

**DRAFT Testimony on Work. Comp. Reform  
Before Senate Select Committee 4/29/2004**

Testimony on

**EMPLOYER NETWORKS**

Before the

**SENATE SELECT COMMITTEE ON WORKERS' COMPENSATION REFORM  
STATE OF TEXAS**

**Ms. Christine Coakley**

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Chairman Staples, members of the Senate Select Committee. Good morning.

I am Christine Coakley, Regulatory & Legislative Analyst for The Boeing Company. I come to you today representing The Boeing Company and the Texas Defense, Aviation, Aerospace Alliance of which we are a member. The Alliance represents the aerospace enterprise of Texas which includes private organizations engaged in technology development and research, design, manufacturing, testing, certification, operation, and/or maintenance of disciplines and products related to aviation, space and defense. The aerospace enterprise in Texas accounts for over 1200 firms, employing more than 140,000 workers, with an average annual wage of more than \$60K, and total payroll of more than \$2B as of the third quarter of 2003.

The Boeing Company employs over 6,000 people in Texas, the 5<sup>th</sup> largest state total of Boeing employees in the U. S. Boeing has been in Texas for over 40 years and continues to operate in a variety of markets and maintains a large presence. In addition, Boeing contracted with over 1,200 suppliers and spent approximately \$1.3B in 2003. Since the impact of 9/11 and the intensive global competitive market, Boeing and its suppliers have had to take a very close look at the price of production, which includes taxes, employee benefits, energy and workers' compensation, to name a few. Workers' compensation costs have taken on a high profile in the cost of doing business analysis that our senior management reviews before placing new business.

<sup>1</sup>Compared to all of the other states, Texas ranks 6<sup>th</sup> highest in workers' compensation premiums. Boeing's experience in Texas in the past 3 years has shown that, with our safety prevention efforts, we have reduced the number of new claims by 32%, in spite of a 43.7% increase in headcount. However, in the past 3 years Boeing's medical costs in Texas have risen 131%; compared to our national average of 59%. We owe this significant increase to uncontrolled utilization of medical care which equates to higher payments to medical providers (due to increases in the number of visits per claim and number of services per visit) and unlimited services by physical medicine (PT, OT) and chiropractic. There are no reasonable checks and balances in the system that requires these providers to deliver treatment that is *necessary* for

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<sup>1</sup> Department of Consumer & Business Services, "2002 Oregon Workers' Compensation Premium Rate Ranking" Published January 2003.

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patient recovery. <sup>2</sup>Research data from the Workers' Compensation Research Institute compared the average medical payment per claim to 9 other states and found that Texas was 78% higher than the median of those states. And, they <sup>3</sup>reported that the duration of time loss for people off work was highest among the 12 study states (nearly 17 weeks on average, which was 4 weeks longer than in the median of the 12 states). When the <sup>4</sup>WCRI conducted a study comparing *employer* choice of physician (via networks) to *employee* choice they found that fewer medical services were used in the networks and time loss benefits did not increase. We concluded that there's an opportunity in Texas to present workers' compensation reform that would lower our medical costs and reduce time loss away from work for our employees.

In working with the Alliance we agreed that the most effective reform would be for employers to develop their own medical networks. We envision setting up contracts with networks that have been certified by the Department of Insurance. These networks will include using licensed health care providers who have been educated on the workers' compensation requirements, have agreed to follow national medical treatment and utilization guidelines which are peer-reviewed and based on scientific medical evidence. They would also be educated on our company's return to work policy so we may return our employees to work as quickly as possible following their injury. An employee would be able to choose their treating physician from a network of providers and have the ability to change physicians, within the network. The <sup>5</sup>WCRI study on employer networks estimated medical costs were lowered 16% to 46%, if the patient was treated exclusively by network providers. This same study suggested that time loss benefit costs were slightly lower for employees treated by a network provider at the initial non-emergency visit.

If allowed, we plan to benchmark the outcome results of medical networks by requiring data be collected. This data would be used to quantify the impact of the employers' medical networks, introduction of medical treatment guidelines and utilization control standards for non-network providers and duration of time loss from work against the current published benchmarked data by the <sup>6,5</sup>WCRI, on Texas medical costs and utilization; that also includes duration of time loss, which goes back to 1996.

Based on empirical data, the need for reform is justified. We are paying higher costs in Texas than in other states and our injured workers could benefit from optimum medical care and a speedier return to work. In conclusion, Boeing and other members of the Alliance must reduce

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<sup>2</sup> Workers' Compensation Research Institute "The Anatomy of Workers' Compensation Medical Costs and Utilization: Trends and Interstate Comparisons, 1996-2000. Stacey M. Eccleston, Xiaoping Zhao. July, 2003

<sup>3</sup> Workers' Compensation Research Institute – CompScope Benchmarks: Multistate Comparisons, 1994-2000. Carol A. Telles, Aniko Laszlo, Te-Chun Liu, April, 2003

<sup>4</sup> Workers' Compensation Research Institute "The Impact of Initial Treatment by Network Providers on Workers' Compensation Medical Costs and Disability Payments" Sharon Fox, Richard Victor, Xiaoping Zhao and Igor Polevoy – August, 2001

<sup>5</sup> Workers' Compensation Research Institute "Managed Care and Medical Cost Containment in Workers' Compensation: A National Inventory, 2001-2002." Ramona P. Tanabe, Susan M. Murray. December, 2001. WC-01-4

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their production costs in Texas. Workers' compensation reform decisions made by the Texas legislature during the 2005 legislative session could have a profound impact on our industries' competitive position in the national and world market place. We urge you to seriously consider our proposal by allowing employers to adopt medical networks for workers' compensation claims.

I would like to thank the Senate Select Committee for the invitation to testify today on such a critical issue. I am pleased to take any questions from the Committee.