

Casualty Actuarial Society
Annual Meeting

California Workers' Compensation:
Intended and Unintended Consequences of
Applied Public Policy

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California Workers' Compensation Institute

CWCI: Background

Established in 1964;

Private, nonprofit organization of insurers and self-insured employers representing over 90% of premium dollars;

Dedicated to improving the California workers' compensation system through four primary functions:

- Research
- Education
- Information
- Representation

Website: www.cwci.org

Agenda

- Rules of the road: CA workers comp rules & regs
- Intended and unintended results of medical reforms
- Evolving issues

CA workers comp rules & regulations

- California Constitution & Labor Code 4600
“Cure and relieve”
- Essential differences between group health and workers compensation
Benefit delivery structure and cost controls

Rules of the road: CA workers comp rules & regs
 Essential differences between workers comp and group health

Workers' compensation	Group health
Required	Optional
Every EE covered from first day of employment	Eligibility requirements and waiting periods
Premiums covered by ER	Shared premiums
First dollar coverage, no co-pays/ deductibles/contractual limits	Complex array of supply and demand side controls
Event based	Treatment based
State level controls	Federal & state controls
Benefits and coverage "identical" for all ERs and EEs	Substantial variation in coverage and benefits

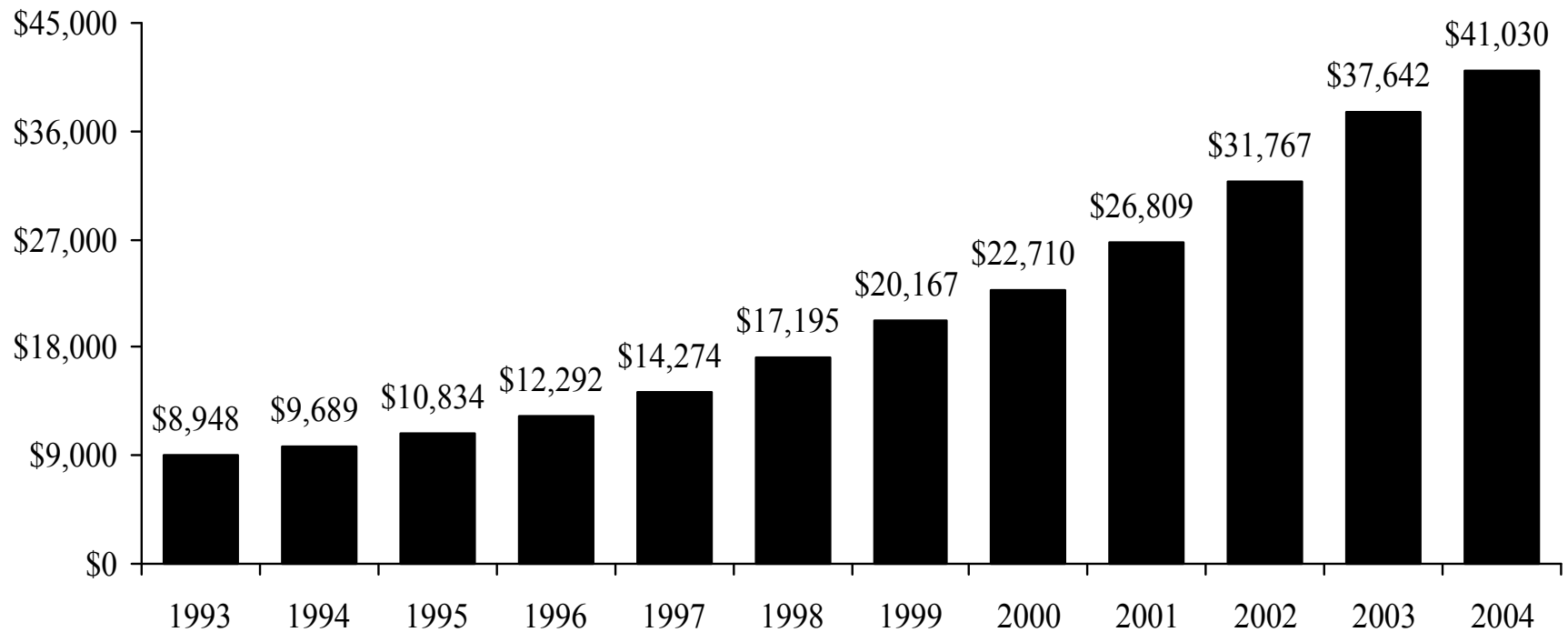
Pre-Reform Issues

Prior to 2003 – 2004 reforms

- California WC system was plagued by high rates and excessive variability in benefits.
- Permanent disability rating system was considered by many as too subjective and unpredictable.
- Average insurer rates per \$100 of payroll increased from \$2.30 in 1999 to \$6.45 in 2003
 - ➔ California WC system is referred to as a “job killer.”
- Historic increases in medical benefit payments

Pre-Reform Issues

Changes in Medical Development: 1993 - 2004 Estimated Ultimate Medical Per Indemnity Claim



Source: WCIRB 2003

Legislative Intent of Reforms

- Increase quality of care
- Control medical utilization & unit prices
- Reverse adverse medical development
- Increase use of medical networks

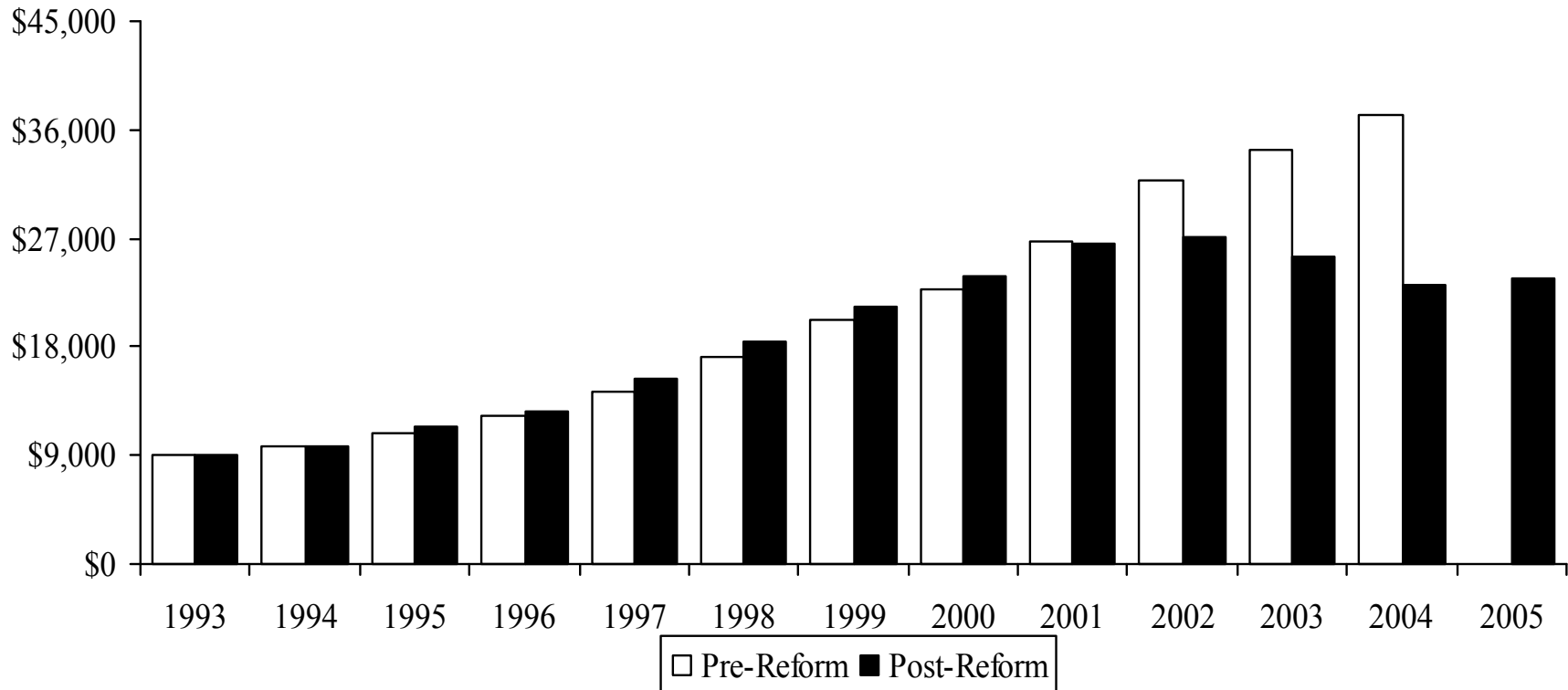
Elements of 2003 – 2004 Reforms (SB 228/AB 227/SB 899)

The reforms focused on core elements of system dysfunction:

- Update fee schedules (unit price)
- Create an enforceable standard of care (EBM and utilization review)
- Strengthen medical networks (MPNs)
- Formalize medical cost containment

Post Reform Scorecard
Intended Consequences

Changes in Medical Development - Impact of Reforms
Estimated Ultimate Medical Per Indemnity Claim
(Reflecting the Impact of SB 228 & SB 899)



