

California Workers' Compensation Aggregate Medical Payment Trends – 2014 Update

August 18, 2015

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Introduction

This report summarizes \$5.1 billion in medical payments by the California workers' compensation insurance industry in calendar years 2013 (CY2013) and 2014 (CY2014) generated from the WCIRB's medical transactional database. These data are based on the individual medical bill transactions as processed by insurers and their bill review vendors, and do not include other medical costs that are not processed as individual bill transactions, such as medical costs associated with settlements.

The goal is to identify overall medical costs and specific trends that emerged in CY2014 and may persist in future years. For example, effective January 1, 2014, in accordance with Senate Bill No. 863 (SB 863) the Resource Based Relative Value Scale (RBRVS) became the basis for provider payments covered by California's Official Medical Fee Schedule (OMFS). (The full conversion to RBRVS is being phased in over a four-year period.) Since these services account for approximately 40% of all system medical costs, it is important to determine if the RBRVS shifted the allocation of provider payments.

Additionally, this study examined other areas not affected by RBRVS, such as pharmacy, facilities, supplies and Medical-Legal costs. Payments for prescription drugs in particular have steadily risen over the past decade. This study addresses whether this trend continued for pharmacy payments in CY2014 compared to CY2013. Of particular interest are costs for the most addictive narcotics, an area of particular attention in recent years.

Overview

The overall data are summarized in the table below. These findings reflect a 3.7% decrease in medical payments in CY2014 compared to CY2013 based on individual medical bill transactions reported to the WCIRB. Payments on a per-claim basis dropped by 4.7% in CY2014.

Summary Table

	CY2013	CY2014	Difference
Paid Transactions	20.8 million	19.3 million	-7.0%
Dollars of Payments	\$2.6 billion	\$2.5 billion	-3.7%
Unique Claims with Payments	642,285	649,214	+1.1%
Average Payment Per Paid Transaction	\$124	\$128	+3.2%
Payments Per Paid Claim	\$4,026	\$3,836	-4.7%

The WCIRB aggregated this information according to four specific measures:

1. Type of Provider: Examples include physicians, physical therapists and pharmacists.
2. Place of Service: Examples include offices, hospitals and ambulatory service centers.
3. Paid Procedures: This report includes payments to providers governed by the Official Medical Fee Schedule and the Medical Legal Fee Schedule as well as payments governed by other schedules such as those for pharmacy, supplies and hospital care.
4. Fastest Growing Procedures: This report compares the fastest growing Physician Fee Schedule procedures in CY2014 compared to CY2013.

Payments by Type of Provider

Table 1 shows the distribution of payments across major provider types for CY2013 and CY2014.

These results reflected the introduction of RBRVS on January 1, 2014. Under RBRVS, the share of workers' compensation payments to primary care providers was expected to increase due to higher scheduled reimbursements and the share of payments to specialists was expected to decrease.

As shown in Table 1, costs are emerging consistent with expectations as the share of payments to physician specialists, surgeons, Ambulatory Surgical Centers (ASC) and hospital-based providers declined from 51.1% in CY2013 to 47.7% in CY2014. The shares to general practice and occupational health providers increased from 15.6% in CY2013 to 19.2% in CY2014.

Table 1: Payments by Type of Provider, CY2013 and CY2014

	CY2013		CY2014	
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction
Physician Specialist	18.2%	\$123	17.8%	\$130
Hospital-Based Provider	18.3%	\$552	15.8%	\$503
MD General Provider	12.4%	\$100	15.5%	\$107
Pharmacist	10.2%	\$130	9.9%	\$140
Surgery	8.3%	\$139	8.0%	\$153
ASC Provider	6.3%	\$192	6.1%	\$170
Physical Therapist	6.5%	\$45	6.1%	\$48
Occupational Health Provider	3.2%	\$70	3.7%	\$91
DME Supplier	3.1%	\$220	2.9%	\$227
Rehabilitation Provider	1.8%	\$117	2.5%	\$154
Psychology/Psychiatrist	2.7%	\$244	2.3%	\$288
Chiropractic	1.8%	\$45	1.8%	\$54
Lab Testing Provider	1.6%	\$78	1.7%	\$59
Home Health Provider	1.2%	\$325	1.2%	\$332
Acupuncturist	0.5%	\$38	0.5%	\$36
Miscellaneous	3.8%	\$162	4.2%	\$183
Total	100%	\$124	100%	\$128

Payments by Place of Service

Table 2 depicts the distribution payments for each year according to locations where services were delivered.

