

# Eliminating Workers' Compensation Fraud







# Introduction

One of the most significant cost issues faced by small businesses in California is workers' compensation. The cost for a strong workers' compensation policy that matches the specific needs of your business and industry can be high. Yet, many businesses fail to make basic changes to evaluate and look for signs of fraud that can greatly increase those costs.

In recent guides, we've looked at the cost of workers' compensation, what factors to evaluate when choosing a policy, and how to ensure you get your employees back to work as quickly as possible, but right up there on the list of things you should be paying close attention to is the risk of fraud.

It goes beyond simple fraud, which is not as common as you might believe. Most people who defraud a workers' compensation claim don't set out to fake or manufacture an injury. They start legitimately hurt and malingering in their convalescence, exaggerating the severity of their injury or illness to get out of returning to work. How often does this happen? While 1-2% of claims are purely fraudulent, upwards of 20% of all lost-time claims are exaggerated to some degree.

By remaining vigilant and investing in the resources and systems needed in your business to counter such claims, you can reduce your cost for workers' compensation and improve employee morale, productivity and return to work rate.



# The Root of Fraud

Where does workers' compensation fraud start? There are several factors to consider when evaluating why someone you trust and rely on every day in the office would go to the effort of faking or exaggerating an injury to take advantage of your policy.

## Pure Fraud vs. Exaggeration

**Pure fraud happens.** There are people who set out to take advantage of systems and get paid time off. We'll look at some of the red flags you should evaluate in advance of this happening – people who have filed for workers' compensation multiple times in the past, or who are not fully qualified for the job, posing a possible safety risk.

There will always be a few bad apples out there – people who want to take advantage of the system and have the means and motive to do so. But they are not as common as the other camp – those who are legitimately hurt (at first) and exaggerate the severity or duration of that injury.

Without proper systems in place to followup with the employee, communicate with their medical practitioners, and ease them back into the workplace through light duty tasks, this can drag on for extra days, weeks, or months, costing you substantially.

It's a major risk for almost all businesses, but one that can be mitigated against through a combination of strong return to work policy, communications systems, and investigation of injuries both internally and with the affected party.

## Opportunity vs. Premeditation

In the end, it doesn't necessarily matter whether someone sets out to defraud your workers' compensation policy or if they are taking advantage of a situation that presents itself. The bottom line is that they are lying in some form, affecting your business in several ways.

But there are very different ways to approach risk mitigation for workers' comp fraud based on whether it is premeditated or opportunistic. We'll look at both, but keep in mind that having stronger hiring controls in place or evaluating people more carefully won't necessarily indicate whether a new employee is going to be perfectly honest with you when an injury does occur. Sometimes, it's a matter of taking advantage of an opportune situation.

## How Common is Fraud?

Out of **135,000,000 workers in the United States**, more than 3 million are injured on the job each year on average. And while the vast majority of people who are injured file legitimate claims, up to 2% are believed to be fraudulent, costing an estimated \$1 billion a year and \$950 a year to the average American household.

Injuries considered fraudulent can be exaggerated workplace injuries, extended time off even after healing back to full health, or injuries that take place outside the workplace. The bottom line is that these injuries are not always legitimate and can cost your business thousands of dollars if you are not vigilant.

## Spotting the Red Flags of Fraud

There are several red flags you should watch for when evaluating a workers' compensation claim. Some are subtler than others, but by keeping a close eye on your staff and evaluating each situation as it comes up, you can identify potential issues well in advance of it resulting in significant costs for your business.

1. Suspicious Medical Providers
2. Refused Treatment
3. Description Conflicts
4. Recent Changes of Employment
5. Late Reports and Lack of Witnesses
6. Changes to Addresses or Physician Information
7. Lack of Communication

None of these necessarily indicate on their own that a member of your staff is committing insurance fraud, but they should be treated as red flags. We're going to cover some of the precautions you can put in place that will mitigate these concerns before injuries occur, but if you see one or more of these red flags and are concerned about the legitimacy of a claim, consider hiring an investigator to evaluate further.



## Reducing or Eliminating Fraudulent Claims

How do you address all these concerns, while simultaneously reducing the risk of such fraudulent claims? There are a few things you can and should be doing that will help to reduce the risk of it every happening to start with.

- **Pre-employment (post offer) background checks** – A good background check before bringing someone on board can suss out past claims and potential criminal activity that might indicate a red flag.
- **A strong transitional duty program** – Programs designed to transition people into and out of roles when they are injured ensure less time out of the office.
- **Train supervisors and managers on fraud prevention** – Make sure everyone on your staff who oversees employees is versed in what to look for and how to respond to potential fraud.
- **Fraud tip lines & anti-fraud posters** – Setup a tip line or email address that can be used to send in anonymous information about potential fraud. Posters with this contact information help remind everyone how seriously you take fraud, and what they should do if they see it.
- **On-site Investigation of Injury** – When there is an injury, have a system in place for a comprehensive investigation of the cause, nature of the injury, and how it should be handled in follow-up.

