater opportunities for cost savings through management of older cases or mishap prevention and new claims management?

In this section, we briefly describe the two benchmark programs. We then discuss our approach and answers to the questions above.

The benchmark programs

NAVSEA's closed shipyard FECA site offices

NAVSEA established East and West Coast site offices to manage the residual FECA program at closed shipyards. These offices have developed a reputation for effectively dealing with older cases. They accomplish this by carefully screening a database (FECAMIS) for

anomalous costs, pursuing second medical opinions, making home visits, and investigating potential abuse when called for [9, 10]. Compared to other programs, they are limited in back-to-work efforts by the fact that the shipyards are closed. Instead, they must work through OWCP to put claimants through vocational training in order to reestablish wage earning potential. NAVSEA estimates \$62 million to date in avoided costs and potential lifetime savings of \$482 million from cases where their intervention has resulted in a change of status. Cost to date for the two offices has been \$9 million. Each office is now staffed with five people and is budgeted at about \$0.5 million a year. Together, they now handle about 3,000 active cases.

The offices are funded with Base Realignment and Closure (BRAC) money. With BRAC funding coming to an end, and the potential for further case management at the closed shipyards perhaps also winding down, NAVSEA is looking for new opportunities. To take advantage of the expertise the site offices have developed, NAVSEA proposes to use them to handle older cases for the open shipyards. They are also making arrangements to take on NAVFAC cases.

Navy Region Southwest

Navy Region Southwest's FECA program has a reputation built on its light-duty programs and return-to-work efforts [11, 12]. Their program is centralized in the Human Resource Office at regional headquarters. A staff of 7 specialists services some 260 customer activities from San Diego to San Francisco (including a few that are closed). When an activity signs on, it agrees to follow uniform regional policies. The region then handles FECA claims management for both new and older cases. The activities maintain their financial responsibility. The region deals with roughly 1,200 new cases a year and 930 cases on the various disability rolls. They say that each year they return about 5 claimants to work with the Navy from long-term rolls and place some 50 claimants in vocational rehabilitation to prepare them for work in the private sector. They attribute their success in cost control to:

- *Command support, centralization, and dedicated staffing.* In the past, ICPAs were spread across bases, often with collateral

duties. More immediate priorities made it difficult to address older cases or program analysis. It was a recipe for overstaffing and lack of focus. With centralization and strong command support at Southwest, a small specialized team has been able to focus on effective claims management and develop unified regional program tools and policies.

- *Mandatory light-duty and return-to-work programs.* Light-duty programs are mandatory for participating activities. Supervisors must promptly find a productive light-duty role for injured workers, preferably with their original team. Each supported activity is also required to have a standard clerical slot available to offer claimants who have been on extended disability.
- *Diligence in older case management.* There is no magic; the staff simply pay attention to older cases, doing the follow-up necessary for effective management. Three people focus on older claims, making sure that medical status is periodically confirmed, asking for second opinions, offering jobs or vocational training to those capable of returning to work, and seeing that training is completed.
- *Mandatory use of occupational health services.* Injured workers are required to report to Occupational Health Clinics. The nurses can steer workers from emergency rooms and speed health care by assisting with appointments. They also get an early, unbiased case history that may inform later case management decisions. Workers must also check back in through the clinics after health care in order to confirm light-duty capabilities.
- *Teamwork with safety.* The FECA staff track incidents by shop and work with safety staff and activities to address problems.
- *Program analysis and accountability.* The FECA staff review program data to identify trends and keep activities informed on costs, safety, and return-to-work statistics. The staff market their services to tenant activities by documenting their success.

The return-to-work program is interesting. The region reports that perhaps 80 percent of job offers to claimants on extended disability are turned down—and benefits are then terminated. This is

tremendous leverage. Also, because of the nature of the standardized clerical slots offered, the region avoids many of the concerns usually raised by back-to-work programs. The positions do not compete with regular hiring or firing needs of activities. The region takes advantage of region-wide slack and over-hiring authority to create positions. There is little administrative burden on the activities associated with job offers. The activities don't even have to be involved until someone accepts a position. Once hired, workers are subject to RIFs like anyone else. Their seniority (periods of disability count) doesn't guarantee preferential job protection. Instead, they compete only against others in these designated slots. Of course, the hope is that workers will eventually progress into regular positions.

Our approach

We don't rely on the claims of success, but rather have looked to the FECAMIS database for evidence of actual success in bringing down costs over time. We use the data from FECA bills to predict how program costs will evolve or might have evolved under alternative case management practices. To illustrate the basis of our prediction method, we refer to figure 9.

