

Executive Leadership Team Issues Paper



Te Kaporeihana Āwhina Hunga Whara

To *Executive Leadership Team*

From *Phil Riley*
Long-term Claims Project Lead

Via *Denise Cosgrove*
General Manager, People & Business Services

Date *16 February 2009*

Subject *Strategy for the Future Management of Long-term Claims*

Status *Decision* *Information*

1 Purpose

- 1.1 This paper presents a strategic approach to the management of long-term claims by ACC. It includes proposed changes to structure, capabilities, culture and processes required to bring effect to the strategy.
- 1.2 In addition, it outlines tactical initiatives that are being taken immediately to fast track improvements. These are designed to build confidence that ACC understands, and is capable of responding quickly to, the issues that it faces in relation to long-term claims.

2 Recommendations

- 2.1 It is recommended that the Executive Leadership Team:
- Endorse the proposed strategy for the future management of long-term claims
 - Note the request for additional staffing and funding is included as part of the business case for the Service Delivery Model, and
 - Note the immediate remedial actions currently underway.

3 Executive Summary

- 3.1 ACC has recently adopted a revised Service Delivery Model designed to future-proof the organisation's claims management services. Significant economic, social and demographic changes, coupled with rising healthcare costs, mean that there will be increased pressure on the sustainability of the ACC Scheme in the next few years.

- 3.2 A key contributor to Scheme costs and liabilities is the number and duration of long-term claims, especially those attracting weekly compensation. ACC's current management of long-term claims (excluding serious injury) is fragmented and inconsistent, and does not reflect best practice. If the rate of growth continues at its current level and there is no evidence of an improvement in management practices, up to a further \$1 billion may be added to the liability by 30 June 2009.
- 3.3 Drawing from expert advice, a strategy for the future management of long-term claims has been developed which centres on:
- Specialisation – assigning dedicated resources for long-term claims management
 - Segmentation – targeting resources and strategies to areas of greatest risk and/or where greatest opportunity for improved return on investment exists
 - Culture Change – introducing a stronger balance by staff between customer focus and scheme liability management, and increasing personal responsibility by clients
 - Education – improving training and tools for staff
 - Standard operating procedures – clarifying expectations for active management of long-term claims, and
 - Quality control – introducing more robust mechanisms of review and continuous improvement.
- 3.4 A new Service is proposed, led within Areas and with specialist resources focused on the management of claims of 3+ years duration. The current Long-term Claims Units would close after a transition period and staff would be redeployed to branch-based teams. A commitment to increasing the overall level of staffing is sought based on a cost/benefit analysis which sees a payback on this investment within 1 year, and the opportunity to achieve significant actuarial releases of the liability over time.
- 3.5 Immediate actions have commenced to build confidence that ACC can effectively manage long-term claims, and, if possible, stem any increase in the liability by 30 June 2009. These actions include re-assigning current resources to selected high cost claims where there is the potential for quick wins through targeted intervention.
- 3.6 A six month window for achieving ELT, Board and Actuarial confidence that the proposed strategy will work is requested. If, by 30 September 2009, there is not a sense that the strategy will deliver the desired results (noting the inherent lag time for performance), the option of introducing alternative service delivery models will be further advanced.

4 Background

Size and Scale of Long-term Claims

- 4.1 There are currently approximately 12,000 Long-term Weekly Compensation Claims (LTWC), excluding Serious Injury Claims. Of these, 2,500 (20%) are under active management in Long-term Claims Units (LTCU's). The majority (9,500) are managed within branches in caseloads comprising new and long-term claims. Of

these branch claims, 1,500 are designated as 'service claims', i.e. those deemed to be at their full level of capacity.

- 4.2 Of the 9,500 branch-based claims, 49% are more than 3 years in duration; 40% more than 5 years; and 30% more than 10 years. Of the 2,500 managed in LTCU's, 60% are more than 3 years duration.
- 4.3 The average duration is currently 10.35 years. This has reduced by 142 days over the past 3 years. The average age of clients is 52 years.

Current Management Approach

- 4.4 ACC's approach to the management of long-term claims has varied over time – primarily between either having specialised branch-based resources or having generic claims management in branches managing both front-end and long-term claims.
- 4.5 The current model – that of generic claims management in branches – was introduced in the early 2000's primarily to smooth out workload fluctuations associated with the seasonality of front-end claims, and is supplemented by 4 LTCU's in 3 of the 5 Areas which have responsibility for active management under the statutory 'Vocational Independence' (VI) process.
- 4.6 Area Managers are responsible for LTWC in their Areas, however, direct management oversight of LTWC is currently spread across branches and LTCU's.

