

## Understanding SB 863:

### Pre-Reform Trends, Current Events & Early Returns on Reforming the California Workers Compensation System

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CWCI

CLRS LOB - 3  
September 17, 2013

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## CWCI: Background

Established in 1964;

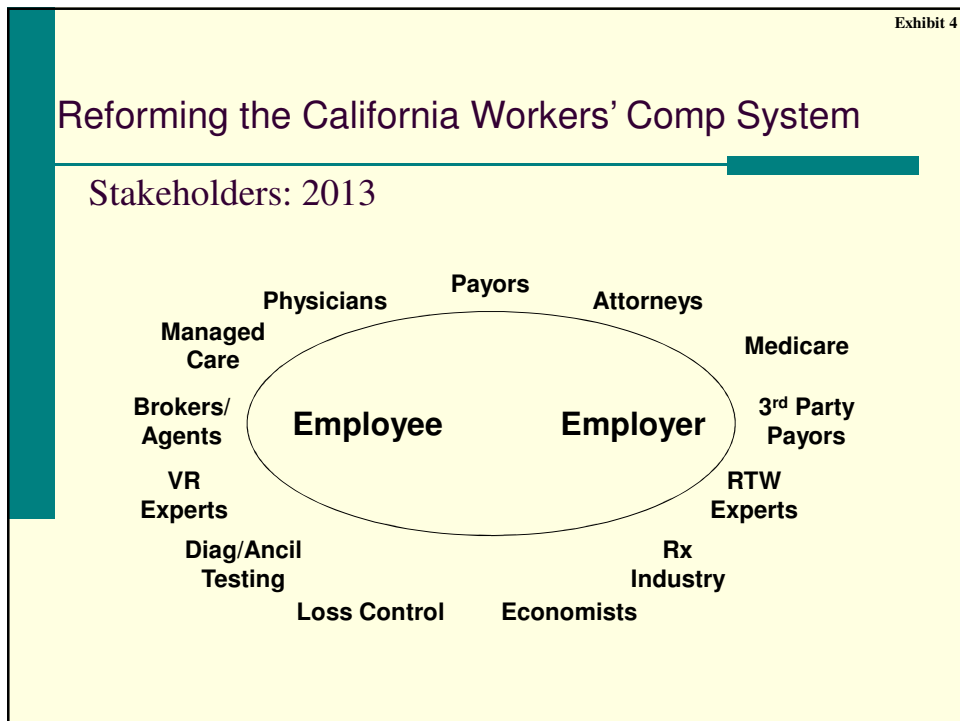
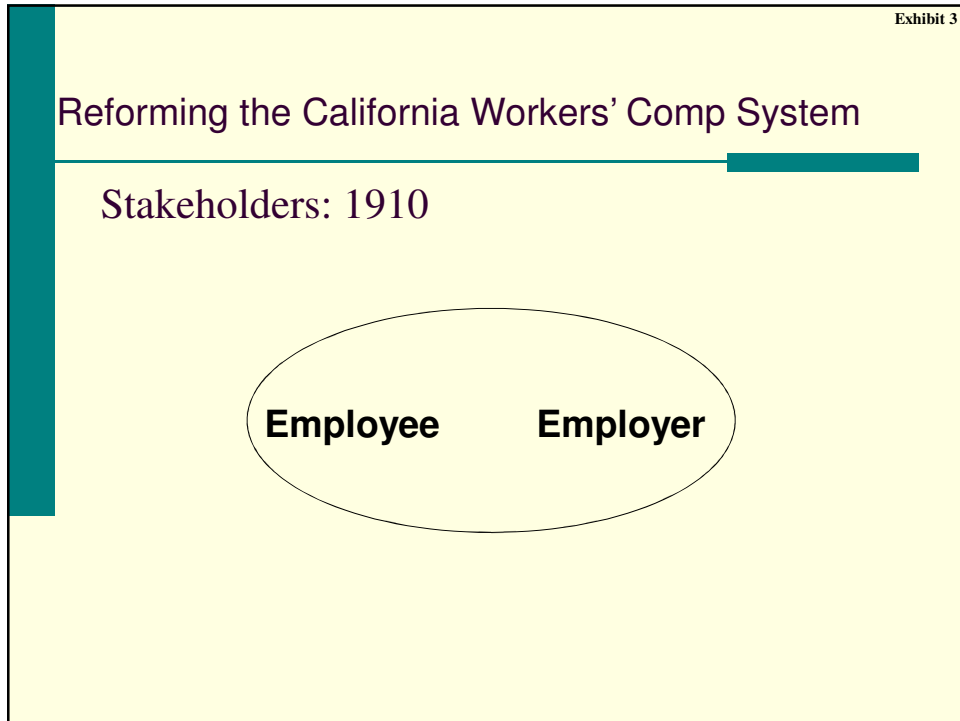
Private, nonprofit organization of insurers representing  
approximately 80% of premium dollars and self-insured  
employers;

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

- Education
- Information
- Representation
- Research

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## Reforming the California Workers' Comp System

