

**Evaluating Legislative
& Administrative Aspects of
California Reforms**

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

Alex Swedlow
CWCI

CLRS – LOB-7
September 17, 2013

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CWCI: Background

Established in 1964;

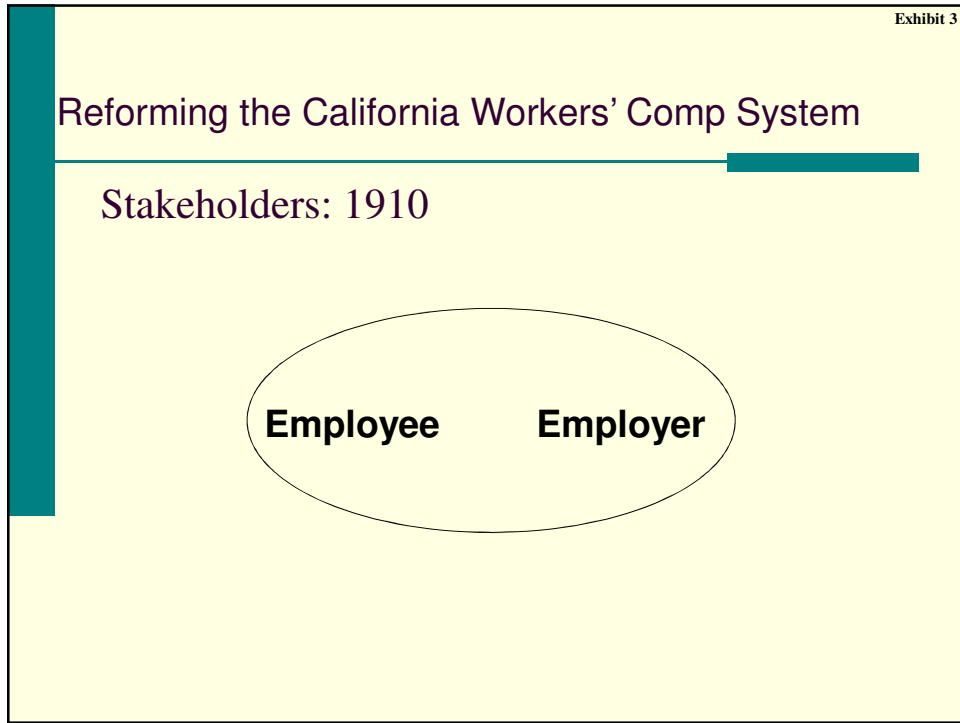
Private, nonprofit organization of insurers representing approximately 80% of premium dollars and self-insured employers;

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

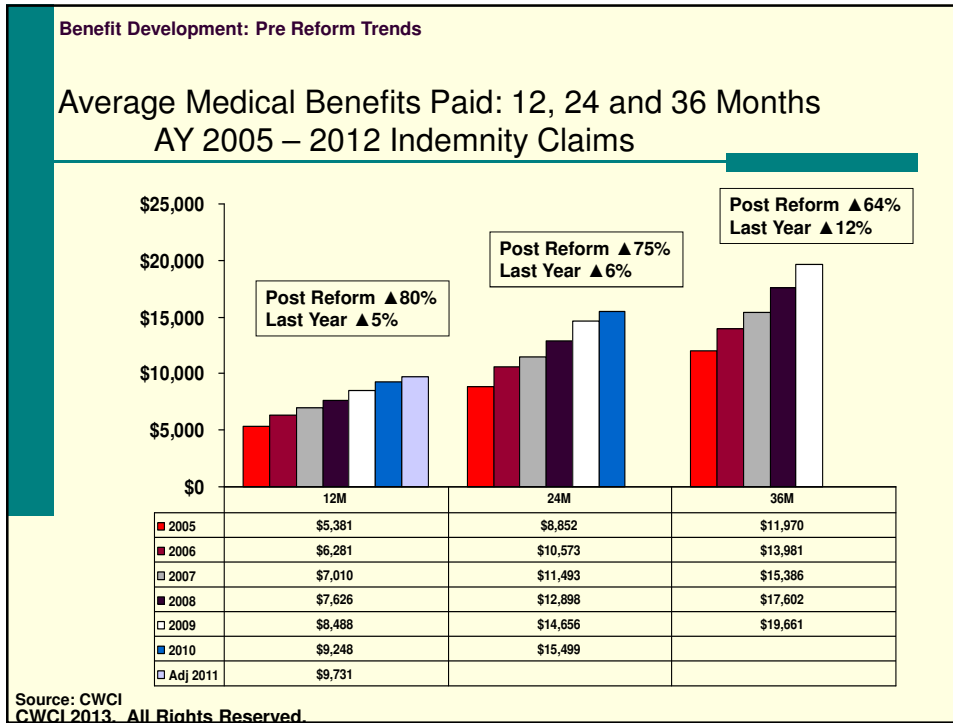
1. Pre-Reform Trends
2. SB 863 – Elements of California Workers Comp Reform