Figure 9. FECA bills for the active shipyards, showing amounts paid by case year

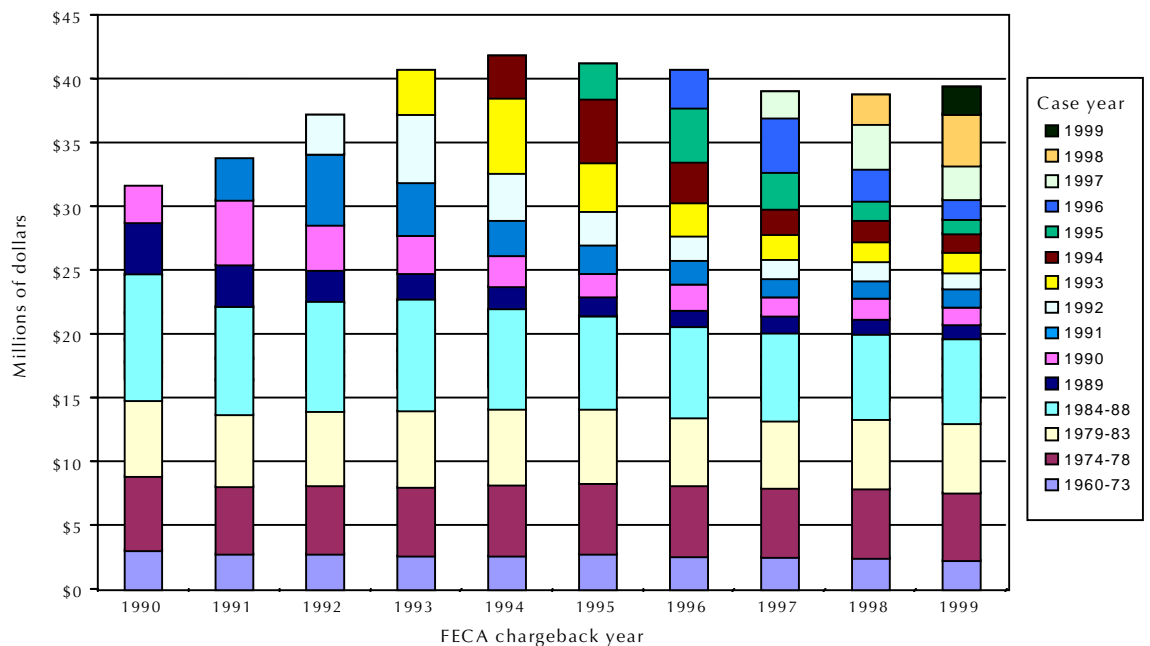
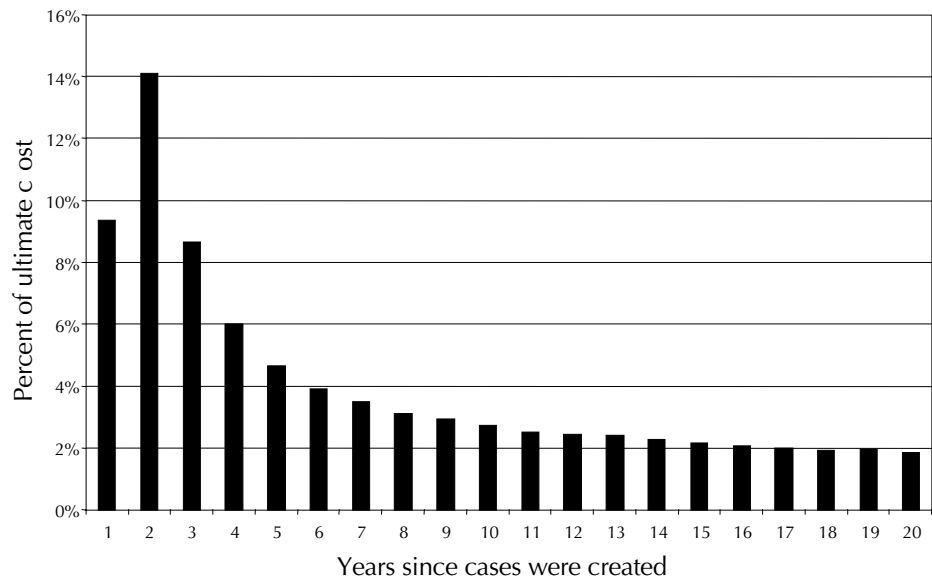


Figure 9 shows 10 years of FECA bills (medical and compensation) for the active shipyards. We will pay no attention to changes in the overall bill. Those changes are largely uninformative as to the success of a FECA program because of confounding effects of employment and mishap rates. Instead, we focus on the individual components of the bill. Each year's bill has been broken down by case year. To explain, consider the 1999 bill. The top block represents 1999 payments made on new claims opened that year. The next block down represents 1999 payments on claims opened in 1998. Notice that you can follow the life-cycle costs of a particular cohort (cases opened in a particular year) by looking at blocks with the same coloring and that these costs follow a fairly predictable pattern over time.

Figure 10 shows a typical pattern of life-cycle costs for such a cohort. Cost are highest in the second year when medical expenses peak, decline noticeably for 4 or 5 years as many cases are resolved, and then settle in for a long tail of slowly declining payout to the few remaining claimants with long-term disabilities. The later payments do usually decline because of occasional recoveries, reemployment, or deaths. We emphasize that the number of cases in the cohort is declining over time. Thus, these costs have built in to them the probability of cases being resolved over time, whether through case management or otherwise.

Figure 10. Payout over the life cycle for a typical age cohort



The pattern of payouts over time provides the basis for estimating how future program costs might evolve. For example, in 2000 we might expect costs attributable to the 1999 cases to rise to about 1.5 times their cost in 1999. Similarly, the bill for 1998 cases will be about 65 percent of what was paid in 1999. We can predict the entire 2000 bill in this manner. (We will assume that new case costs are constant at 1999 levels.) With the 2000 bill, we can then forecast the 2001 bill. It is a simple approach, but one that has the virtue of capturing all the various aspects of case management, allowing us to make comparisons across programs and evaluate alternative approaches to management.