### SB 863: The Dealmakers

**Employee**      **Employer**

## SB 863 – Progression of Reform

- 1. The Deal:**
  - Labor & Management
- 2. The Statute:**
  - Synthesizing The Deal
- 3. The Rules and Regulations**
  - Create the systems and procedures
- 4. The Workers' Compensation Appeals Board**
  - Interpret and enforce the statute, rules and regulation
- 5. The Supreme Court**
  - The final arbiter of all aspects of reform

## Agenda

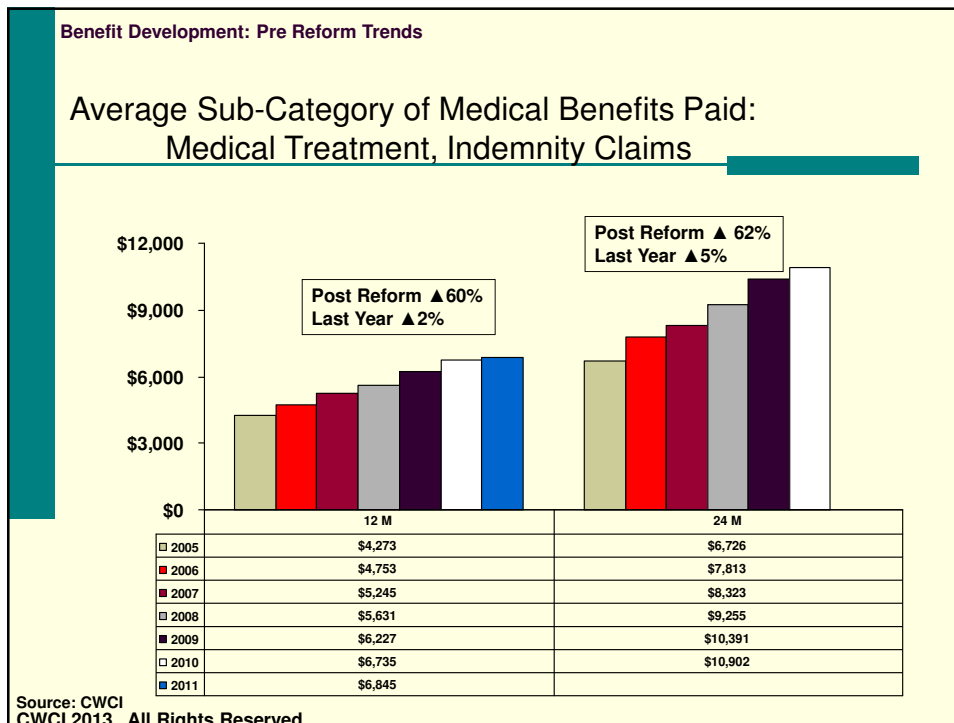
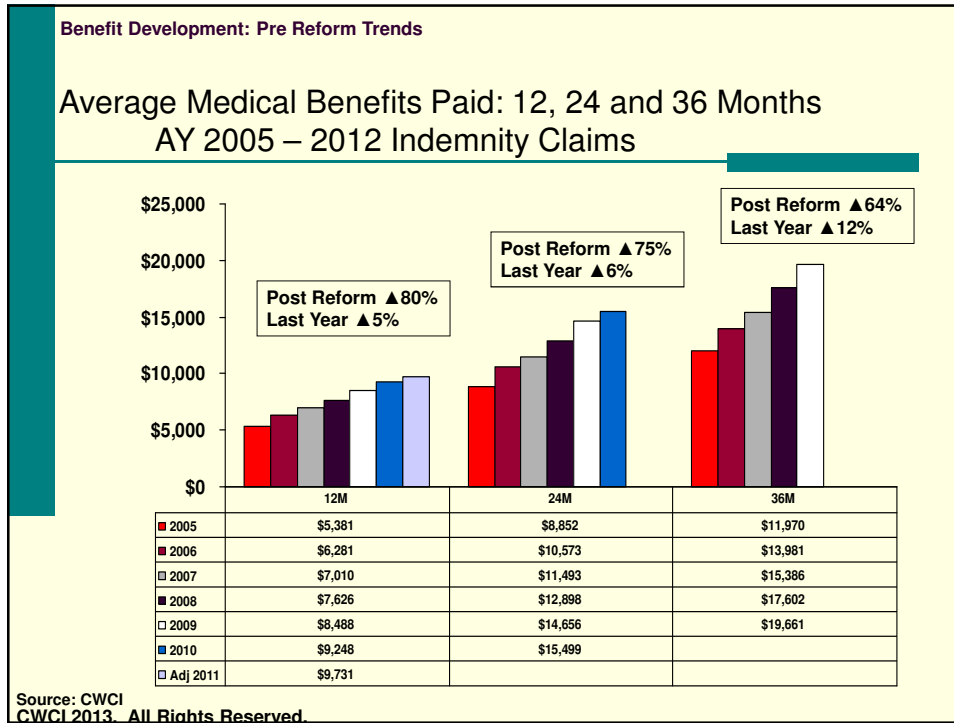
1. Pre-Reform Trends
2. SB 863 – Elements of California Workers Comp Reform