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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

CWCI

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

Institute of Global and National Health Economics,
Medical Treatment and Pharmaceutical Cost Trends in the California Workers' Compensation System

John S. Hays, MD, PhD
Lance R. Gorman, MD, MPH, PhD

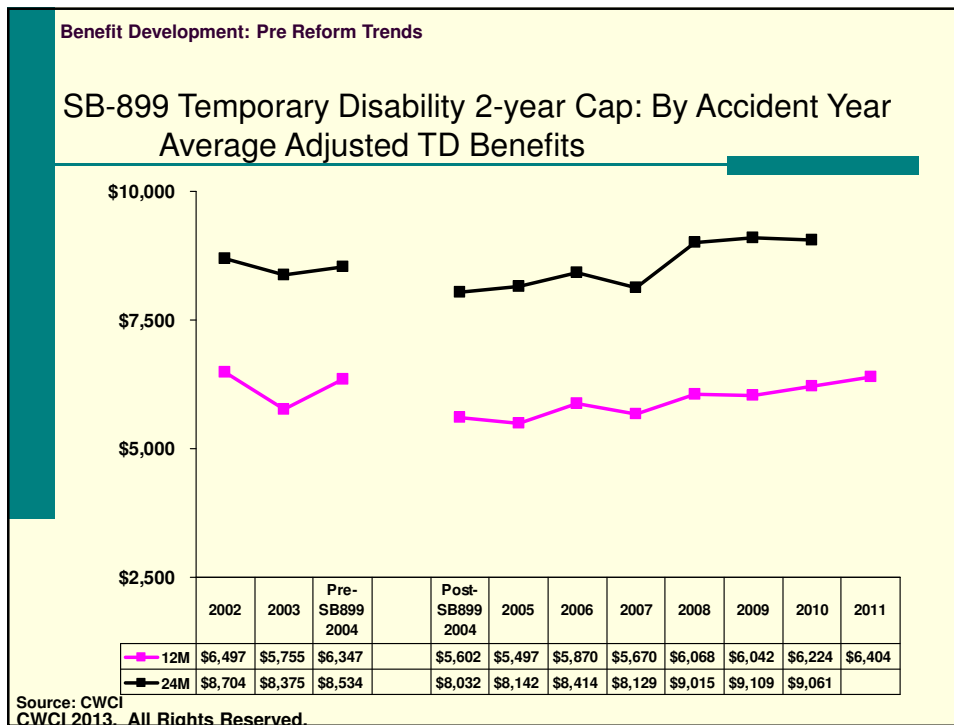
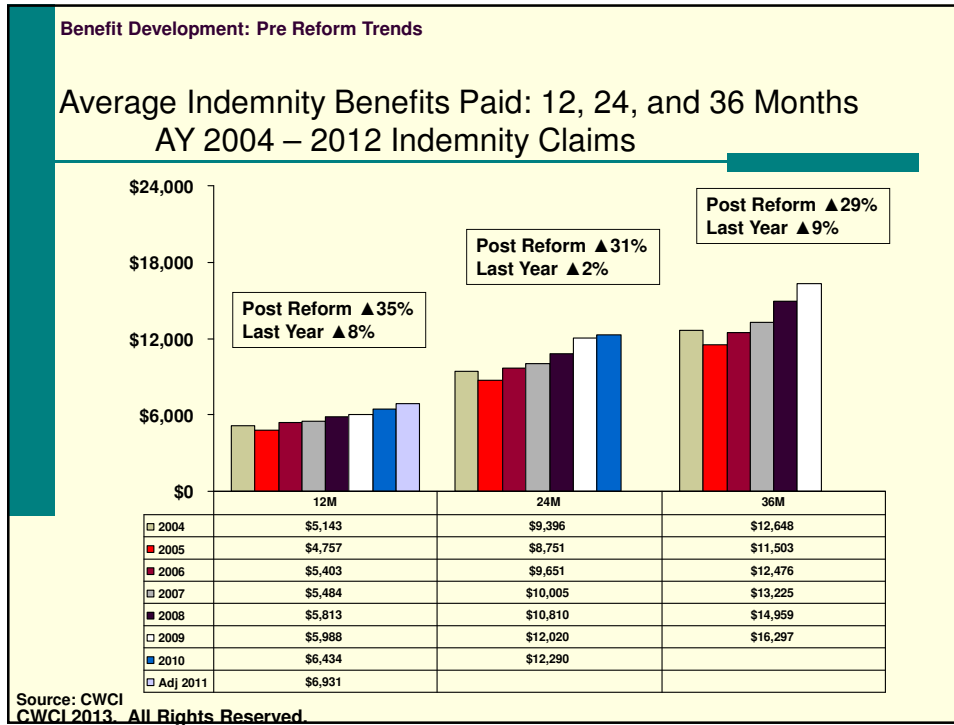
Workers' compensation medical claims reported for the business 2005 and 2006 were associated with an increase in medical costs in the California workers' compensation system. However, there was a distinct change in the direction of the trend of medical payments in 2007 and 2008. This report analyzes and reports on the 2007-2011 trends that resulted in the increase in the medical claims and the impact on the system. The data used in this study, compiled from the Workers' Compensation Claims, Health and Safety and the data for the trend for California medical claims with dates of injury between January 2007 and September 2012, medical payments and medical bills in view transactions through December 2012 and detailed pharmacy prescription data through December 2012.

