

# **California Workers' Compensation Aggregate Medical Payment Trends - Updated through Calendar Year 2015**

**August 1, 2016**

**Notice**

This *California Workers' Compensation Aggregate Medical Payment Trends* (Report) was developed by the Workers' Compensation Insurance Rating Bureau of California (WCIRB) for the convenience of its users. The WCIRB has made reasonable efforts to ensure the accuracy of this Report. You must make an independent assessment regarding the use of this Report based upon your particular facts and circumstances.

© 2016 Workers' Compensation Insurance Rating Bureau of California. All rights reserved.

No part of this work may be reproduced or transmitted in any form or by any means, electronic or mechanical, including, without limitation, photocopying and recording, or by any information storage or retrieval system without the prior written permission of the Workers' Compensation Insurance Rating Bureau of California (WCIRB), unless such copying is expressly permitted in this copyright notice or by federal copyright law. No copyright is claimed in the text of statutes and regulations quoted within this work.

Each WCIRB member company, including any registered third party entities, (Company) is authorized to reproduce any part of this work solely for the following purposes in connection with the transaction of workers' compensation insurance: (1) as necessary in connection with Company's required filings with the California Department of Insurance; (2) to incorporate portions of this work, as necessary, into Company manuals distributed at no charge only to Company employees; and (3) to the extent reasonably necessary for the training of Company personnel. Each Company and all agents and brokers licensed to transact workers' compensation insurance in the state of California are authorized to physically reproduce any part of this work for issuance to a prospective or current policyholder upon request at no charge solely for the purpose of transacting workers' compensation insurance and for no other purpose. This reproduction right does not include the right to make any part of this work available on any website or on any form of social media.

Workers' Compensation Insurance Rating Bureau of California, WCIRB, WCIRB California, WCIRB Connect, WCIRB Inquiry, X-Mod Direct, eSCAD and the WCIRB California logo (WCIRB Marks) are registered trademarks or service marks of the WCIRB. WCIRB Marks may not be displayed or used in any manner without the WCIRB's prior written permission. Any permitted copying of this work must maintain any and all trademarks and/or service marks on all copies.

To seek permission to use any of the WCIRB Marks or any copyrighted material, please contact the WCIRB at [customerservice@wcirb.com](mailto:customerservice@wcirb.com).

## Executive Summary

This report summarizes the \$2.4 billion in medical payments reported to the WCIRB by the California workers compensation insurance industry in Calendar Year 2015 (CY2015). The report compares 2015 results to findings in reports issued by the WCIRB for Calendar Year 2014 (CY2014)<sup>1</sup> and Calendar Year 2013 (CY2013).<sup>2</sup> These data are based on medical transactions collected from 45 WCIRB insurer groups and their vendors, representing 91% of the California insured market. (These data do not include other costs included as medical in other sources of information such as financial statements, including the medical costs associated with compromise and release claim settlements or the cost of Medicare set-asides.)

This report also includes an analysis of WCIRB data by half year increments from the second half of 2012 through the second half of 2015. This analysis enables more precise tracking of the impacts of specific legislative and regulatory changes including California Senate Bill No. 863 (SB 863) and Medicare's annual reimbursement adjustments. This section of the report segregates the impact of changes in unit costs of services from changes in the volume of services.

The goal of this report is to identify overall medical costs and specific trends that emerged in CY2015 and may persist in future years.

The overall data are summarized in the below table. These findings show a cumulative 9% reduction in medical payments per claim from CY2013 through CY2015. In effect, an 11% decline in the number of paid transactions since 2013 have more than offset a 6% increase in payments per transaction. The CY2015 results reflected a continuation of trends recorded for CY2014 in comparison to CY2013 and reflect a continuation of the savings generated by the medical reforms enacted by SB 863 in 2012 as detailed in a December 2015 WCIRB report.<sup>3</sup>

	<b>CY2013</b>	<b>CY2014</b>	<b>CY2015</b>	<b>Cumulative % difference CY2013–CY2015</b>
Paid Transactions	20.7 million	19.2 million	18.3 million	-11%
Payments	2.6 billion	2.5 billion	2.4 billion	-8%
Unique Claims with Payments	641,012	646,599	663,902	+4%
Payments Per Paid Transaction	\$124	\$129	\$132	+6%
Payments Per Paid Claim	\$4,014	\$3,816	\$3,635	-9%

The WCIRB aggregated this information according to five 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.