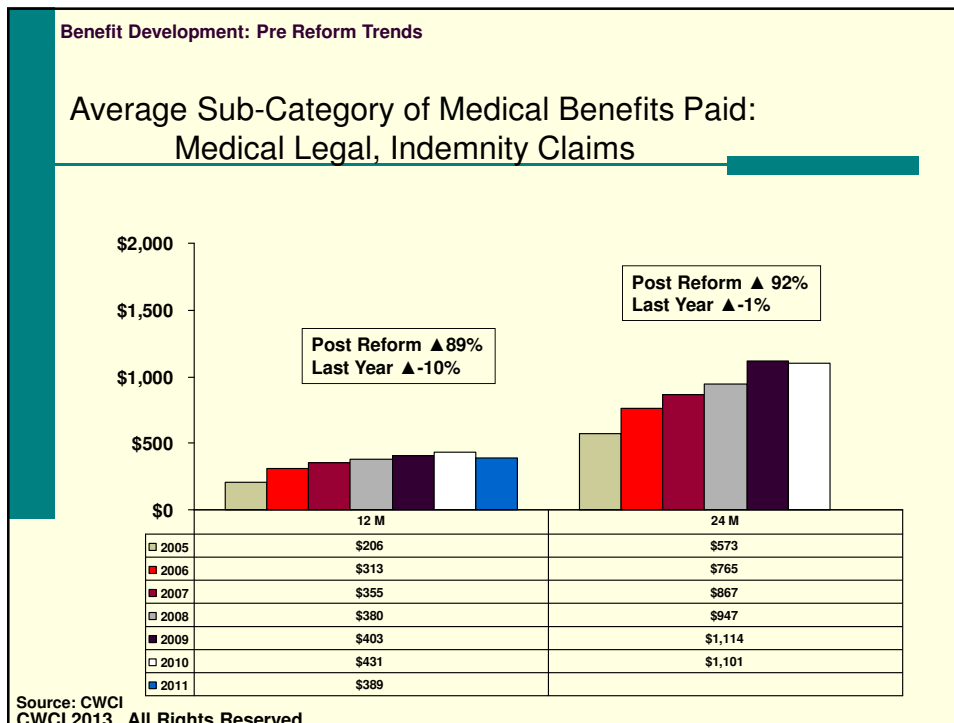
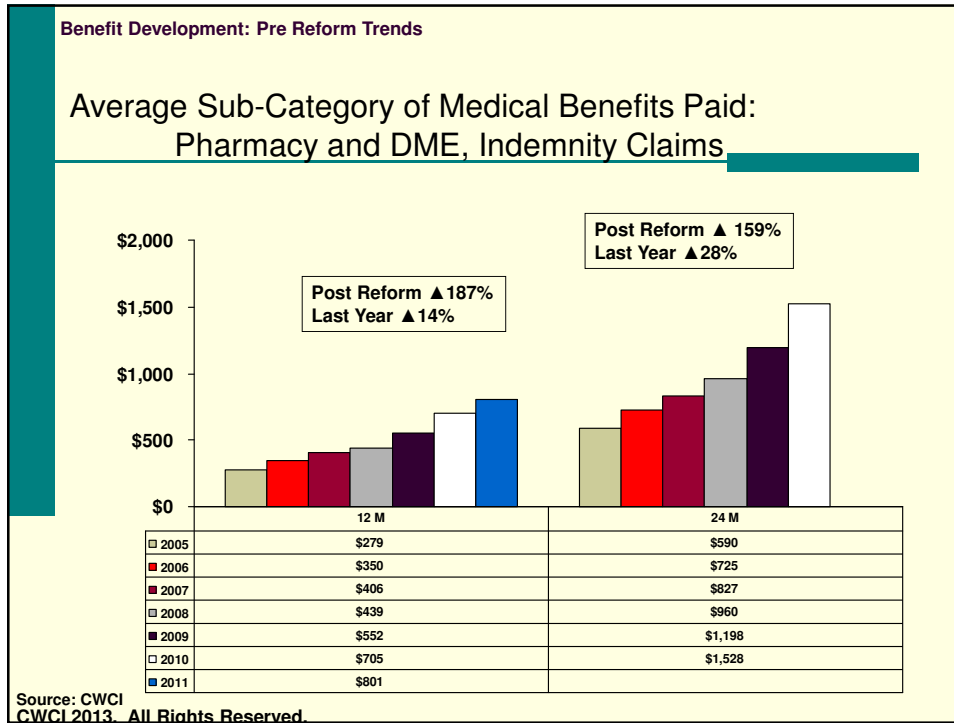
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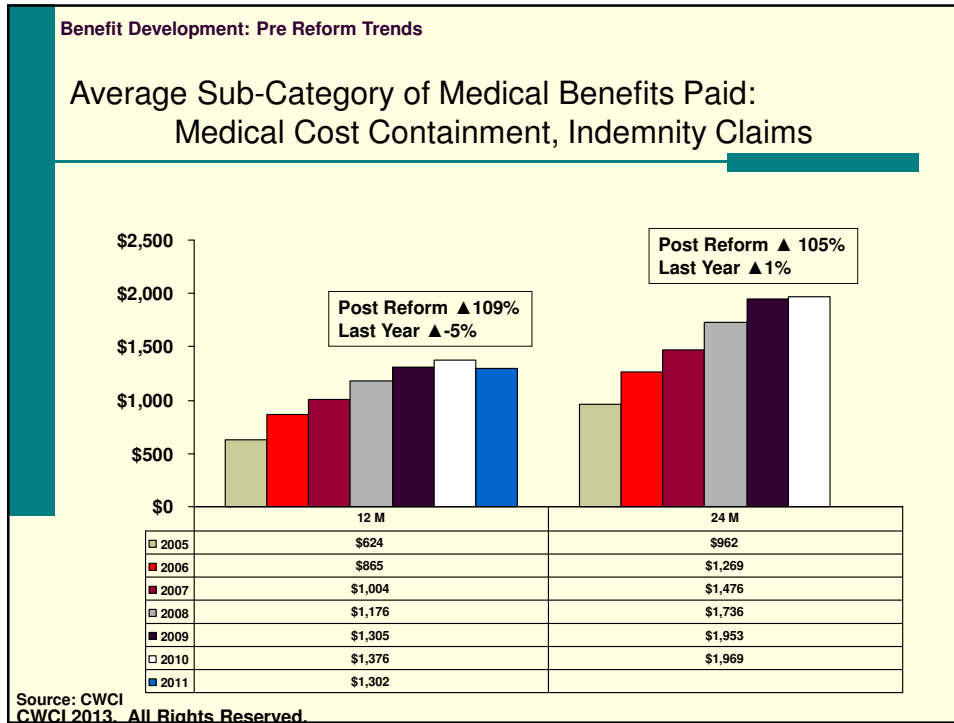
## Pre-Reform Trends: Data

