



# Price Impact of WC Physician Fee Schedules

Barry Lipton, FCAS, MAAA  
Practice Leader and Senior Actuary

CAS Centennial  
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# Overview

- Key Findings
- Methodology
  - Illustration—Surgery
  - Medical Service Categories
  - Data
- The Influence of WC Fee Schedules
- Price Relativities by State
- Conclusions



# Key Findings

# Key Findings

- Large discounts off the WC physician fee schedule maximum allowable reimbursements (MARs) do not ensure low prices
- WC fee schedule MARs not only limit payments, they may also become common WC prices—the median WC price is always at or very near the MAR
- Surgery has higher fee schedules than Evaluation and Management (E&M) relative to Group Health (GH) payments
- Similar WC discounts do not necessarily imply similar prices relative to GH

# Large Discounts Off WC MARs Do Not Ensure Low Prices

- In some states, even after large discounts off the state physician fee schedule, the prices for some services may remain high relative to GH payments
- In other states, a smaller discount off the fee schedule may produce prices closer to GH payments

# WC Fee Schedule MARs Do More Than Limit Payments

- WC fee schedules have been shown to be effective at controlling costs
- However, MARs set too high (relative to GH) lessen that effectiveness
- High proportions of WC payments at (or near) the MAR suggest that fee schedules wind up becoming market prices for WC
- High MARs (relative to GH) may result in some providers charging WC claimants more than they would patients covered under GH

# Comparing Surgery with E&M

- Surgery has WC physician fee schedule MARs that are high relative to GH payments
  - Many WC payments are well below the MAR but are well above GH
    - One-fourth of WC payments are 30% or more below the MAR
    - One-fourth of GH payments are 58% or more below the MAR
- E&M has lower MARs than Surgery relative to GH prices
  - WC payments are closer to the MAR than those for Surgery and are more in line with those for GH
    - One-fourth of WC payments are 10% or more below the MAR
    - One-fourth of GH payments are 30% or more below the MAR
- At the 25<sup>th</sup> percentile, WC pays 67% more than GH for surgery, compared with 29% more for E&M

# What Can You Tell From the Fee Schedule Discount?

## Radiology Services

- Similar WC discounts for Radiology do not necessarily imply similar prices relative to GH
  - The 25th percentile\* of WC payments is 10% below the fee schedule in both D.C. and Hawaii
  - However, relative to GH
    - The 25th WC percentile is 110% above in D.C.
    - The 25th WC percentile is 20% above in Hawaii

\*The  $p$ -th percentile refers to a payment amount for which the probability of a payment being that amount or smaller is  $p$ ; e.g., 25% of payments are equal to or smaller than the 25th percentile.





# What Can You Tell From the Fee Schedule Discount?

## Radiology Services

- Different WC discounts for Radiology do not necessarily imply different relationships between WC and GH prices
  - Relative to the fee schedule
    - The 25th WC percentile is 13% below in Colorado
    - The 25th WC percentile is 1% below in Montana
  - The 25th percentile of WC payments is 58% above the 25th percentile for GH in both states



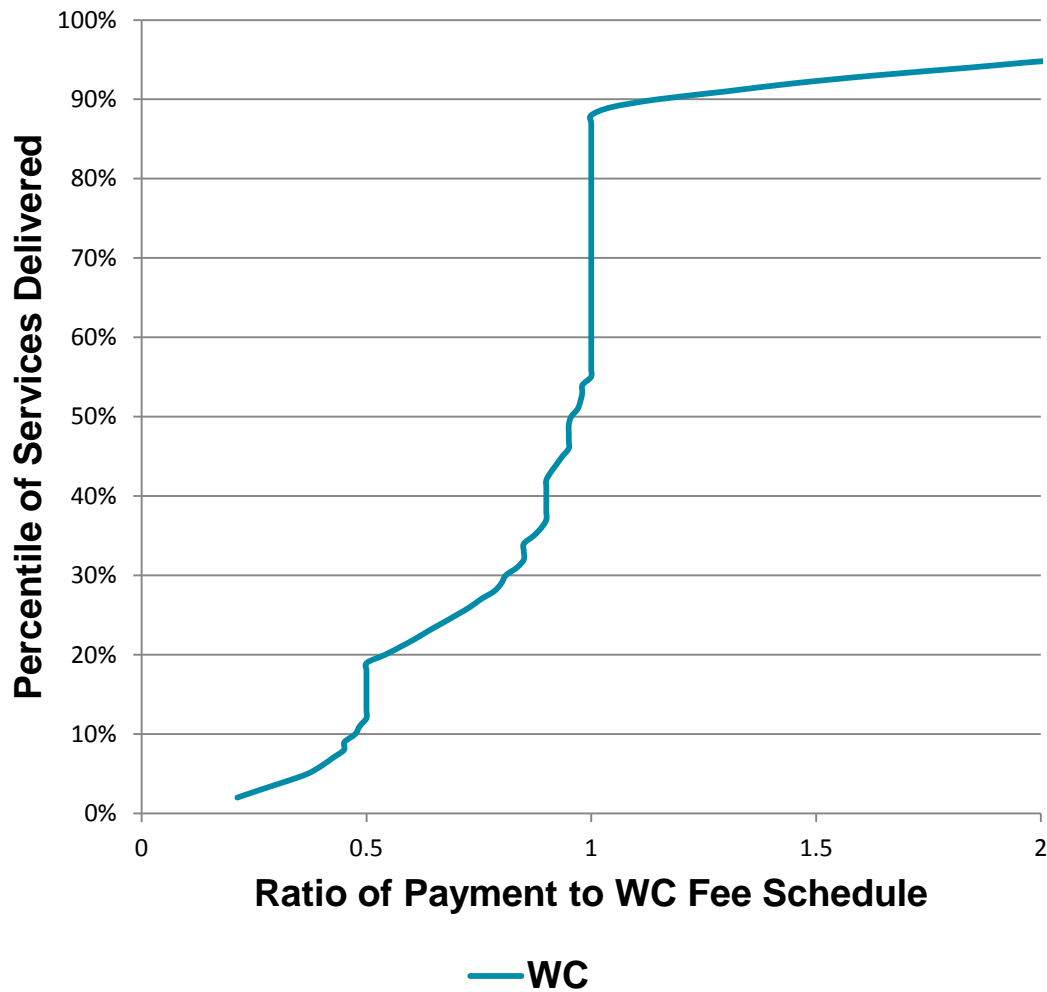
# Surgery

# Surgery

- For Workers Compensation
  - More than half of surgical services are paid below the MAR
  - About one-third are paid at the MAR
  - 25% of surgical services are discounted 30% or more off the MAR
- WC often pays more than GH for comparable surgical services
  - Nearly three-fourths of GH payments for surgery are below the MAR
  - 25% of surgical services in GH are paid at 62% or more below the MAR