Source: Pre-Reform - WCIRB 2003
Post Reform - WCIRB 2007

Post Reform Scorecard
Intended Consequences

MPN Network Outcomes

Ongoing CWCI 2009 Study

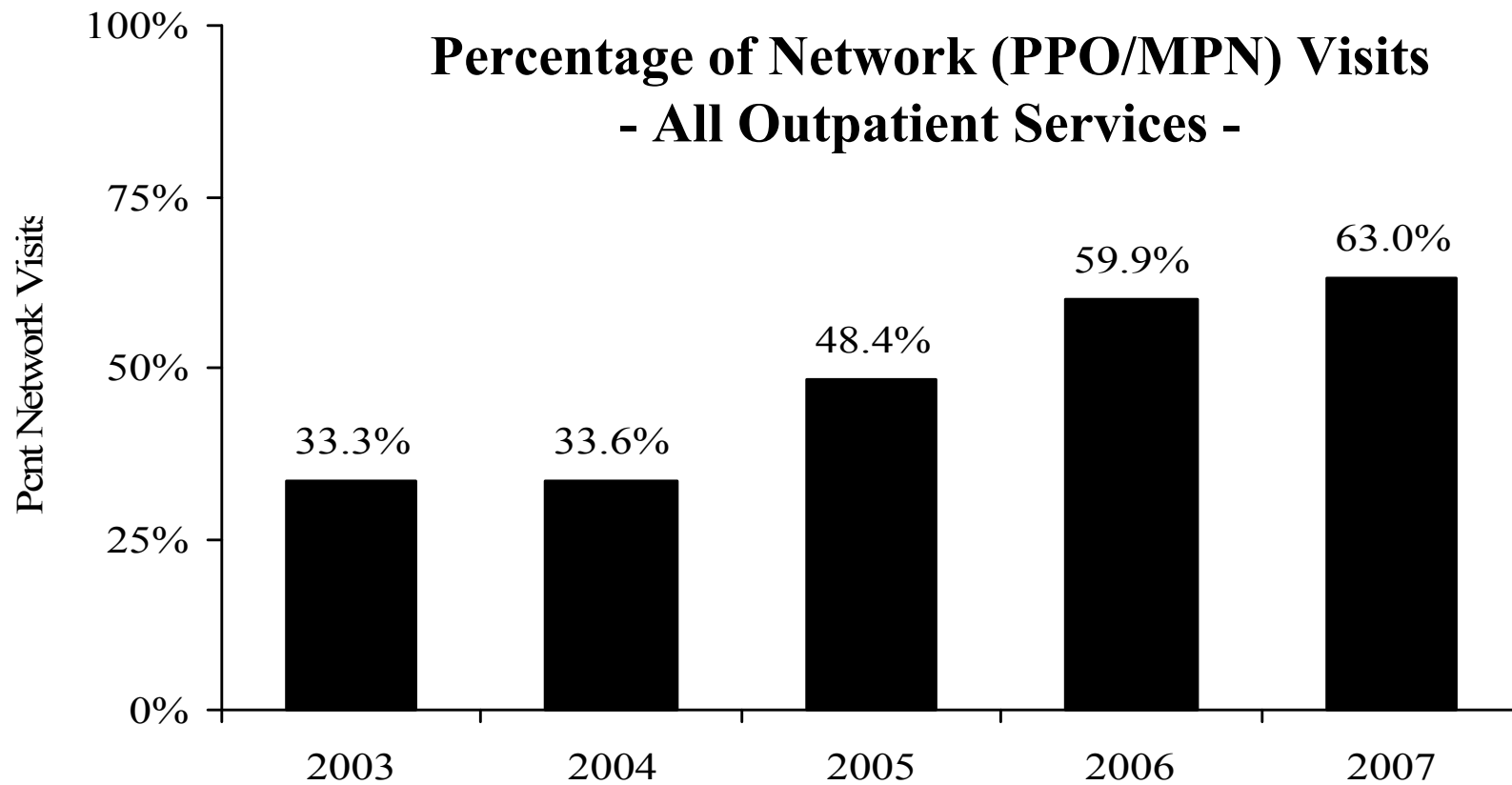
Medical Networks: Physician and claim level analysis



Post Reform Scorecard

Intended Consequences

MPN Utilization



Source: CWCI 2008

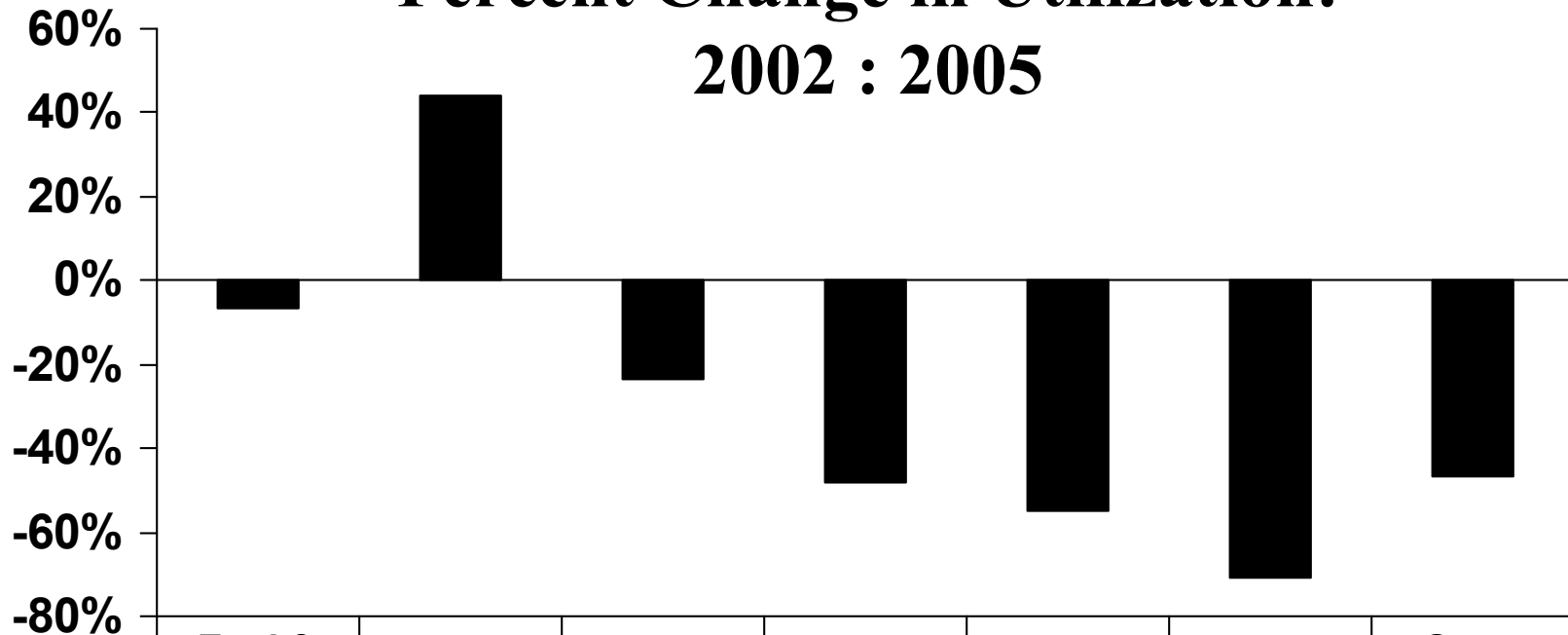
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Post Reform Scorecard

Intended Consequences

Changes in Outpatient Utilization

Percent Change in Utilization: 2002 : 2005



	Eval & Mgt	Surgery	Radiology	Medicine	Phys Med	Chiro	Spec Serv
■ 2002:2005	-6.8%	44.1%	-23.7%	-48.1%	-55.1%	-71.0%	-46.8%

Post Reform Scorecard

Intended Consequences

Repackaged Drugs (pre-reform)