<sup>1</sup> WCIRB, "California Workers Compensation Aggregate Medical Trends", released July 31, 2014.

<sup>2</sup> WCIRB, "California Workers Compensation Aggregate Medical Trends", released August 18, 2015.

<sup>3</sup> WCIRB, "Impact of SB 863 on California Workers Compensation Medical Costs Through June 30, 2015", released December 10, 2015.

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 Medical Procedures: This report compares the fastest growing Physician Fee Schedule procedures in CY2014 compared to CY2015.
5. Fastest Growing Pharmaceuticals: This report compares the fastest growing Drug Therapeutic Classes in CY2015 compared to CY2014.

## Payments by Type of Provider

Table 1 displays the distribution of payments by type of provider for CY2013, CY2014 and CY2015. These data show a 3% increase in average paid transaction for all provider types in the aggregate from CY2014 to CY2015, and a cumulative 6% increase since CY2013. These data show rises in average paid per transaction of 20% for general providers and 16% for physician specialists. These types of providers are most likely to use Evaluation & Management (E&M) codes which reflected upward revisions in fee schedule values with the implementation of the first two years of the four-year transition to the Resource Based Relative Value Scale (RBRVS) physician fee schedule starting January 2014.

Providers associated with facilities (such as hospitals and Ambulatory Surgical Centers) that typically use fee schedule codes that were reduced by the RBRVS fee schedule generally showed declines in payments per transaction over the three-year period. Despite a downward revision in many surgery procedure fees in accordance with the RBRVS schedule, the average paid per transaction increased by 9% for surgeons, as in some instances there were shifts in billings to more highly reimbursed codes.

**Table 1: Payments by Type of Provider, 4Q2013, 4Q2014 and 4Q2015**

	CY2013		CY2014		CY2015		Cumulative CY2013 to CY2015
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	Paid Per Transaction Difference
Physician Specialist	18%	\$123	18%	\$131	19%	\$143	+16%
Hospital-Based Provider	18%	\$550	16%	\$500	17%	\$497	-10%
MD General Provider	12%	\$101	15%	\$107	10%	\$121	+20%
Pharmacist	10%	\$130	10%	\$140	8%	\$139	+7%
Surgeon	8%	\$139	8%	\$153	9%	\$151	+9%
ASC Provider	6%	\$192	6%	\$170	7%	\$169	-12%
Physical Therapist	7%	\$45	6%	\$48	6%	\$45	+1%
Occupational Health Provider	3%	\$70	4%	\$92	4%	\$74	+6%
DME Supplier	3%	\$220	3%	\$228	3%	\$231	+5%
Rehabilitation Provider	2%	\$117	3%	\$153	3%	\$160	+37%
Psychology/Psychiatrist	3%	\$244	2%	\$290	2%	\$300	+23%
Chiropractic	2%	\$45	2%	\$54	2%	\$57	+26%
Lab Testing Provider	2%	\$78	2%	\$59	2%	\$54	-30%
Home Health Provider	1%	\$326	1%	\$333	1%	\$360	+10%
Acupuncturist	1%	\$38	1%	\$36	1%	\$36	-5%
Miscellaneous	4%	\$163	4%	\$184	5%	\$188	+15%
<b>Total</b>	<b>100%</b>	<b>\$124</b>	<b>100%</b>	<b>\$128</b>	<b>100%</b>	<b>\$132</b>	<b>+7%</b>

### Payments by Place of Service

Table 2 shows payments by place of service for CY2013, CY2014 and CY2015. On an aggregate basis for all places of service, these results closely track the "Type of Provider" findings in Table 1, indicating a 6% rise in payments per transaction between CY2013 and CY2015. The increase in average reimbursements for office services is likely driven by the upward reimbursement adjustments for primary services in accordance with the RBRVS schedule. The decline in the share of medical costs paid for inpatient hospital services reflects a drop in hospital admissions and a reduction in payments per inpatient transaction. When combining ASC and outpatient hospital facility payments, the total share of these outpatient services has declined slightly while paid per transaction levels have been stable during this period.