Perhaps reflecting the RBRVS payment scheme, the share of office payments increased from 49.7% in CY2013 to 52.4% in CY2014. This change appears to be at least in part driven by the increase in Evaluation and Management fees.

Office visits generated a 10% increase from \$82 per transaction in CY2013 to \$90 per transaction in CY2014. Since 2014 represents the first year of a four year phase-in period for RBRVS, additional increases are expected in subsequent years.

The share of payments to inpatient and outpatient hospital facilities declined from 22.4% in CY2013 to 18.5% in CY2014, which conforms to general patterns of declining hospital utilization. The share of fees paid in ASCs increased slightly in 2014 so there does not appear to be evidence of a decline in ASC utilization following the SB 863 reduction in ASC fees. Fees paid to independent laboratories also declined in CY2014, both in share of total payments and paid per transaction.

Table 2: Payments by Place of Service, CY2013 and CY2014

	CY2013		CY2014	
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction
Office	49.7%	\$82	52.4%	\$90
Inpatient Hospital	15.7%	\$1,309	12.8%	\$1,134
Pharmacy	9.8%	\$126	9.6%	\$135
Ambulatory Surgical Center (ASC)	5.9%	\$577	6.1%	\$596
Outpatient Hospital	6.7%	\$228	5.7%	\$228
Home	3.9%	\$246	4.2%	\$251
Independent Laboratory	2.0%	\$73	1.8%	\$54
Emergency Room	0.8%	\$106	0.9%	\$105
Urgent Care Center	0.4%	\$50	0.5%	\$59
Others	5.0%	\$398	6.0%	\$532
Total	100%	\$124	100%	\$128

Payments by Procedure Code Type

Table 3 shows the distribution of payments across the two time periods according to the various payment types, most of which are governed by fee schedules. The two schedules governing physicians (OMFS and Medical Legal) accounted for approximately 51% of the payments in each year.

Payments for pharmaceuticals as a share of total payments declined from 14.1% in CY2013 to 12.5% in CY2014. However, payments per transaction increased. The payments for pharmaceuticals are higher than the approximate average of 10% for both years for Pharmacists (Table 1) and Pharmacies (Table 2). This difference is largely attributed to office-based physician dispensing.

Inpatient and outpatient amounts declined, both in terms of payment shares and per-transaction paid. However, medical legal and lien cost increased as shares of total spending and on a per-transaction basis. The increase in lien payments may in large part be due to improved reporting of this information rather than an actual increase in lien payments.

Table 3: Paid Amounts Summary by Payment Type, CY2013 and CY2014

	CY2013		CY2014	
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction
Official Medical Fee Schedule (OMFS)	42.0%	\$70	41.4%	\$73
Medical Legal Fee Schedule	8.7%	\$1,505	10.1%	\$1,639
Pharmaceuticals	14.0%	\$111	12.5%	\$115
Inpatient	11.8%	\$2,119	9.9%	\$1,828
Outpatient	8.9%	\$549	8.7%	\$511
Medical Liens	6.4%	\$753	9.2%	\$863
Other	8.1%	\$143	8.0%	\$110
Total	100%	\$123	100%	\$127

Payments by Procedure Type – Official Medical Fee Schedule (OMFS)

Table 3A shows the distribution of payments under California's OMFS. The schedule is divided into 10 major procedure categories. The OMFS was converted to a RBRVS-based payment model on January 1, 2014. Total payments governed by OMFS decreased only slightly from 42.0% in CY2013 to 41.4% in CY2014.

Although the total share of OMFS payments was relatively flat from year to year, the distribution of payments by fee schedule category changed in 2014 consistent with the objectives of SB 863. Specialist-driven categories (surgery, reports, radiology, pathology and anesthesia) declined from 20.9% of payments in CY2013 to 18.5% in CY2014. Primary care payments (Evaluation and Management and Physical Medicine) increased from 16.7% in CY2013 to 19.5% in CY2014. With the transition to RBRVS, there was also a decline in the share of medical payments for reports and special services in 2014.