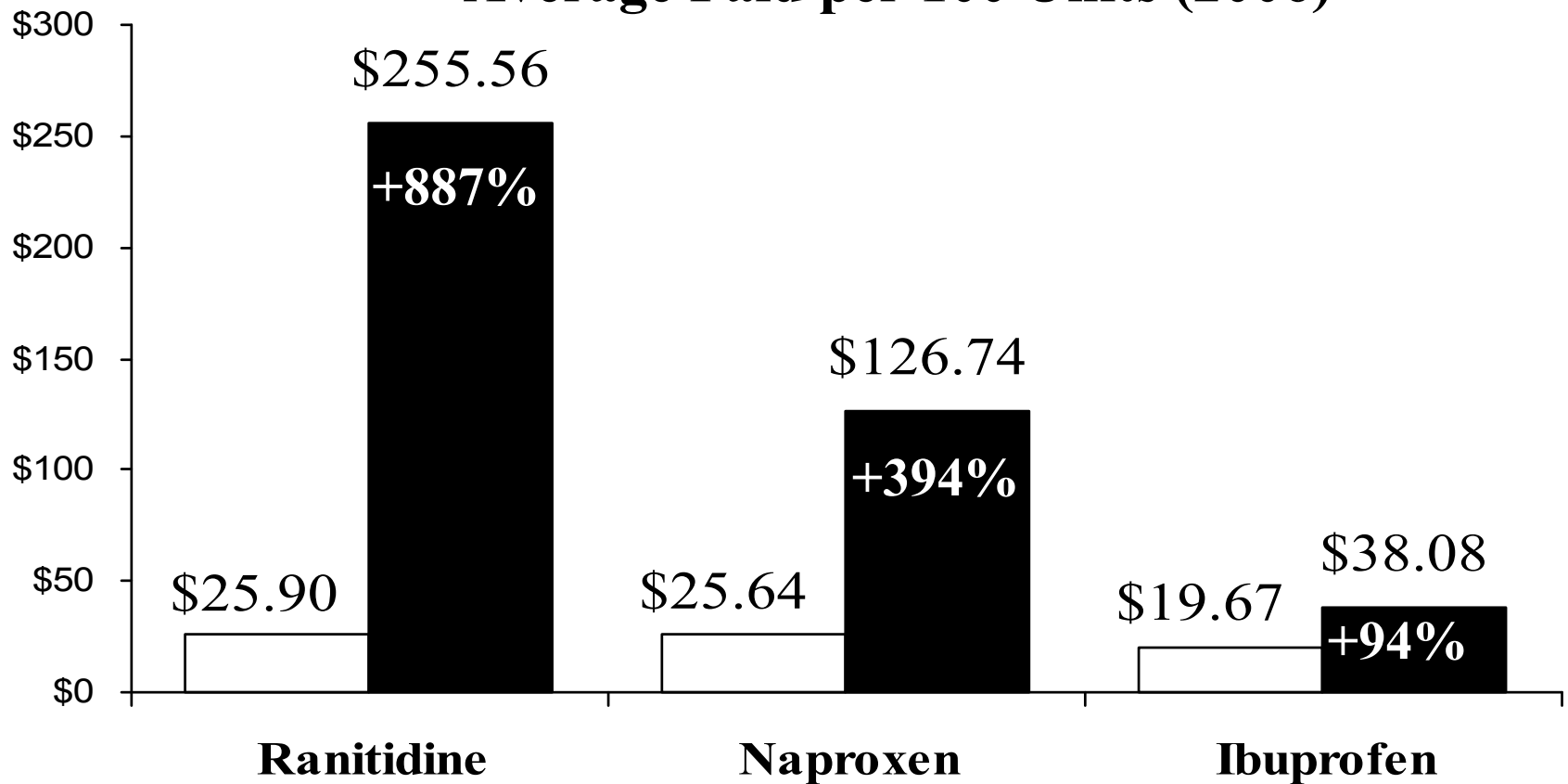
- Exempt from MediCal fee schedule
- Reimbursement level reverts to prior FS
- Repackagers set AWP

Post Reform Scorecard

Intended Consequences

Before...

**Pharmacy vs. Repackaged Drugs
Average Paid per 100 Units (2006)**



Source: CWCI 2006

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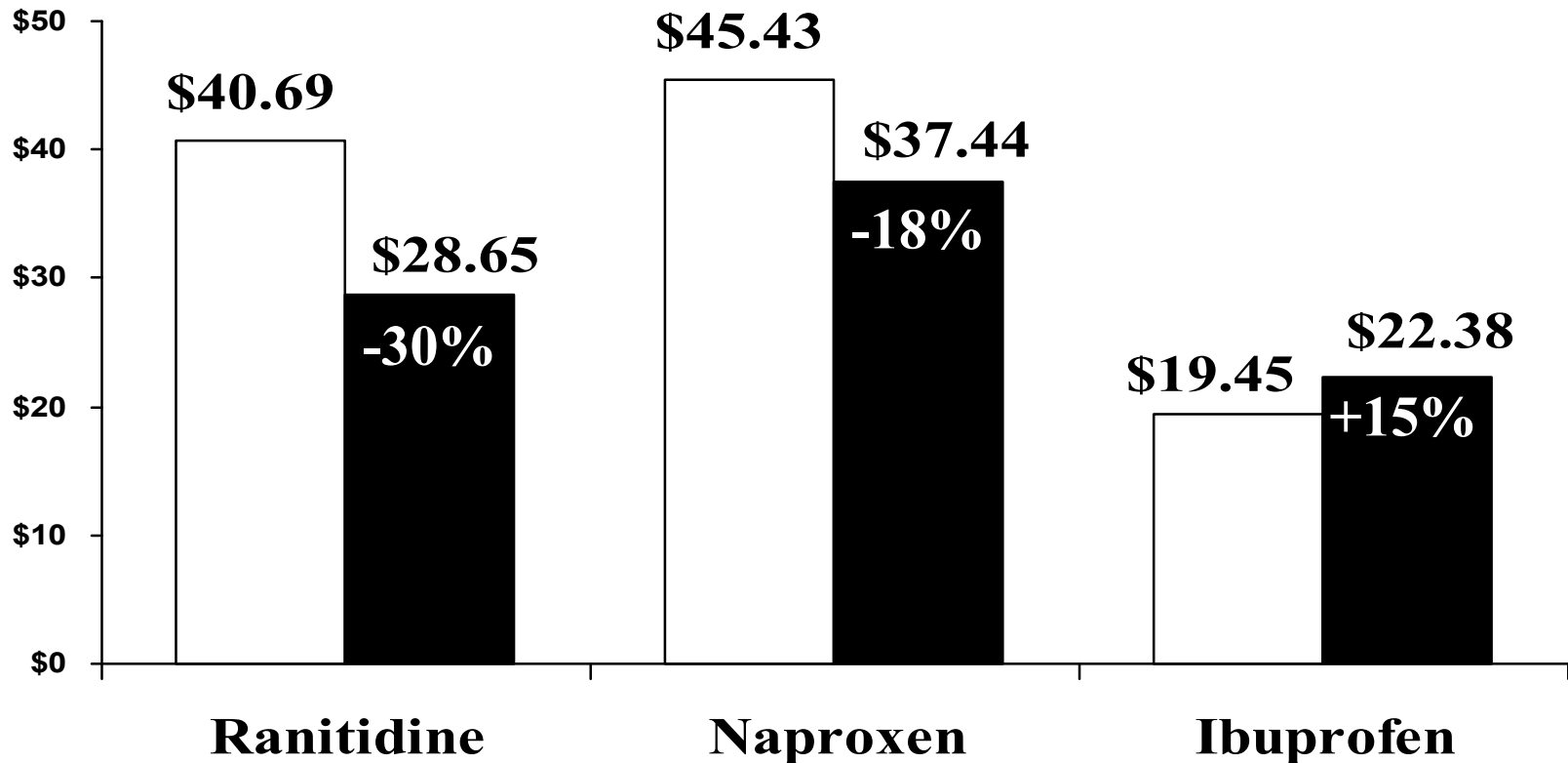
□ Pharmacy ■ Repackaged

Post Reform Scorecard

Intended Consequences

After...

