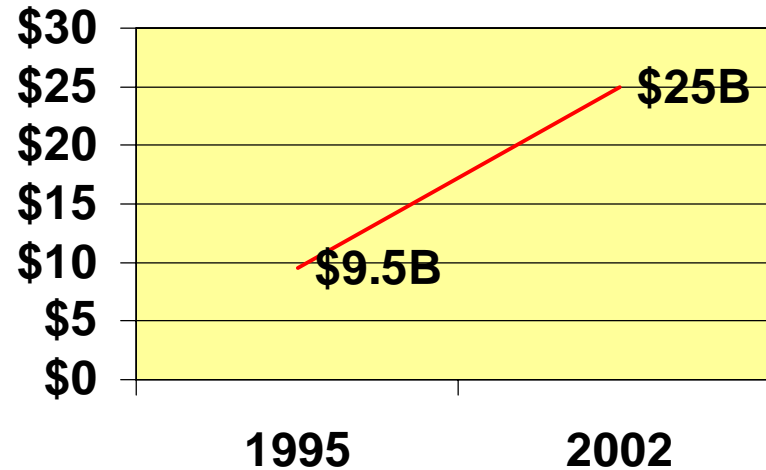




**California Actuary
Presentation**
November 2008

Where We Were?

- **Costs climbed from**



- **Subjective permanent disability**
- **No control over medical treatment**
 - PTP presumption of correctness
 - Multiple surgeries
 - Over utilization
- **Fee schedule issues**
 - Pharmacy
 - Outpatient surgeries
- **SIP audit issues**

AB 749

AB 227/SB 228

SB 899

SIP Regulations

AB 749

- Increase in Benefit Rates
- Repeal of Primary Treating Physician Presumption of Correctness for Injuries after 1/1/03
- Settlement of Vocational Rehabilitation
- Medical Confidentiality

AB 227/SB 228

- Repeal of primary treating physician presumption of correctness for all injuries
- Fee schedules
- Treatment caps
- Utilization review
- Supplemental job displacement voucher

SB 899

- Medical provider network
- Treatment caps
 - Extended to occupational therapy
- QME process
- Immediate medical payment
- Temporary disability cap
- Permanent disability
- Apportionment
- Return to work

SIP Regulations

- 3-year rule codified
- Utilization review
- Fee schedules
- Dueling medical reports
- Present value
- Apportionment

- Repackaged medication
- Medical/doctor spend
- Compound medication
- Food supplements
- Sleep disorders
- Sexual dysfunction
- Bill review and UR integration
- Multiple QME reports

- Repeal of predesignation of personal physician
- Repeal of vocational rehabilitation
- Two-year temporary disability cap

MPN Challenges/Considerations

- Industry results
- Implementation/notice issues
- Variety
- Size
- Reimbursement structure
- Utilization review approach
- Integration with bill review vendors



Utilization Review Challenges/Considerations

- Supreme Court decision – Sandhagen
- Audits/penalties
- Cost
 - 4.7% in 2002 vs. 11% in 2007 (*6 months post injury*)
 - 5% in 2002 vs. 10% in 2007 (*12 months post injury*)
- Effectiveness
- Integration with bill review vendors



Permanent Disability Challenges/Considerations

- AMA Guidelines
 - PD costs reduced by 60% due to new PDRS
 - Understanding the Guidelines
 - Obtaining ratable medical reports
- Apportionment
 - Costs reduced by 6% due to apportionment
- Return to work
 - Costs reduced by 2% due to RTW
- Old schedule versus new Permanent Disability Rating Schedule?
- Future earning capacity variant



What's on the Horizon?

