

Delaware Compensation Rating Bureau, Inc.



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VIA EMAIL AND FIRST CLASS MAIL

July 27, 2015

The Honorable John McMahon
Secretary
Delaware Department of Labor
4425 N. Market Street
Wilmington, DE 19802

Re: January 31, 2015 Medical Fee Schedules

Dear Secretary McMahon:

This letter follows our four earlier pieces of correspondence (June 8, 2015 pertaining to Ambulatory Surgical Centers, June 19, 2015 pertaining to Hospital Outpatient Services, June 26, 2015 pertaining to Hospital Inpatient Services and June 30, 2015 pertaining to Professional Services).

The Delaware Compensation Rating Bureau, Inc. (DCRB) undertook the reviews of the January 31, 2015 medical fee schedules in Delaware noted above in order to evaluate compliance of those fee schedules with provisions of House Bill No. 373 of 2014 (HB373), which required a 20 percent overall reduction from 2014 medical expenditures by the year beginning January 31, 2015.

Ultimately, our evaluations of the January 31, 2015 medical fee schedules will have direct implications for the DCRB's December 1, 2015 residual market rate and voluntary market loss cost filing, and should also be important for the Workers Compensation Oversight Panel's (WCOP's) work in developing the January 31, 2016 and January 31, 2017 medical fee schedules, which are subject to specific additional savings requirements under HB373.

SUMMARY OF FINDINGS

Each of the DCRB's previous analyses addressed a distinct and specific portion of Delaware expenditures for workers' compensation insurance medical benefits, and estimated the effect of the January 31, 2015 medical fee schedules on a metric we defined as "fee-adjusted charges" for those benefits. Some of those analyses (for Ambulatory Surgical Centers and Hospital Outpatient Services) produced different estimates of the effect of the January 31, 2015 medical fee schedules based, respectively, on information provided to the DCRB by the WCOP and the DCRB's own Medical Data Call. Other analyses (for Hospital Inpatient Services and Professional Services) could not be performed using one or the other of those data sources, and were thus limited to estimating the effect of the January 31, 2015 medical fee schedules using either the WCOP data or the Medical Data Call information.

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The enclosed exhibit uses the estimates derived from the DCRB's previous analyses to produce an estimate of the overall effect of the January 31, 2015 medical fee schedules on fee-adjusted charges for Delaware workers compensation medical benefits. Proportional weights based on paid amounts reported in the Medical Data Call for medical services having treatment dates and payment dates during calendar year 2014 were used to combine the estimated effects of separate portions of the medical fee schedules.

The left-most column, labelled "Service Category" on the enclosed exhibit, identifies the type of services included on each line.

The second column, labelled "Proportion of Total Payments", shows the proportion of total Delaware workers compensation medical payments attributable to each category of service. These proportions, as noted at the bottom of the page, are based on the DCRB's Medical Data Call information for medical expenditures paid during Calendar Year 2014 and associated with service dates falling within Calendar Year 2014.

Column (3), "DCRB Estimated Change in Fee-Adjusted Charges – WCOP Data" shows, where available, the DCRB's estimate of the change in fee-adjusted charges for each category of service based on data provided to us by the WCOP.

Column (4), "DCRB Estimated Change in Fee-Adjusted Charges – DCRB Data" shows, also where available, the DCRB's estimate of the change in fee-adjusted charges for each category of service based on data that the DCRB collects through the Medical Data Call.

Column (5), "Selected Change in Fee-Adjusted Charges" shows the change in fee-adjusted charges for each category of service that the DCRB selected to use in deriving its overall estimate of the effects of the January 31, 2015 medical fee schedules. These selections were based on consideration of the available estimates based on WCOP and/or DCRB data.

Column (6), labelled "(2) x (5)", shows the products of the weights in the second column and the selected changes in fee-adjusted charges in column (5). Added across all categories of service, this column produces a factor of 0.8025. This is the estimated factor by which fee-adjusted charges prior to the implementation of the new medical fee schedules would be multiplied in order to compute fee-adjusted charges after the implementation of those medical fee schedules. Thus, the factor 0.8025 is consistent with a reduction of approximately 19.75 percent ($0.8025 - 1.0000 = -0.1975$).

If that overall change in fee-adjusted charges was representative of changes in medical expenditures associated with the January 31, 2015 fee schedules then the legislatively-mandated target would have essentially been realized (the 19.75 percent change in fee-adjusted charges is very close to the 20 percent reduction in medical expenditures required under the law). There are two important caveats with respect to that comparison, however.