**Pharmacy vs. Repackaged Drugs
Average Paid per 100 Units (2008)**

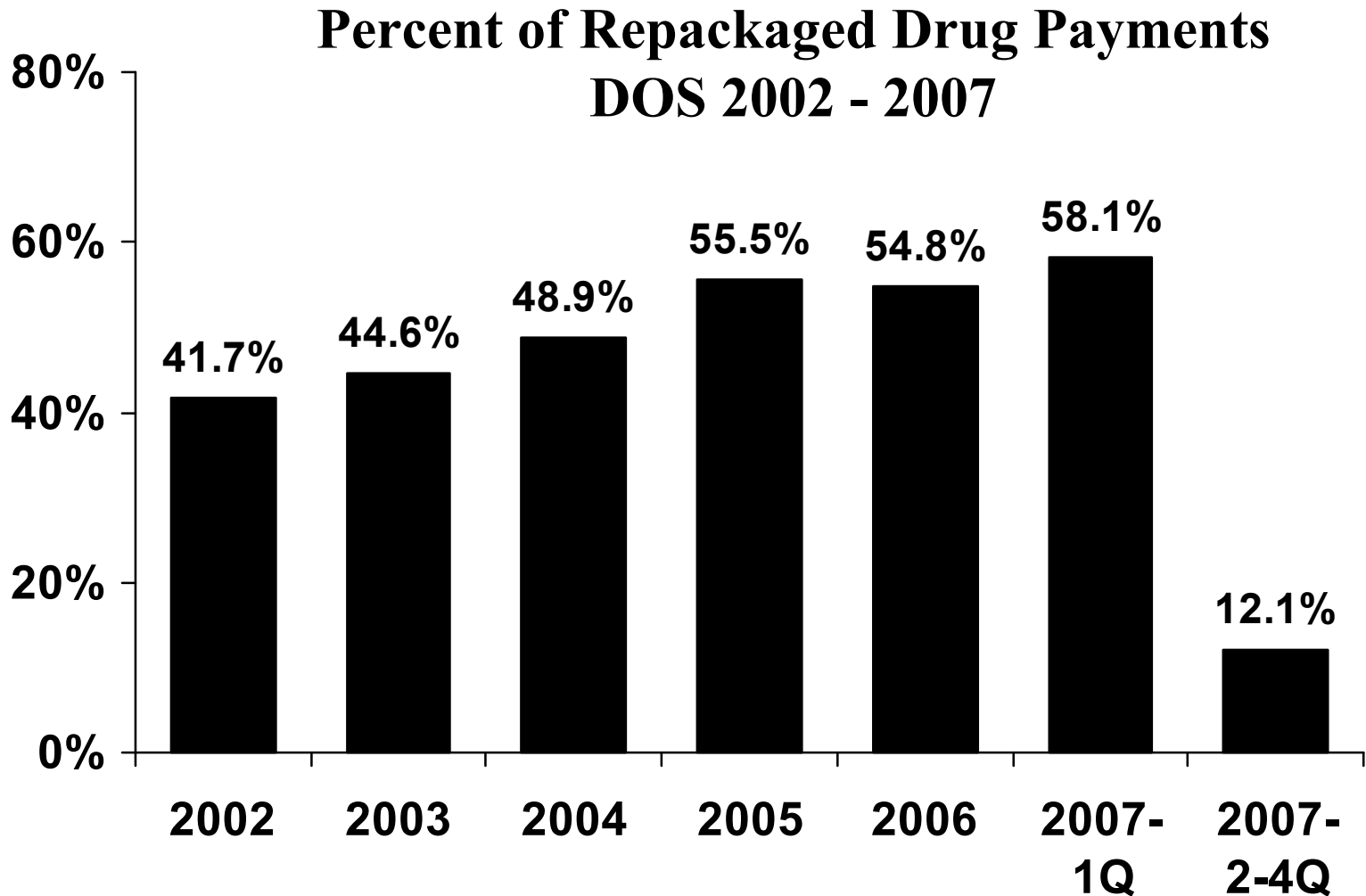


Source: CWCI 2008

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□ Pharmacy ■ Repackaged

Post Reform Scorecard
Intended Consequences



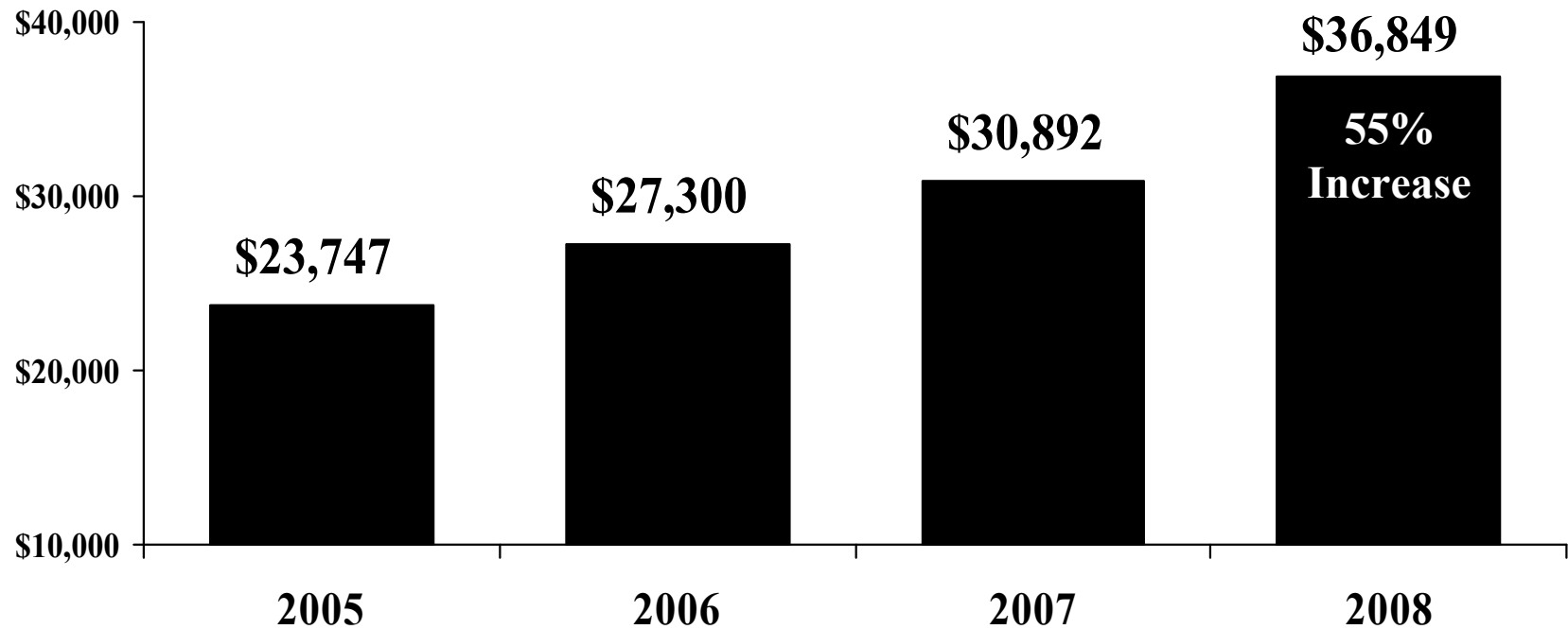
Breaking Down the Unintended Consequences in Applying Public Policy

- Implementing Cost Controls
- Cracks in the Fee Schedule
- Medical Utilization

Post Reform Development

Unintended Consequences in Medical Development

Estimated Ultimate Medical Benefit Costs
2005 - 2008



Source: WCIRB 3/09

Post Reform Development Unintended Consequences

Medical Cost Containment (MCC)

- Medical Bill Review
- Utilization Review
- MPN Access

CWCI 2008 Study Medical Benefits : MCC

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October 2008

California Workers' Compensation Reform Outcomes

Part 1: Changes in Medical Cost Containment Payments
Accident Years 2002 – 2007

by Alex Swedlow, MHSA and John Ireland, MHGA

EXECUTIVE SUMMARY

Medical cost containment (MCC) is a process that seeks to monitor and manage the unit price of medical services, and where feasible and appropriate, the use and volume of specific services based on clinical efficacy and need. Two key elements of recent legislative reforms that most directly impacted medical cost containment payments were:

- the repeal of the existing physicians' prescription of containment in favor of utilization review to ensure compliance with a medical treatment utilization schedule, and
- the provision allowing employers to establish medical provider networks (MPNs) to direct their injured workers' medical care on or after January 1, 2005.

This report, which updates CWCI's March 2008 analysis, uses claims with 2002 to 2007 injury dates to track medical cost containment expenses at 6, 12 and 24 months post injury, and is the first report in CWCI's latest reform analysis series. The results show continued growth in MCC expense payments, but preliminary results from AY 2005 – AY 2007 show the post-reform decline in overall medical payments ended in AY 2005, and since then, total medical benefit payments per claim have increased sharply.

Key findings include:

