

# A Primer on Credits

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One of the most overlooked issues in handling a workers' compensation case is the potential for any credits due to the employer for amounts paid. This is a costly issue to overlook. Whether through its group health or workers' compensation insurance coverage, the employer often pays medical and indemnity costs associated with a claimed work injury. The employer should take proper measures to ensure those payments are rightfully attributable to the employer at the time of trial.

## What are "credits"?

Generally speaking, the term "credit" has several definitions. Merriam-Webster's dictionary defines credit as "the balance in a person's favor in an account." An employer may have a credit in its favor for amounts paid toward medical bills pursuant to a group health policy. This often occurs when a claim, or portion of a claim, is disputed, meaning the employer has challenged the reasonableness, relatedness, or necessity of some or all medical treatment. If the claim is accepted, or even while a claim investigation is ongoing, the employer's representatives may pay medical bills pursuant to its workers' compensation policy. Additionally, indemnity payments such as temporary total disability (TTD), temporary partial disability (TPD), or permanent partial disability (PPD) benefits may be made which could all give rise to a potential credit for those amounts paid. Regardless of whether the claim is accepted or disputed, the employer should maintain documentation of all payments made to or on behalf of the injured employee in case future credit is available for amounts not attributable to a compensable work injury.

## Common Credits

Most commonly, a credit is an amount paid to the employee in excess of what was properly owed, i.e. an overpayment of TTD benefits, or a payment to a third party on behalf of the injured worker, such as satisfaction of a medical bill. However, any time a payment is made to or on behalf of the employee, there is potential for the employer to have a credit in that amount.

### **Group Health Coverage**

Section 8(j) of the Workers' Compensation Act addresses payments made under a group health plan:

In the event the injured employee receives benefits, including medical, surgical or hospital benefits under any group plan covering non-occupational disabilities contributed to wholly or partially by the employer, which benefits should not have been payable if any rights of recovery existed under this Act, then such amounts so paid to the employee from any such group plan as shall be consistent with, and limited to, the provisions of paragraph 2 hereof, shall be credited to or against any compensation payment for temporary total incapacity for work or any medical, surgical or hospital benefits made or to be made under this Act. In such event, the period of time for giving notice of accidental injury and filing application for adjustment of claim does not commence to run until the termination of such payments. This paragraph does not apply to payments made under any group plan which would have been payable irrespective of an accidental injury under this Act. Any employer receiving such credit shall keep such employee safe and harmless from any and all claims or liabilities that may be made against him by reason of having received such payments only to the extent of such credit.

820 ILCS 305/8(j). To put it more clearly, in order to be entitled to credits, the employer must have paid some or all of the premium and the plan must exclude coverage for work-related injuries. The Section provides the employer credit for payment of any compensation for temporary total incapacity

for work or any medical, surgical or hospital benefits. However Section 8(j) does *not* provide that a credit for amounts paid be allowed against any compensation for permanency.

### ***Indemnity Payments***

It is not uncommon for an employer to make indemnity payments while a claim is still under investigation. Sometimes payments are made based on an estimated average weekly wage before an exact calculation of average weekly wage, temporary total disability, and permanent partial disability rates is completed. Occasionally, an employer may pay benefits at the onset of a claim to show that a good faith investigation is taking place, only for that investigation to later result in a determination that the claim was not compensable in the first place. And, of course, indemnity payments are made on compensable claims. Even when the employer pays indemnity at the correct rate in a compensable case, a credit situation may nonetheless develop. Most commonly, that occurs when the injured employee returns to work, but continues to receive indemnity benefits until the insurance carrier is informed of the return to work and has an opportunity to suspend those benefits. Certainly the employer has a "credit" for those amounts paid – but can it be recouped pursuant to the Act?

In *Illinois Graphics Co. v. Nickum*, 159 Ill. 2d 469 (1994), the Supreme Court addressed one such issue. The claimant filed an application alleging an injury on October 1987. While investigating the claim, the insurer (State Farm) paid the claimant TTD benefits totaling \$7,899.95. Following a hearing, the arbitrator found the claimant failed to prove an accidental injury arising out of and in the course of her employment and failed to prove a causal relationship between the injury and work activities. The arbitrator also found the claimant had been paid \$7,899.95 in TTD because of the injury. The Commission affirmed the arbitrator's decision and confirmed State Farm's credit for TTD payments made.