- Industry Claim Information System V14B
- Medical Only & Indemnity Claims
- DOI from Jan 2002 - Sept 2012 valued through Dec 2012
- Payments and services valued at 3 - 60 months

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## Indemnity Benefits

- Indemnity Benefit Trend
- 2-Year Temporary Disability Cap

**666**

California Workers' Compensation Institute  
1111 Broadway, Suite 1000, San Francisco, CA 94103-2610  
June 2013

Analysis of Medical and Pharmacy Benefit Payments,  
Medical Treatment and Pharmaceutical Cost Trends in the California Workers' Compensation System

John S. Hines, Ph.D.  
Chris Sargent, M.B.A.  
Loree M. Curran, M.S., M.P.H., Ph.D.

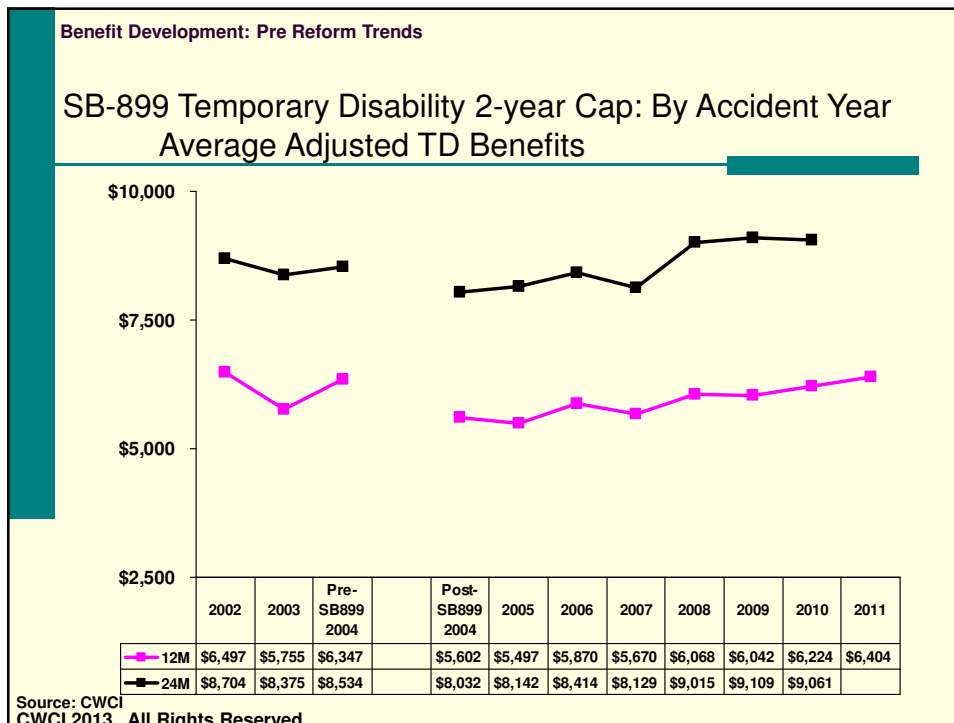
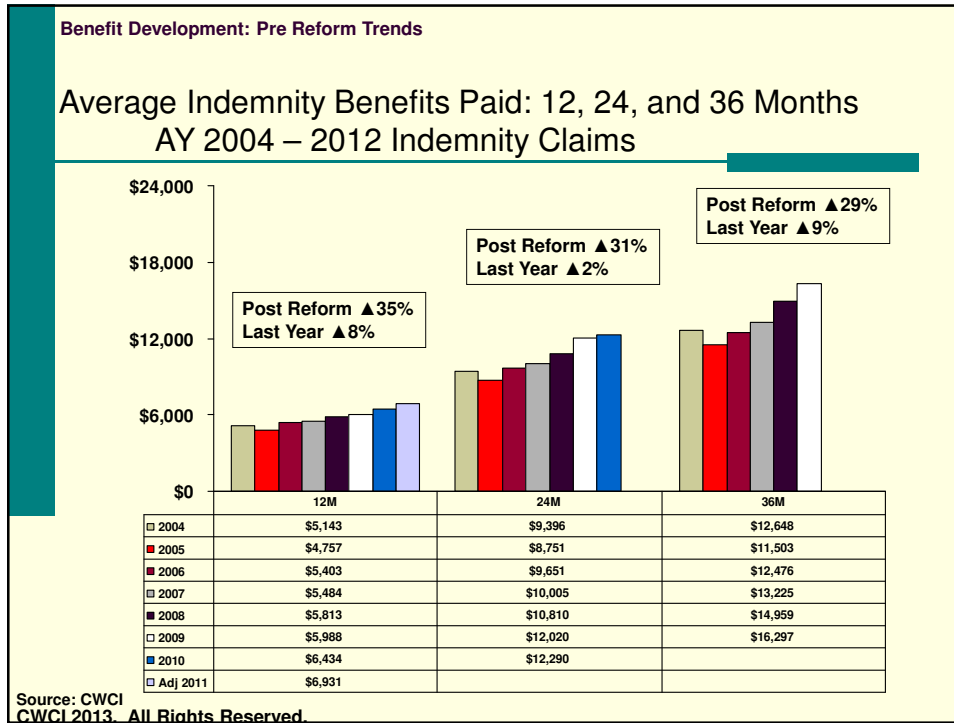
Workers' compensation medical claims reported for the business 2005 and 2006 were associated with an increase in medical costs in the California workers' compensation system. However, there was a distinct change in the amount of medical payments in 2007 and 2008. This report analyzes and reports upon 2011 trends that resulted from the implementation of the new medical indemnity benefit program. The data used in this study, compiled from the Institute's "CRS database," includes policy, claim, benefit and medical cost data filed for California-based workers with dates of injury between January 2007 and September 2012. Medical payment and medical cost data were derived from the California Workers' Compensation System (CWCS) database through December 2012.

This report confirms that there was a significant increase in California workers' compensation medical payments immediately after the implementation of the 2008-2009, California's enhanced model of providing medical payments associated with the newly adopted "2-year cap." This increase was evident in the medical cost containment (inpatient, pharmacy and EMS), and outpatient care and medical cost components for all dates with indemnity claim and medical service within the 2-year window. There was a significant increase in the average cost of prescription drugs, as well as a significant change in the utilization of Schedule B drugs.