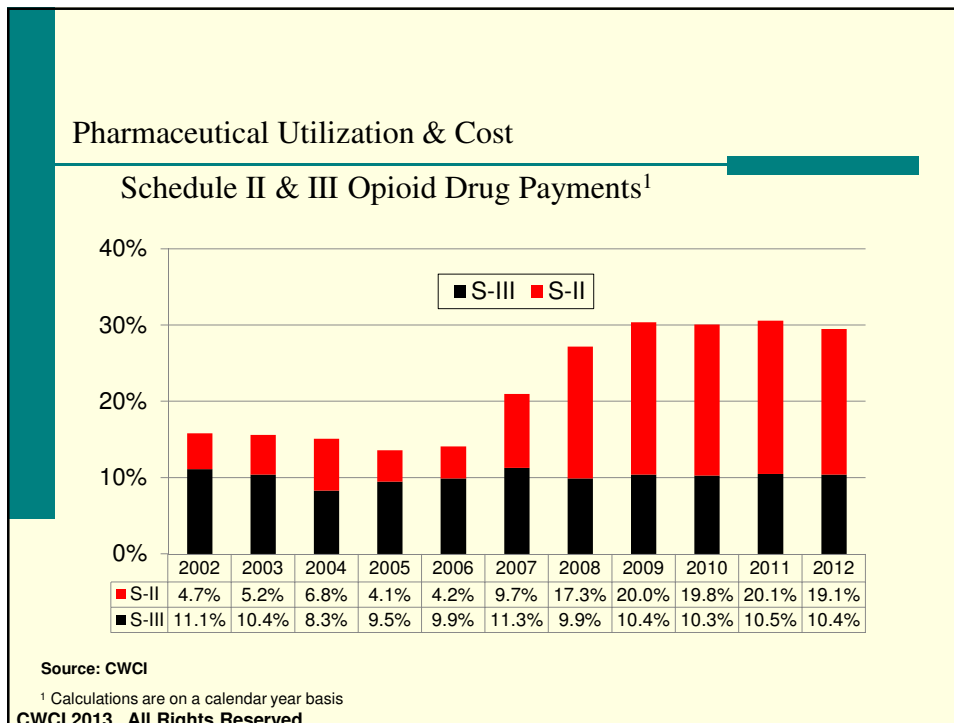
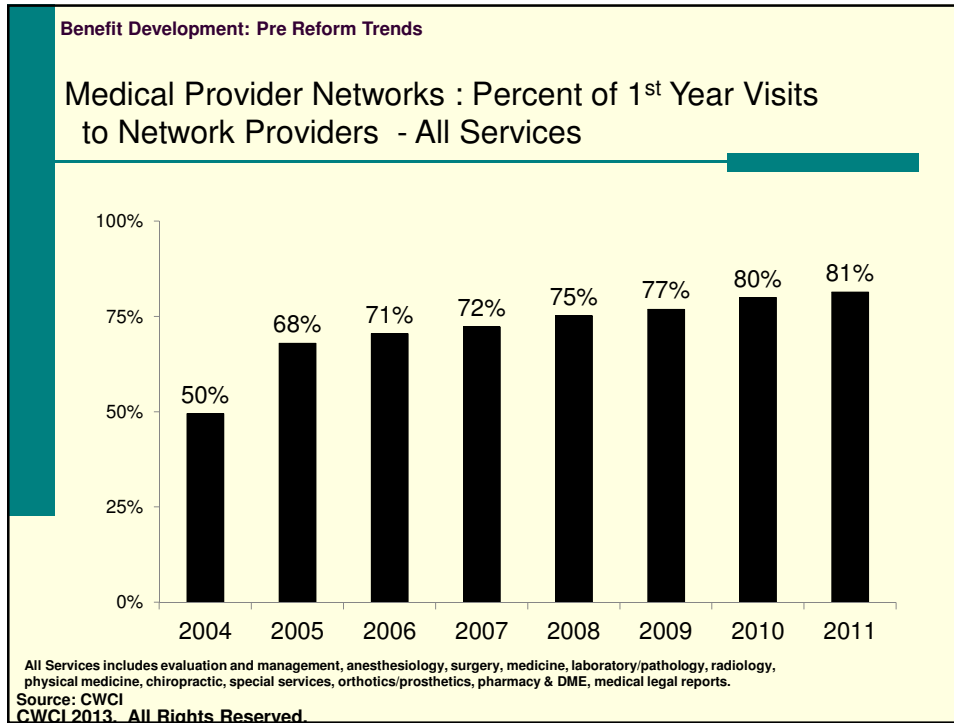
This report confirms that there was a significant increase in California workers' compensation medical payments immediately after the implementation of the 2007-2008, California's reform of workers' compensation program, associated with the health system's implementation of the 2007-2008. This increase was made in the medical cost component (medical, pharmacy and DME), and drug program and medical cost components, but all data and industry claim and medical services within all of the available systems. 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 claims appears to be emerging in claims with dates of injury on or after a calendar year 2011. Because the development in many of these cases dates on in the very early stages, the impact of cost increases has not been established by the length time available, particularly with the large number of 2011 date-of-injury claims. However, the California workers' compensation system, the number, the size of network physician contracts to increase, together with the increased use of medical provider network programs. A