First, the DCRB's recent analyses have not measured or estimated any effect on medical expenditures after the January 31, 2015 fee schedule took effect that may arise from changes in how medical providers code and submit their bills, and/or how frequently medical providers render services. If, and to the extent that, billings for medical goods and services are coded or described as higher-cost procedures than was previously the case and/or medical services come to be provided more frequently under the new fee schedules, the favorable effects of the recent fee reductions would be lessened.

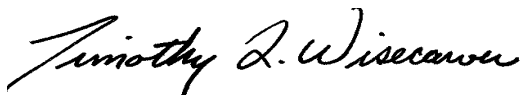
Second, while the fee-adjusted charges used in our analyses do take into account, to varying degrees, the distribution of charges above and below applicable fee schedule limitations, they do not reflect the extent to which prevailing contracts or other reimbursement arrangements would affect changes in reimbursements concurrent with the January 31, 2015 fee schedule changes. The DCRB believes that those provisions, which were applicable to almost half of the payments made during 2014 for service dates also occurring in 2014, would reduce the impact of fee schedule changes to some (unknown) extent.

One final observation about the work summarized in this memorandum is that, apparently by design, the changes in medical fee schedule provisions implemented effective January 31, 2015 varied between different types of service providers. House Amendment 1 to HB373 requires that percentage reductions be made uniformly for each of three groups of medical service providers in Delaware: Hospitals, Ambulatory Surgical Centers and other health care providers. The DCRB's analyses found significant differences in the effects of changes between some such groups. For example, fee-adjusted charges are estimated to have declined approximately six percent for Ambulatory Surgical Centers and approximately 27 percent for Professional Services other than Anesthesia.

As you are aware, the DCRB continues to collect Medical Data Call detail from our member carriers. To date, we have received very limited amounts of data pertaining to services provided after January 31, 2015, the effective date for the first fee schedule reduction required under HB373. Because of the small amount of data currently available, and recognizing that there may have been some lag in provider, carrier and TPA implementation of the new fee schedules, the DCRB cannot yet form a conclusion about the effect of the new fee schedules based on the Medical Data Call information following implementation of those fee schedules. However, information available from that source will expand over the course of the next two or three calendar quarters, and will become a very probative source for evaluation of experience after the January 31, 2015 fee schedule changes. In particular, that data will include the impact of changes, if any, in provider billing or treatment practices that occurred under the new fee schedules, and it will reflect the full effect, or lack of effect, of contracts and other reimbursement arrangements on medical benefit expenditures in Delaware. As this information becomes available, the DCRB will rely very heavily on it in making subsequent evaluations of the impacts of law changes on system costs.

The DCRB remains keenly interested in observations, comments and/or suggestions from the WCOP about the separate analyses previously provided to you, and about this summarization of the collective effect of changes to the medical fee schedules effective January 31, 2015.

Sincerely,



Timothy L. Wisecarver
President

Enclosures (With Email)

Excel File "DCRB Evaluation of January 31 2015 Fee Schedule – July 2015.xlsx"

Enclosures (Hard Copy)

Printed Copy of Excel File "DCRB Evaluation of January 31 2015 Fee Schedule – July 2015.xlsx"

DELAWARE COMPENSATION RATING BUREAU, INC.
Evaluation of January 31, 2015 Medical Fee Schedule Changes

| Service Category (1) | Proportion of Total Payments* (2) | DCRB Estimated Change in Fee-Adjusted Charges WCOP Data (3) | DCRB Estimated Change in Fee-Adjusted Charges DCRB Data (4) | Selected Change in Fee-Adjusted Charges (5) | (2) x (5) (6) |
|-------------------------------------|--|--|--|---|------------------|
| Ambulatory Surgery Centers | 0.1026 | 0.99 | 0.94 | 0.94 | 0.0964 |
| Hospital Outpatient | 0.1000 | 0.85 | 0.84 | 0.84 | 0.0840 |
| Hospital Inpatient | 0.1181 | 0.82 | n/a | 0.82 | 0.0968 |
| Professional (excludes Anesthesia) | 0.5204 | n/a | 0.73 | 0.73 | 0.3799 |
| Professional Anesthesia (CPT codes) | 0.0178 | 1.00 | 1.00 | 1.00 | 0.0178 |
| Prescription Drugs (Pharmacy) | 0.0734 | 1.00 | 1.00 | 1.00 | 0.0734 |
| Sub-Total | 0.9323 | | | 0.80 | 0.7484 |
| All Other ** | 0.0677 | | | 0.80 | 0.0542 |
| Grand Total | 1.0000 | | | | 0.8025 |

* Based on DCRB Data, January 2014 through December 2014 Service and Transaction Dates

** Savings estimate selected as the effective average for the sub-total line above