

Delaware Compensation Rating Bureau, Inc.

Evaluation of Savings Impact from House Bill 175 of 2013

The Delaware Compensation Rating Bureau, Inc. (DCRB) offers the following narrative and accompanying exhibits as an assessment of the effects of House Bill 175 on Delaware workers compensation benefit costs.

Exhibit 34-1 presents a summary of the savings, by legislative component, that are discussed individually in subsequent pages. The exhibit is divided into two parts with the first part addressing sections of HB175 that affected the current the payment structure for services provided. The combined savings in medical costs in this section is 3.0 percent.

The second part addresses sections of HB175 that address increases in fees during the period July 1, 2013 through January 1, 2013. During that period professional, hospital and ambulatory surgical centers will not there fees will not have those values adjusted for inflation. The combined savings in medical costs in this section is 2.88 percent.

The DCRB treats the combined impact of these two sections as occurring sequentially and therefore considers them to be multiplicative in nature. Thus, the overall effect on medical costs is a savings of 5.99 percent ($[(1-0.032)*(1-.0288)]-1$).

For each line the impact on combined indemnity and medical benefits is based on a constant weighting of 0.2827 for indemnity and 0.7173 for medical, with the weights consistent with Exhibit 12, page 1, line 5b.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

§2322B (3) (i) set fee schedule amounts for pathology, laboratory, and radiological services and durable medical equipment at 85 percent of 90 percent of the 75th percentile of actual charges, instead of the previous standard of 90 percent of the 75th percentile of actual charges.

19 DE Admin. Code Section 1341, Paragraphs 4.12.1, 4.12.2, 4.26.1.1.1, 4.26.1.1.2, 4.26.1.3.5, 4.27.1.1.1, 4.27.1.1.2, 4.29.1, 4.29.2, 4.29.3, 4.29.4

Exhibit: 34-2

Brief Description of Intended Change: Pathology, radiology, laboratory and durable medical equipment services previously assigned a fee amount at 90% of the 75th percentile or at 85 percent of charge are assigned fees at 85% of 90% of the 75th Percentile.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

The revised fee schedule provided fees for the affected services. The data used to measure the impact of the changes included payments on services with transaction dates from July 1, 2010 to June 30, 2012. In order to make a valid comparison between fees and payments, the proposed fees were adjusted to a value consistent with the transaction dates available. This was done by de-trending the proposed fees based on actual changes in the CPI-U to the date of the transaction.

Actual payments were then compared with indicated payments based on the proposed fees and the minimum of those two values was selected as the proposed payment. Measures were separately calculated based on whether the service was previously subject to a fee or 85 percent of charge.

In some cases insufficient information was available to directly calculate a savings. This would include situations where a valid zip code was not available or where the zip code was not a Delaware zip code. Records where the payment exceeded the charge were also separately handled. In these situations the data was grouped into an "other" category and an average savings factor was applied based on the indicated savings for precisely measured transactions.

The savings for services previously reimbursed at 90% of the 75th percentile was measured at 13.2 percent. Services previously based on 85% of charge indicated a savings of 2.1 percent.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 8.6 percent. When weighting non-network services (approximately 51 percent of services) with services provided under a network agreement, and therefore unaffected by this provision of HB175, the overall impact is a savings of 4.3 percent.

Payments under this provision of HB175 represent approximately 6.9 percent of total medical payments and the impact on total medical payments is a savings of 0.3 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.2 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

§2322B (12) directed that the formulary and fee methodology system developed by the Health Care Advisory Panel for pharmacy services, prescription drugs and other pharmaceuticals include a mandated discount from average wholesale price, a ban on repackaging fees, and adoption of a preferred drug list by September 1, 2013.

19 DE Admin. Code Section 1341, Paragraphs 4.13.1, 4.13.2, 4.13.2.1, 4.13.2.2, 4.13.2.3, 4.13.3, 4.13.4, 4.13.5, 4.13.6, 4.13.7, 4.13.8, 4.30

Exhibit: 34-3

Brief Description of Intended Change: Pharmaceuticals were previously paid at 100 percent of the average wholesale price (AWP). Brand drugs will now be paid at 80 percent of the AWP plus a \$5.00 processing fee. Generic drugs will now be paid at 88 percent of the AWP plus a \$4.00 processing fee.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

Actual payments were compared with indicated payments based on the proposed fees measured at 80% of AWP plus \$5.00 or 88% of AWP plus \$4 as appropriate.