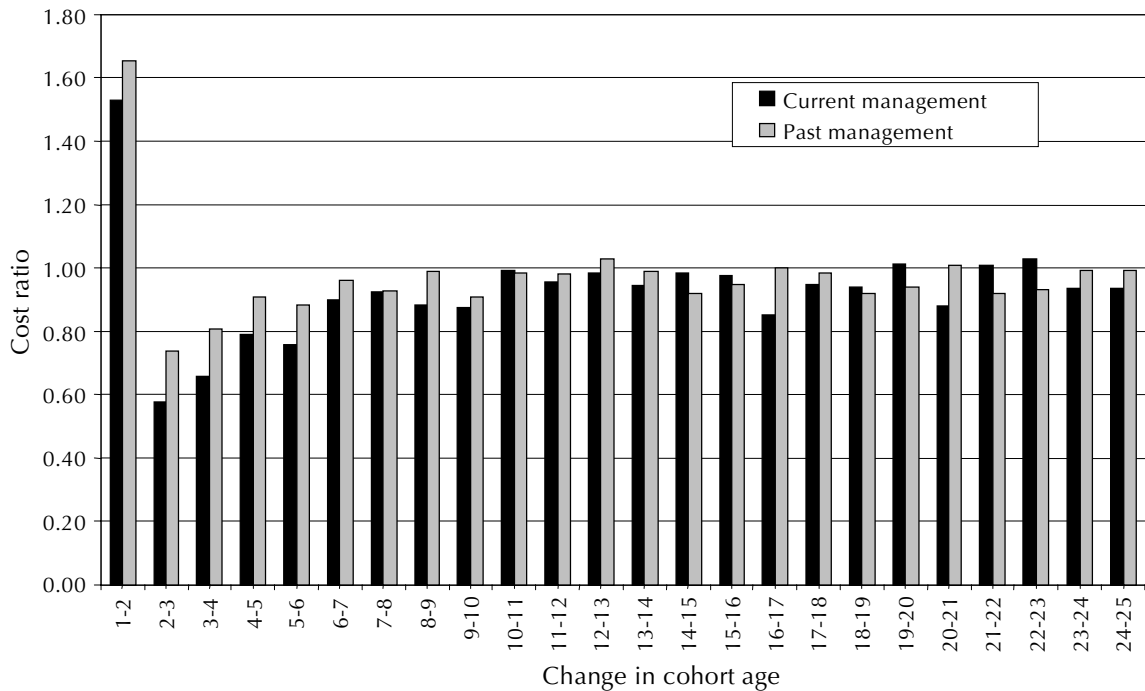
We want to compare the shipyards and Navy Region Southwest¹ to the rest of the DoN (including the Marine Corps). We do so by computing, for each, the ratios by which costs change between successive years of the life cycle. Specifically, for each program, we compute a series of cost ratios—second-year costs divided by first-year costs, third-year costs divided by second-year costs, and so on. We do so based on averages over 3-year periods. Averaging gives stability to estimates that might otherwise be swayed by one bad accident year. For example, to represent current management, we compute the ratio of combined first-year costs from 1996 through 1998 to second-year costs for these same cohorts in 1997 through 1999. The same is done for each successive pair of ages. Past management is similarly represented using the period 1991 to 1994. The earlier period provides a benchmark for assessing recent program improvements. In our calculations, costs were deflated to reflect cost-of-living and medical price inflation for separate compensation and medical components of the bill. Cost data are from FECAMIS.

Differences in the effectiveness of case management across programs—the ability to control costs over time—are fully reflected in the cost ratios. For example, in figure 11, we compare current case management at the closed shipyards to past management at these

¹ We use results for PWC San Diego to represent Navy Region Southwest. The regional program that evolved out of PWC San Diego provides the longest representative data record.

same shipyards. The figure shows the cost ratios described above—the rates at which a cohort’s cost is reduced between successive years. We see that current closed shipyard management is consistently better at bringing down costs in the first 9 years of case life. This may not be a particularly easy way to visualize differences in management, but it is what underlies our later comparisons. From these ratios, we generate predictions of life-cycle costs and will simulate future FECA bills. When we later make estimates based on applying Navy Region Southwest case management practices elsewhere, we mean matching their cost ratios and so their ability to control costs.

Figure 11. Cost ratios between successive years in the life cycle, closed shipyard current management compared to past management