**Table 2: Payments by Place of Service for CY2013, CY2014 and CY2015**

	CY2013		CY2014		CY2015		Cumulative CY2013 to CY2015
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	Paid Per Transaction Difference
Office	50%	\$82	52%	\$90	53%	\$91	+11%
Inpatient Hospital	16%	\$1,305	13%	\$1,129	13%	\$1,102	-16%
Pharmacy	10%	\$126	10%	\$134	8%	\$131	+4%
ASC	6%	\$578	6%	\$597	6%	\$660	+14%
Outpatient Hospital	7%	\$228	6%	\$226	5%	\$223	-2%
Home	4%	\$246	4%	\$252	4%	\$237	-4%
Independent Lab	2%	\$73	2%	\$54	1%	\$45	-38%
Emergency Room	1%	\$106	1%	\$104	1%	\$110	+4%
Urgent Care Center	0.4%	\$50	0.5%	\$59	1%	\$61	+21%
Others	5%	\$399	6%	\$530	8%	\$579	+45%
<b>Total</b>	<b>100%</b>	<b>\$124</b>	<b>100%</b>	<b>\$128</b>	<b>100%</b>	<b>\$131</b>	<b>+6%</b>

### Payments by Procedure Code Type

Table 3 shows the distribution of payments across the three calendar years studied according to the various payment types, most of which are governed by fee schedules. The two schedules applying to physicians (Official Medical Fee Schedule and Medical Legal fee schedule) accounted for approximately 52% of payments across the three-year period. The OMFS increase in paid amounts per transaction since CY2013 reflects annual upward adjustments in January 2014 and January 2015 for the two most frequently billed fee schedule sections (Evaluation and Management and Physical Medicine). In addition, the elimination of codes for many routine low-cost physician reports which were not replaced by new DWC report codes contributed to this trend. These results reflect the overall findings shown in Tables 1 and 2 showing overall increases in payments per transaction from CY2013 through CY2014 and CY2015.

**Table 3: Paid Amounts Summary by Payment Type, CY2013, CY2014 and CY2015**

	CY2013		CY2014		CY2015		Cumulative CY2013 to CY2015
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	Paid Per Transaction Difference
Official Medical Fee Schedule (OMFS)	42%	\$70	41%	\$73	41%	\$78	+11%
Medical Legal Fee Schedule	9%	\$1,504	10%	\$1,639	11%	\$1,648	+10%
Pharmacy Fee Schedule	14%	\$111	13%	\$117	11%	\$115	+4%
Inpatient	12%	\$2,116	10%	\$1,829	10%	\$1,803	-15%
Outpatient	9%	\$547	9%	\$507	10%	\$574	+5%
Medical Liens	6%	\$752	9%	\$862	9%	\$868	+15%
Other	8%	\$144	8%	\$111	8%	\$111	-22%
<b>Total</b>	<b>100%</b>	<b>\$123</b>	<b>100%</b>	<b>\$127</b>	<b>100%</b>	<b>\$136</b>	<b>+10%</b>

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

Table 3A shows the distribution of payments for the ten categories in California's OMFS. The overall 11% rise in payments per transaction during this period was driven by increases in primary care, including Evaluation and Management and Physical Medicine. These services increased from a cumulative 18% share of all medical services in CY2013 to a 23% share in CY2015. As expected, under RBRVS, the aggregate payments per transaction for both types of these services rose significantly over this period. Also, the average cost per transaction of special services and reports increased significantly as many of the lower priced reports were no longer being separately billed under the new fee schedule.

As discussed later in this report, the increases in the cost per transaction for the OMFS procedures are more than offset by significant reductions in the number of transactions per claim over this period.

**Table 3A: Payments by OMFS Procedure Categories, CY2013, CY2014 and CY2015**

	CY2013		CY2014		CY2015		Cumulative CY2013 to CY2015
	% of Paid	Avg. Paid Transaction	% of Paid	Avg. Paid Transaction	% of Paid	Avg. Paid Transaction	Paid Per Transaction Difference
<b>Evaluation and Management</b>	11%	\$89	12%	\$107	14%	\$114	+28%
<b>Surgery</b>	8%	\$382	8%	\$395	7%	\$401	+5%
<b>Physical Medicine</b>	6%	\$26	7%	\$32	8%	\$36	+38%
<b>Special Services and Reports</b>	5%	\$55	4%	\$49	3%	\$62	+13%
<b>Radiology</b>	4%	\$131	4%	\$121	4%	\$108	-17%
<b>Medicine</b>	4%	\$104	2%	\$109	2%	\$113	+9%
<b>Pathology and Laboratory</b>	2%	\$58	2%	\$47	1%	\$36	-38%
<b>Anesthesia</b>	1%	\$346	1%	\$342	1%	\$326	-6%
<b>Acupuncture</b>	0.4%	\$57	0.5%	\$38	0.6%	\$36	-37%
<b>Chiropractic</b>	0.3%	\$31	0.3%	\$32	0.3%	\$32	+4%
<b>Other</b>	0%	\$725	0.0%	\$1,083	0.1%	\$838	+16%
<b>OMFS – Total</b>	42%	\$70	41.0 %	\$73	41%	\$78	+11%