- **Permanent Disability**
 - Revised FEC for body parts
- **Medical Treatment Utilization Review Schedule**
 - Elbow (ACOEM)
 - Chronic Pain (ODG)
 - Post surgery (ODG)
 - Low back
 - Stress/Post Traumatic Stress Disorder
- **Fee schedule revision**
 - Study being done by Lewin Group
 - Currently using 1997 CPT codes
 - Adopt Medicare's relative value units not the entire Medicare system
- **Return to work**
- **Upcoming regulations**
 - Permanent disability
 - Medical provider network

Permanent Disability Rating Schedule Changes



- Effective July 1, 2009
- Division of Workers' Compensation estimates new PDRS will increase permanent disability by an average of 16%
- FEC adjusted to reflect data on wages lost by the workers with specific injury type

Spine: 5 to 8

Elbow: 2 to 4

Wrist: 4 to 8

Hand: 1 to 7

Arm: 5 to 8

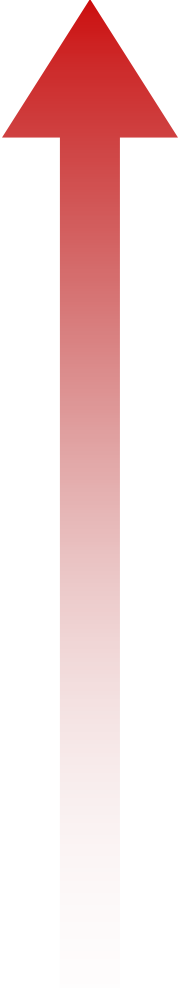
Ankle: 2 to 8

Psyche: 8 to 4

- Change age adjustment factors
 - Before: (below 37 = no increase) (over 41 = increase)
 - New: Provide only increase for those under 21 and over 52

- Spike
- Reasons
- Issues
 - Permanent Disability
 - Apportionment
 - Qualified Medical Examiners
 - Medical Provider Network
 - Utilization Review