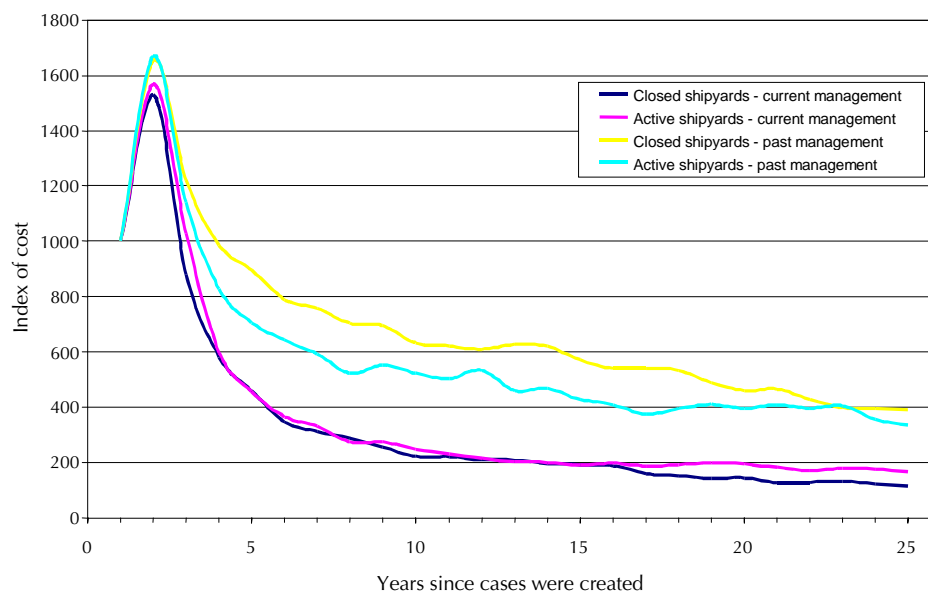


Comparisons of life-cycle costs

The differences among programs are made clearer by a comparison of overall life-cycle costs. Figure 12 compares closed and active shipyards. The figure shows expected payments over time for a single cohort of cases. To facilitate comparison, we have standardized the first year’s cost at \$1,000. It is apparent that the shipyards are doing better now than in the early 1990s. The relative gains (as in figure 11) come

from bringing down costs in the first 9 years, addressing cases that might once have stayed out on disability.²

Figure 12. Comparing life-cycle costs for the closed and active shipyards under current and past management practices



We see no great difference between the closed and active shipyards. It is not obvious that the site offices are doing better at dealing with older cases, the capability on which their reputation is built (although, see figure 14). But remember that the closed shipyards are in the more difficult situation of not being able to return people to work at their own facilities. There is, in any case, little doubt that the site offices have generated savings relative to past management.

In figure 13, we make a similar comparison between the closed shipyards, Navy Region Southwest, and the rest of DoN (excluding all shipyards). We show results under current management. Region Southwest is clearly better than the rest of the Navy. The surprise here is that Southwest does noticeably better than the closed shipyards in dealing with cases that are 6 to 10 years old. It is with these older cases that their effectiveness really begins to stand out.

² Be aware that some of the gains are due to OWCP. They have taken efforts to improve their case management.

Figure 13. Comparing life-cycle costs under current management

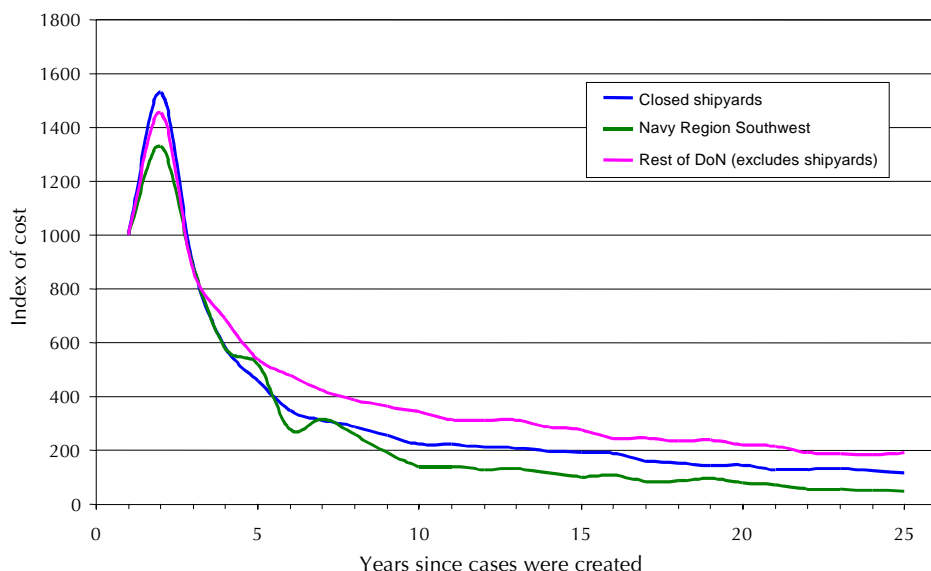
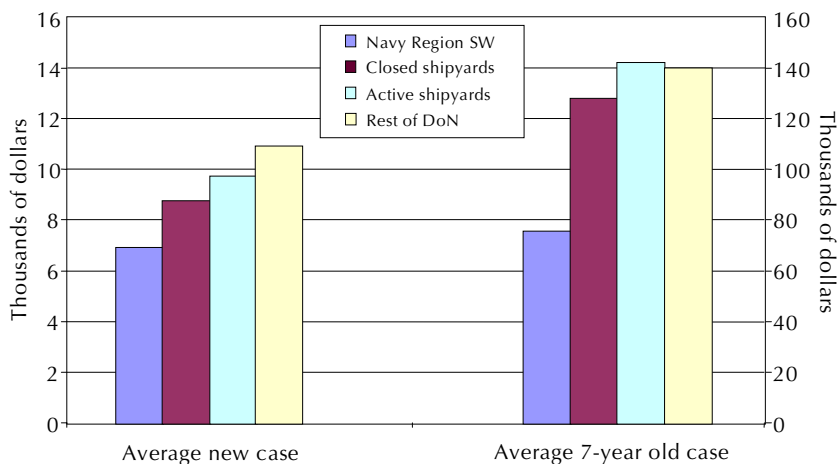


Figure 14 provides an alternative and more striking comparison based on cumulative life-cycle costs. Bars to the left show expected spending over 30 years on the average new case. The bars to the right show additional spending expected on the average 7-year old case. If the values seem low, recall that they reflect the probability of cases being resolved over time. Southwest will spend 36 percent less than the rest of DoN on each new claim for compensation. On older cases, Southwest’s performance is even better. It will spend 41 percent less than the closed shipyards and 46 percent less than the rest of DoN. The relative success of the closed shipyards also becomes more apparent here.