### Payments by Procedure Type – Medical Legal Fee Schedule

Table 3B shows payments under the Medical Legal Fee Schedule for CY2013, CY2014 and CY2015. Payments per transaction and the total share of medical payments generated by Medical Legal services has risen each calendar year. For CY2015, medical legal costs comprise 11% of total medical costs compared to 9% for CY2013.

**Table 3B: Payments by Procedure – Medical Legal Fee Schedule, CY2013, CY2014 and CY2015**

	CY2013		CY2014		CY2015		Cumulative CY2013 to CY2015
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	Paid Per Transaction Difference
Medical Legal - 4+ Complexities	6%	\$3,108	7%	\$3,315	7%	\$3,400	+9%
Medical Legal – 1-3 Complexities	2%	\$819	2%	\$831	2%	\$842	+3%
Medical Legal – Testimony only	1%	\$686	1%	\$713	2%	\$745	+9%
<b>Medical Legal – Total</b>	<b>9%</b>	<b>\$1,505</b>	<b>10%</b>	<b>\$1,639</b>	<b>11%</b>	<b>\$1,648</b>	<b>+10%</b>

### Payments by Procedure Type – Pharmacy Fee Schedule

Table 3C shows the distribution of total payments for each time period under the Medi-Cal-based pharmacy fee schedule, which was not addressed by SB 863. Payments per transaction for all drug types increased during this period although the share for the more expensive brand drugs dropped from 5.6% to 3.7% over these three calendar years. Due to the sharp reductions in the number of pharmaceuticals paid per claim that are discussed later in this report, the overall share of medical costs arising from pharmaceuticals has dropped significantly.

In addition, the total share paid for all opiates dropped from 4.8% in CY2013 to 4.3% in CY2014 and to 3.1% in CY2015. The most addictive Schedule II opiates reflected this overall trend, dropping from a 2.8% share in CY2013 to 2.4% in CY2014 and to 1.7% in CY2015.

**Table 3C: Payments by Procedure – NDC Pharmacy Fee Schedule**

	CY2013		CY2014		CY2015		Cumulative CY2013 to CY2015
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	Paid Per Transaction Difference
Opiates, Schedule II*	2.8%	\$112	2.4%	\$117	1.7%	\$122	+9%
Opiates (Others)	2.0%	\$102	1.9%	\$114	1.4%	\$112	+10%
Other Pharmaceuticals, Generic**	3.8%	\$62	4.0%	\$68	3.8%	\$71	+14%
Other Pharmaceuticals, Brand	5.6%	\$258	4.8%	\$296	3.7%	\$311	+21%
Pharmacy Total	14.2%	\$111	13.1%	\$117	10.6%	\$115	+4%

\*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 Health Care Procedure Coding System (HCPCS) and dental schedules. The HCPCS schedule covers several categories including durable medical equipment, interpreters, some drug testing services and home health. The aggregate share of these categories was only slightly changed over the three calendar years from CY2013 to CY2015 although the average paid per transaction dropped by 23% over this period. In the future, interpreters and home health costs are expected to be subject to new fee schedules and will be segregated from the HCPCS category