Costs up in every medical fee section

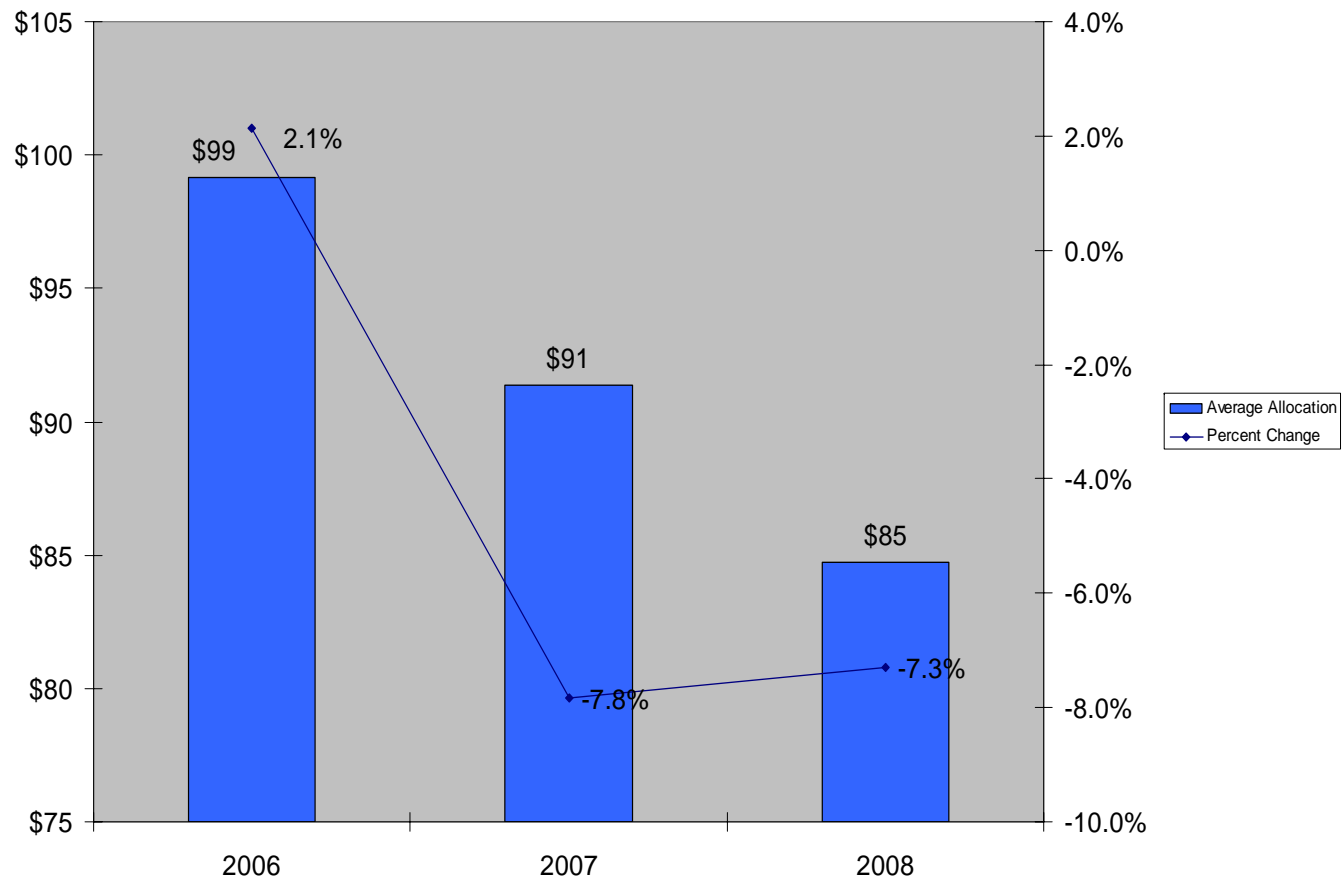


Medical expense	93.2%
Eval & management	22%
Surgery	21.6%
Radiology	27.2%
Physical medicine	28.4%
Specialty service	57.2%
Chiro (after cap)	13.3%

- Limitations
 - Different client programs and philosophies
 - Different managed care providers
- Caveats