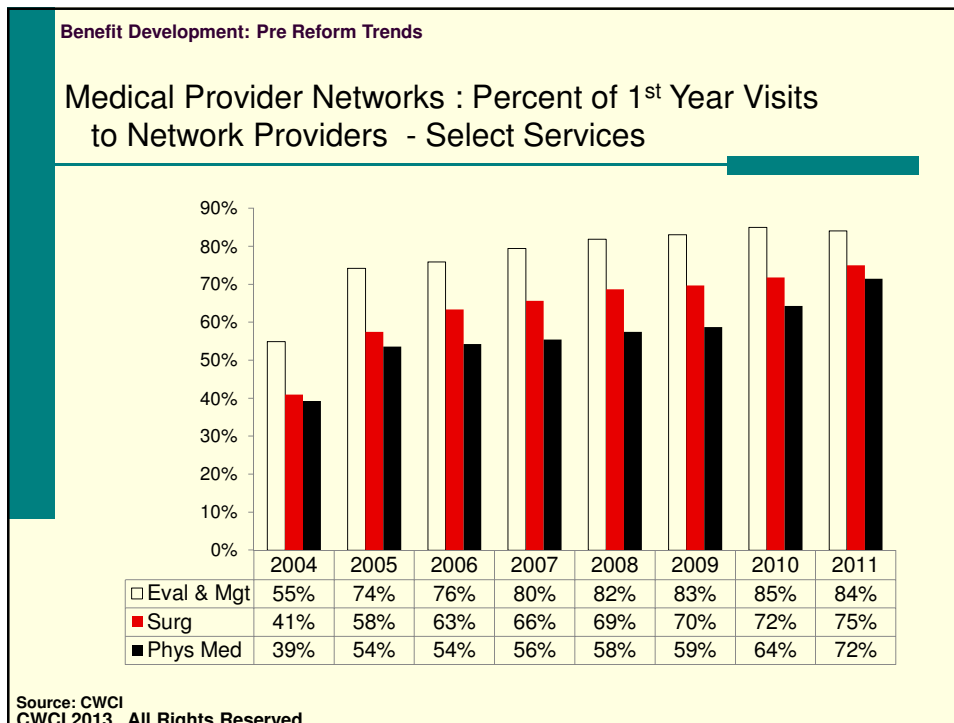
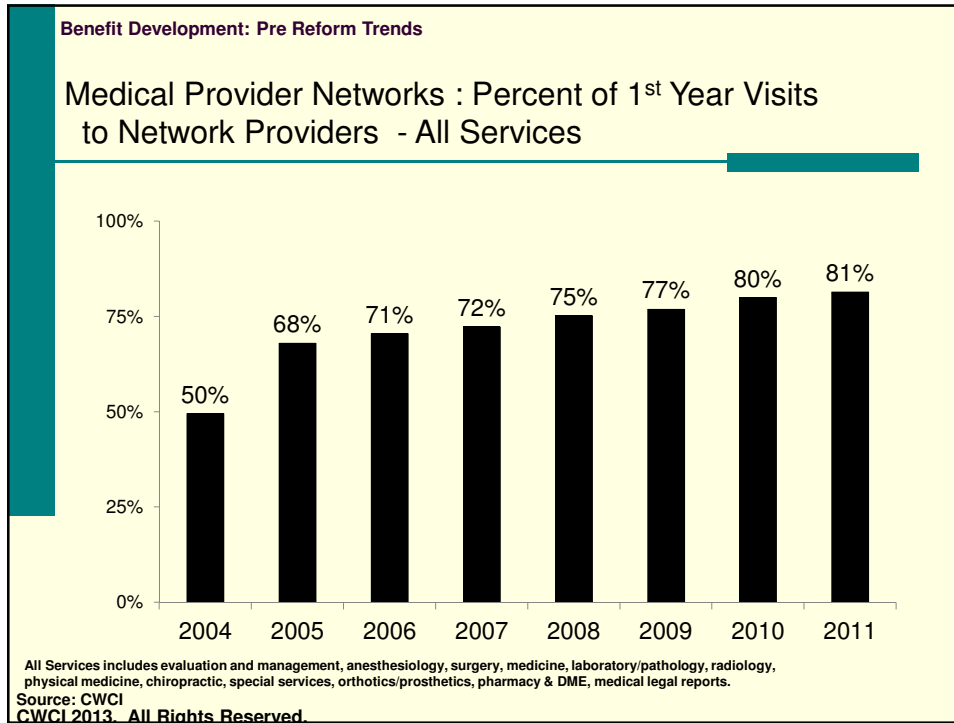
However, a decrease in medical cost utilization appears to be emerging in claims with dates of injury on or after a calendar year 2011. Because the development in many of these issues dates are in the very early stages, the completion of cost containment has not been established by the Institute. These findings, particularly with the date range of 2007-2012, are subject to change as more data is added to the California workers' compensation system. In addition, the use of network physician continues to increase, together with the increased use of medical provider network programs. A