- **Social Media Investigation** – A relatively new option, social media is a powerful tool in investigating staff who you suspect may be lying about their injury. Stray photos on Facebook or check-ins from an overseas trip are easy indicators, but even more subtle issues may pop up that they don't realize are being watched by an investigator.
- **Medical Records Search** – Medical records should indicate the nature and severity of the injury. Without an accurate record that corroborates the claim, there may be a problem.
- **Covert Investigation** – In severe cases, covert investigation may be able to catch someone being active in ways that their injury claim would otherwise make impossible.
- **Prosecute vigorously any proven fraud** – Finally, if there is fraud, be as aggressive as you can in prosecuting. Courts can demand repayment of claims, and litigation can help to improve your policy situation. More than anything, it sets an example for other employees that you have a zero-tolerance policy for fraud.

The best way to reduce fraud is to prevent it from happening in the first place. By having these systems in place, you can provide a safer, happier workplace where people know exactly what expectations are and how they should act when an injury occurs – whether it is to them or someone else.



# Cost Controls in Fraud Prevention

There are only so many things you can do in advance to prevent fraud from occurring. That's why it is so important to initiate key cost controls as part of your fraud prevention efforts.

This means actively combatting fraud investigating every claim a member of your staff claims, and communicating constantly with each member of your staff, as well as providing training related to how the claims process works (and does not work). Specific things you should consider include:

- **Read and review surveillance reports,** videotapes and photographs. Your workplace likely has several tools in place to evaluate what happened. Lack of photographic evidence can make it harder for someone to prove their claim.
- **Coordinate investigation** results with medical advisers. Having medical practitioners you work with and require people to visit for clearance to return to work, in addition to their personal doctors can help to evaluate investigation results and get a sense of what you've found.
- **Educate your employees** about how fraud hurts their fellow employees as well as the employer. Going beyond deterrence, talk to you employees about just how much of an impact fraud has on the business. People are inherently good and most won't attempt to commit fraud, especially if they realize the financial pressure and possible risk they put on everyone else.
- **Create a strong return to work** policy and program, coordinating with doctors or case managers. Having a medical professional review every injury can greatly reduce malingering. Return to work, combined with careful communication between you and your injured staff are some of the strongest things you can do to prevent and discourage opportunistic fraud.
- **Utilize your Safety Program** to discourage and prevent fraudulent claims. A good safety program reduces the number of situations in which someone can get injured, while also mitigating the risk that someone will be encouraged to malingering instead of returning to work.
- **If you see a questionable claim, investigate it** - what is the purpose of that claim, and was it related to their job or not? By investigating all claims and not giving anyone a pass, you can set a standard that will catch almost all forms of fraud before they become an issue.
- **Screening is hugely important** - be active in both pre-employment and post-offer screening to weed out people who cannot safely perform the job or who are serial filers.

A smart system that actively catches people who are attempting to commit fraud or who are tempted to malingering beyond the time needed to heal from an injury will greatly reduce the potential cost to your business.



# Protecting Your Business from Serial Workers' Compensation Fraud

How much money do you spend each year on workers' compensation premiums, and how much do you estimate you lose in terms of productivity when someone gets hurt?

According to a 2013 study by the Stanford University Department of Civil Engineering, a fracture costs an average of \$50,000 in direct expenses to a company. There are, however, indirect costs that can exceed an additional \$55,000.

These include things like wages paid for absences not covered by your policy, wage costs for time lost, overtime costs to cover that injured employee's shifts, administration and safety personnel time investigating the accident, hiring and training a replacement, and lost productivity or morale hits to your staff.

And that doesn't consider the impact that even a single accident can have on your experience modification score – which will directly increase the cost of your workers' compensation policy for every employee on payroll.

## It adds up fast.

Which is why it is so important to have a system in place that not only evaluates potential risk and mitigates through smart hiring, but reduces the potential cost of an injury by putting in place sound safeguards for investigation, follow-up, and return to work.

A good system with carefully managed risk and cost controls can save you thousands of dollars per claim, and add up over time to a happier, healthier work place and staff.

Are you interested in learning more about implementation of a good safety and accident prevention program, while improving your workers' compensation rates? Visit the Radius Insurance Insights Resource Library to download our recent eBooks including:

[Accident and Safety Prevention Guide and Checklist](#)  
[Workers' Compensation Cost Reduction Guide](#)  
[Buyer's Guide to Workers' Compensation](#)  
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