Performance

- 4.7 The LTWC key performance indicator is a net figure made up of both entries and exits. The overall KPI is currently ahead of target year-to-date, however, new entries into the LTWC pool are higher than expected and will continue to place pressure on the overall year end net target.

5 Current State Analysis – Key Findings

- 5.1 A current state analysis of how ACC manages LTWC has been carried out, using expert review and design input from [REDACTED] – a leading Australian claims management organisation. The key findings from this review are as follows:

The rate of growth of LTWC is unsustainable

- 5.2 Over the past 3 years, LTWC have been increasing at the rate of 5% per annum. The December 2008 Valuation has increased the liability associated with LTWC by \$233m. In addition, the actuaries have advised that unless there is sufficient evidence of improved management practices and performance, then the liability will likely increase by a further \$1 billion as at 30 June 2009.
- 5.3 This is not considered acceptable or sustainable.
- 5.4 At 5 years duration, LTWC are almost fully factored (i.e. 90%) by the actuaries as being likely to remain on the Scheme until retirement age. The potential therefore for the greatest reduction in the liability comes from achieving exits from the Scheme of those claims of 5+ years. In order to stem the flow of claims moving into

the 5 year+ category, work from the 3 year duration mark is considered likely to have the most effect.

ACC does not have a strategic approach to the management of LTWC nor are management practices consistent or integrated

- 5.5 While the Service Delivery Model has provided a framework for the management of 'high complexity' claims, there is currently no strategy for the management of LTWC.
- 5.6 The significant economic, social and demographic changes occurring in New Zealand and internationally will place increasing pressure on ACC's ability to manage LTWC. For example: the ageing population, including those with pre-existing medical conditions; the global recession and its impact on employment; and the shift in the nature of work to more highly skilled activities; mean that it will be harder to facilitate return-to-work opportunities.
- 5.7 Since a concerted strategy to reduce the number of LTWC in the 1990's (which resulted in a decrease from 33,000 to its current levels today), there has been limited consideration of service strategies for long-term claims. Some attempts at segmentation, e.g. the introduction of 'soft scores', have been made but not translated consistently into targeted segment management strategies.
- 5.8 While there are examples of good management practice – especially in Southern South Island where more effort is taken with front end claims to reduce the risk of them going long-term – there is a lack of consistency across ACC. No standard operating procedures exist, nor are there any coordinated quality control or process improvement regimes in place.
- 5.9 There is also a view that, because of the necessary focus on activity associated with the front end, LTWC in branches are not currently afforded the attention required. The continued increase in new claims volumes has reduced the previous volatility in workloads and shifted effort – not unnaturally – to front end activity.

There is not a mindset or tools around scheme liability management

- 5.10 The emphasis over the past few years has been on improving Trust & Confidence, Access, and customer focus. There is a need now to balance this with an increased focus on scheme liability, cost containment and value-for-money – while still achieving quality outcomes for clients.
- 5.11 In addition, there has been a shift in the ideological basis of the role of ACC – from that of a 'social insurer' to an 'insurer'. In the past, this has meant ACC has been required to provide a more interventionist approach (i.e. helping people until they return to their pre-injury state either fully or as much as possible) rather than the provision of a 'safety net' while injured people recover. There appears to be now a stronger tolerance to dealing with non-compliant behaviour, and increasing personal responsibility by clients.
- 5.12 ACC does not currently have sufficient tools or training to support these changes in emphasis by frontline staff, nor are performance measures sufficiently focused on reducing future liability costs or on the quality of interventions to meet client needs.

ACC does not have a clear approach to dealing with psychosocial barriers to return to work

- 5.13 Often clients who have remained on the Scheme for long periods of time have either developed as a result of their injury, or exacerbated pre-existing, psychosocial barriers to their effective return to work. ACC's approaches to identifying and managing such psychosocial factors have been inconsistent nationally and somewhat sporadic.
- 5.14 There is a need to provide clarity on the scope of ACC's role in relation to non-injury related psychosocial factors; to introduce targeted services and/or expert advice (e.g. psychologists) where required; and to upskill staff on re-engaging with, and utilising different approaches (e.g. more 'tough love'), with clients.