Figure 14. Comparison of cumulative life-cycle costs



This proven success of Navy Region Southwest in dealing with older cases is at odds with the often stated belief that local ICPAs are so swamped by immediate priorities that they give too little attention to older cases. That has been one of the main arguments for having an outside group, such as the site offices, take over management of older cases. We see there is no inherent reason why a local program, if appropriately organized and supported, can't deal effectively with older cases as well as new.

We do recognize that the closed shipyards are at a disadvantage in these comparisons because of their limited options for returning people to work. That same point, however, raises a concern. We have two models that have worked well. One has been applied in the full typical Navy environment and the other only in a limited situation where they have not dealt with active facilities and local HRO offices on reemployment. It is unclear how well an outside claims center might interact with these parties. Such a center may not get the access and support needed to make return-to-work happen. Reemployment efforts appear to be the most important element of case management. The cost differences shown in figure 14 emphasize just how important these efforts are. Little else distinguishes Southwest's approach to older case management from that of the closed shipyard offices.

Furthermore, the integrated regional approach seems right for the long run. At some point, after a few years of aggressive screening of older cases, there will be fewer opportunities for cost reduction and less need for specialized groups focused on older cases. Why institutionalize them when doing so may weaken the capability that will eventually be required of local programs? It would be unfortunate to weaken existing programs at a time when regionalization may offer a window of opportunity to rebuild. In any case, it's not wise to let local programs think they have no responsibility for older cases. To do so will weaken their incentive to address any case management.

What are the savings from successful FECA programs?

To give an even more concrete sense of program performance, we now project FECA bills over time using the method described above.

First, we take a look at the closed shipyards—their past performance and future opportunities. Then we give estimates of the Navy-wide savings that may be possible with improved FECA management.

Savings from closed shipyard FECA management

The site offices that manage BRAC shipyard claims have estimated \$62 million to date (1995 to 2000) in avoided costs. This is a careful estimate based on adding up savings from specific cases where they have intervened successfully. We take a rather different approach by comparing actual FECA bills to estimates of what the bills might have been under the management practices of the early 1990s. Ours is a tougher benchmark. It allows for the possibility that cases might have been resolved even without site office intervention.

In figure 15, we compare FECA bills for the closed shipyards to what they might have been had case management practices from the early 1990s been continued. Measured against that benchmark, we find savings of \$33 million in the 4 years from 1995 to 1999. We didn't have 2000 FECA data when doing our analysis, but based on our predictions, we think there would have been additional savings of \$12.5 million in 2000 for a total savings to date of \$46 million. That's less than NAVSEA's comparable estimate, but it is still an excellent return on a \$9 million investment. Further, realize that savings of about \$10 million a year will continue into the future because of reduced lifetime obligation to the claimants whose cases have already been addressed.

With the end of BRAC, continued funding for the site offices may be in question. In figure 16, we show potential savings that may be available if their efforts are continued. We predict that if the site offices continue their current success in case management, they would realize savings of some \$21 million dollars over 5 years as compared to a return to practices of the early 1990s.³ Again, further savings would

³ Our predictions reflect inflation estimates from the Health Care Financing Authority. Their estimates missed recent increases in medical prices, and so we have underestimated FECA bills for 2000 and beyond. That should have little effect on predicted savings.

result from having closed out long-term obligations. That suggests continued high rates of return on the \$1 million a year cost.