# Surgery

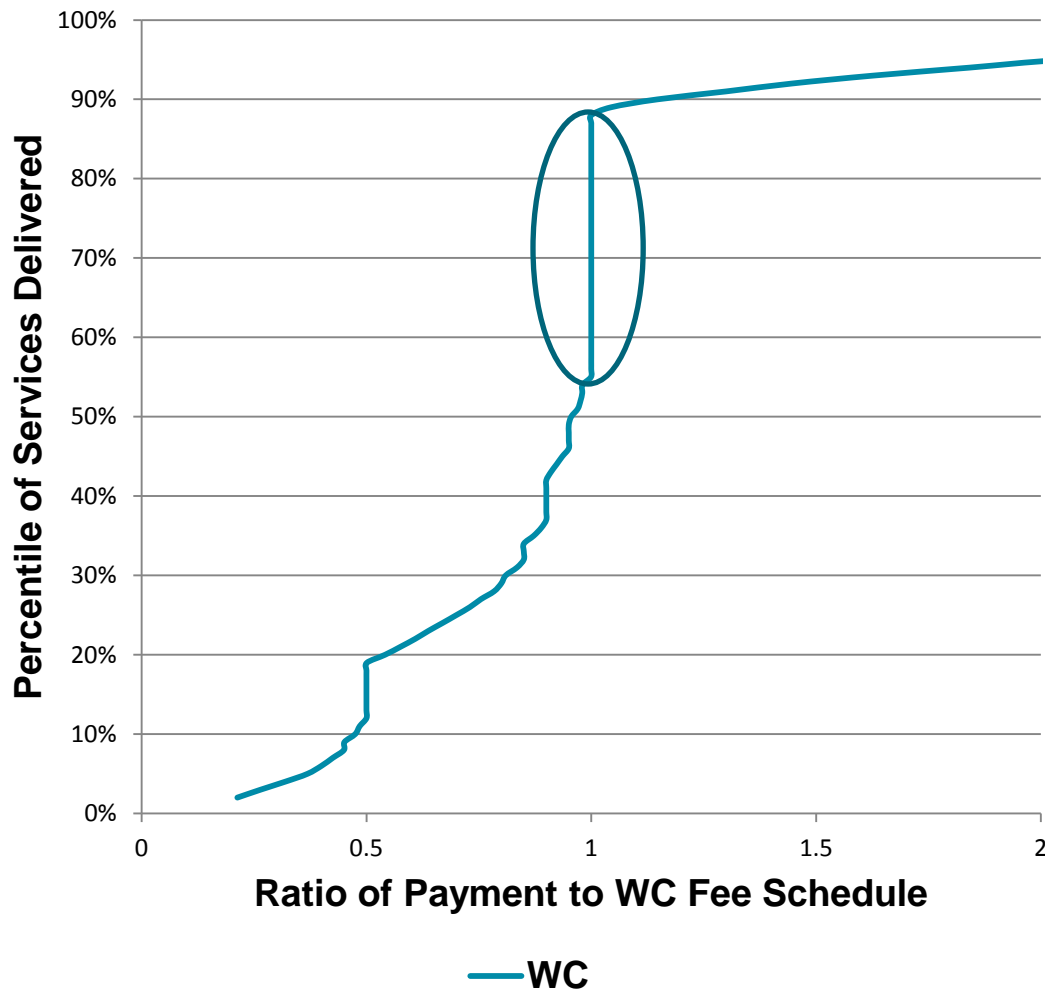
## Multi-State Distribution of Reimbursements for Surgery



The chart shows the percentiles of payments relative to the MAR.  
Percentiles for Group Health reflect the same mix of services as WC.

# Surgery

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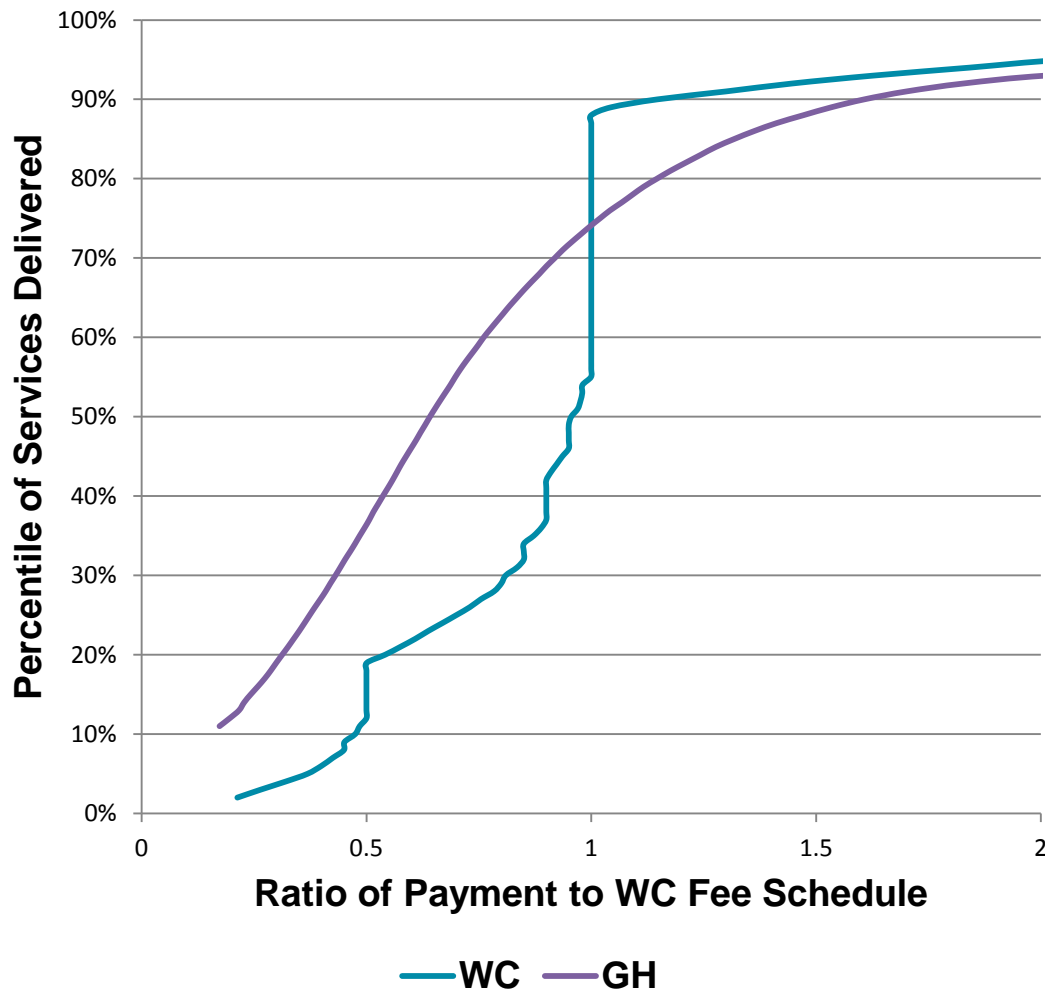


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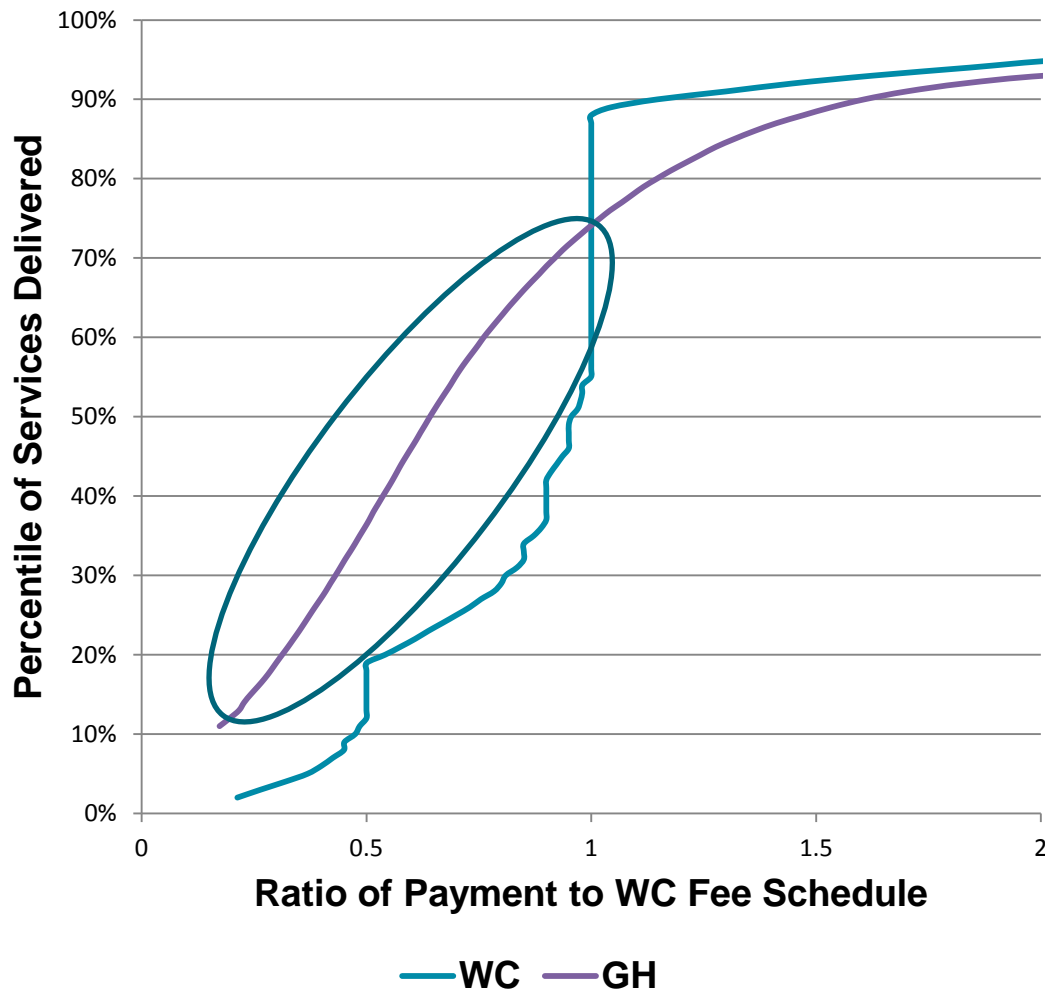