In some cases insufficient information was available to directly calculate a savings. This would include situations the AWP was not available. Records where the payment exceeded the charge were also separately handled. In cases where the amount charged was greater than five times that of the payments, and where the ratio of fee to charge was greater than 2.0, the data was grouped into an "other" category and an average savings factor was applied based on the indicated savings for precisely measured transactions.

The savings for brand drugs was measured at 13.8 percent and for generic drugs at 12.3 percent.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 13.0 percent. When weighting non-network services (approximately 35 percent of services) with services provided under a network agreement, and therefore unaffected by this provision of HB175, the overall impact is a savings of 4.6 percent.

Payments under this provision of HB175 represent approximately 10.4 percent of total medical payments and the impact on total medical payments is a savings of 0.5 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.3 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

§2322B (11) directed the Health Care Advisory Panel to adopt and recommend a reimbursement schedule for pathology, laboratory and radiological services and durable medical equipment (see also §2322B (3) (i) above) and to implement a specific limitation on drug screenings absent pre-authorization and a specific limitation on per-procedure reimbursements for drug testing.

19 DE Admin. Code Section 1341, Paragraphs 4.27.1.1.5

Exhibit: 34-4

Brief Description of Intended Change: Drug tests will be reimbursed at \$100.00 per test and there will be maximum of four tests per year permitted. The cap on the number of tests per year is also applicable to services covered by a network contract.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

The \$100.00 fee applies to current services. The data used to measure the impact of the changes included payments on services with transaction dates from July 1, 2010 to June 30, 2012. In order to make a valid comparison between fees and payments, the proposed \$100.00 fee was adjusted to a value consistent with the transaction dates available. This was done by de-trending the proposed fee based on actual changes in the CPI-U to the date of the transaction.

For non-network services the combined impact of the proposed fee and the cap on the number of drug tests per year was calculated. For network services only the cap on the number of drug tests per year was calculated.

In some cases insufficient information was available to directly calculate a savings. This would include situations where a valid zip code was not available or where the zip code was not a Delaware zip code. Records where the payment exceeded the charge were also separately handled. In these situations the data was grouped into an "other" category and an average savings factor was applied based on the indicated savings for precisely measured transactions.

The savings for non-network services, combining the impact of the \$100.00 fee and the cap on the number of tests, was 74.1 percent. For network services the cap on the number of tests per year indicated a savings of 37.4 percent.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 74.1 percent. When weighting non-network services (approximately 77 percent of services) with savings of 37.4 percent for services provided under a network agreement, the overall impact is a savings of 65.5 percent.

Payments under this provision of HB175 represent approximately 0.5 percent of total medical payments and the impact on total medical payments is a savings of 0.3 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.2 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

§2322B (7) directed the Health Care Advisory Panel to implement a specific cap on fees for anesthesia by January 1, 2014.

19 DE Admin. Code Section 1341, Paragraphs 4.20.1.1

Exhibit: 34-5

Brief Description of Intended Change: Fees for anesthesia services are to be paid at a rate of \$100.00 per unit for Northern zip codes (geozip 197/198) and at \$76.00 per unit for Southern zip codes (geozip 199).

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

The fixed amount fees apply to current services. The data used to measure the impact of the changes included payments on services with transaction dates from July 1, 2010 to June 30, 2012. In order to make a valid comparison between fees and payments, the proposed fees of \$100.00 and \$76.00 were adjusted to a value consistent with the transaction dates available. This was done by de-trending the proposed fee based on actual changes in the CPI-U to the date of the transaction.

Actual payments were compared to indicated payments where indicated payments were the lesser of the amount charged and the amount indicated based on the proposed fees de-trended to the transaction date.

In some cases insufficient information was available to directly calculate a savings. This would include situations where a valid zip code was not available or where the zip code was not a Delaware zip code. Records where the payment exceeded the charge were also separately handled. Records with a number of units less than 30 or greater than 300 were also treated separately because of concern with the accuracy of the unit field. In these situations the data was grouped into an "other" category and an average savings factor was applied based on the indicated savings for precisely measured transactions.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 49.7 percent. When weighting non-network services (approximately 41 percent of services) with services provided under a network agreement, and therefore unaffected by this provision of HB175, the overall impact is a savings of 20.3 percent.