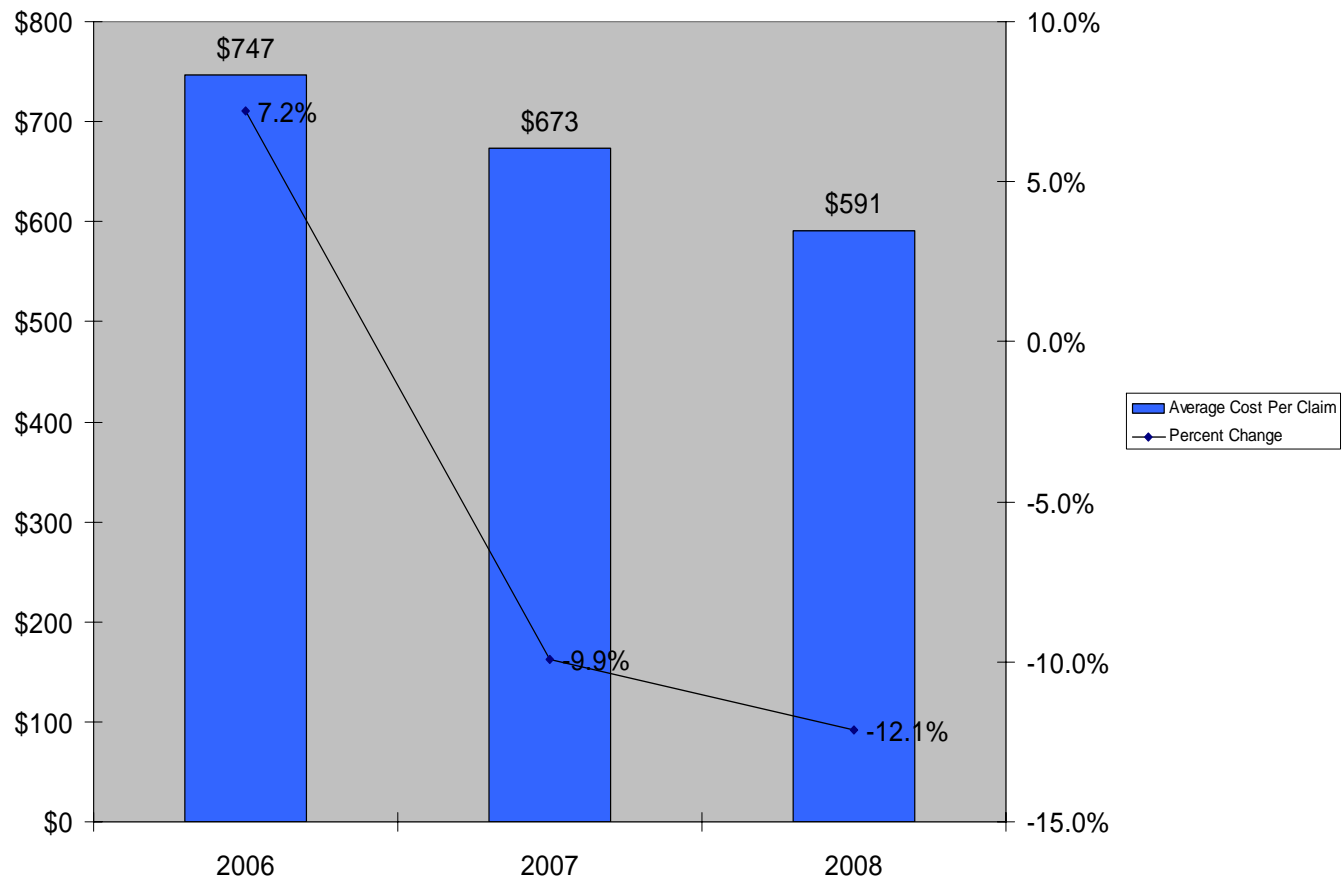
Pharmacy – Allocation Level

Average Pharmacy Allocation and Percent Change for Calendar Years
2006 - 2008 (through 9/30/2008) for California Claims