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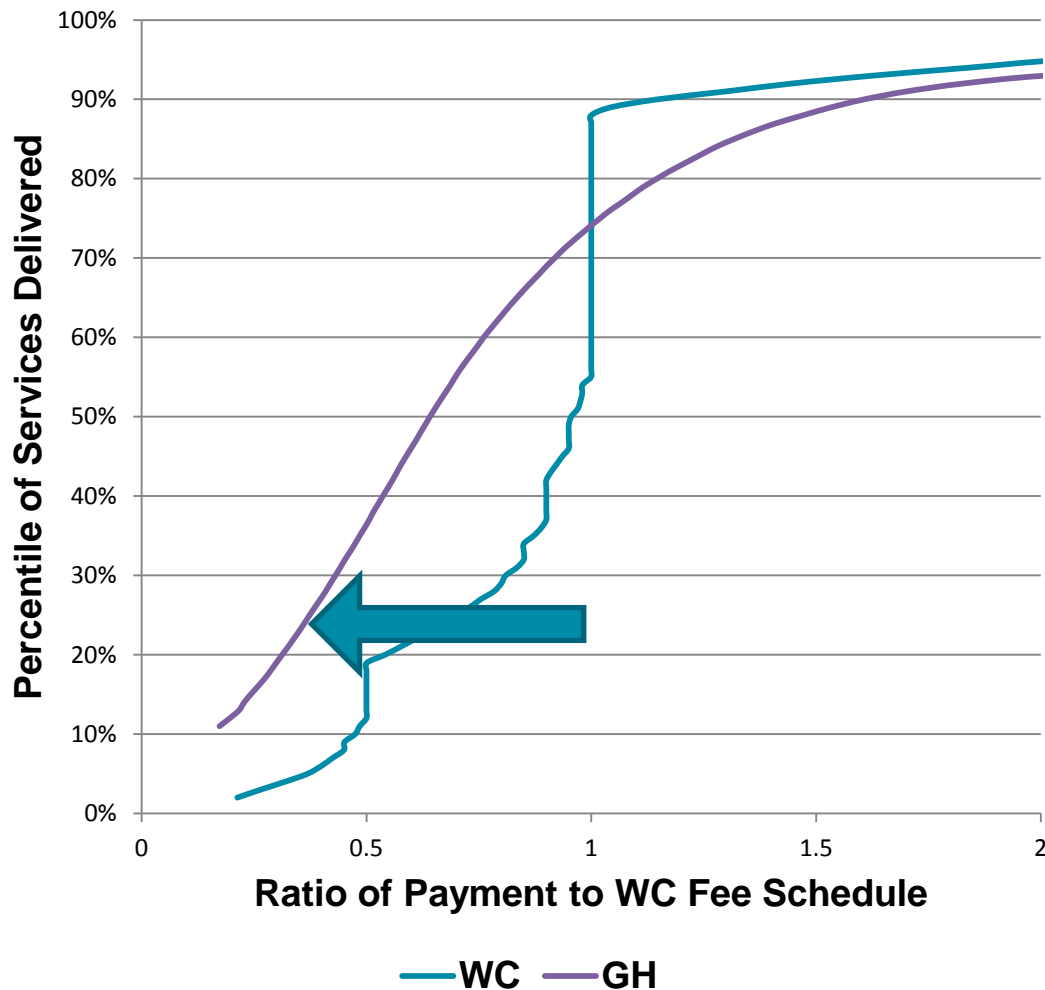


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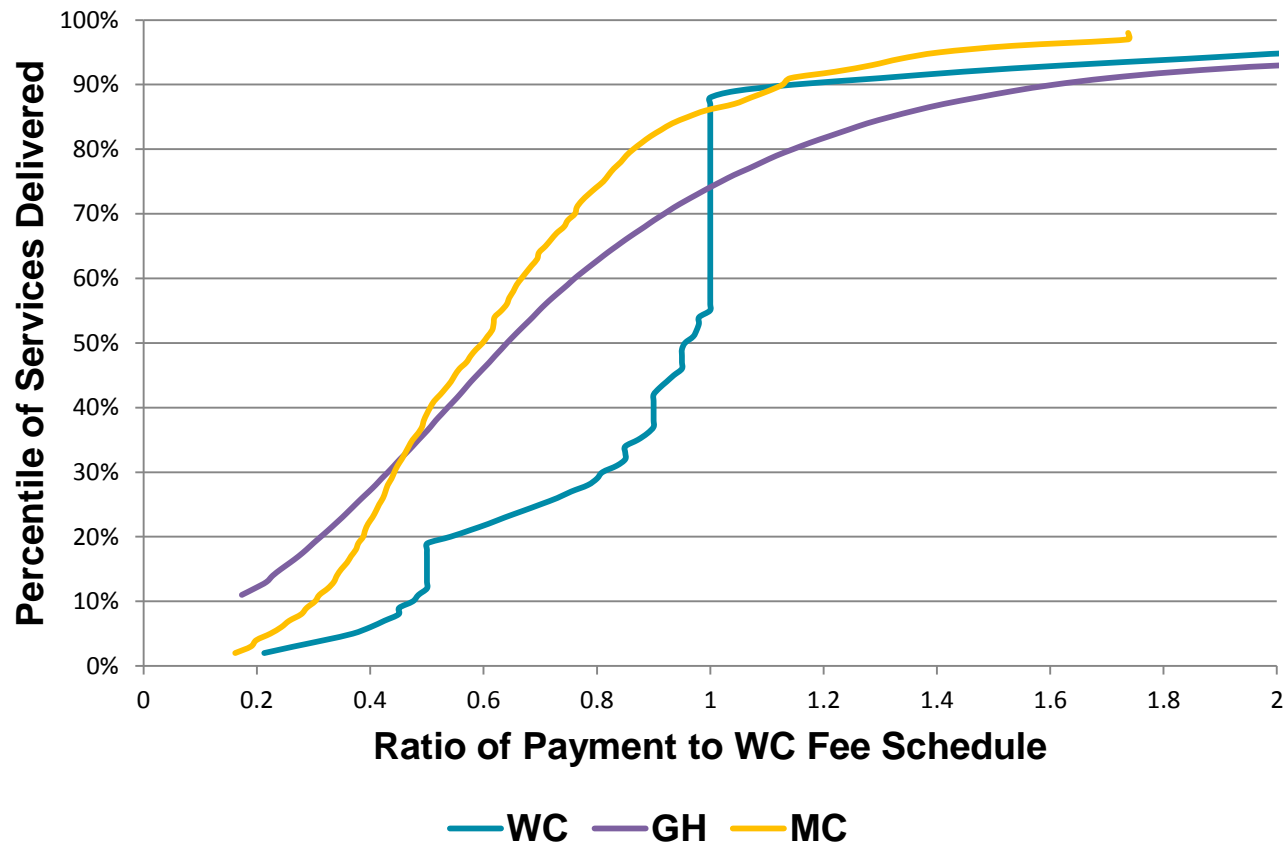
# Surgery

- Workers Compensation prices are concentrated at the MAR
- WC prices paid below the MAR are still well above Group Health and Medicare (MC) prices
- Some WC prices paid at the MAR are below prices paid by Group Health and Medicare