Payments under this provision of HB175 represent approximately 2.3 percent of total medical payments and the impact on total medical payments is a savings of 0.5 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.3 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

Hot and Cold Pack Therapy

19 DE Admin. Code Section 1342, Part B, Paragraph 6.4.12.8, Part C, Paragraph 6.10.8, Part D, Paragraph 5.10.8, Part E, Paragraph 6.10.8, Part F, Paragraph 5.10.8, Part G, Paragraph 6.15.10.3

Exhibit: None

Brief Description of Intended Change: Hot and Cold packs are commonly used as part of the treatment during a physical therapy visit. The DCRB understood (incorrectly) that the regulatory would end the practice of separate billing for hot and cold packs used as part of a physical therapy visit.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

All bills with a procedure code for hot and cold packs were identified from the database. Those procedure codes were then compared to other billing lines for bills with a common date of service. When a hot or cold pack code was matched to a bill indicating a physical therapy visit, the paid amounts associated with the hot or cold packs were set equal to zero. Payments for hot or cold packs that were not billed in connection with a physical therapy visit were expected to continue to be paid. It was assumed that this provision applied to both non-network and network services.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to the elimination of separate payments for hot or cold packs provided as part of a physical therapy visit is estimated at 97.9 percent, applicable to both non-network and network services. Of \$1,588,276 paid over the two year period included in the study, \$1,555,087 was eliminated.

Payments under this provision of HB175 represent approximately 1.1 percent of total medical payments and the impact on total medical payments is a savings of 1.1 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.8 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

No Administrative Code Language

HCAP changes to Fee Schedule

During 2013 the Health Care Advisory Panel used information provided by the DCRB and obtained from other resources to develop fee schedule amounts for services previously published as "POC85" in the Delaware fee schedule.

Exhibit: 34-6

Brief Description of Intended Change: The fee schedule includes numerous procedure codes for which the fee is posted as "POC85" meaning that the payment will be made at 85 percent of the charge. This provision of HB175 establishes actual fee amounts that will be used as a cap on payments in place of the POC85 designation.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

The fixed amount fees apply to current services. The data used to measure the impact of the changes included payments on services with transaction dates from July 1, 2010 to June 30, 2012. In order to make a valid comparison between fees and payments, the proposed fees were adjusted to a value consistent with the transaction dates available. This was done by de-trending the proposed fee based on actual changes in the CPI-U to the date of the transaction.

The de-trended fees are the new indicated payments. These indicated payments were then compared with the actual charges. The minimum of the charge and indicated (fee based) payment was then chosen as the final calculated paid amount and compared with actual payments to determine the potential savings. In some cases the final calculated paid amount represents a "cost" to the system since the payment may in fact be higher than 85 percent of the amount charged.

In some cases insufficient information was available to directly calculate a savings. This would include situations where a valid zip code was not available or where the zip code was not a Delaware zip code. Records where the payment exceeded the charge were also separately handled. In these situations the data

was grouped into an “other” category and an average savings factor was applied based on the indicated savings for precisely measured transactions.

An additional amount of professional services, not separately identified in other portions of this analysis, are shown in the middle section of Exhibit 34-6. It has been assumed that payments for these services will most closely compare to the savings for procedures being moved from POC85 to a fee base and the payments are assigned a savings consistent with the savings identified in the upper portion of Exhibit 34-6.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 5.0 percent. When weighting non-network services (approximately 55 percent of services) with services provided under a network agreement, and therefore unaffected by this provision of HB175, the overall impact is a savings of 2.8 percent.

Payments under this provision of HB175 represent approximately 20.1 percent of total medical payments and the impact on total medical payments is a savings of 0.6 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.4 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

§2322B (3) (v) provided that the health care payment system in Delaware not be adjusted for inflation between July 1, 2013 and January 1, 2016, and required that subsequent adjustments to the health care payment system not recoup the adjustments thus foregone.

No Administrative Code Language

Exhibit: 34-7

Brief Description of Intended Change: Fees for professional services currently based on a fee representing 90% of the 75th percentile will not have those values adjusted for inflation during the period July 1, 2013 through January 1, 2016.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

The period July 1, 2013 through January 1, 2016 will include two dates, January 31, 2014 and January 31, 2015, when the fee schedule would normally be adjusted for inflation. This provision effectively places a two year freeze on fee schedule values.