6 Proposed Strategic Approach

Goals

- 6.1 The goals of the strategy are to:
- By 30 June 2009, provide confidence that LTWC are under active, targeted management – and hold the growth in liability at its December 2008 Valuation level
 - By 30 June 2010, achieve an actuarial release in the liability of \$200 million and thereafter by 30 June 2013, a cumulative actuarial release of \$900 million, and
 - Improve quality outcomes for clients.

Proposed Work Programmes

- 6.2 Key focus areas will be:
- The immediate targeting between now and 30 June 2009 of selected long-term claims

And, full implementation by 30 June 2009 of work programmes relating to:

- Specialisation
- Segmentation
- Culture Change
- Education and tools
- Standard operating procedures, and
- Quality control.

Tactical Initiatives – now to 30 June 2009

- 6.3 A transitional service is currently being implemented. This service will utilise approximately 30 existing staff to focus on claims at 5 year duration (in consideration of the liability impact). These files are being selected against a set of high cost criteria (e.g. those clients receiving more than \$600 weekly compensation per week) to enhance the impact of outcomes achieved.

- 6.4 The development of training, new standardised processes, monitoring tools and rehabilitation programmes has also commenced. These will be used in the transitional service as soon as they are developed.
- 6.5 These 30 staff will undergo quick immersion induction training to ensure the new culture and skills necessary for ACC to successfully reposition its approach to long-term claims are embedded.

7 Proposed Future Management of LTWC – from 1 July 2009

Structure

- 7.1 When considering various structural options, consideration was given to the Service Delivery Model, the successful application of the National Serious Injury Service (NSIS), previous branch trials of targeted LTWC management, and reviewing current practices particularly with high-performing areas.
- 7.2 A discussion forum with senior Operations Management staff and expert input from [REDACTED] has also informed the proposed approach.
- 7.3 A new Service for the future management of LTWC is proposed. This would continue to be part of the Area structure, reporting to the Area Managers, but involve the establishment of dedicated LTWC positions in selected branches (where critical mass of both clients and staff exists) reporting to Area-based LTWC Managers. The LTCU's would close following a period of transition to the new model. Staff in these LTCU's would be redeployed to the new branch-based service.
- 7.4 The proposed approach is similar to the NSIS but differs in that there is no national leader. This is designed to support the end-to-end management of claims within Areas, and to ensure accountability lies where it needs to. The project team currently provides national oversight, national service development and the impetus for change. A recommendation for how these elements will be provided in the future will be made before 30 June 2009.

Definition of LTWC

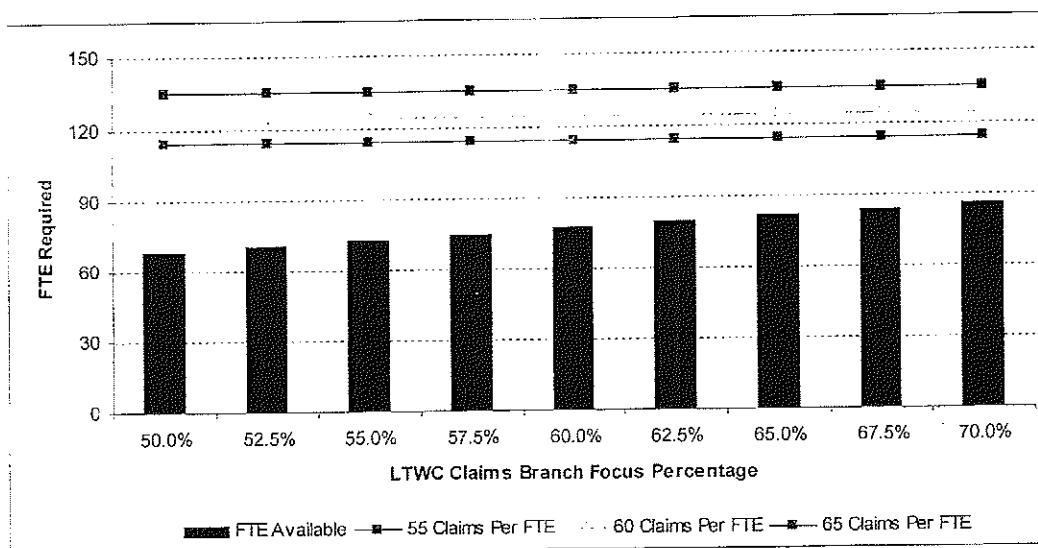
- 7.5 Targeted management of LTWC needs to be linked to maximising return on investment. This would require ACC redefining LTWC in terms of when and how they are managed.
- 7.6 Coupled with this is the need to ensure continuity of claims management is preserved and accompanying resource requirements are retained for front-end claims.
- 7.7 It is proposed that LTWC would be defined (for structural and management purposes) as those reaching 3 years duration. This would provide front-end staff and clients with a time period whereby all available options can be explored to secure a return to work/independence.
- 7.8 Those claims exceeding 3 years in duration would be managed by the new LTWC teams, utilising rehabilitation programmes and accompanying legislative options targeted to the needs of this client group. A change of approach at 3 years would