# WC Fee Schedules

## Concentrate WC Payments

### Multi-State Distribution of Reimbursements for Surgery

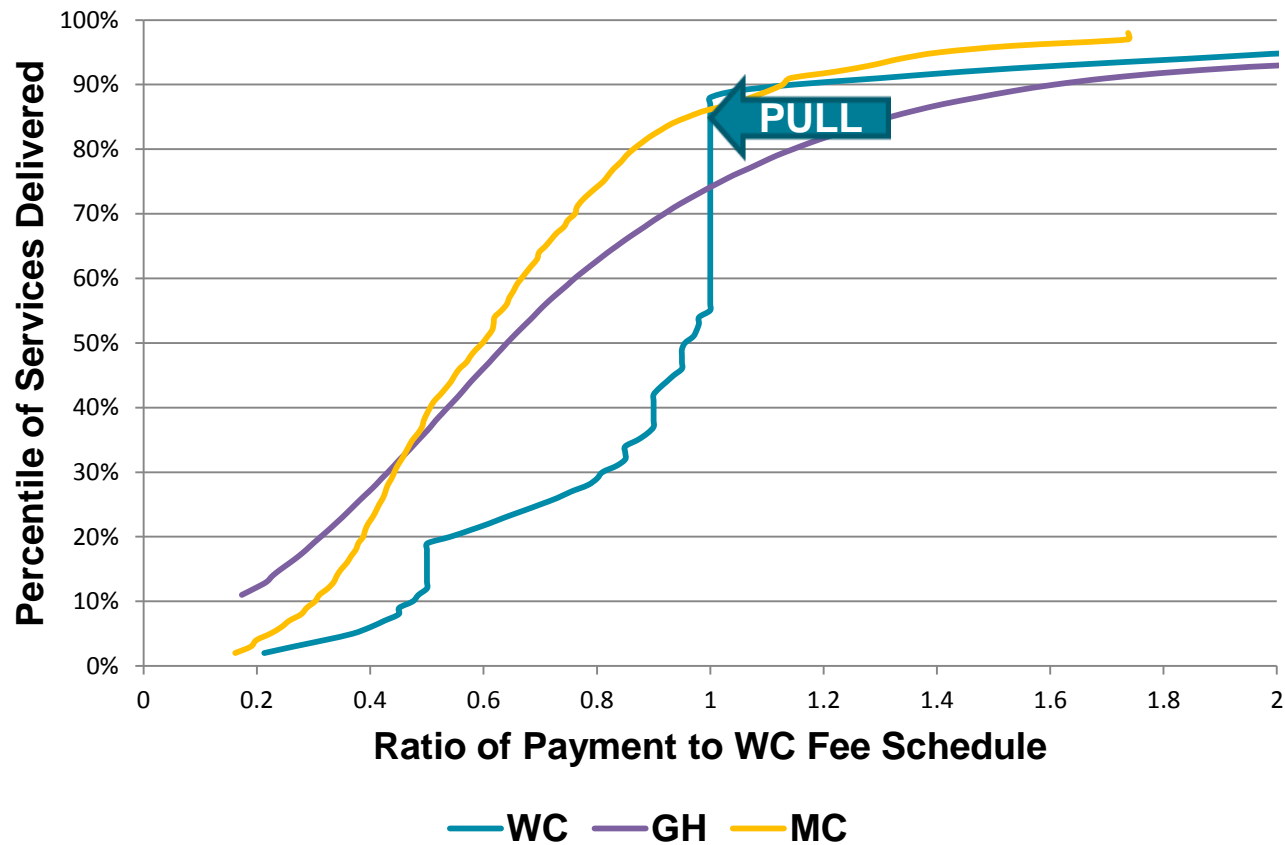


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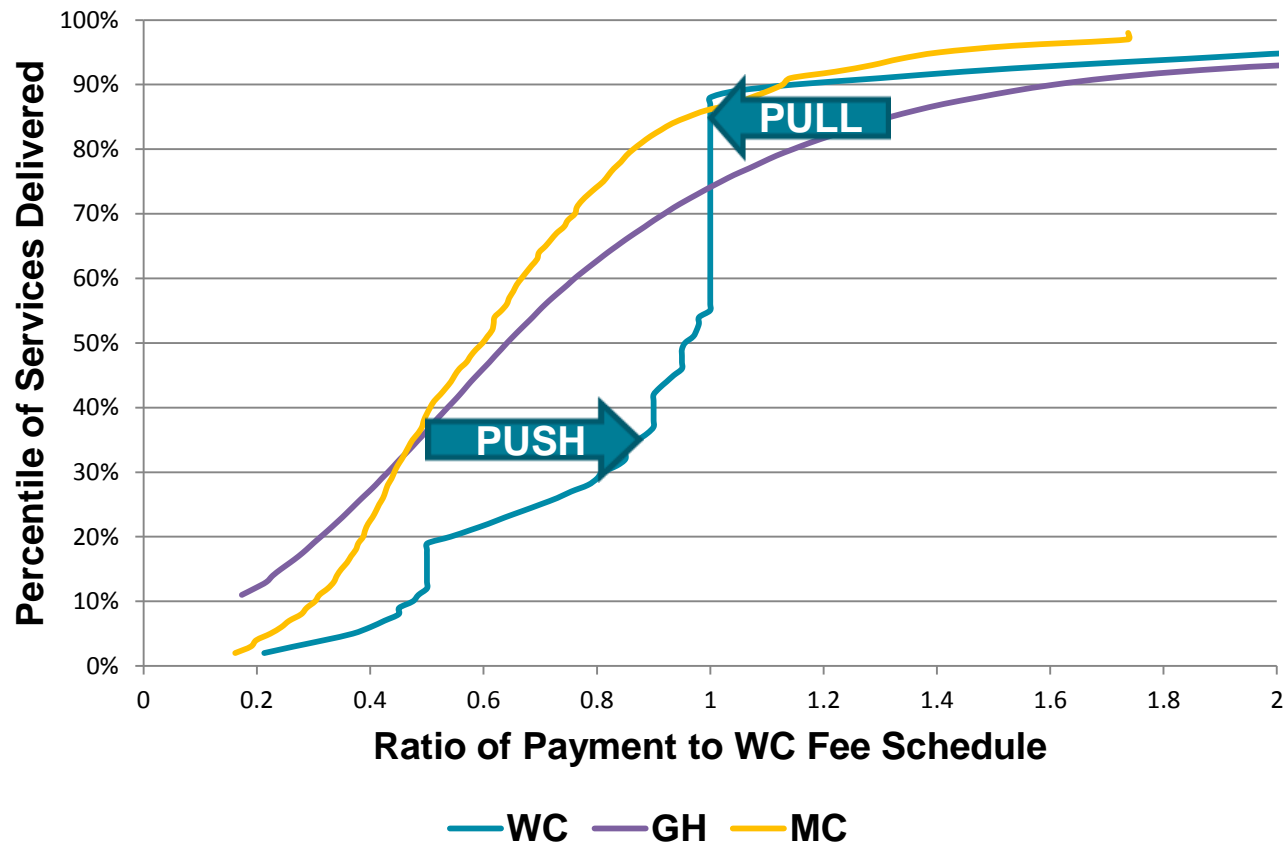