Figure 15. Savings from case management at the closed shipyards, 1995–2000

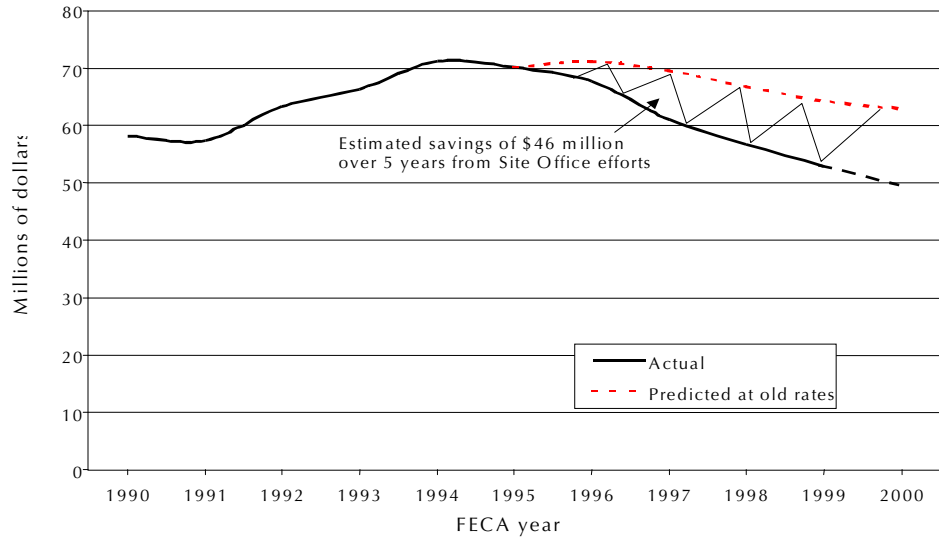
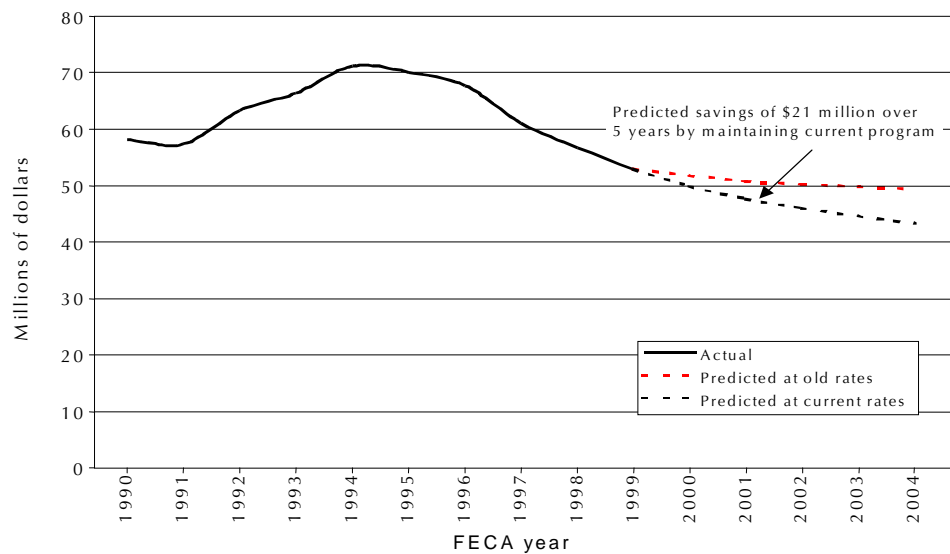


Figure 16. Savings from continuing case management at the closed shipyards



At some point, it will get harder and harder to reduce costs at the closed shipyards because the set of claims is static and will have been screened before. It's hard to tell when that point may be reached. We

looked for and found no clear indication that the ability to control costs (as reflected in the cost ratios) has faltered over recent years. Clearly, absolute savings must still come down as case numbers decline and the residual cases age. That much is already reflected in our estimates.

Navy-wide savings from best management practices

Now we look at the potential Navy-wide savings that might result from applying best management practices on a broader scale. We consider Navy Region Southwest to represent best practices, based on the greater savings predicted.

In figure 17, we show potential savings at the active shipyards. We estimate savings of \$23 million are possible over 5 years from matching the success of Navy Region Southwest. Those are savings in comparison to a continuation of current shipyard management. If we assume that the same success in case management can continue for 10 years (we are not sure that it can), there might be savings of \$75 million over 10 years. The figure also shows predicted FECA bills under a return to past practices of the early 1990s, an indication of the potential cost of relaxing attention to case management.

Figure 17. Potential savings from matching Southwest's success at the active shipyards

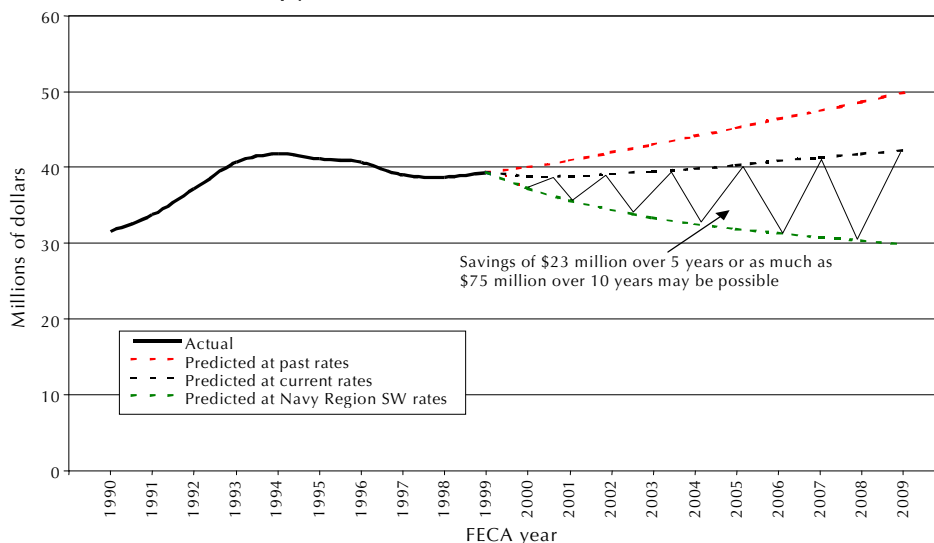


Figure 18 shows potential savings at the closed shipyards. Savings of \$24 million over 5 years and perhaps \$75 million over 10 years are possible. Clearly, though, the closed shipyards can't really be expected to match Southwest's success in reemployment. What we have here instead is a measure of savings that might be possible if there were greater opportunities to offer reemployment to FECA claimants from closed facilities. The Department of Labor (DOL) is considering allowing offers for return to work at the closest comparable facility (i.e., PWC San Francisco's claimants offered work at PWC San Diego). The Navy would have to pay relocation costs, and OWCP would make the decision on suitability of the job offer. This is untested water, but the potential for savings is there. We do include these savings in our overall estimate, but they are of a speculative nature.