**Table 3D: Payments by Procedure – Other Fee Types, CY2013, CY2014 and CY2015**

	CY2013		CY2014		CY2015		Cumulative CY2013 to CY2015
	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	% of Paid	Average Paid Per Transaction	Paid Per Transaction Difference
HCPCS – DME, Orthotics, Prosthetics	2.8%	\$218	2.5%	\$221	2.8%	\$229	+5%
HCPCS – Home Health	1.4%	\$257	1.6%	\$276	1.4%	\$255	-1%
HCPCS – Supplies	1.0%	\$54	0.8%	\$74	0.6%	\$71	+32%
HCPCS – Transportation	0.9%	\$231	0.9%	\$221	1.0%	\$207	-10%
HCPCS - Interpreters via Medicaid	0.5%	\$94	0.5%	\$101	0.8%	\$113	+20%
HCPCS - Miscellaneous	1.0%	\$101	1.2%	\$34	1.3%	\$34	-66%
Total HCPCS	7.6%	\$137	7.4%	\$104	7.8%	\$104	-24%
Dental	0.5%	\$487	0.6%	\$551	0.6%	\$561	+15%
Total Other Fee Types	8.1%	\$144	8.0%	\$111	8.4%	\$111	-23%

### Fastest Growing Medical Procedures

Table 4 shows the twenty fastest growing fee schedule procedures in CY2015 compared to CY2014. There are approximately 4,400 codes receiving payments in OMFS. The twenty fastest growing codes accounted for 51% of all OMFS payments in 2015, and largely consisted of the services increased by RBRVS, including several Evaluation & Medicine and physical medicine procedures. In addition, one of the new copy service fee codes (WC020) established by the DWC in July 2015 appears on this list.

Of particular note is the increase in payments for code 91999 (Unlisted special Service, Procedure or Report) code. Until 2015, this code appeared to have been largely replaced by the new DWC reporting codes established the previous year.

**Table 4: Fastest Growing Procedures, CY2015 vs. CY2014 (OMFS Only)**

Growth Rank*	Procedure Description	OMFS Code	% Paid In OMFS CY2015
1	Office Visit for the Evaluation and Management of Established Patient; Level 4 Of 5	99214	12.6%
2	Therapeutic Procedure – Exercises to develop strength and endurance, range of motion and flexibility	97110	7.3%
3	Office Visit for the Evaluation and Management of Established Patient; Level 3 Of 5	99213	6.7%
4	Unlisted Special Service, Procedure Or Report	99199	4.6%
5	Manual therapy techniques, 1 or more regions	97140	3.2%
6	Kinetic Activities; Initial 30 Minutes	97530	2.3%
7	Office Visit Evaluation and Management of New Patient; Level 4 Of 5	99204	3.6%
8	Office Visit Evaluation and Management of New Patient; Level 3 Of 5	99203	2.0%
9	Therapeutic Procedure: Physical Medicine; neuromuscular reeducation of movement, balance, coordination, kinesthetic sense, posture	97112	1.1%
10	Copy Service Flat Fee (up to 500 pages)	WC020	0.3%
11	Physical Therapy Evaluation	97001	1.1%
12	Unlisted Physical Medical Service/Procedure	97799	1.4%
13	Psychological Testing by Physician/Psychologist	96101	0.7%
14	Shoulder Arthroscopy – Distal Claviclectomy including distal articular surface (Mumford procedure)	29824	0.5%
15	Self-Care/Home Management Training	97535	0.5%
16	Acupuncture, 1 or more needles, with electrical stimulation, additional 15 minutes of patient one-on-one	97814	0.4%
17	Needle electromyography, each extremity, with related paraspinal areas – five or muscles studied	95886	0.5%
18	Acupuncture, 1 or more needles, with electrical stimulation, initial 15 minutes of patient one-on-one	97813	0.5%
19	Office Visit Evaluation and Management of New Patient; Level 5 Of 5	99205	1.2%
20	Nerve conduction studies; 13 or more studies	95913	0.3%

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

### Fastest Growing Pharmaceuticals

Table 5 shows the twenty fastest growing pharmaceuticals in CY2015 compared to CY2014. Approximately 450 pharmacy Therapeutic Classes received payments in 2015. The twenty fastest growing codes represented 44% of all pharmacy payments in CY2015. Reflecting the decline in opiates, these data show increases for the most common non-opiate analgesics such as Non-Steroidal Anti-inflammatory Drugs (NSAIDs). Other medications sometimes used to treat pain, such as anticonvulsants and central muscle relaxants also recorded increases in CY2015.

Of note is the first appearance of medications to treat Hepatitis C in California's list of fastest growing drugs. This trend was also reported recently on a national basis by some Pharmacy Benefit Managers (PBMs).