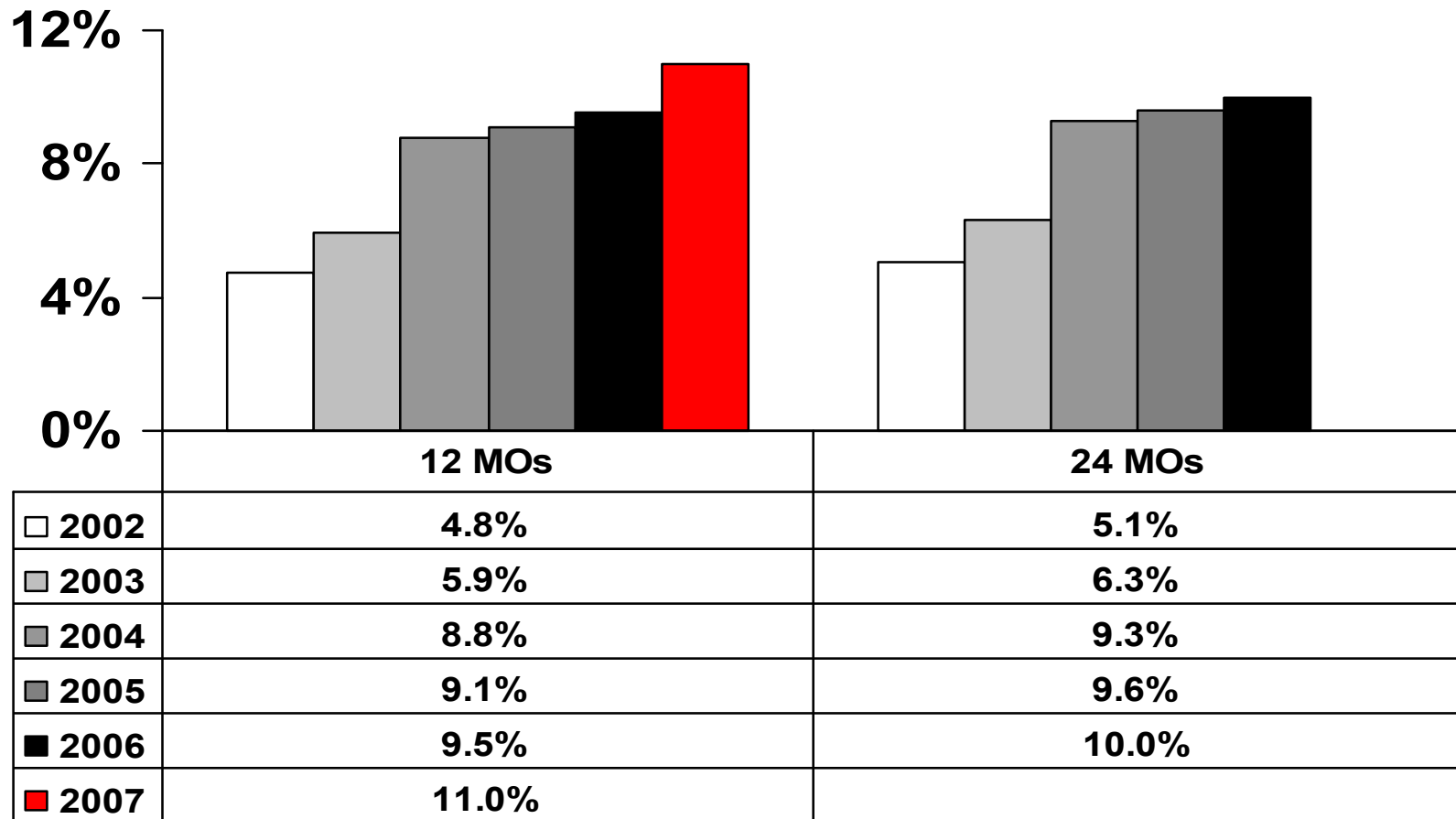
- For all claims, the ratio of medical cost containment payments to total medical benefits at 12 months post injury declined from 5.0 percent for AY 2002 claims to 38.8 percent for AY 2005 claims. Meanwhile, the ratio measured at 24 months post injury rose from 5.0 percent for AY 2002 claims to 8.0 percent for AY 2005 claims.
- For medical-only claims, the ratio of medical cost containment payments to total medical benefits at 12 months post injury nearly tripled from 3.4 percent for AY 2002 claims to 9.6 percent for AY 2005 claims. At 24 months post injury, the ratio increased from 3.5 percent for AY 2002 claims to 8.3 percent for AY 2005 claims.
- For indemnity claims, the ratio of medical cost containment payments to total medical benefits at 12 months post injury rose from 5.4 percent of AY 2002 claims to 10.1 percent for AY 2005 claims. At 24 months post injury, the ratio increased from 5.2 percent for AY 2002 claims to 9.0 percent for AY 2005 claims.
- Despite ongoing increases in the amounts paid for medical cost containment, all of the post-reform reductions in overall medical payments per claim occurred between AY 2002 and AY 2005. Since then, overall medical payments per California workers' compensation claim have increased \$248, or 15 percent at 6-months post injury, and \$241, or 11.4 percent, at 12-months post injury.

1. The long-term rate depends on the rate and total amount of a health care system. Workers' compensation provides insurance primarily to replace lost wages. The long-term rate from the perspective of the injured worker is not all that relevant to the system. In the long run, the average impact on the health care system is likely to be minimal. However, the long-term rate is a useful indicator of the system's overall health. The long-term rate is a useful indicator of the system's overall health. The long-term rate is a useful indicator of the system's overall health.

California Workers' Compensation Institute

Post Reform Development
 Unintended Consequences

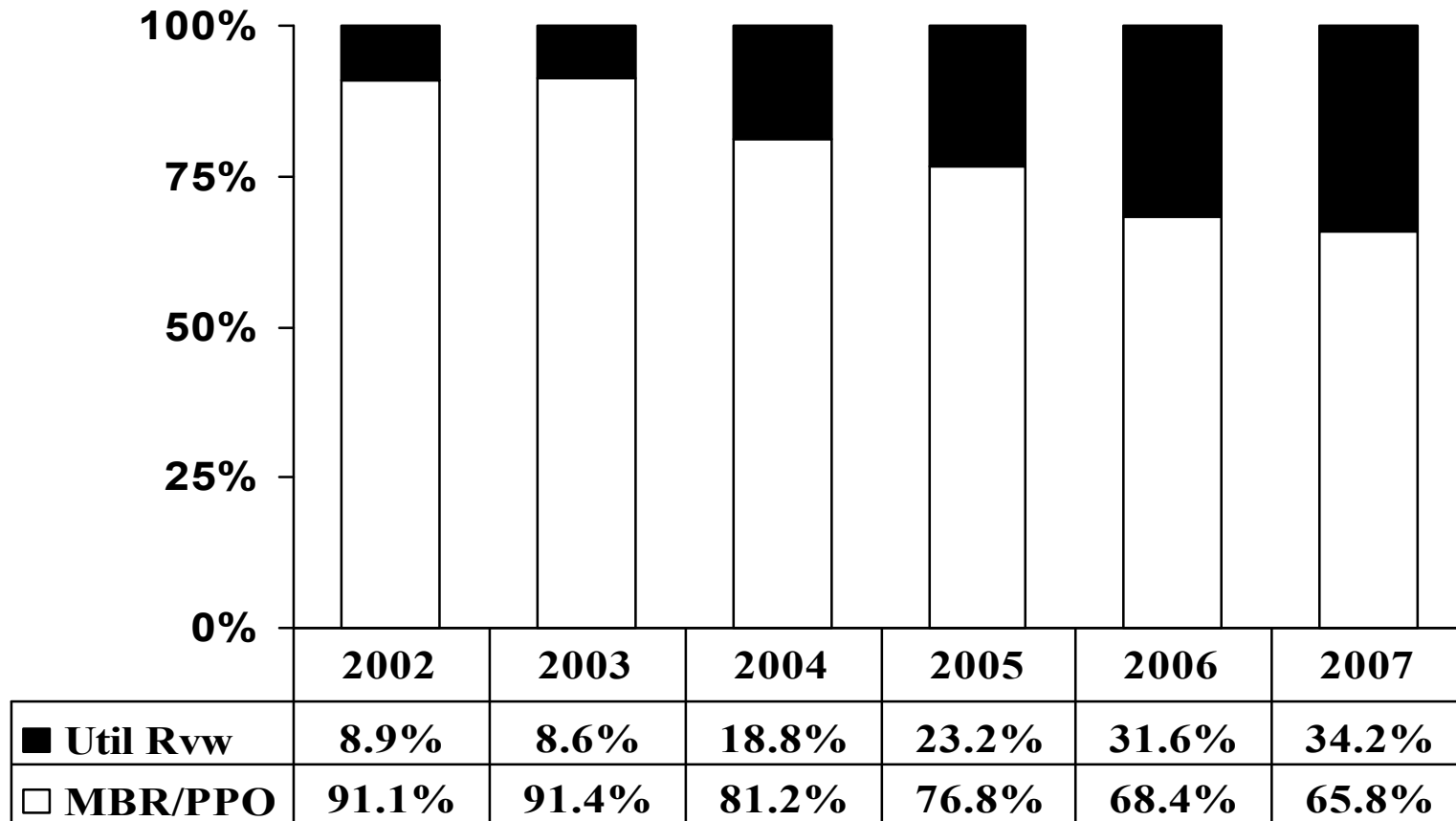
Medical Cost Containment : Preliminary Results
 MCC as a Percentage of Medical Benefit Payments



Source: CWCI 2009

Post Reform Development
Unintended Consequences

Medical Management :
Percent of Payments by Type of Intervention (by Trans Date)

