Reporting the Cost of Independent Medical Review and Independent Bill Review – Proposed Change

At the meeting on May 5, 2015, the WCIRB’s Classification and Rating (C & R) Committee agreed to recommend changes to the reporting requirements in the California Workers’ Compensation Uniform Statistical Reporting Plan—1995 (USRP) related to the cost of independent medical review (IMR) and independent bill review (IBR). The Committee noted that IMR and IBR costs differ from other medical cost containment expenses in that they are incurred in response to state mandated requirements as opposed to voluntary undertakings by an insurer to control costs and including such state imposed charges as part of medical cost containment could significantly inflate medical cost containment measures and distort year-to-year comparisons. As a result, the Committee recommended that the USRP definition of allocated loss adjustment expense (ALAE) be amended to specify that while the cost of IMR and IBR should continue to be included as ALAE, such costs should no longer be included as medical cost containment.¹

The C & R Committee recommended that these changes be proposed to be effective on all IMR and IBR reports paid on or after January 1, 2016. The Committee’s recommendation will be considered by the WCIRB Governing Committee at its June 10, 2015 meeting and, if approved by the Governing Committee, the proposal will be included in the WCIRB’s January 1, 2016 regulatory filing to be submitted this June. Since these changes, if adopted by the Insurance Commissioner, may require modification to members’ information processing systems, the WCIRB is providing early notification of the potential USRP changes.

The USRP changes to the ALAE definition recommended by the C & R Committee to be effective on all IMR and IBR reports paid on or after January 1, 2016 are attached.

¹ The USRP does not require the separate reporting of the cost of medical cost containment programs on each claim. However, those costs are included in the total paid ALAE that is required to be reported on each claim at each unit statistical valuation and are separately reported in the aggregate by accident year in WCIRB quarterly calls for aggregate financial information.
Proposed USRP Changes Recommended by the Classification and Rating Committee

Recommendation
Amend Part 4, Unit Statistical Reporting Requirements, Section II, Definitions, Rule 20, Loss Adjustment Expense(s), subrule a, Allocated Loss Adjustment Expense(s), to specify that the cost of independent bill review (IBR) and independent medical review (IMR) no longer be included as part of the medical cost containment component of allocated loss adjustment expense, to be effective on all IBR and IMR reports paid on or after January 1, 2016.

PROPOSED

20. Loss Adjustment Expense(s)
Loss adjustment expense(s) are comprised of two components, Allocated Loss Adjustment Expense(s) and Unallocated Loss Adjustment Expense(s), each of which is defined below:

a. Allocated Loss Adjustment Expense(s)
Allocated Loss Adjustment Expenses includes the following costs:

(1) Fees, salary and overhead (including support staff) of individuals whose primary or predominant job function is to perform representation before the Workers’ Compensation Appeals Board or other legal services. This shall include costs incurred by outside or in-house counsel, non-attorney hearing representatives and their related support personnel.

EXCEPTION: Costs associated with occasional or incidental legal work performed by individuals hired primarily or predominantly to perform the function of claim operations shall be considered as Unallocated Loss Adjustment Expenses (see Subrule 4920b, below).

(2) Court, alternate dispute resolution and other specific costs listed below that are not included in the award to or incurred on behalf of the claimant:

(If any costs listed below are included in the award to or incurred on behalf of the claimant, they shall be reported as indemnity loss.)

(3) Court, alternate dispute resolution and other specific costs listed below that are not included in the award to or incurred on behalf of the claimant:

(If any costs listed below are included in the award to or incurred on behalf of the claimant, they shall be reported as indemnity loss.)

(4) Court, alternate dispute resolution and other specific costs listed below that are not included in the award to or incurred on behalf of the claimant:

(If any costs listed below are included in the award to or incurred on behalf of the claimant, they shall be reported as indemnity loss.)

(e) Surveillance, including activity checks, performed by either in-house personnel or outside services.

EXCEPTION: The cost of incidental surveillance or activity checks performed by individuals hired primarily or predominantly to perform the function of claim operations shall be considered as Unallocated Loss Adjustment Expenses (see Subrule 4920b, below).

(f) The cost of field investigations related to the compensability of claims, potential fraud or the potential for future subrogation, performed by either dedicated in-house personnel or outside services.

EXCEPTION: The cost of incidental field investigations performed by individuals hired primarily or predominantly to perform the function of claim operations shall be considered as Unallocated Loss Adjustment Expenses (see Subrule 4920b, below).
(4) The cost of medical cost containment programs incurred with respect to a particular claim or which can be allocated to a particular claim, whether by an outside vendor or done internally by an employee, to ensure that only reasonable and necessary costs of services are paid, shall be included in the allocated loss adjustment expense amount. (The cost of medical cost containment programs that cannot be allocated to a particular claim shall be considered unallocated loss adjustment expenses.)

These costs include, but are not limited to:

(a) Bill auditing expenses for any medical services rendered, such as hospital bills, nursing home bills, physician bills, chiropractic bills, medical equipment charges, pharmacy charges, physical therapy bills and medical vendor bills. This includes fees and costs, including the cost of procuring copies of medical records, associated with independent bill review conducted pursuant to Labor Code Section 4603.6.

(b) Hospital and other treatment utilization reviews, including precertification/preadmission, and concurrent or retrospective reviews. This includes fees and costs, including the cost of procuring copies of medical records, associated with independent medical review conducted pursuant to Labor Code Sections 4610.5 and 4610.6 or 4616.4.

(c) Access fees and other expenses incurred with respect to the utilization of managed care organizations, such as preferred provider networks/organizations (PPOs), medical provider networks (MPNs), and Health Care Organizations (HCOs).

(d) Costs of medical management except for nurse case management or case management that directly interacts and is coordinated with the injured employee and others, who are all parties to the employee’s need for medical care.

(5) The fees and costs, including the cost of procuring copies of medical records, associated with independent bill review conducted pursuant to Labor Code Section 4603.6 or independent medical review conducted pursuant to Labor Code Sections 4610.5 and 4610.6 or 4616.4.