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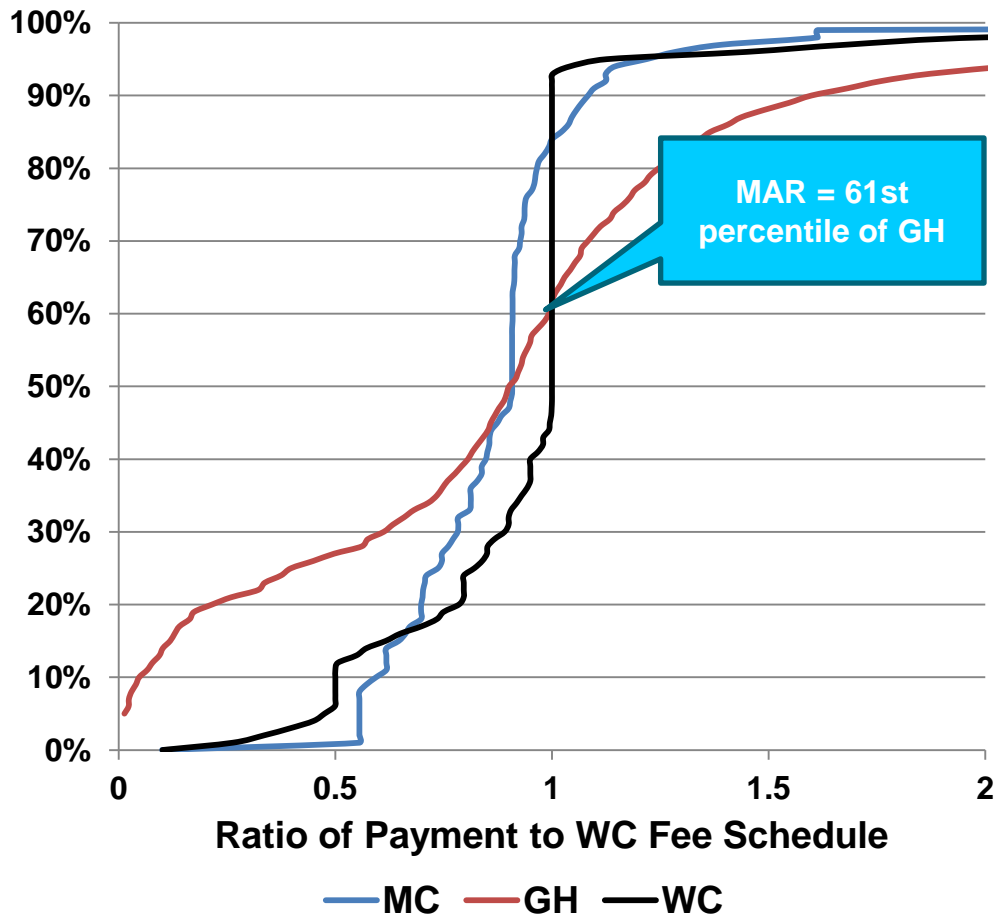
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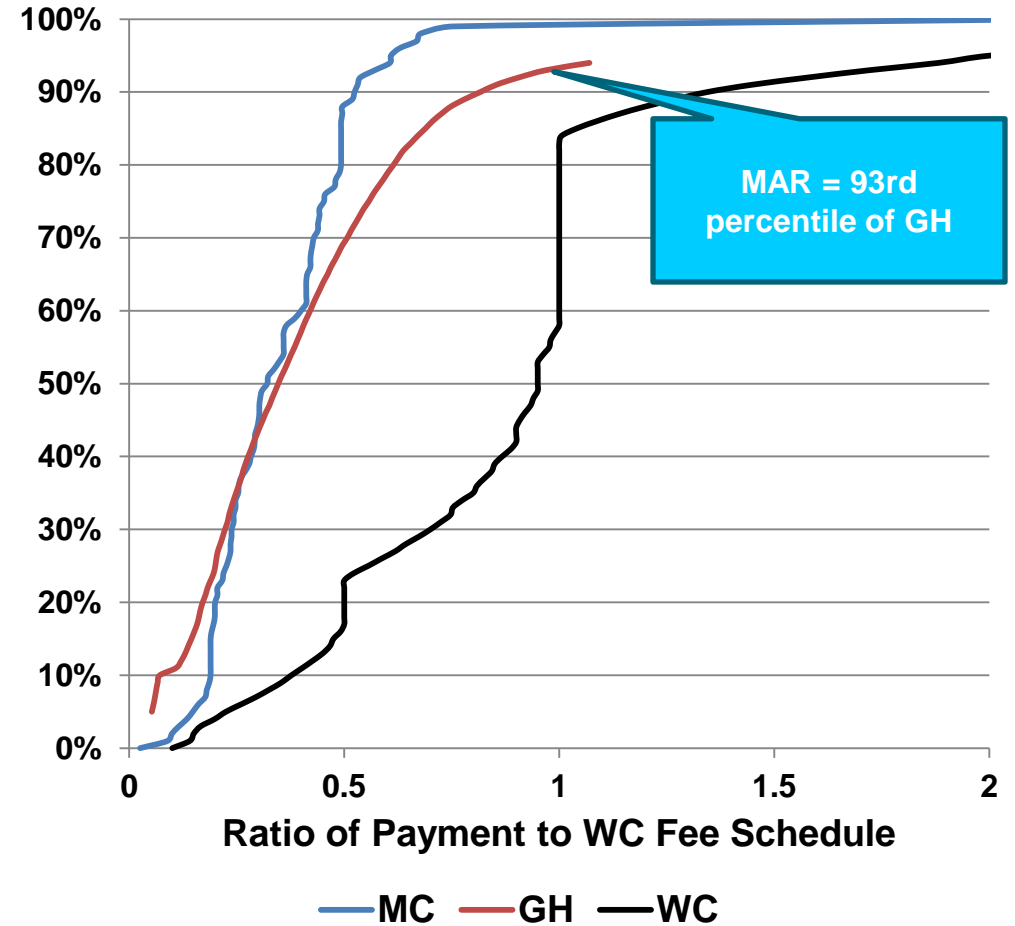
- State experience may vary:
  - Degree of concentration at the MAR
  - Relativity to GH
- Hawaii generally follows the multi-state pattern for Surgery
  - Somewhat more concentration of WC at the MAR
  - Similar relativity to GH
    - 60% of GH payments are below the MAR
- Illinois differs from the multi-state pattern for Surgery
  - Somewhat less concentration of WC at the MAR
  - WC payments are higher relative to GH than WC payments relative to GH countrywide
    - 93% of GH payments are below the MAR

# Surgery

Distribution of Reimbursements:  
Surgery  
Hawaii



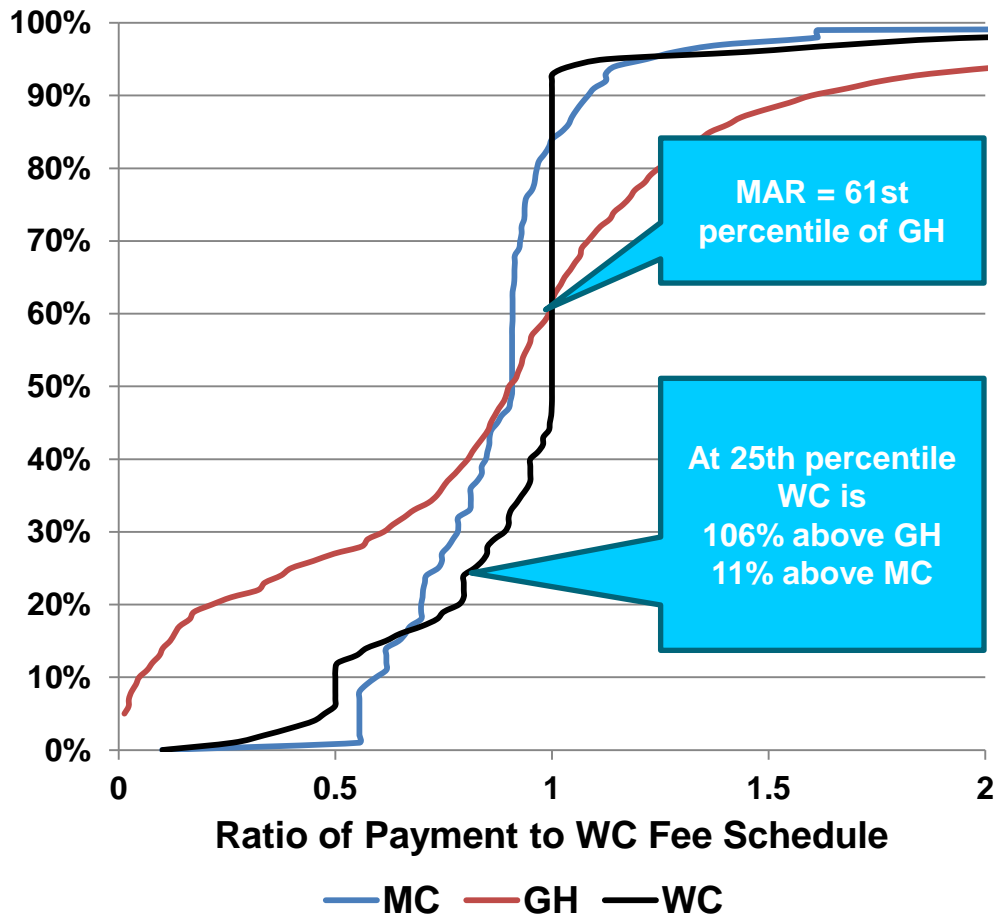
Distribution of Reimbursements:  
Surgery  
Illinois