ensure all possible options are explored prior to the 5 year mark whereby actuarial calculations are fully 'factored'.

Staffing

- 7.9 In moving to a structure specialising in LTWC, two key factors have been considered in determining staffing requirements: what percentage (against optimum) of effort is afforded this client group at present; and what is a realistic caseload to manage considering the needs of this client group.
- 7.10 Information gathered points clearly to a low level of current activity on the majority of branch-based LTWC files. This is primarily due to the increased volumes of front-end claims and the necessary effort afforded to these. An estimate range of between 50% and 70% of optimum case management currently applied to these files has therefore been used to build the proposed staffing model. Files in LTCU's, however, can be assumed to be under full (100%) active management.
- 7.11 In determining appropriate caseloads, expert input suggests that, initially, caseloads need to be low (approximately 20 per Case Manager) to reflect the intensive activity required to re-engage with LTWC clients, but once clients are on an established path, caseloads can increase to higher levels (maximum 70-80 per Case Manager). For the purposes of estimating required staffing levels, a spread of between 55 and 65 claims per Case Manager has therefore been used.
- 7.12 The following graph shows the difference between the total number of FTE Case Managers needed within each range and the total number of current Case Managers.

Case Manager FTE required compared to the Case Manager FTE currently 'managing' claims with more than 3 years duration



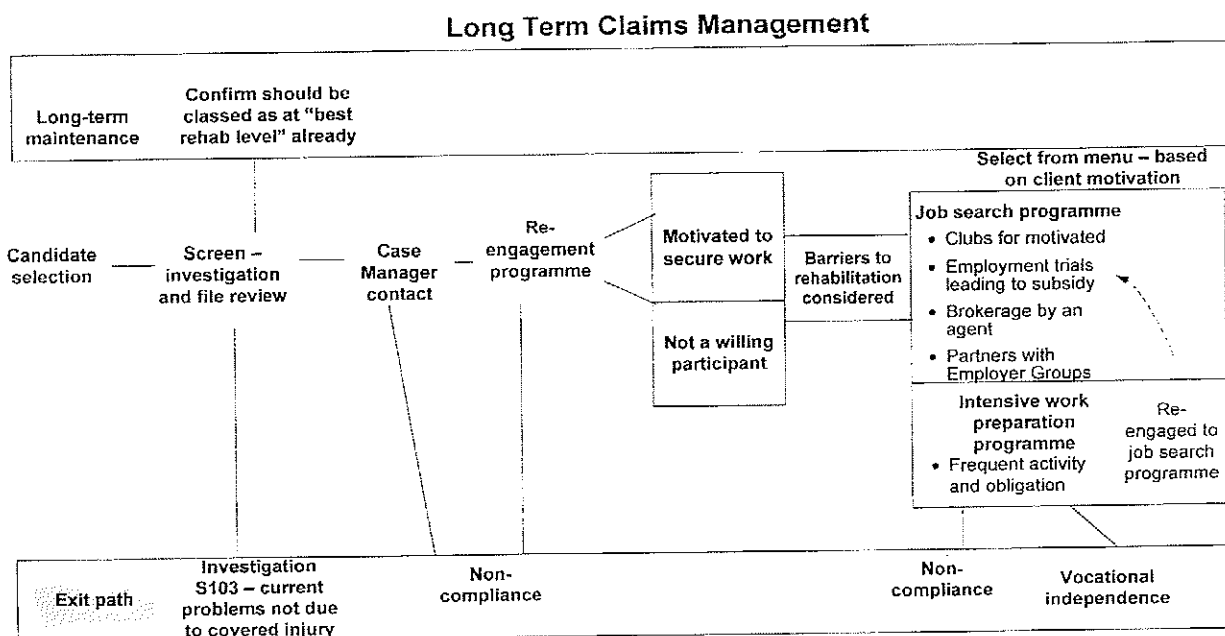
Appendix 1 describes the basis of these calculations