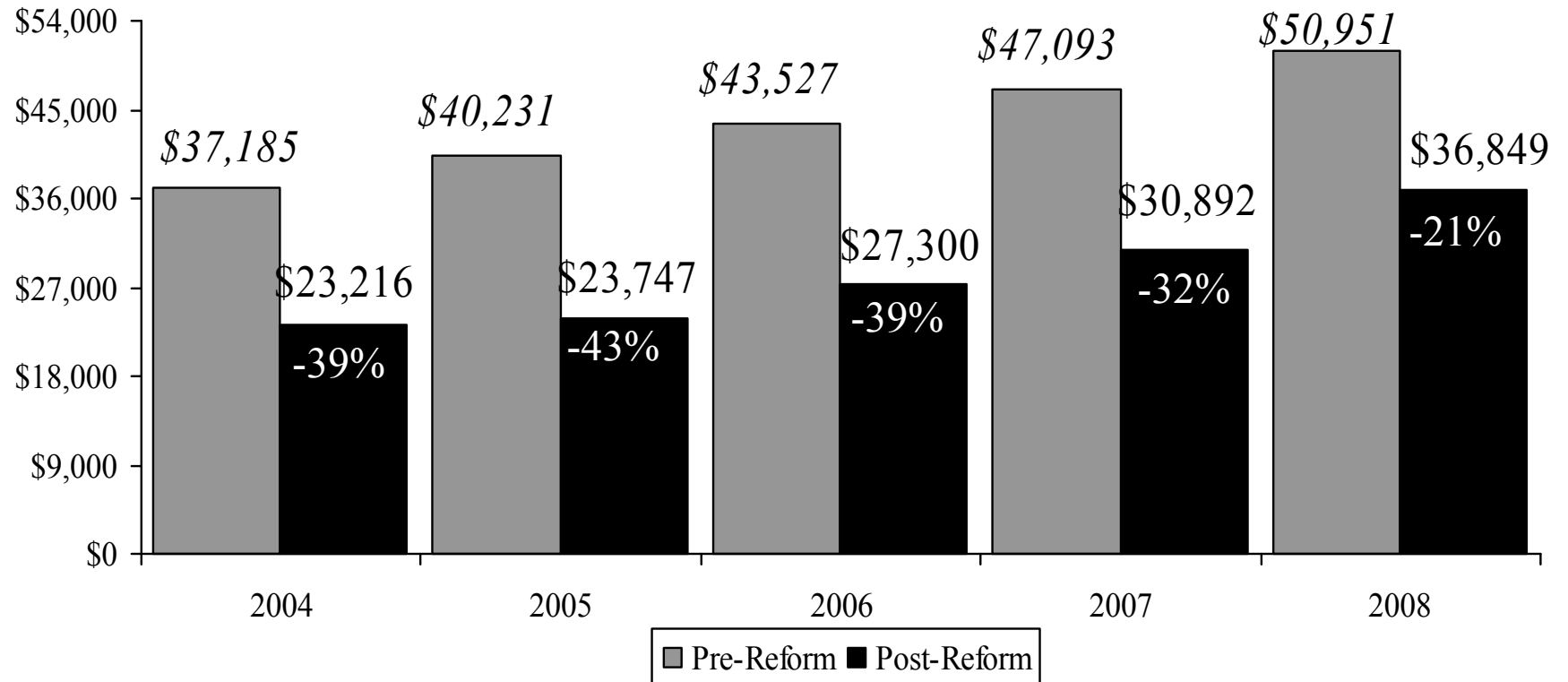


Source: CWCI 2009

Post Reform Development Unintended Consequences

Medical Development in Context

Changes in Medical Development - Impact of Reforms
Estimated Ultimate Medical Per Indemnity Claim



Source: CWCI 2009

Post Reform Development
Unintended Consequences

Medical Utilization

Unintended Consequences

- DME/Inpatient services
- Outpatient utilization

**Cost Analysis of Surgical Implants:
Preliminary Results**

Double Payment for Surgical Implants

Inpatient Hospital Fee Schedule pays 120% Medicare's global FS
(includes surgical implants)

Plus

Pass-through payment for surgical implants

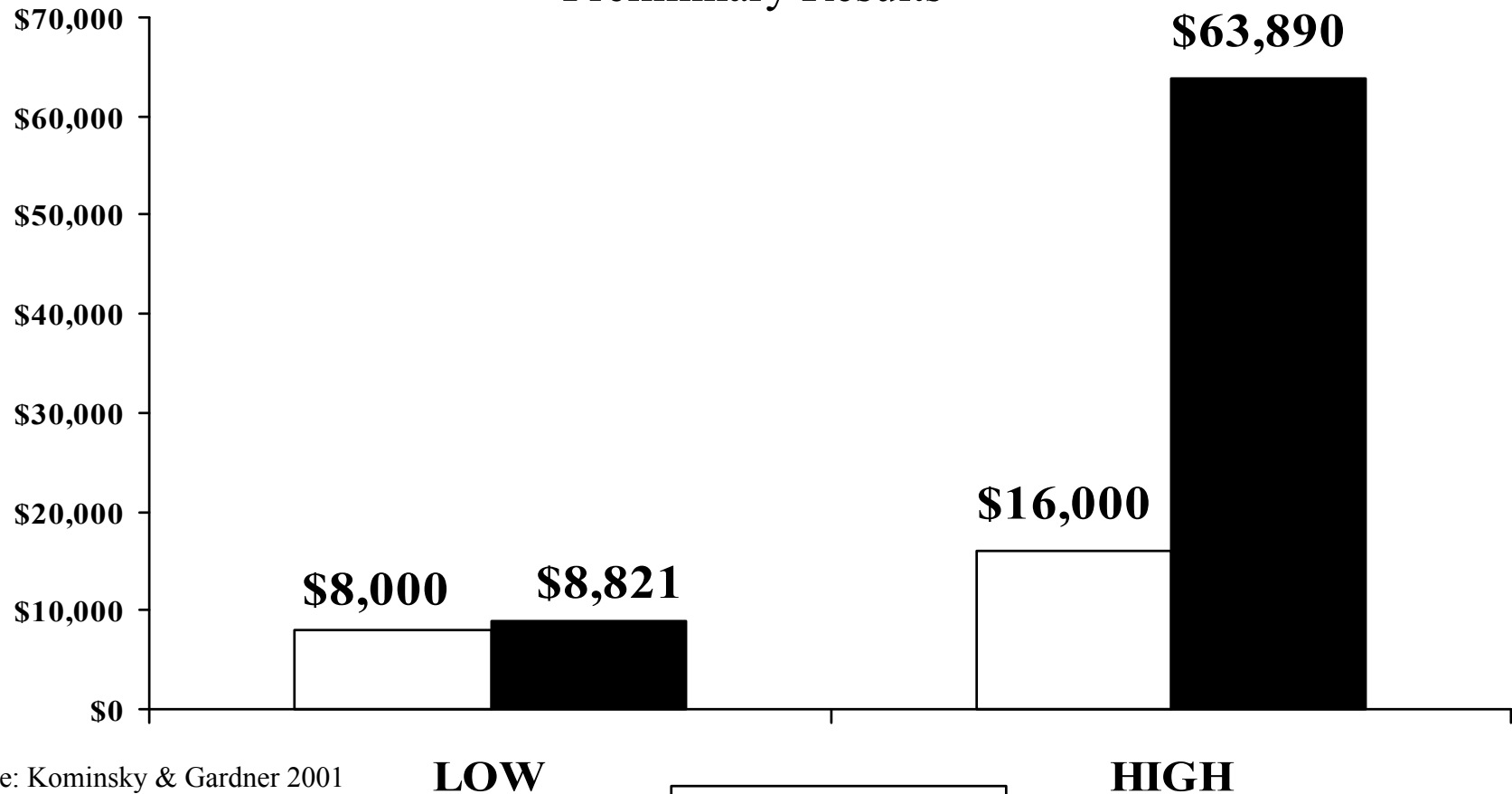
Documented paid cost plus 10%

- RAND suggests pass-through incents shift from Outpatient to Inpatient settings
- Structure of pass-through provides little incentive to manage selection or cost of implants

Cost Analysis of Surgical Implants:
Preliminary Results

DRG 496 - Combined Anterior/Posterior Fusion
Range of Surgical Implant Payments

Preliminary Results

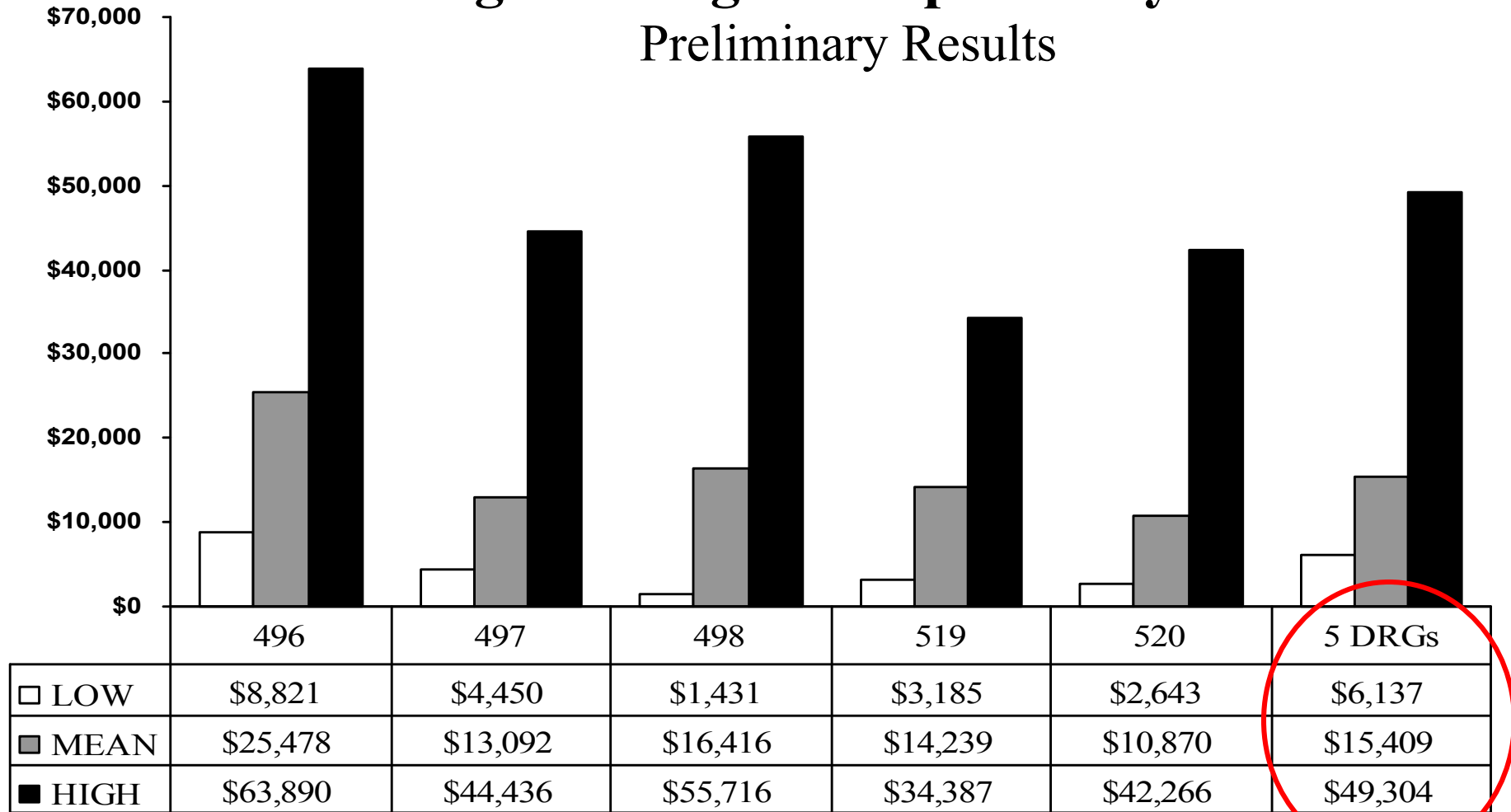


Source: Kominsky & Gardner 2001
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□ 2001 ■ 2007