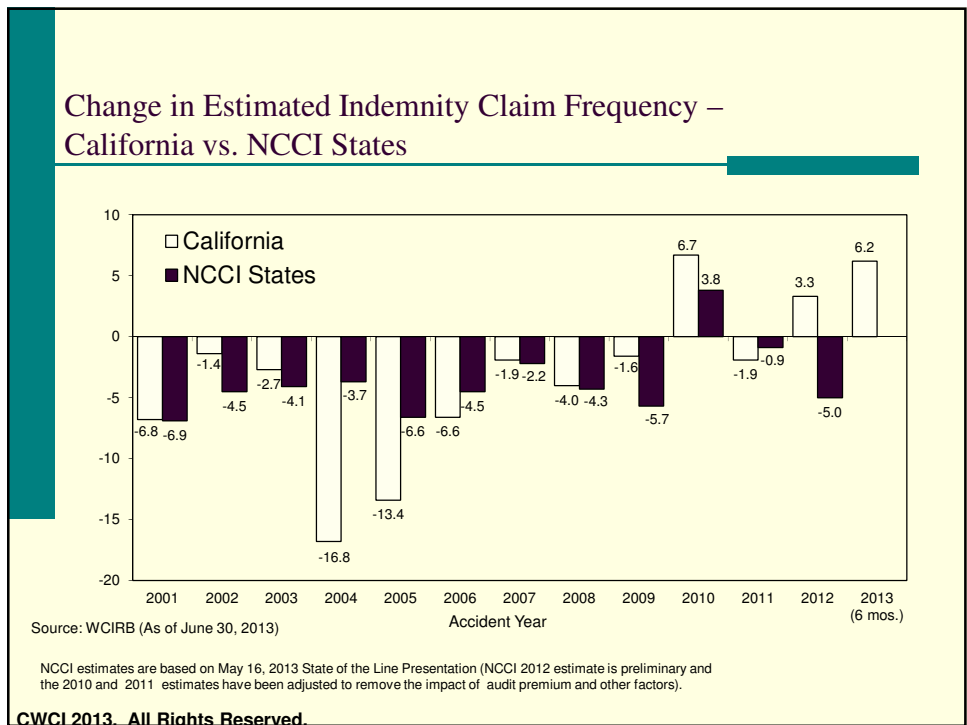
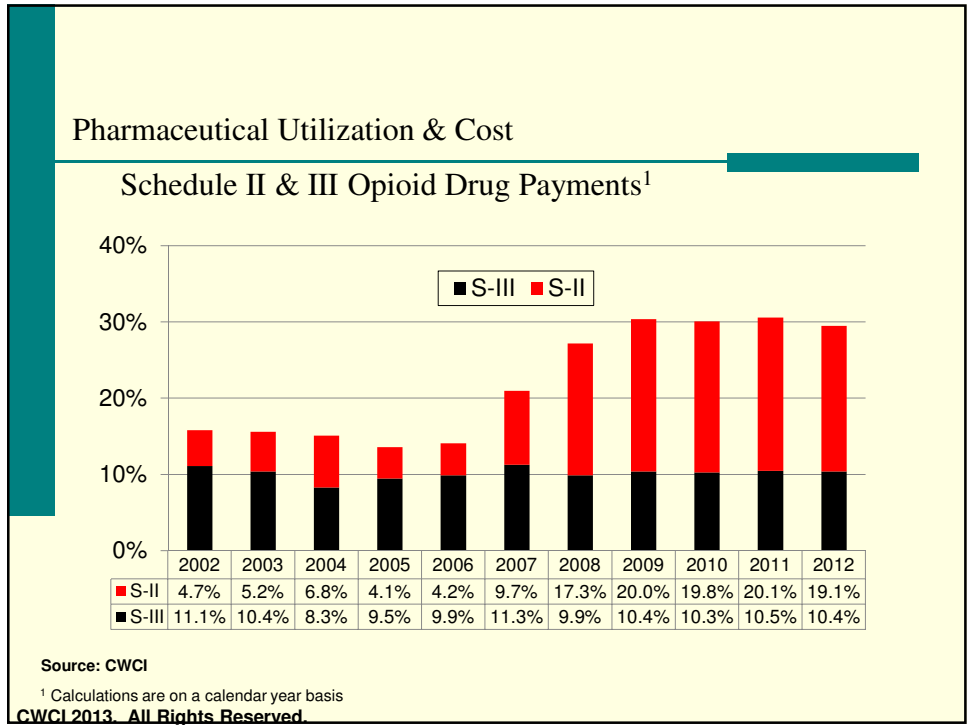
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## Senate Bill 863

### Process

SB 863 implements holistic reforms in the following areas:

### Permanent Disability Benefit Increase:

- Increase permanent disability benefits by \$700 million over 2 years
- Adds 1.4 multiplier for every permanent disability rating; eliminates all of the lower DFEC modifiers.
- Eliminate add-ons for psych conditions, sexual & sleep dysfunction
- Disallow non-network physician reports as sole basis of an award.
- Create a \$120 million program for injured workers with disproportionate loss of earnings.
- Eliminate the 15% bump-up/bump-down.

## Senate Bill 863

### Process

SB 863 implements a holistic reforms in the following areas:

### System Savings:

- Reduce liens by establishing a \$150 lien filing fee, a \$100 activation fee, statute of limitations and other controls.
- Eliminates duplicate payments for spine surgery hardware.
- Require disputes over utilization review denials be resolved through an independent medical review (IMR) process.
- Transition the Official Medical Fee Schedule to Medicare's Resource-Based Relative Value Scale (RBRVS).