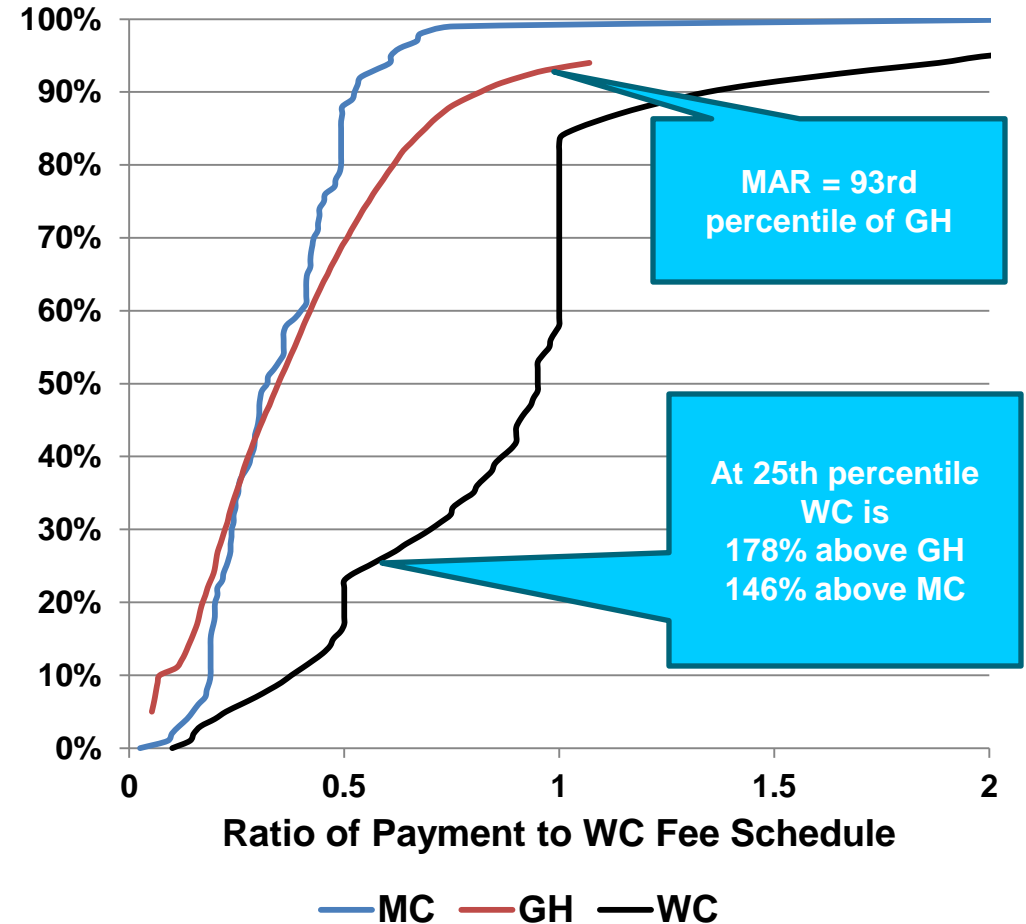
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# Surgery

## Distribution of Reimbursements: Surgery Hawaii



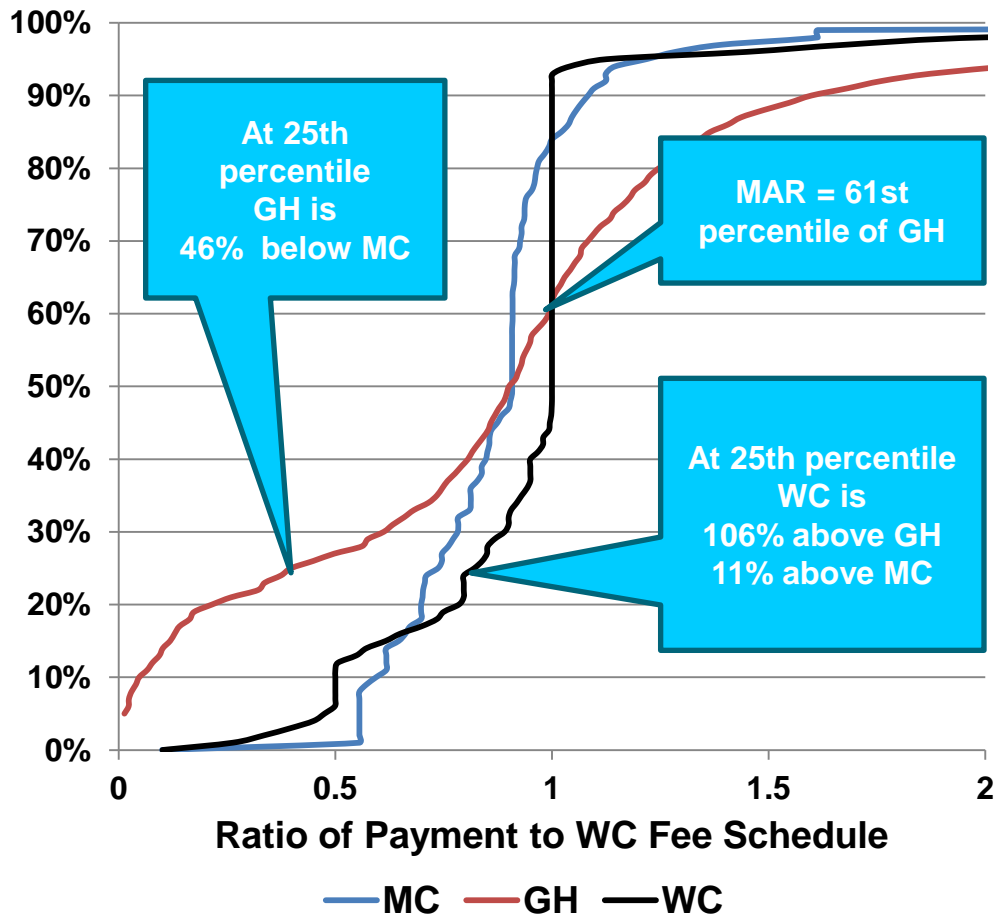
## Distribution of Reimbursements: Surgery Illinois



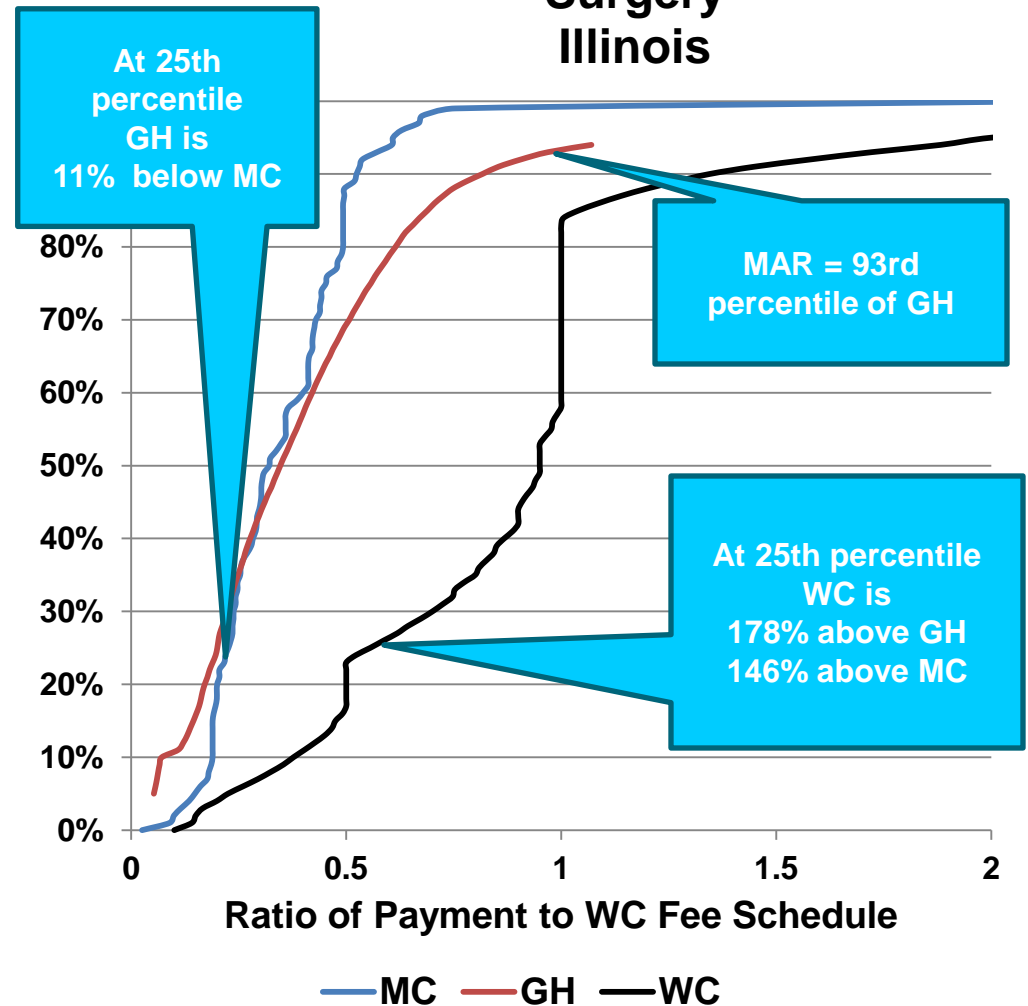
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# Surgery