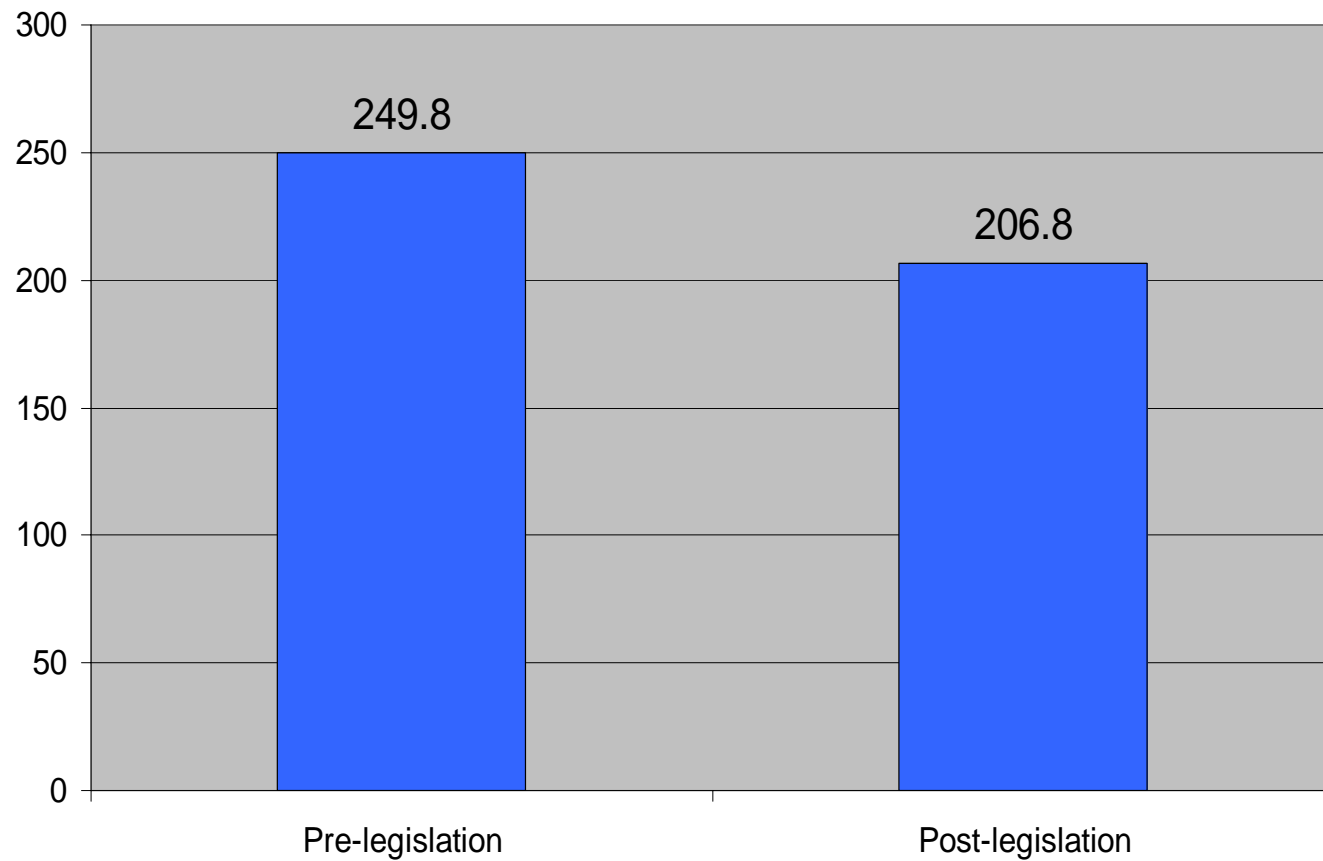
Pharmacy – Claim Level

Average Pharmacy Cost Per Claim and Percent Change for Calendar Years
2006 - 2008 (through 9/30/2008) for California Claims