**Table 5: Fastest Growing Pharmaceuticals, CY2015 vs. CY2014**

Growth Rank*	Procedure Description	TC Code	% Paid In NDC CY2015
1	*Non-steroidal Anti-inflammatory Agents (NSAIDs)	6610	16.0%
2	*Anticonvulsants - Misc.	7260	6.4%
3	*Hepatitis Agents	1235	0.6%
4	*Anti-inflammatory Agents - Topical	9021	1.9%
5	*Local Anesthetics - Amides	6910	0.3%
6	*Central Muscle Relaxants	7510	5.2%
7	*Impotence Agents	4030	0.7%
8	*Postherpetic Neuralgia (PHN) Agents	6254	0.3%
9	*Opioid Partial Agonists	6520	1.2%
10	*Antiretrovirals	1210	0.3%
11	*Insulin	2710	0.3%
12	*Sympathomimetics	4420	0.4%
13	*Modified Cyclics	5812	0.3%
14	*Direct Factor Xa Inhibitors	8337	0.2%
15	*Antidepressants - Misc.	5830	0.6%
16	*Glucocorticosteroids	2210	0.3%
17	*Imidazole-Related Antifungals	1140	0.2%
18	*Proton Pump Inhibitors	4927	8.7%
19	*HMG CoA Reductase Inhibitors	3940	0.2%
20	*Migraine Products - NSAIDs	6760	0.1%
Total % Paid – Top 20			44.2%

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

### Changes in Unit Cost and Utilization by Six Month Increments

In addition to Calendar Year Trends, the WCIRB also analyzed cumulative changes in the average cost per procedure and number of procedures per claim by six month increments from the second half of 2012 through the second half of 2015. Specifically, this analysis measures average paid cost per transaction, transactions per claim and average paid per claim for all medical services in six month increments beginning in the second half of 2012 (pre-SB 863) to the second half of 2015. In addition, the analysis shows cumulative changes from the second half of 2012 through the second half of 2015.

Table 6 displays cumulative changes in medical payment trends for each component of medical costs since the second half of 2012. These data reflect a cumulative 16% decline in costs per claim for all medical services, with reductions appearing in all components except for inpatient and Medical-Legal services.

**Table 6: Paid Per Claim by Medical Component, 1st Half 2013 through 2nd Half 2015**

Service Period	Physician Fee Schedule (46% of paid)	Pharmacy (15% of paid)	Inpatient Facilities (12% of paid)	Outpatient Facilities (7% of paid)	HCPCS (8% of paid)	Medical Legal (11% of paid)	Total Medical (100%)
1st Half 2013	-1%	-2%	-5%	-14%	-3%	+2%	-1%
2nd Half 2013	-4%	+4%	+2%	-9%	-5%	+2%	-4%
1st Half 2014	-2%	-3%	+3%	+7%	-14%	+9%	-1%
2nd Half 2014	-6%	-14%	+7%	-8%	-4%	-6%	-7%
1st Half 2015	0%	-6%	+2%	+11%	+7%	+2%	+1%
2nd Half 2015	-5%	-11%	-5%	-9%	-8%	-3%	-5%
Cumulative Change 2nd Half 2012- 2nd Half 2015	-17%	-28%	+4%	-22%	-24%	+6%	-16%

The multi-year reduction in payments per claim described in Table 6 was a result of declines in medical utilization. Table 7 shows the unit cost and utilization trends for all medical services from 2013 through 2015. The 24% cumulative reduction in utilization (measured by paid transactions per claim) offset the 11% cumulative increase in unit costs (measured by paid per transaction) to generate an overall 16% reduction in payments per claim.

**Table 7: Unit Cost and Utilization, All Services, 1st Half 2013 through 2nd Half 2015**

Service Period	Paid Per Transaction (Ratio to Prior Half)	Paid Transactions Per Claim (Ratio to Prior Half)	Total Paid Per Claim (Ratio to Prior Half)
1st Half 2013	-3%	+3%	-1%
2nd Half 2013	0%	-3%	-4%
1st Half 2014	+7%	-7%	-1%
2nd Half 2014	-3%	-4%	-7%
1st Half 2015	+9%	-7%	+1%
2nd Half 2015	+1%	-6%	-5%
Cumulative Change 1st Half 2012-2nd Half 2015	+11%	-24%	-16%

Services covered by the physician and pharmacy fee schedules account for approximately 61% of all medical costs. The utilization declines in these services generated the bulk of the cost reductions described in this report. Both types of services exhibited similar patterns of unit cost increases coupled with even greater utilization declines.