## Distribution of Reimbursements: Surgery Hawaii



## Distribution of Reimbursements: Surgery Illinois



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# Methodology

# Methodology: Service Categories

Professional services, identified by CPT codes\*, are organized into three levels of increasing specificity

- The major groupings of the AMA billing codes
- Each major grouping is broken down into several more specialized groups, again conforming with AMA publications
- The CPT code is the finest level of detail
- Study looks at frequency distributions of payments
  - While surgery accounts for 5% of payments, those payments make up 35% of the total amount paid
  - Physical Medicine dominates the Medicine category (93% of services and 85% of payments)

\*CPT codes are the intellectual property of the AMA



# Methodology: Data

Workers Compensation data is from NCCI's Medical Data Call (MDC) for transaction-level medical billings data

- States where NCCI provides ratemaking services plus Indiana, Massachusetts, Minnesota, North Carolina, New Jersey, New York, and Wisconsin
- Billings processed after 7/1/2010
- Study based on about 40 million WC medical payment transactions

# Methodology: Data

- Group Health prices are from FAIR Health
  - Geographically dispersed with large market share
    - More than 125 million covered lives
    - Includes various GH products (HMO, PPO, FFS)
  - Data is prices paid at certain percentiles (10th, 15th, 20th, ..., 95th), by CPT code and three-digit zip code
- Medicare reimbursement amounts are determined from relative values and conversion factors published by the federal government
- GH and MC are adjusted to the WC mix of services

# Methodology: Data

- Anesthesia was not included
  - GH data was not available for anesthesia services
  - Challenges quantifying the volume of services provided
- We studied between three and five minor service categories for each major service category
- We studied between five and twenty CPT codes for the largest minor service category within each major service category

# Study Data

Service Category	Share of Total Number of Services and Amounts Paid	
	Number of Services	Amount Paid
Evaluation and Management	20.0%	21.9%
Surgery	5.3%	35.3%
Radiology	7.8%	11.6%
Pathology and Laboratory	1.8%	0.5%
Medicine	65.1%	30.7%
<b>Total*</b>	<b>100.0%</b>	<b>100.0%</b>

\*Total does not include anesthesia or drugs



# Methodology: Service Categories

## Frequency Distribution of Data Used in Study by Major and Minor Service Category

Evaluation and Management (20.0%)	office/other outpatient services (87.2%)
	emergency department services (5.3%)
	consultations (3.9%)
	hospital inpatient services (2.4%)
	other evaluation and management (1.2%)
Surgery (5.3%)	musculoskeletal system (54.9%)
	nervous system (25.2%)
	integumentary system (16.4%)
	other surgery (7.5%)
Radiology (7.8%)	diagnostic imaging (93.4%)
	radiologic guidance (4.2%)
	other radiology (2.4%)
Pathology and Laboratory (1.8%)	chemistry (24.6%)
	hematology & coagulation (23.1%)
	other pathology and laboratory (52.3%)
Medicine (65.1%)	physical medicine & rehabilitation (88.2%)
	chiropractic manipulative treatment (4.9%)
	neurology & neuromuscular procedures (2.2%)
	other medicine (4.7%)



# Evaluation and Management

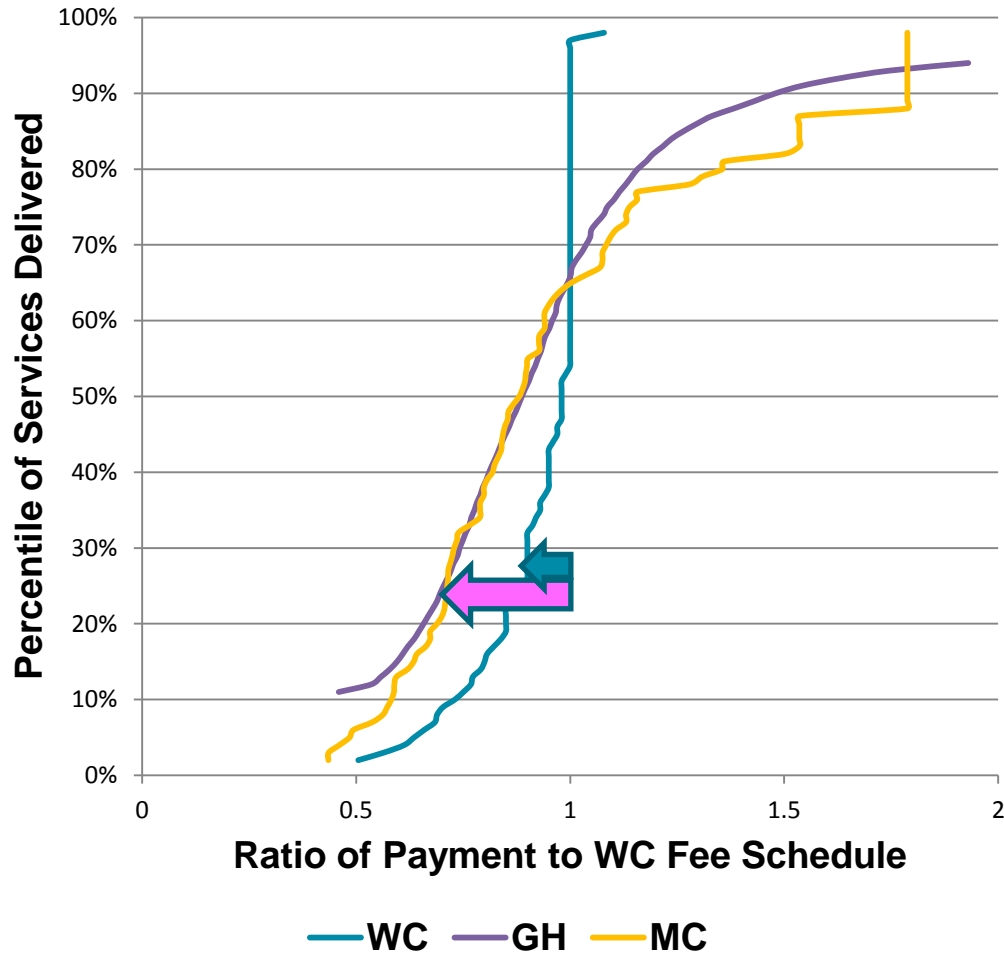


# Evaluation and Management

- For Workers Compensation
  - More than half of Evaluation and Management (E&M) services are paid below the MAR
  - More than 40% of E&M services are paid at the MAR
  - 25% of E&M services are discounted 10% or more off the MAR
- WC often pays more than GH for comparable E&M services
  - 65% of GH payments for E&M services are below the MAR
  - 25% of E&M services in GH are paid at 30% or more below the MAR