When the claimant refused to reimburse State Farm for the TTD credit, State Farm filed a petition in circuit court, citing section 19(g) of the Act as the justification for the court to enter a decision against claimant for the reimbursement. The Supreme Court ultimately determined that section 19(g) of the Act did not provide State Farm with a right to recover reimbursement of those amounts paid. Section 19(g) of the Act provides in pertinent part:

Except in the case of a claim against the State of Illinois, either party may present a certified copy of the award of the Arbitrator, or a certified copy of the decision of the Commission when the same has become final, when no proceedings for review are pending, providing for the payment of compensation according to this Act, to the Circuit Court of the county in which such accident occurred or either of the parties are residents, whereupon the court shall enter a judgment therewith. In a case where the employer refuses to pay compensation according to such final award or such final decision upon which such judgment is entered the court shall in entering judgment thereon, tax as costs against him the reasonable costs and attorney fees in the arbitration proceedings and in the court entering the judgment for the person in whose favor the judgment is entered. 820 ILCS 305/19(g).

In determining that section 19(g) did not provide State Farm with a right to recover in this situation, the Supreme Court noted that "the allowance of a credit within a decision or award merely serves to reduce the total payment of compensation benefits." Simply put, the Supreme Court noted that section 19(g) only allows a judgment to be entered in accordance with an award or decision *providing for the payment of compensation*. Because the decision of the arbitrator made no award of benefits, section 19(g) did not apply to allow the Court to enter a judgment for State Farm for reimbursement of its credit. The Court acknowledged a common law action exists for State Farm to attempt recovery, but that the Act had no such provision. Essentially, although section 19(g) states it is available to either the employee or the employer, since an entry of judgment pursuant to section 19(g) will only be entered when there is an award providing for the payment of compensation, its use is likely limited to employees only.

The appellate court similarly interpreted section 19(g) regarding an employer's right to recover credits in *Patel v. Home Depot USA, Inc.*, 2012 IL App (1st) 103217. In *Patel*, an arbitrator found the claimant

sustained a work-related accident and entered an award for benefits, penalties, and attorneys fees totaling \$22,798.54. The arbitrator's decision was affirmed by Commission, which also included a credit in favor of Home Depot for benefits paid in the amount of \$32,357.47. Home Depot refused to pay the arbitrator's award, claiming no benefits were owed since the credit exceeded the amount of the award. Patel filed an application for entry of judgment pursuant to section 19(g) of the Act, also seeking penalties and attorneys fees provided for in that section based on Home Depot's refusal to pay the arbitrator's award.

The appellate court acknowledged Home Depot's credit, but found Home Depot was not entitled to that credit under section 19(g), applying the same rationale as the *Illinois Graphics* court regarding the fact that section 19(g) is available only to a party with a decision awarding benefits. In so finding, the court entered judgment against Home Depot for \$22,798.54 (the amount of the award at arbitration), but also awarded claimant \$47,000 in attorney fees, \$5,315.31 in costs, and \$13,679.08 in interest. In both *Patel* and *Illinois Graphics*, the employer attempted to rely on section 19(g) to recoup a credit for benefits paid or offset an award by a credit for amounts already paid. In both cases, the court found that section 19(g) provided no such basis for those arguments asserted by the employer.

In *Patel*, the court seemed to also make a distinction between an award for benefits to which the employee was previously entitled and an award for future benefits, referencing the appellate court's decision in *Messamore v. Industrial Comm'n*, 302 Ill. App. 3d 351 (4th Dist. 1999). In *Messamore*, the arbitrator awarded TTD and PPD benefits. The employer paid the TTD award pursuant to the decision, but appealed to the Commission on the grounds that the arbitrator miscalculated the TTD owed. The Commission modified the arbitrator's decision regarding TTD benefits, which resulted in a credit to the employer for the overpayment of TTD. The employee appealed the reduction in her PPD award by the TTD overpayment allowed by the circuit court.

In evaluating the issue, the appellate court distinguished the *Messamore* case from *Illinois Graphics* by pointing out that the issue in *Messamore* was not raised pursuant to a 19(g) petition. Rather, the appellate court was reviewing *Messamore* on the employee's appeal of the circuit court's affirmation of the Commission's decision modifying the arbitrator's award. No petition for application of judgment under section 19(g) had been filed. The appellate court acknowledged the ruling in *Illinois Graphics* would prohibit the employer from refusing to pay an award from an arbitrator, but noted the issue was before it simply on appeal of the arbitrator's decision and not a new 19(g) petition for entry of judgment. The appellate court permitted a reduction in the PPD award by the credit for the TTD overpayment, seeking to avoid a "windfall" to the claimant as a result of the arbitrator's clerical error in the original decision.