- 7.13 It is proposed that an optimum increase of Case Managers to support this service would be an additional 67 Case Managers. As shown in the above graph, this assumes management of branch claims of 3 years or more duration is currently at 50% of the optimum required and caseloads of 55 per Case Manager are provided for. This FTE would be added to the existing resource applied to these claims within LTCU's and branches to total 135 Case Managers.
- 7.14 An additional 1 LTWC Manager, 6 Team Managers and 1 FTE equivalent medical support would also be required. The total proposed FTE increase is 75.
- 7.15 Supporting resource (administration etc) for this service would largely come from within the branch network as these teams will be cohabitating in branches.

Proposed Process for the Management of Long-term Claims

- 7.16 Specialisation of the management of LTWC from front-end files will require the implementation of tailored rehabilitation programmes, new initiatives around securing employment, methods of re-engaging with clients, the application of standard operating procedures, specific training, monitoring, quality control and oversight of staff.
- 7.17 However, the fundamental change that needs to occur is to the culture of staff working on LTWC. An increased focus on scheme liability management, dealing with non-compliant behaviours by clients and enhancing client's personal responsibility is required. Tools (e.g. investigation) and training will be developed.
- 7.18 ACC research¹ provides evidence that as well as working with clients on their ability to deal with accident (and non-accident) related medical impairment, a move away from the medical model to one of functional management, i.e. breaking down non-medical barriers to work, can result in improved outcomes. Future rehabilitation programmes will complement existing programmes by placing a focus on supporting a return to work/work readiness.
- 7.19 A revised process has been developed at a high-level whereby staff would actively (re)engage clients and be very specific in terms of providing information around entitlements and client obligations. A rehabilitation approach designed to determine barriers to independence and subsequent rehabilitation options tailored to the needs of this group is yet to be developed.

¹ Barriers facing long term unemployed, injured, or disabled workers returning to work. Fiona Knight, ACC Jan 2004. Interventions for the management of long term ACC clients in receipt of weekly compensation. Fiona Conlon. ACC Dec 2008



7.20 Key features of this process map are:

Process	Deliverables
Candidate selection	All clients (excluding NSIS and sensitive claims) over 3 years duration will be managed by this service.
Screen investigation and file review	A full review of a client's claims history will determine the most appropriate case management action. Profiling, by way of a multi-disciplinary approach, will assist in the determination of the most appropriate rehabilitation options.
Case Manager contact	Profiling will assist to determine the best means of contact; who will be involved; and key points for discussion. Non compliance provision can be applied if necessary.
Re-engagement programme	An external programme working individually with clients to mitigate any (lack of) motivation issues, determining ability (as distinct from disability) levels and identifying any barriers to rehabilitation. Non compliance provisions can be applied if necessary.

Barrier to rehabilitation	A range of rehabilitation programmes and legislative and policy options will be utilised to assist clients to work through any barriers identified.
Motivated to seek employment	A range of assistance will be made available to clients willing to be engaged in seeking employment.
Not a willing participant	<p>A rehabilitation programme will be provided to ensure regular engagement is maintained and clear expectations are agreed and monitored. Programmes will include assistance towards securing employment.</p> <p>Non compliance and vocational independence provisions will apply.</p> <p>Ability to engage in the range of employment programmes will be available.</p>

Future services

- 7.21 There will always be a group of clients that require long term or permanent assistance and this structure is envisaged as being appropriate for the foreseeable future. The challenge and one objective of the Service Delivery Model is to develop front-end processes to reduce the number of clients reaching longer durations on the Scheme.
- 7.22 As this occurs, resource will be able to be applied to front-end activity or absorbed elsewhere. An ideal outcome would envisage the size of this Service decreasing over time.
- 7.23 It is also envisaged that the learning from this Service will quickly be applied, as appropriate, to front-end activity.

8 Return on investment

Future liability implications

- 8.1 The following tables show the effect on the future nominal weekly compensation liability for long-term claims of the additional 67 Case Managers. Table one assumes an exit rate of 12 claims per Case Manager per year; the second table shows the impact of an additional level of performance of 20 exits per year.

Strategy for the Future Management of Long-term claims

- 8.2 The assumption is that for the first 6 months of the 2009/10 fiscal year the performance under the new structure will not be at optimum levels.
- 8.3 As shown in the tables, the undiscounted future weekly compensation liability for long-term claims could be reduced by as much as \$900 million by the end of June 2013, or \$1,400 million with additional outcomes.