# Evaluation and Management

## Multi-State Distribution of Reimbursements for E&M Services



At the 25th percentile

- WC is 10% below the MAR
- GH is 30% below the MAR

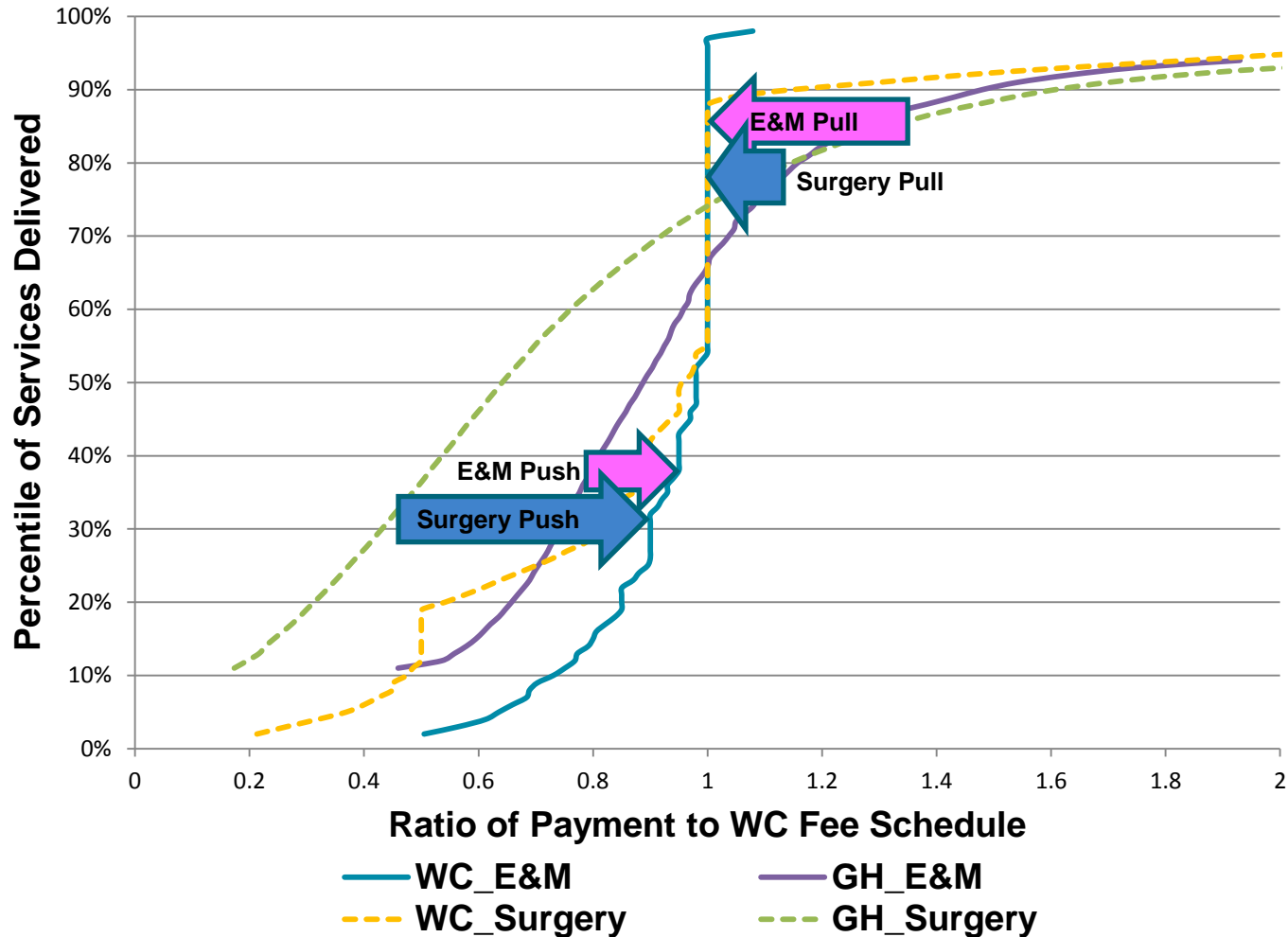
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# Surgery Versus Evaluation and Management

- The influence of fee schedules is quite different between the high-volume Evaluation and Management and the small-volume Surgery categories
- For both Surgery and E&M, the WC fee schedule is near the 70th percentile of GH payments
- WC discounts are similar but Surgery is reimbursed at a higher price relative to GH
- A higher share of WC payments for Surgery are above the MAR than for E&M

# WC Fee Schedules Work More as Intended for E&M Than for Surgery

Multi-State Distribution of Reimbursements  
E&M vs. Surgery



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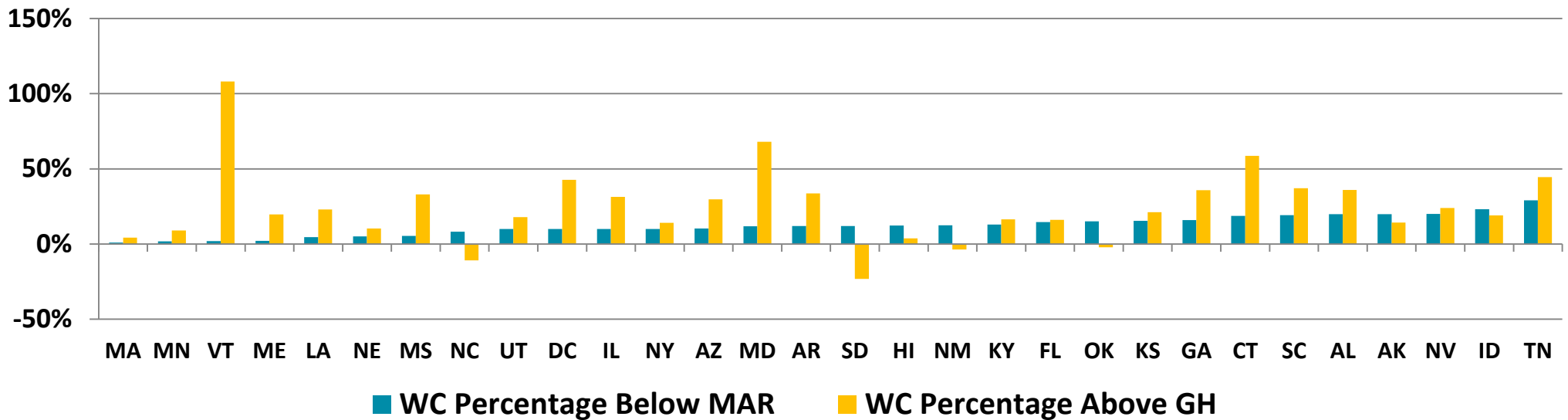
# Price Relativities by State

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- For a given service, the WC prices relative to MAR do not correlate with WC prices relative to GH
- Radiology and E&M illustrate this:
  - At the 25th percentile, WC prices for most states are at a significant markup over GH payments
  - At the 25th percentile, those markups bear little relation to the discounts off the MAR by state
  - Despite bigger discounts, Radiology shows bigger markups than E&M

# WC Prices Relative to MAR Do Not Correlate with WC Prices Relative to GH

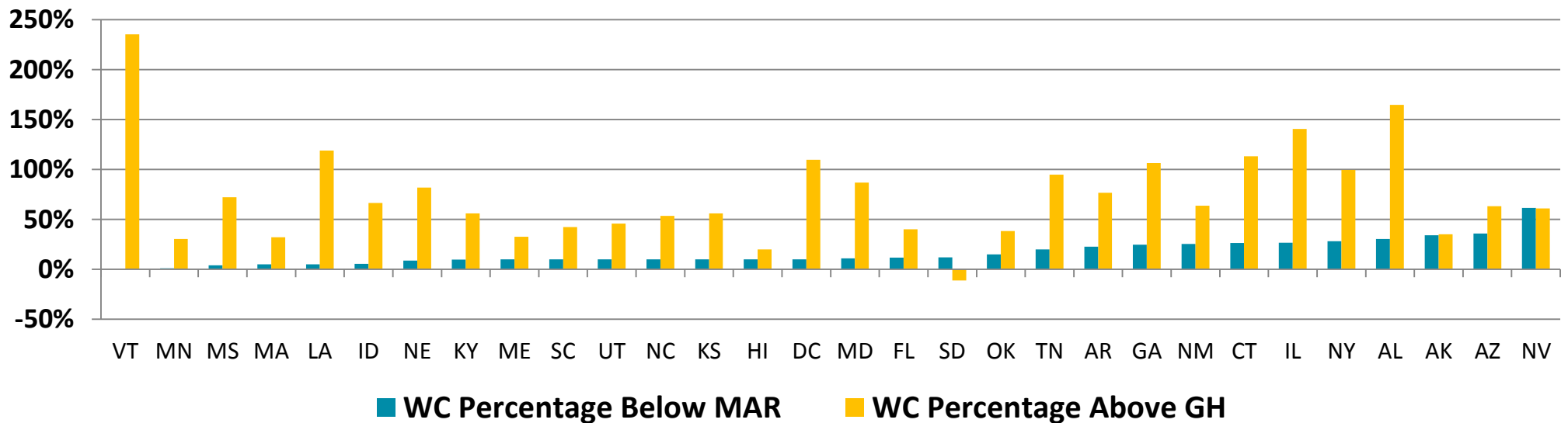
## Evaluation and Management 25<sup>th</sup> Percentile WC Price Relativity to MAR and WC Relativity to GH



# WC Prices Relative to MAR Do Not Correlate with WC Prices Relative to GH

## Radiology

### 25<sup>th</sup> Percentile WC Price Relativity to MAR and WC Relativity to GH







# Conclusions

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- Fee schedules influence more than just the small portion of charges that exceed the MAR
- Fee schedules may have the unintended consequence of increasing some payments
- A discount from a fee schedule amount does not ensure a competitive price
- To determine the effectiveness of fee schedules, it is important to consider market rates



# Other Relevant Studies

# Bibliography

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**Thank You**