Figure 18. Potential savings from matching Southwest's success at the closed shipyards

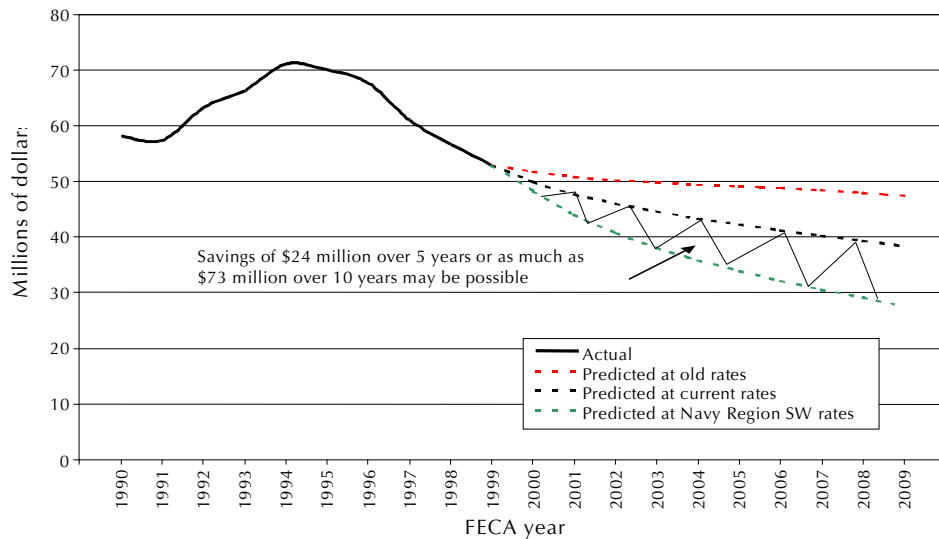


Figure 19 shows the potential savings from the rest of DoN (including the Marine Corps) matching Navy Region Southwest's success.⁴ The potential savings here are very large, \$81 million over 5 years and as

⁴ Some have pointed to the Marine Corps as another potential success story. We did not find that to be true. It does well with early cases, but no better than average at overall case management.

much as \$257 million over 10 years. It is an indication of just how poorly much of the Navy has done in comparison to the shipyards and Southwest in dealing with older case management.

Combining it all, figure 20 shows the Navy-wide savings. Savings of \$128 million over 5 years and perhaps \$405 million over 10 years are possible. In a worst case, with a reversion after 5 years to the limited success of the early 1990s, 10-years savings could still total \$290 million because of reduced obligation to claimants whose cases were addressed in the first 5 years. Achieving such savings will require more attention to older case management and strong support by activity heads, line supervisors, and the commands for light-duty and return-to-work programs. Note that in the absence of improved management, FECA bills will soon begin to rise. With more up-to-date estimates of future inflation, particularly for medical costs, this upward trend would have been even more apparent.

Figure 19. Savings from matching Navy Region SW's success in the rest of DoN—excluding shipyards

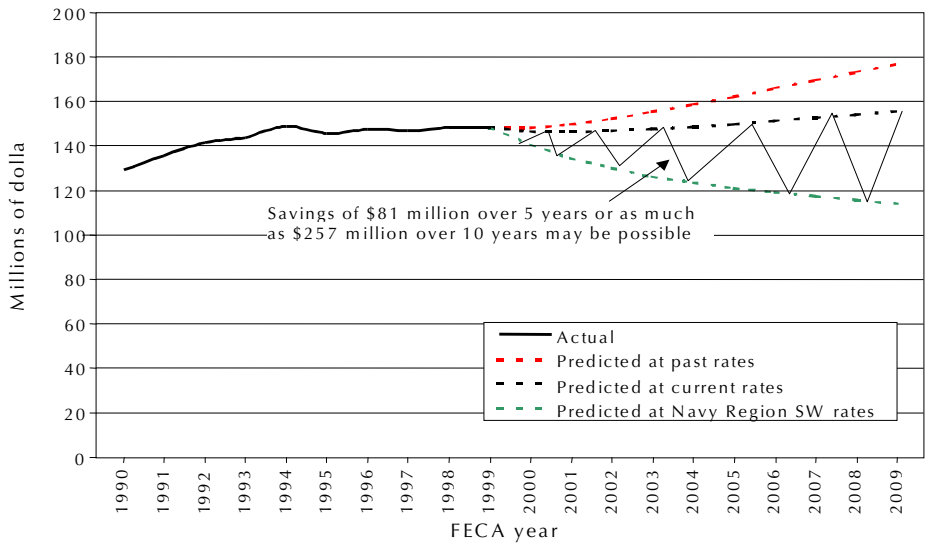
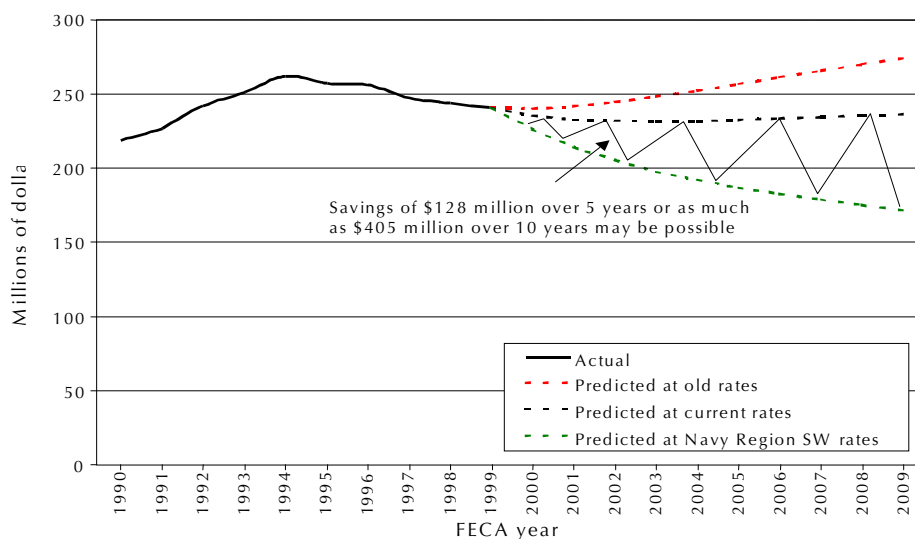