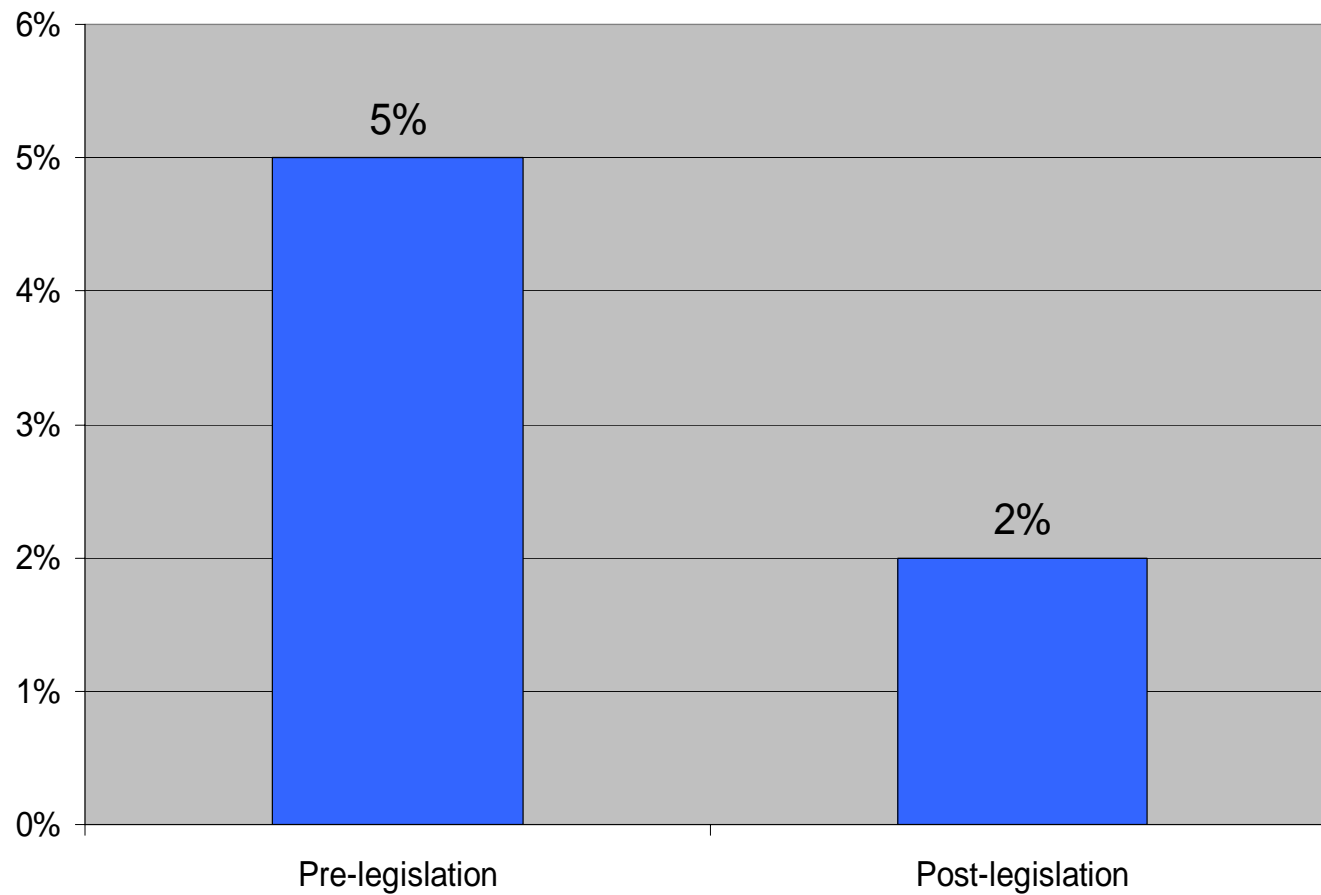
TTD Days

Average TTD Days for Closed Claims with Similar Development Pre and Post Legislation
(Zero Lost Day Claim Excluded)