Table 8 shows how the changes in the RBRVS schedule effective January 2014 helped increase paid per transaction for physicians resulting in a cumulative 12% rise since the second half of 2012. This increase was offset by a 26% reduction in utilization, as measured by transactions per claim, resulting in a cumulative 17% drop in paid per claim for physician services.

**Table 8: Physician Fee Schedule Services, 1st Half 2013 through 2nd Half 2015**

Service Period	Paid Per Transaction (Ratio to Prior Half)	Paid Transactions Per Claim (Ratio to Prior Half)	Total Paid Per Claim (Ratio to Prior Half)
1st Half 2013	-3%	+3%	-1%
2nd Half 2013	-2%	-2%	-4%
1st Half 2014	+10%	-11%	-2%
2nd Half 2014	-5%	-2%	-6%
1st Half 2015	+10%	-9%	0%
2nd Half 2015	+2%	-7%	-5%
Cumulative Change 1st Half 2012-2nd Half 2015	+12%	-26%	-17%

Table 9 depicts pharmacy payment trends showing a 28% overall decrease in paid per claim since the second half of 2012. This reduction was driven by a 30% drop in utilization (measured by paid transactions per claim), which more than offset the 3% increase in unit cost per transaction. The sharp reduction in pharmaceutical transactions per claim began in the first quarter of 2014. This change may be attributed, in part, to the expansion of the Independent Medical Review (IMR) process created by SB 863 during this period. Approximately half of the IMR cases involve pharmacy utilization and 90% of the denials have been upheld.

**Table 9: Pharmacy Services, 1st Half 2013 through 2nd Half 2015**

Service Period	Paid Per Transaction (Ratio to Prior Half)	Paid Transactions Per Claim (Ratio to Prior Half)	Total Paid Per Claim (Ratio to Prior Half)
1st Half 2013	+5%	-6%	-2%
2nd Half 2013	+1%	+4%	+4%
1st Half 2014	+5%	-8%	-3%
2nd Half 2014	-2%	-12%	-14%
1st Half 2015	-1%	-5%	-6%
2nd Half 2015	-4%	-8%	-11%
Cumulative Change 1st Half 2012- 2nd Half 2015	+3%	-30%	-28%

## Report Summary – Key Findings

1. Industry-wide medical payments based on WCIRB individual medical bill transactions decreased by \$100 million (4%) in CY2015 compared to CY2014. This result followed a similar 4% decline in CY2014 and generated a cumulative reduction of approximately \$200 million since CY2013 (8%). This decrease was driven by a 12% drop in the number of paid transactions from CY2013 through CY2015 which more than offset a 6% increase in paid amounts per transaction during that time.
2. These underlying medical trends drove a 9% reduction in paid amounts per claim from \$4,014 in CY2013 to \$3,635 in CY2015.
3. The overall drop in paid medical transactions did not result in lower per unit payments to most providers. Payments per transaction rose for primary care providers, as expected under the RBRVS physician fee schedule introduced in 2014. In addition, the average payment per transaction for surgeons and medical legal specialists also increased from CY2013 to CY2015.
4. Total share of pharmacy payments dropped by 3.6% from CY2013 to CY2015. This change was driven by a 1.7% cumulative reduction in shares for the more expensive brand drugs and a 1.9% cumulative decline in the share of spending for opiate drugs as well as an overall reduction in the number of pharmaceuticals per claim. Within the opiate category, shares of the most addictive Schedule II drugs dropped by 1.1% from CY2013 to CY2015.
5. These overall Calendar Year findings are confirmed when the payment data is analyzed in six month increments beginning with the implementation of SB 863 in 2013. This cumulative approach segregates the effects of changes in average unit costs (paid per transaction) from utilization (the number of transactions per claim.) These results indicate that decreases in utilization offset increases in unit costs to generate the 16% aggregate cost per claim savings. This study shows that the medical cost savings momentum started in the first half of 2013 by the implementation of SB 863 was sustained through the second half of 2015.



**WCIRB**California®  
Objective.Trusted.Integral.

WCIRB California  
1221 Broadway, Suite 900  
Oakland, CA 94612  
Tel 415.777.0777  
Fax 415.778.7007  
wcirb@wcirb.com  
www.wcirb.com