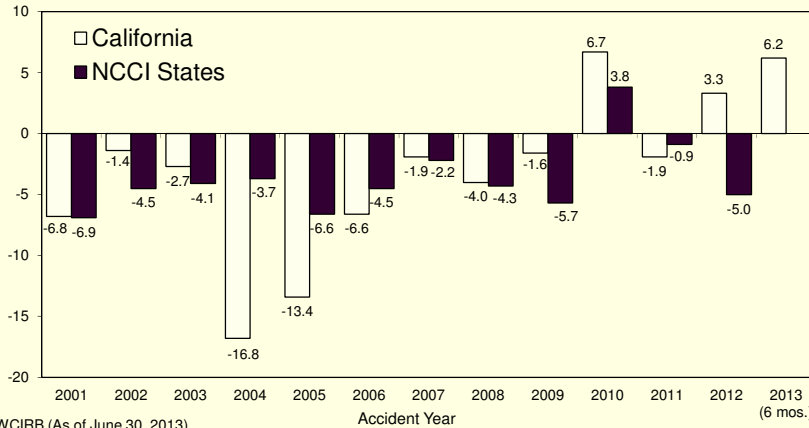
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Change in Estimated Indemnity Claim Frequency – California vs. NCCI States



Source: WCIRB (As of June 30, 2013)

NCCI estimates are based on May 16, 2013 State of the Line Presentation (NCCI 2012 estimate is preliminary and the 2010 and 2011 estimates have been adjusted to remove the impact of audit premium and other factors).

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Medical Treatment Utilization and Cost By Fee Schedule

Summary: Pre-Reform Trends

Significant developments:

- Significant medical trend decrease in early 2012;
- Erosion of 2-year TD cap savings
- +62% MPN growth rate;
- Opioid utilization remains at high levels;
- Noted increase in claim frequency.

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Medical Benefit Cost Drivers

Factors underlying pre-reform medical costs:

- Injured worker characteristics
- Employer and Payor characteristics
- Claim Characteristics

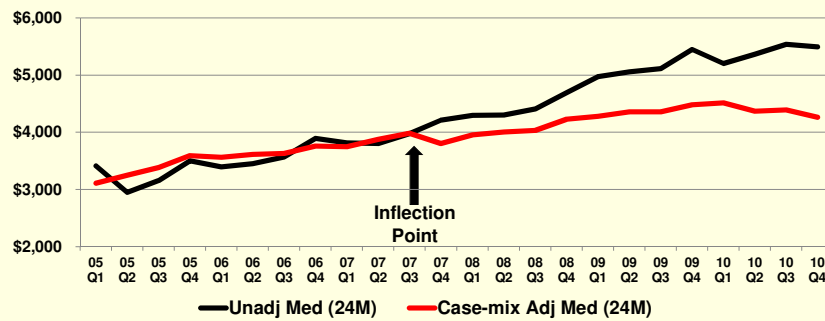


CWCI August 2011

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Factors underlying pre-reform medical costs

24 Month Unadjusted and Case-Mix Adjusted Medical Benefit Trend



24-Month Medical	Adj R-Square Of Model	Slope Of Trend Line Pre-Inflection Point	Slope Of Trend Line Post-Inflection Point	T-Score Of The Difference In Slopes	P-Value Of The Difference In Slopes
Unadj Med Trend	0.87	\$103	\$125	3.18346	0.01
Case-Mix Adj Med Trend	0.92	\$69	\$44	-5.24251	0.0001

Source: CWCI
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Factors underlying pre-reform medical costs