### **How to take credits**

Establishing entitlement to a credit under section 8(j) can be an arduous process. Ideally, the issue should be discussed with opposing counsel prior to arbitration and noted on the stipulation sheet addressing the issues for trial.

In the event an agreement cannot be reached and the potential 8(j) credit is disputed, preparing for this issue in advance of trial is crucial. Counsel for the employer must be prepared to present evidence establishing payments made on the claimant's behalf. That often can be done through updated bills from the providers themselves. Per the Act, evidence must also be presented establishing that the employer paid some or all of the plan premiums, and that the group health plan excludes coverage for work-related injuries.

Laying a foundation for the admissibility of those documents could be more difficult. A knowledgeable employer's representative familiar with the group health plan should be prepared to testify about employer contributions to the policy. Ideally, the same representative can lay the foundation for the admission of the policy itself showing the exclusion for occupational injuries, but that should be confirmed well in advance of trial.

Even if the employer's group health provider did not make any payments on charges incurred throughout the treatment of the alleged workers' compensation case, the employer must still be mindful of the total bills and payments made. Claimants often submit their total medical bills as exhibits at trial in order to request payment of those bills. The bills may not reflect any payments made, whether through group health, by the workers' compensation carrier, or the claimant. The bills may also fail to reflect if any amounts have been written off or negotiated and therefore might not truly reflect the amounts paid (or expected to be paid) by any source, including the claimant. A savvy employer's attorney will pay close attention to this. Failure to do so could be catastrophic to the claim. For example, if the claimant's attorney submits bills showing a total balance of \$200,000 and the employer fails to document its payments on that total amount, an award could be entered wherein the respondent would have to pay the petitioner \$200,000 for the bill balance, pursuant to section 8(a) of the Act, regardless of whether that amount is actually outstanding.

In many instances, however, the claimant's spouse's group health plan may have made payments on the total bills which impacts the true total outstanding amount of medical bills. While those payments do not give rise to a credit for the employer under section 8(j), the employer should still present evidence of those payments to avoid an award requiring the employer to pay the petitioner an amount exceeding the total amount outstanding. Realistically, the employer may still be held responsible for holding the claimant harmless against the group carrier's subrogation efforts.

A similar argument applies for charges that might be written off by providers as "bad debt" or otherwise decreased. A petitioner's attorney might argue that the respondent is not entitled to those deductions pursuant to the collateral source rule. Employers should direct claimants' attorneys to *Tower Auto v. Illinois Workers' Compensation Comm'n*, 407 Ill. App. 3d 427 (1st Dist. 2011), which held that the collateral source rule did not apply in workers' compensation claims. In so finding, the appellate court noted that the purpose of the Act was to relieve the employee and his family of the costs and burden of medical care following a work-related injury. By limiting the employer's obligation for medical costs to the *amount actually paid*, regardless of the source of the payment, the purpose of the Act is fulfilled. Therefore, the collateral source rule is not applicable in workers' compensation cases.

## **Takeaways**

Credits can be complicated in any litigation. While it may seem like an offer of good faith to pay benefits while the claim is being initially investigated, employers should be mindful of the decisions addressed above when deciding whether to do that. In the event of a denial, and the employer has paid workers' compensation benefits prior to that determination, recovery of those amounts paid would be limited to a common law action, as there is currently no provision of the Act providing for reimbursement to the employer. Realistically, the likelihood of recouping those monies paid to a claimant through a common law claim seems slim.

Similarly, in instances where a credit offsets an award for benefits, perhaps the most reasonable and efficient method of claiming that credit is working with the claimant's attorney to get an agreement to do so. Otherwise, pursuant to *Patel*, a common law action would likewise have to be filed, which could be costly, time-consuming, and, unfortunately – although it may be successful in terms of a judgment getting entered – may likely not result in any money actually being reimbursed to the employer as the claimant has spent the money and is judgment-proof.

In preparation for trial, employers should be able to document all payments to prove the credit. Where bills were paid through group health, gather the policy and supporting documents early on. If opposing counsel will not stipulate to their admission, ensure the appropriate person is available for trial testimony regarding the documents. Because section 8(a) provides that medical expenses are paid to the employee, failing to truly evaluate claimant's bill exhibits could result in a windfall to the claimant. If a credit existed but was not established at trial, an employer may have to pay the claimant the arbitrator's award of outstanding medical bills – without regard for what is truly outstanding – and then try to recoup that through a common law action, which will likely not result in recovery.