- Set reimbursement for Ambulatory Surgery Centers (ASCs) at 80% of Medicare's allowance for hospital outpatient surgery departments.

## Senate Bill 863

### Summary of Benefit Increases and System Savings

SB 863 Provisions	Direct Impact on Claim Costs (\$ millions)		Indirect Impact on Claim Frequency (Utilization) (\$ millions)		Total Impact on Claim Costs (\$ millions)	Total % Impact on Claim Costs
	Loss	LAE	Loss	LAE		
2013 Benefit Level Changes <sup>a</sup>	\$350	—	\$220	\$50	\$620	+3.3%
Elimination of PD Add-ons <sup>b</sup>	(\$100)	—	(\$60)	(\$10)	(\$170)	-0.9%
Three-Tiered Weekly PD Benefits	(\$60)	—	(\$30)	(\$10)	(\$100)	-0.5%
Liens	(\$190)	(\$290)	—	—	(\$480)	-2.5%
Surgical Implant Hardware	(\$110)	—	—	—	(\$110)	-0.6%
ASC Fees	(\$80)	—	—	—	(\$80)	-0.4%
IMR <sup>c</sup>	(\$160)	(\$140)	(\$70)	(\$20)	(\$390)	-2.1%
Ogilvie Decision	(\$70)	(\$80)	(\$50)	(\$10)	(\$210)	-1.1%
MPN Strengthening	(\$130)	—	(\$50)	(\$10)	(\$190)	-1.0%
<b>Total Estimated Impact of 2013 Changes</b>	<b>(\$550)</b>	<b>(\$510)</b>	<b>(\$40)</b>	<b>(\$10)</b>	<b>(\$1,110)</b>	<b>-5.8%</b>
Estimated Impact of 2014 Benefit Changes <sup>d</sup>	\$340	—	\$200	\$50	\$590	+3.1%
<b>Combined Estimated Annual Impact of SB 863 on 2014 Injuries</b>	<b>(\$210)</b>	<b>(\$510)</b>	<b>\$160</b>	<b>\$40</b>	<b>(\$520)</b>	<b>-2.7%</b>