Cost Analysis of Surgical Implants:
Preliminary Results

Range of Surgical Implant Payments
Preliminary Results



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Post Reform Development
Unintended Consequences

Medical Utilization
Outpatient Utilization

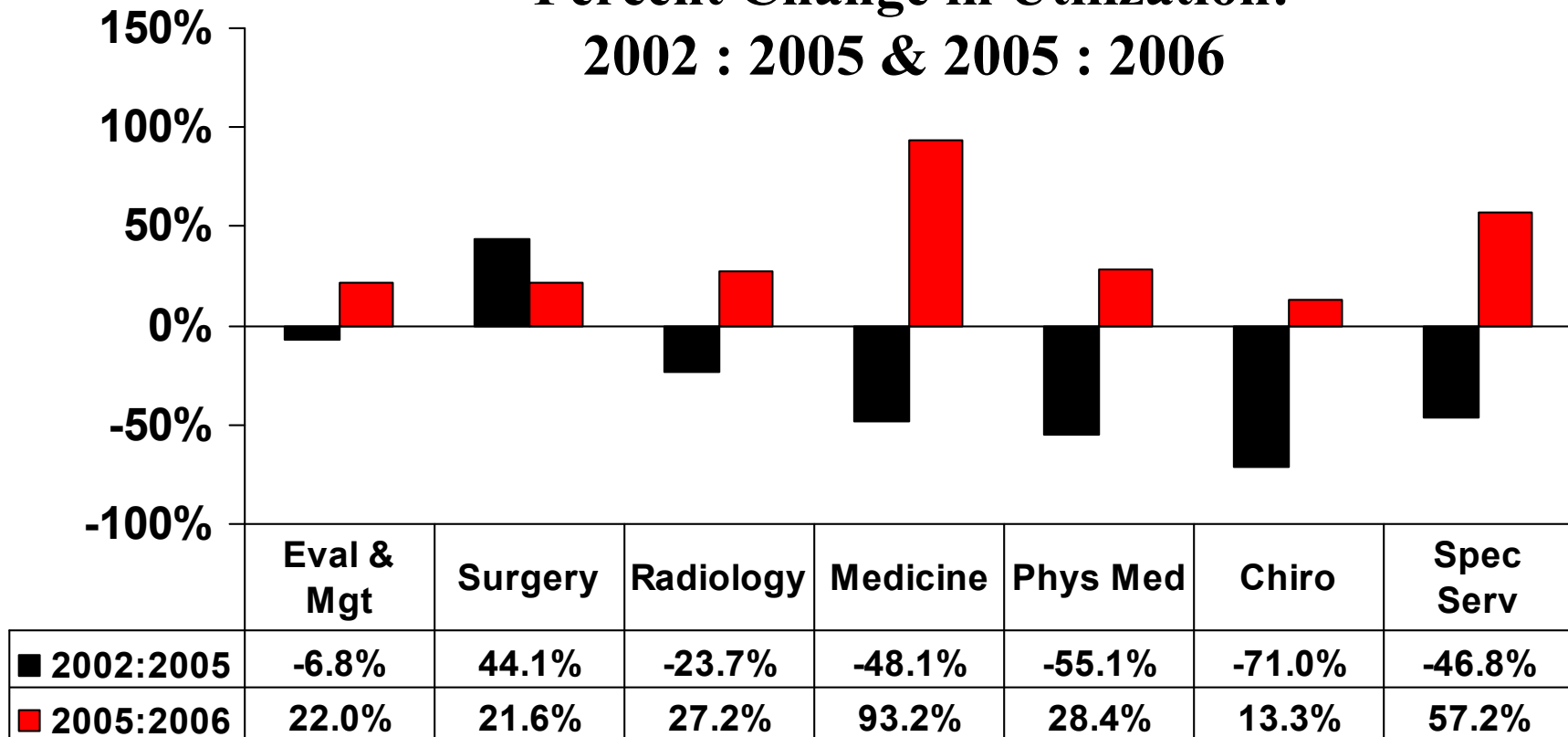
Outpatient Physician Services by fee schedule sections

- E&M
- Surgery
- Radiology
- Medicine
- PT
- Chiro
- Special Services

Post Reform Development
Unintended Consequences

Summary of Changes in Outpatient Utilization
Preliminary Results

**Percent Change in Utilization:
2002 : 2005 & 2005 : 2006**



Source: CWCI 2009

Post Reform Development
Unintended Consequences

Changes in Pharmaceutical Utilization & Cost

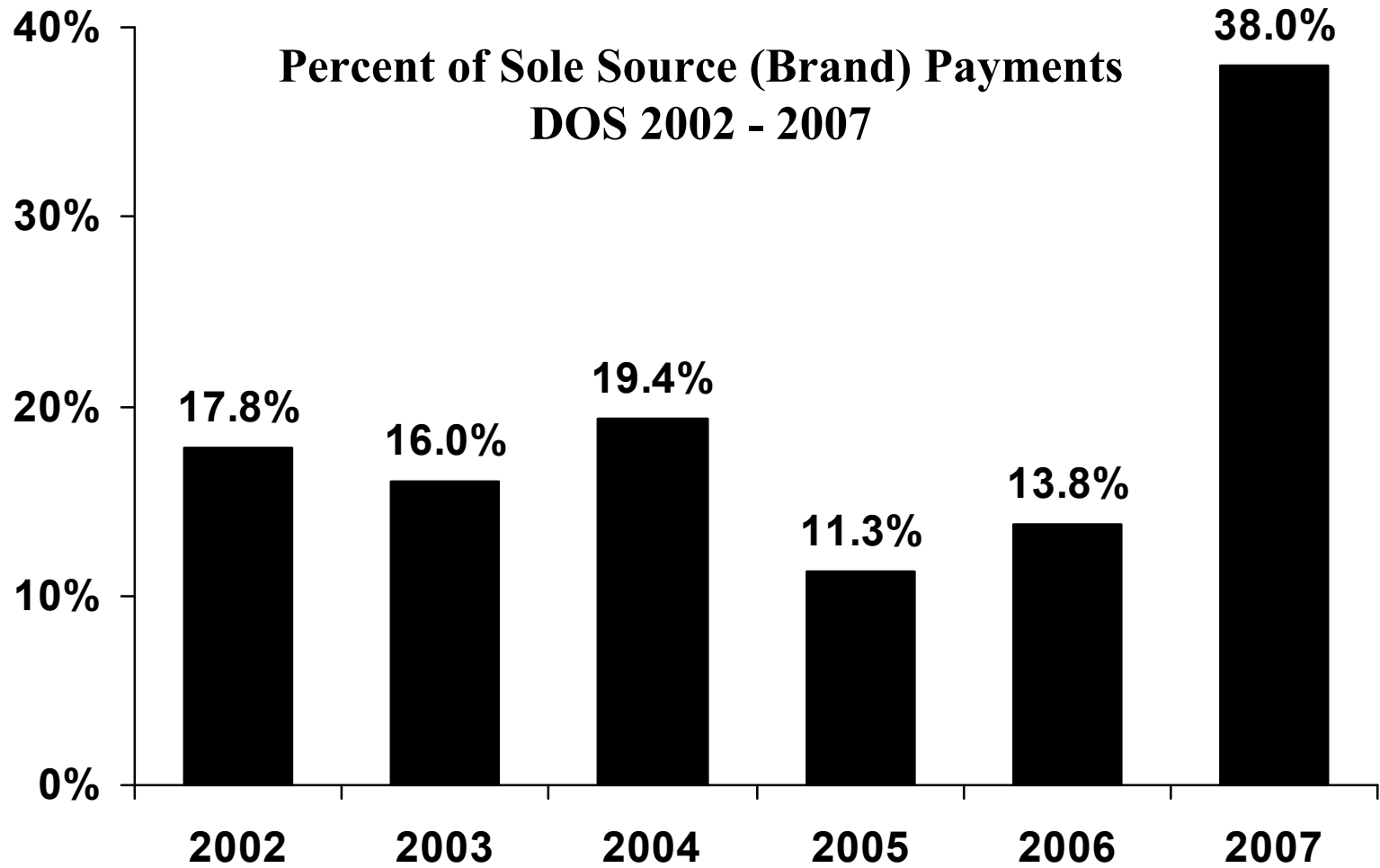
1. Sole Source (Brand) v. Multi-source (Generic)