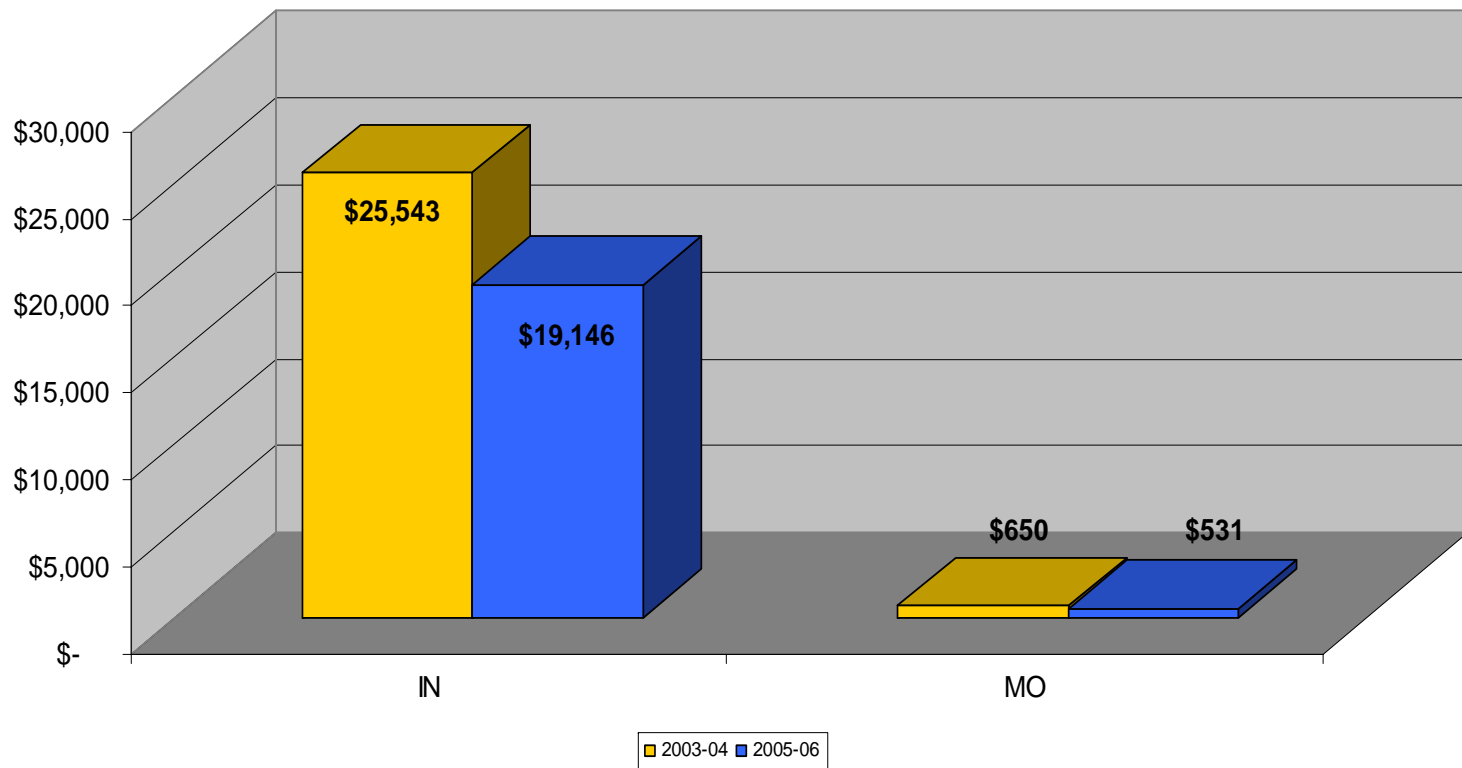
Cap Closures

Percent of Claims Closed over TTD Cap of 104 Weeks



MPN Results at 24 Months

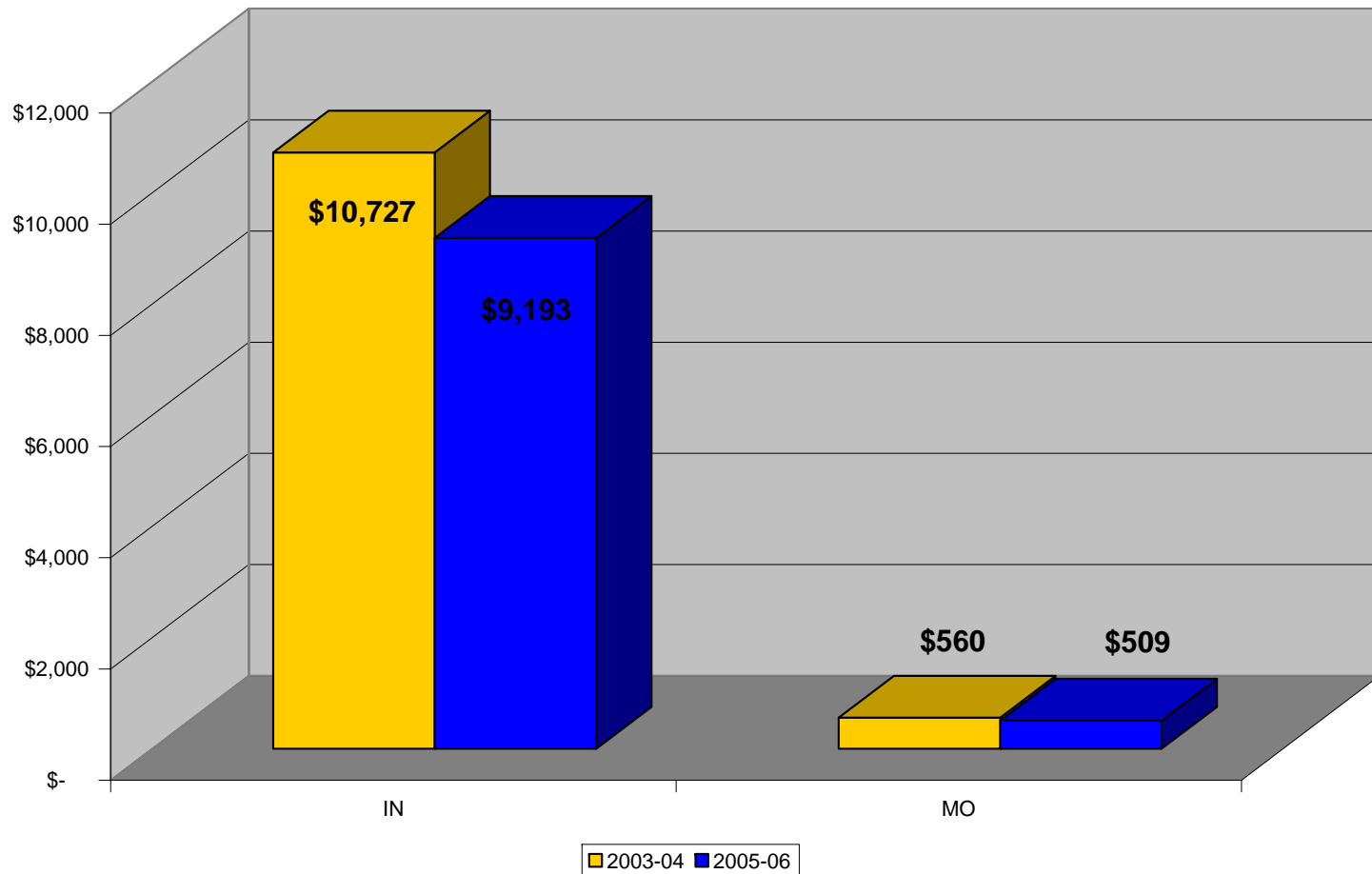
Average Incurred Total on Claims Valued at 24 Months