Top 10 Prevalence Adjusted Factors Associated with Increasing Cost Trend

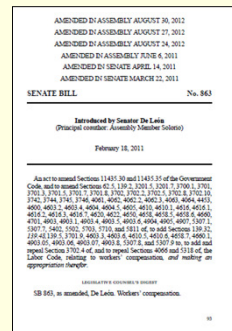
Rank	Variable	Prev-Adj Weight
1	Claims w/ Attorney Involvement	59.9
2	Indemnity Claims	39.0
3	Claims with Opioid Rx	19.7
4	Inpatient Stay	18.6
5	Claims with Psychotropic Rx	8.9
6	Age >=65	3.4
7	Obesity	2.9
8	Shoulder Injuries	2.5
9	Industry: Prof & Clerical Svcs	2.5
10	Knee Injuries	2.2

((Claims with condition X Beta Slope) / (Total claim count))
 Source: CWCI
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Exhibit 20

Senate Bill 863

Author: DeLeon
 Passed by Assembly
 & Senate Aug 31, 2012
 Signed by Gov Brown Sept 2012



Purpose:

To reduce frictional costs, speed up medical care for injured workers, and to increase Permanent Disability (PD) indemnity benefits to injured workers.

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 ^a	\$350	—	\$220	\$50	\$620	+3.3%
Elimination of PD Add-ons ^b	(\$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 ^c	(\$160)	(\$140)	(\$70)	(\$20)	(\$390)	-2.1%
Ogilvie Decision	(\$70)	(\$80)	(\$50)	(\$10)	(\$210)	-1.1%
MPN Strengthening	(\$130)	—	(\$50)	(\$10)	(\$190)	-1.0%
Total Estimated Impact of 2013 Changes	(\$550)	(\$510)	(\$40)	(\$10)	(\$1,110)	-5.8%
Estimated Impact of 2014 Benefit Changes ^d	\$340	—	\$200	\$50	\$590	+3.1%
Combined Estimated Annual Impact of SB 863 on 2014 Injuries	(\$210)	(\$510)	\$160	\$40	(\$520)	-2.7%

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
Estimated Total System-Wide Savings	\$785 - \$860

Source: CWCI 2012

**SB 863 –
Timeline for Measuring Reforms**

2nd Quarter 2013

Liens

3rd - 4th Quarter 2013

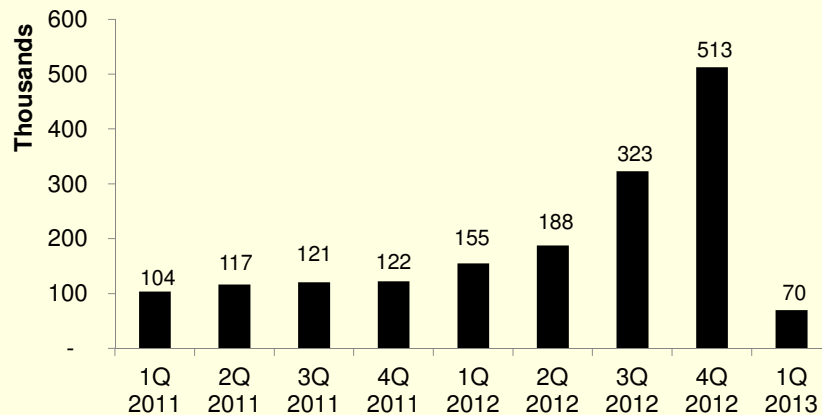
Ambulatory Surgery Center Fee Schedule
Independent Medical Review
Independent Bill Review
Lien Volume and Settlements

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	Cases	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 –

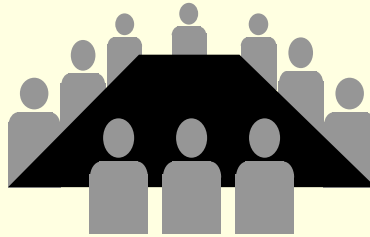
Projected cost reduction: \$2 million

6. MPN, Interpreter, QME, WCIS Reporting

No cost reduction analysis was provided.

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Discussion...



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