2. Opioids

Post Reform Development Unintended Consequences

Changes in Pharmacy Utilization

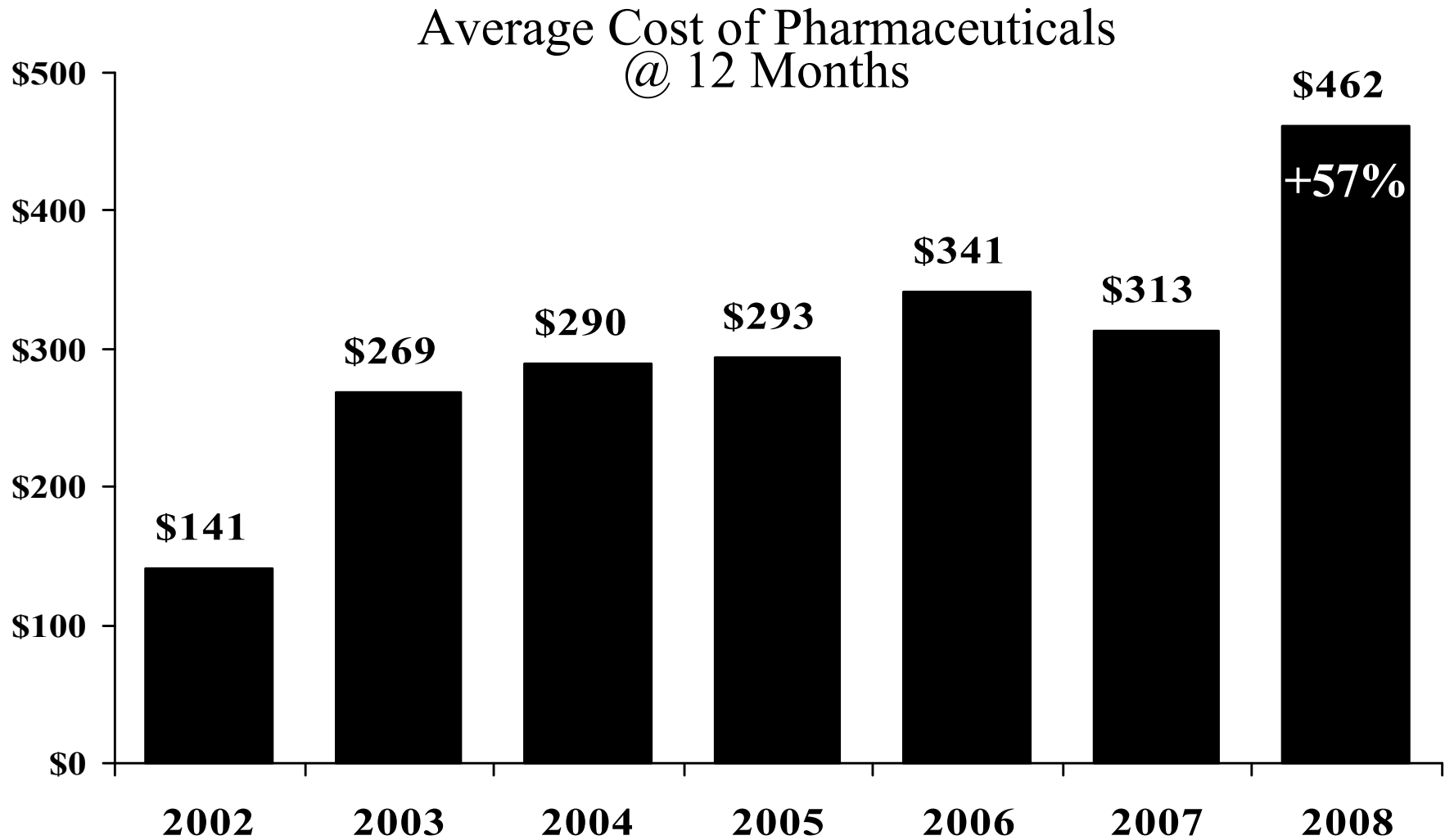
Preliminary Results: Utilization of Sole Source (Brand) Drugs



Source: CWCI 2009

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Post Reform Development Unintended Consequences

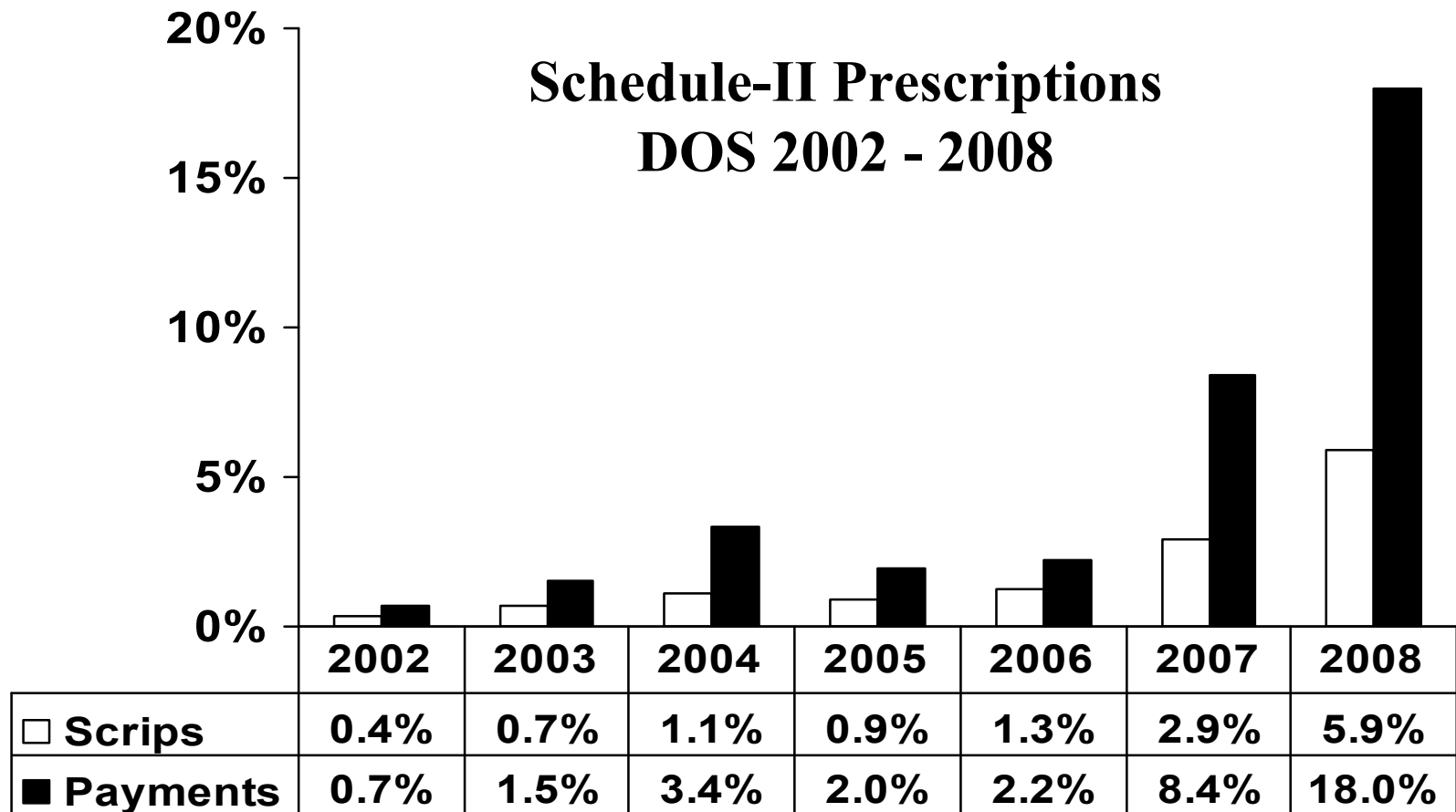


Source: CWCI 2009

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Post Reform Development
 Unintended Consequences

Changes in Pharmacy Utilization
Preliminary Results: Utilization of Schedule-II Opioids Drugs



Source: CWCI 2009

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Associations between the recent adverse development & recent public policy events

- High cost of implementing and administering reforms
- Dilution of the medical treatment utilization schedule with competing (& often conflicting) guidelines
- Rising medical utilization and increased use of narcotics and surgical implants

Pending Issues in California Workers Compensation

Rules and Regs:

- RBRVS
- Medical provider networks & access to care
- Medical treatment guidelines & UR
- Surgical implants
- Rx pricing and formularies

Case Law:

- Medical provider networks (MPN)
- Medical treatment utilization schedule (MTUS)
- Ogilvie, Almaraz/Guzman (PD/Medical)