Table 3A: Payments by OMFS Procedure Categories, CY2013 and CY2014

	CY2013		CY2014	
	% of Paid	Avg. Paid Per Transaction	% of Paid	Avg. Paid Per Transaction
Evaluation and Management	10.8%	\$89	12.4%	\$107
Surgery	8.2%	\$381	7.6%	\$394
Physical Medicine	5.9%	\$26	7.1%	\$32
Special Services and Reports	5.1%	\$54	3.8%	\$49
Radiology	4.3%	\$131	4.1%	\$121
Medicine	3.7%	\$104	2.4%	\$109
Pathology and Laboratory	2.4%	\$58	2.2%	\$47
Anesthesia	0.9%	\$346	0.8%	\$342
Acupuncture	0.4%	\$57	0.5%	\$38
Chiropractic	0.3%	\$31	0.3%	\$31
Other	0.0%	\$725	0.0%	\$1,079
OMFS – Total	42.0%	\$70	41.4%	\$73

Payments by Procedure Type – Medical Legal Fee Schedule

Table 3B shows the distribution of the total payments under the Medical Legal Fee Schedule for CY2013 and CY2014. In each time period, two thirds of total Medical Legal payments of these payments were spent on the most highly reimbursed Medical Legal procedure (ML104). (This service involves claims with four or more complexities.)

Medical Legal reports generated over 10% of workers compensation medical payments in CY2014, a 1.4% increase over CY2013.

Table 3B: Payments by Procedure – Medical Legal Fee Schedule, CY2013 and CY2014

	CY2013		CY2014	
	% of Paid	Avg. Paid Per Transaction	% of Paid	Avg. Paid Per Transaction
Medical Legal – 4+ Complexities	5.7%	\$3,108	7.0%	\$3,315
Medical Legal – 1-3 Complexities	1.7%	\$819	1.8%	\$831
Medical Legal – Testimony only	1.3%	\$686	1.4%	\$713
Medical Legal – Total	8.7%	\$1,505	10.1%	\$1,639

Payments by Procedure Type – Pharmacy Fee Schedule

Table 3C shows the distribution of total payments for each time period under the NDC-based pharmacy fee schedule. Total pharmaceutical payments exhibited a 1.6% decline in share in CY2014. Also, the share of opiates as a proportion of all pharmacy spending declined slightly from 31% in CY2013 to 27% in CY2014.

For other pharmaceuticals, brand name drugs are the most significant cost driver in both CY2013 and CY2014. For branded drugs, the cost per prescription was approximately four times higher than for generic equivalents. Brand name drugs (excluding opiates) represent approximately 40% of all pharmacy spending.

Table 3C: Payments by Procedure – NDC Pharmacy Fee Schedule, CY2013 and CY2014

	CY2013		CY2014	
	% of Paid	Avg. Paid Per Transaction	% of Paid	Avg. Paid Per Transaction
Opiates, Schedule II*	1.9%	\$284	1.6%	\$275
Opiates (Others)	2.1%	\$68	1.8%	\$77
Other Pharmaceuticals, Generic**	4.0%	\$60	4.1%	\$64
Other Pharmaceuticals, Brand	6.1%	\$264	5.0%	\$297
Pharmacy Total	14.0%	\$111	12.5%	\$114

* Narcotics with high abuse potential and severe dependence liability

** Drugs with chemical equivalence to a brand drug

Payments by Procedure Type – Others

Table 3D shows the distribution of the approximately 8% of total payments under the HCPCS and dental schedules.

The HCPCS schedule covers several categories including durable medical equipment, interpreters and home health. Each of these categories was only slightly changed from CY2013 to CY2014. In future years, the consistency of data reported for interpreters and home health costs should improve since both categories will be subject to new fee schedules.

Table 3D: Payments by Procedure – Other Fee Schedules, CY2013 and CY2014

	CY2013		CY2014	
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction
HCPCS – DME, Orthotics, Prosthetics	2.8%	\$218	2.5%	\$219
HCPCS – Home Health	1.4%	\$257	1.6%	\$275
HCPCS – Supplies	0.6%	\$54	0.8%	\$73
HCPCS – Transportation	0.9%	\$231	0.9%	\$222
HCPCS - Interpreters via Medicaid	0.6%	\$104	0.6%	\$107
HCPCS - Miscellaneous	0.9%	\$95	1.1%	\$32
Total HCPCS*	7.6%	\$137	7.4%	\$103
Dental	0.5%	\$488	0.6%	\$550
Total Other Fee Types	8.1%	\$143	8.0%	\$110

* Health Care Common Procedure Schedule Codes

Chart 1 compares the statewide shares by Type of Fee Payment for CY2013 and CY2014. Chart 2 displays these data on a Paid per Transaction Basis.