Assumption: 12 claims per CM per year returned to independence						
Fiscal Year End	Before			Est. Reduction in Nominal Claim Liability		After Effect of Program on Nominal Liability
	Nominal Unpaid Claim Liability	# of Additional Claims RTW / RTI	Est. Avg. WC per Claim	Incremental	Cumulative	
Jun-10	\$5.9b	600	\$294k	\$180m	\$0.2b	\$5.7b
Jun-11	\$6.2b	800	\$295k	\$240m	\$0.4b	\$5.8b
Jun-12	\$6.5b	800	\$295k	\$240m	\$0.7b	\$5.8b
Jun-13	\$6.8b	800	\$296k	\$240m	\$0.9b	\$5.9b

Assumption: 20 claims per CM per year returned to independence						
Fiscal Year End	Before			Est. Reduction in Nominal Claim Liability		After Effect of Program on Nominal Liability
	Nominal Unpaid Claim Liability	# of Additional Claims RTW / RTI	Est. Avg. WC per Claim	Incremental	Cumulative	
Jun-10	\$5.9b	800	\$294k	\$240m	\$0.2b	\$5.7b
Jun-11	\$6.2b	1,300	\$295k	\$380m	\$0.6b	\$5.6b
Jun-12	\$6.5b	1,300	\$295k	\$380m	\$1.0b	\$5.5b
Jun-13	\$6.8b	1,300	\$296k	\$380m	\$1.4b	\$5.4b

- 8.4 The additional assumptions used to model these scenarios are:
- 67 extra case managers working 100% on these claims
 - Clients are assumed to cease weekly compensation at age 65
 - Continuance rates and inflation of weekly compensation payments are as used for the June 2008 valuation of the outstanding claims liability
 - All weekly compensation claims of duration 3 years or longer have been modelled, excluding serious injury claims.
 - The nominal unpaid claim liability is the estimated total future unpaid weekly compensation costs on an undiscounted basis.

9 Alternative Service Delivery Options

- 9.1 While there is a significant lag factor in performance results for LTWC, ACC is striving to improve ELT, Board and Actuarial confidence that the strategy and remedial actions will establish a strong basis for the future. If, however, by 30 September 2009, this is not achieved, work will be advanced on the consideration of alternative service delivery options.

- 9.2 ACC currently contracts out the management of a small number (250) of LTWC in Auckland to its subsidiary, Catalyst Risk. Extending this, and/or outsourcing to private sector claims managers may be considered if required.

Phil Riley
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Appendix 1: FTE analysis

Volume of Active Claims	Greater than 3 Years						
Total	7440						
LTCU	1440						
Branch	6000						
Case Managers							
Total	429						
LTCU	37						
Branch	392						
LTCU active claims per CM in Branch	15.31						
Total active claims per CM in Branch	65						
LTCU claims percentage of Workload	23.55%						
Branch Effort Spent on Claim Type							
0 - 3 Years	88.23%	87.64%	87.05%	86.46%	85.87%	85.28%	84.69%
> 3 Years	11.77%	12.36%	12.95%	13.54%	14.13%	14.72%	15.31%
							15.89%
							16.48%
							67.5%
							70.0%
LTCU Claims Branch Focus Percentage	50.0%	52.5%	55.0%	57.5%	60.0%	62.5%	65.0%
Branch Staff Available for LTCU	46.2	48.5	50.8	53.1	55.4	57.7	60.0
LTCU Staff Available	22.2	22.2	22.2	22.2	22.2	22.2	22.2
Total Available	68	71	73	75	78	80	82
							84
							87

Notes

1. The LTCU FTE available has been determined by dividing the number of claims of more than 3 years duration by 65 claims per CM (1440/65) to equal 22.
2. The number of branch FTE available is calculated by firstly noting that these files are 23.55% of a caseload of 65, and then secondly giving a range in the resource actually being applied between 50% (of 23.55%) and 70%. At 50%, the equivalent of 46 CM FTE is being applied.
3. These two figures, 46 and 22 are added to give the equivalent of 68 CM FTE being applied to this client group.
4. The last factor is showing a range of preferred caseloads. At 55 claims per CM, this would require 135 CM's. 7440/ 55 to equal 135.
5. A shortfall of 67 CM's exists between the resource currently deemed to be applied to this group of clients (68) and that determined to be required (135)