MPN Medical Results at 24 Months

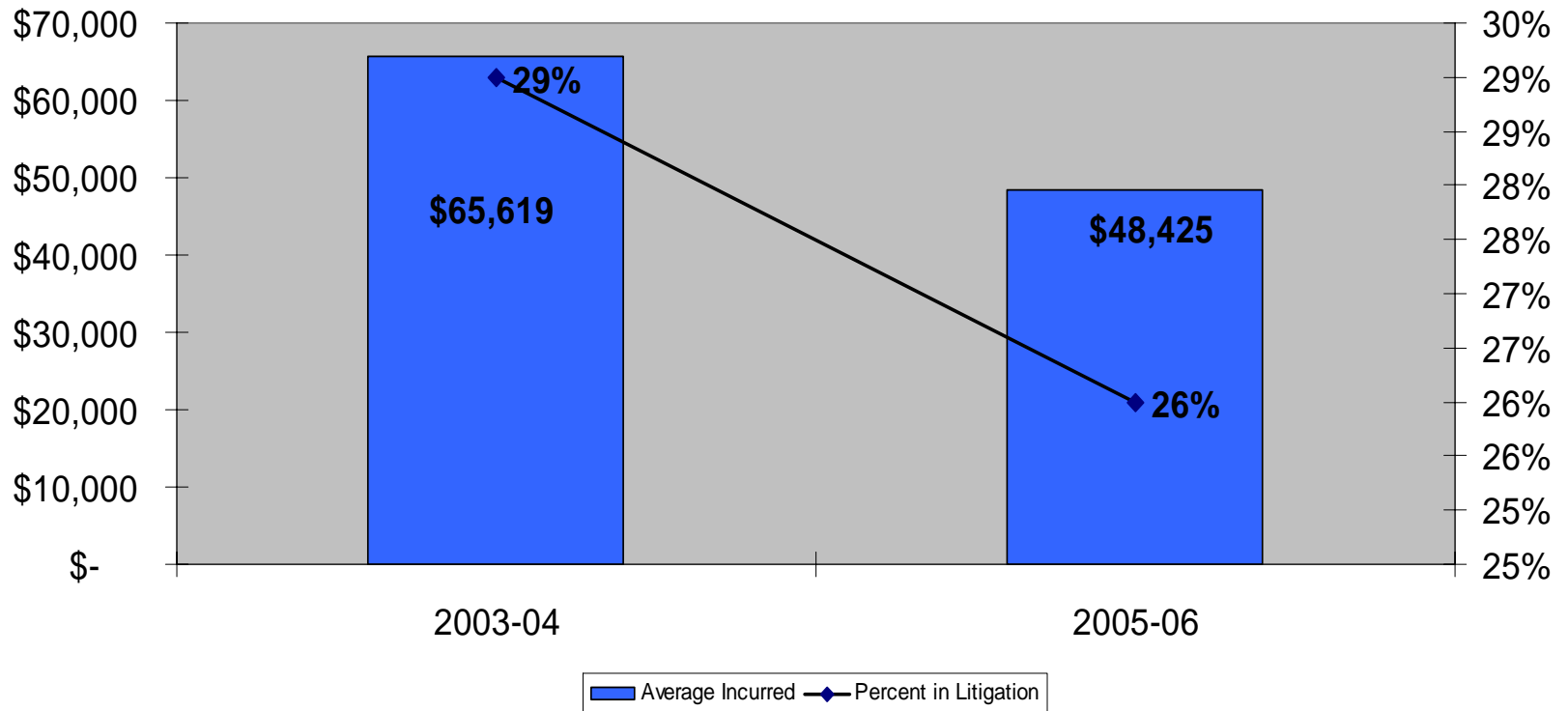


Average Incurred Medical Only Claims Valued at 24 Months



Litigation

Litigation Status on Indemnity Claims





Questions