Chart 1: Statewide Shares of Paid Medical by Paid Procedure Code Type

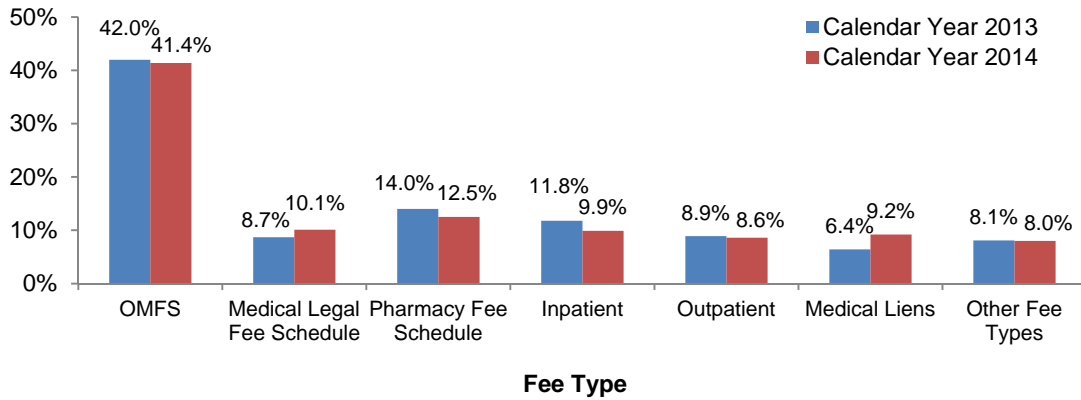
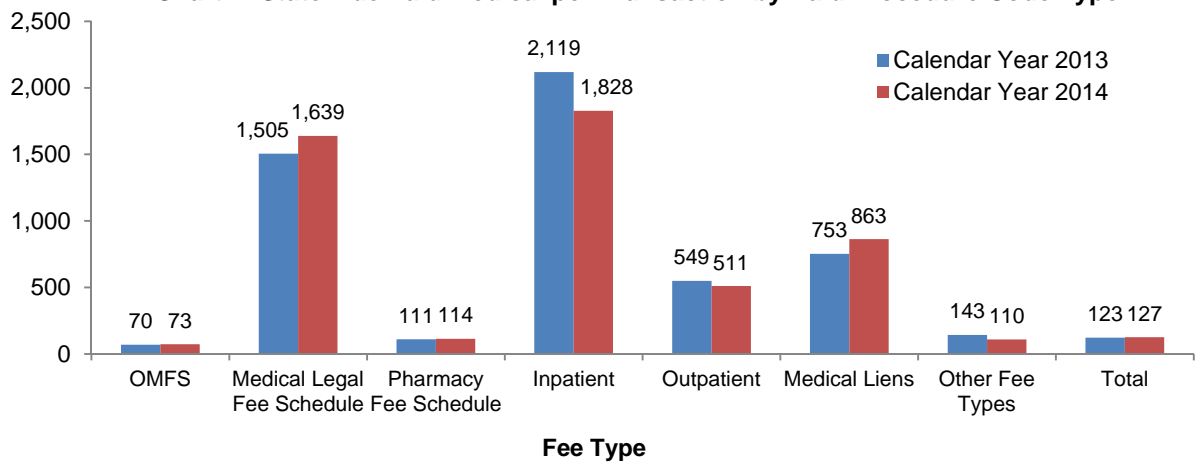


Chart 2: Statewide Paid Medical per Transaction by Paid Procedure Code Type



Fastest Growing Procedures

Table 4 shows the twenty fastest growing fee schedule procedures in CY2014 compared to CY2013. There are approximately 4,400 codes receiving payments in OMFS. The twenty fastest growing codes represent 41.4% of all fee schedule payments in CY2014.

These trends reflected the introduction of RBRVS in CY2014. Six of the fastest growing codes, representing 25% of CY2014 fee schedule payments, were for Evaluation and Management. This type of service was designated for a unit price increase via RBRVS. Four of these codes were for the most complex office visits lasting at least 25 minutes. (99214, 99240, 99205 and 99215).