WCIRB: Oct 2012

## Senate Bill 863

### Estimated System-Wide 2013 Savings for Select Proposed Modifications to the California Workers' Compensation System

	Estimated System-Wide Savings (\$M)
Elimination of Duplicate Back Surgery Implant Cost	\$103
Liens: Savings Related to Filing Fees & Reduced Legal/Admin Expenses	\$492 – \$567
Independent Medical Review	\$92
Ambulatory Surgery Center Fee Adjustment to Lower Conversion Factor	\$98
<b>Estimated Total System-Wide Savings</b>	<b>\$785 - \$860</b>

Source: CWCI 2012

### SB 863 – Timeline for Measuring Reforms

**2<sup>nd</sup> Quarter 2013**

Liens

**3<sup>rd</sup> - 4<sup>th</sup> Quarter 2013**

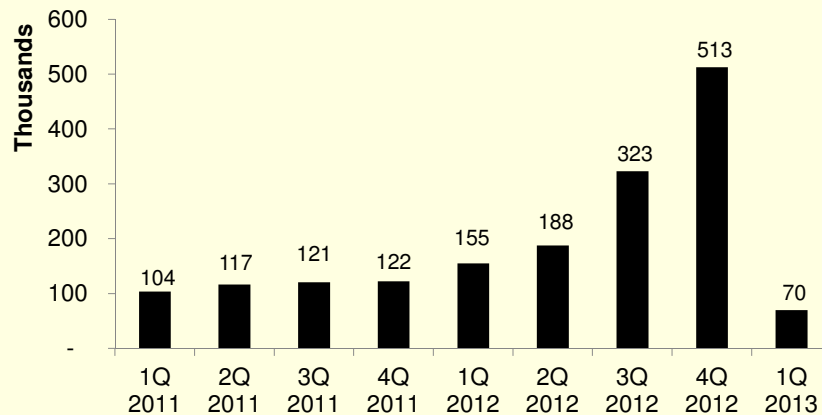
Ambulatory Surgery Center Fee Schedule  
Independent Medical Review  
Independent Bill Review  
Lien Volume and Settlements

**2014/15:**

RBRVS  
Surgical Implants  
Permanent Disability  
Additional Fee Schedules

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### SB 863 – Early Returns Lien Volume: 2011 – 1Q 2013



Source: EAMS

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## SB 863 – Early Returns Independent Medical Review

**Preliminary Results:  
Comparison of IMR Reviews  
(1Q 2013) and 2010-11 UR  
Denials/Adjustments**

**Next Steps:**

1. **Comparison of Outcomes:**
  - Approvals
  - Denials
  - Adjustments
2. **Cost : Savings Evaluation**

Review Category	IMR	UR
	N=115	N=1M
MRI	25.2%	7.3%
Pharmacy	18.3%	31.5%
PT - OT	13.9%	10.0%
Acupuncture	6.1%	2.1%
Injections	6.1%	5.1%
Chiropractic	5.2%	4.5%
EMG - NCV	5.2%	0.9%
DME	5.2%	9.1%
Consults	3.5%	3.5%
X-Ray	2.6%	2.3%
CT-Scan	1.7%	1.8%
Surgery	1.7%	3.1%
HHC	1.7%	0.5%
FCE	0.9%	0.1%
Other	2.6%	17.9%

Source: IMR – EAMS; UR - CWCI  
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## SB 863: Regulatory Update

1. **RBRVS Physician Fee Schedule –**  
Cost implications: \$250 million increase through 2017 and continuing escalation thereafter.
2. **Lien Procedures WCAB –**  
Projected cost reduction: \$480 million
3. **Independent Medical Review –**  
Projected cost reduction: \$92 -- \$390 million
4. **Independent Bill Review –**  
No cost reduction analysis was provided.
5. **Supplemental Job Displacement Benefit –**  
Projected cost reduction: \$2 million
6. **MPN, Interpreter, QME, WCIS Reporting**  
No cost reduction analysis was provided.

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## Senate Bill 863

### Rules, Regulations and Clean-up Legislation

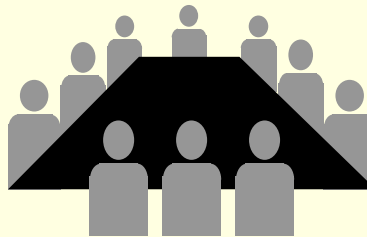
For more information on Regulations:

1. RegTracker with shortcuts:  
[www.cwci.org/RegTracker.html](http://www.cwci.org/RegTracker.html)
2. Regulatory information:  
[www.cwci.org/regulatory.html](http://www.cwci.org/regulatory.html)
3. Hot Links Quarterly Newsletter



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## Discussion...



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