Figure 20. DoN-wide savings from matching Navy Region SW's success



Where should the focus of FECA programs be?

Now we turn to the question of where the greatest opportunities for savings lie—in case management or mishap prevention? Actually, the answer is already clear. A balanced approach is necessary. What is most often missing, though, is attention to older case management. The only way to bring down the FECA bill significantly and quickly is through attention to the older cases. That’s where the money is; that’s where savings must be found. We are not suggesting that any less attention be paid to safety or early case management.⁵ They remain necessary elements of a balanced approach. Rather, what we show is that there is no way to control FECA cost by focusing only on small components of the overall cost.

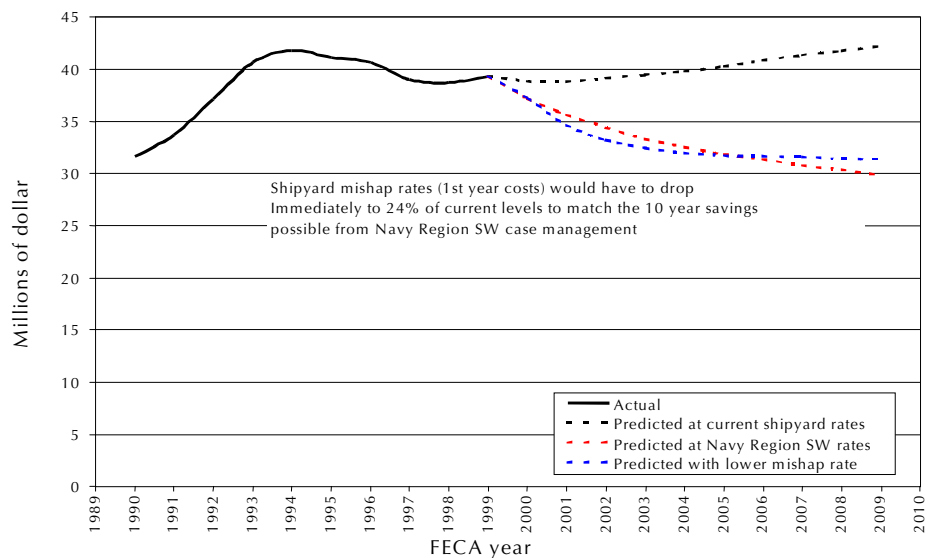
We already saw in table 1 how limited the effect has been from the 50-percent reduction in costs attributable to new FECA cases that has been observed since 1994. Look also at figure 9. Such a small percentage of costs is due to new cases that even dramatic reductions would have little impact on current bills. Of course, reducing the

⁵ In any case, the primary justification for safety is not to save on workers’ compensation costs. Those costs may represent just a fraction of the full cost of an accident.

number of new cases should eventually lead to similar proportionate reductions in the overall FECA bill. The trouble is it may be years before that full reduction is seen.

In figure 21, we show the results of a more direct approach to addressing the question. We calculated, for the active shipyards, the reduction in the number of new cases that would be necessary to generate savings equal to those that might be achieved by implementing Navy Region Southwest’s management practices. The cost of new cases would have to drop to 24 percent of current levels in order to match the 10-year savings possible by implementing Navy Region Southwest’s practices. That is probably not possible in the near term.

Figure 21. Where are the opportunities for savings?



We looked at a variety of other possible focused approaches to FECA management. For example, what if the shipyard put more emphasis on the first 3 years of case life (representing perhaps a greater focus on mishap prevention, light-duty programs, and medical cost containment)? That alone would also require unlikely levels of success to match the savings possible from implementing Southwest’s balanced practices. New case costs would have to drop 39 percent. That same percentage improvement in lowering costs over the 2 following years is also needed (i.e., by the third year, cohort costs would have to be 77 percent lower than is now expected).

The only practical way to match Southwest's savings is through a balanced approach with considerable success at dealing with older cases. For example, a 4.5-percent across-the-board improvement in controlling costs (i.e., lowering each cost ratio in figure 11 by 4.5 percent) matches Southwest's success. So, if the Navy wants immediate and significant savings, it must look to improving older case management practices. Judging from the examples of the closed shipyards and Region Southwest, that can be accomplished with a modest investment.

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