The second group of fastest growing codes, representing 12% of CY2014 fee schedule payments, were seven physical therapy (PT) codes. These codes were also designated for a unit price increase via RBRVS. The three most significant PT codes (97110, 97140 and 97530) involved direct patient treatment. In addition, three acupuncture codes (representing 1% of all CY2014 payments) were among the top 20 gainers.

RBRVS introduced new codes for physician reports in CY2014. Two of these codes (WC002 and WC004), replaced report codes in the prior OMFS, and were among the top 20 gainers in CY2014. These two codes accounted for 1.8% of all medical paid in CY2014.

The method for calculating these findings is shown in the following hypothetical example:

Procedure	CY2013 Paid	CY2014 Paid	CY2013 Share	CY2014 Share	% Share Increase	Ranked Increase
A	\$150,000	\$300,000	3.82%	7.3%	3.47%	1
B	\$1,000,000	\$1,100,000	25.49%	26.76%	1.26%	2
C	\$80,000	\$105,000	2.04%	2.55%	0.51%	3
D	\$210,000	\$240,000	5.35%	5.84%	0.48%	4
E	\$300,000	\$320,000	7.65%	7.78%	0.14%	5

Table 4: Fastest Growing Procedures, CY2014 vs. CY2013 (OMFS ONLY)

Growth Rank	Procedure Description	OMFS Code	% Paid In OMFS CY2014
1	Physical Medicine 1 or more area, each 15 minutes	97110	6.0%
2	Office Visit -Evaluation & Management- Established Patient- 25 minutes	99214	10.6%
3	Manual Therapy Techniques- 1 or more area, each 15 minutes	97140	2.5%
4	Office Visit -Evaluation & Management –Established Patient- 15 minutes	99213	5.8%
5	Treating Physician's Progress Report	WC002	1.4 %
6	Therapeutic Activities, direct one-on-one patient contact- each 15 minutes	97530	1.6%
7	Office Visit -Evaluation & Management- New Patient- 45 minutes	99204	3.1%
8	Physical Therapy Evaluation	97001	0.8%
9	Office Visit -Evaluation & Management- New Patient- 60 minutes	99205	1.1%
10	Therapeutic Procedure- Neuromuscular Reeducation- each 15 minutes	97112	0.7%
11	Office Visit- Evaluation & Management- New Patient- 30 minutes	99203	1.6%
12	Psychological Testing with patient- one hour	96101	0.7%
13	Acupuncture with electrical stimulation- initial 15 minutes	97813	0.4%
14	Treating Physician's Permanent & Stationary Report	WC004	0.4%
15	Needle Electromyography, each extremity with related para-spinal areas	95886	0.4%
16	Self-care /home management training- each 15 minutes	97535	0.3%
17	Office Visit- Evaluation & Management- Established Patient- 40 minutes	99215	2.9%
18	Acupuncture with electrical stimulation- each additional 15 minutes	97814	0.3%
19	Arthroscopy with shoulder rotator cuff repair	29827	0.9%
20	Aquatic therapy with therapeutic exercises- each 15 minutes	97113	0.1%
Total % Paid – Top 20			41.4%

* Relative contribution of a specific procedure to overall increases in all procedures.

Report Summary – Key Findings

1. Industry-wide medical payments based on WCIRB individual medical bill transactions decreased by \$100 million (3.7%) in 2014 compared to 2013. This decrease occurred despite a minimal change in the number of claims in 2014. As a result the medical paid based on individual medical bill transactions per claim declined by 5%.
2. The adoption of the RBRVS-based provider fee schedule in January 2014 was one factor in these savings. This schedule covered approximately 40% of all costs, or \$1 billion per year. This new schedule shifted payment shares from specialists to primary care providers. The impact of RBRVS was reflected in 2014 changes in payment shares for types of provider, places of service, mix of paid procedures and the fastest growing procedures.
3. Several services not affected by RBRVS also experienced declines in 2014 compared to 2013. Inpatient and outpatient payments as well as payments for medical supplies showed declines, both in share of payments and paid per transaction. Total pharmacy payments, including spending on opiates, dropped somewhat in 2014. However, the cost per drug transaction increased, largely driven by the frequent use of brand rather than generic drugs.
4. Exceptions to the overall payment declines were Medical Legal and lien costs. Both categories increased in payment shares and costs per transaction in CY2014 compared to CY2013. The rise in Medical Legal costs is largely due to the continued increase in higher complexity reports. The increase in lien costs is likely attributable to improved reporting of those costs in the WCIRB's individual medical bill transaction data set.

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