To estimate the savings under this provision of HB175 it is necessary to first estimate what the payments would be in two years if there were no freeze on fees schedule payment rates. As shown in Exhibit 34-11 the DCRB has assumed that charges and payments for Delaware medical professional services will increase at 2.3 percent per year and that the CPI-U will increase at 2.1 percent per year. Based on these indices projected fee schedule values and projected payments are calculated for the first and second years. Projected payments are subject to the constraint that, if the projected paid per unit of service is higher than the projected fee amount, then the projected payment will be limited to the amount allowable under the fee schedule. Exhibit 34-7 estimates that the projected payments in year 2 for the affected services will be \$35,977,845 if fee schedule values are adjusted for inflation each year.

In determining the impact of a freeze in the fee schedule, the projected year 2 payments discussed above have been compared with current fee schedule amounts. If projected payments are below current fee schedule values then there

is no savings but if projected payments rise above current fee schedule values then projected payments are capped at the fee schedule amounts and the reduction is equal to the savings. Exhibit 34-7 estimates that the projected payments in year 2 for the affected services will be \$34,856,172 if fee schedule values are not adjusted for inflation each year. Savings in year 2 are therefore 3.1 percent of payments.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 3.1 percent. When weighting non-network services (approximately 70 percent of services) with services provided under a network agreement, and therefore unaffected by this provision of HB175, the overall impact is a savings of 2.18 percent.

Payments under this provision of HB175 represent approximately 33.1 percent of total medical payments and the impact on total medical payments is a savings of 0.72 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.52 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

§2322B (3) (v) provided that the health care payment system in Delaware not be adjusted for inflation between July 1, 2013 and January 1, 2016, and required that subsequent adjustments to the health care payment system not recoup the adjustments thus foregone.

No Administrative Code Language

Exhibit: 34-8

Brief Description of Intended Change: Fees for professional services based on a fee representing 85% of 90% of the 75th percentile will not have those values adjusted for inflation during the period July 1, 2013 through January 1, 2016.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

The period July 1, 2013 through January 1, 2016 will include two dates, January 31, 2014 and January 31, 2015, when the fee schedule would normally be adjusted for inflation. This provision effectively places a two year freeze on fee schedule values.

The approach used in estimating the savings under this provision of HB175 is similar to the approach using in estimating savings when freezing the fee schedule for fees set at 90% of the 75th percentile and as presented in Exhibit 34-7. The primary difference is that, before estimations can be made, the fees in the fee schedule are adjusted by multiplying by a factor of 0.85 and payments must be adjusted to reflect the lower fee amounts. In cases where the paid amount is higher than the revised (lower) fee schedule amount, the paid amount is adjusted to be equal to the adjusted fee amount.

To estimate the savings under this provision of HB175 an estimate was then made of what the payments would be in two years if there were no freeze on fees schedule payment rates. As shown in Exhibit 34-11 the DCRB has assumed that charges and payments for Delaware medical professional services will increase at 2.3 percent per year and that the CPI-U will increase at 2.1 percent per year. Based on these indices projected fee schedule values and projected payments are calculated for the first and second years. Projected payments are subject to

the constraint that, if the projected paid per unit of service is higher than the projected fee amount, then the projected payment will be limited to the amount allowable under the fee schedule. Exhibit 34-8 estimates that the projected payments in year 2 for the affected services will be \$31,854,291 if fee schedule values are adjusted for inflation each year.

In determining the impact of a freeze in the fee schedule, the projected year 2 payments discussed above have been compared with current fee schedule amounts. If projected payments are below current fee schedule values then there is no savings but if projected payments rise above current fee schedule values then projected payments are capped at the fee schedule amounts and the reduction is equal to the savings. Exhibit 34-8 estimates that the projected payments in year 2 for the affected services will be \$30,716,245 if fee schedule values are not adjusted for inflation each year. Savings in year 2 are therefore 3.6 percent of payments.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 3.6 percent. When weighting non-network services (approximately 51 percent of services) with services provided under a network agreement, and therefore unaffected by this provision of HB175, the overall impact is a savings of 1.82 percent.

Payments under this provision of HB175 represent approximately 6.9 percent of total medical payments and the impact on total medical payments is a savings of 0.13 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.09 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

§2322B (3) (v) provided that the health care payment system in Delaware not be adjusted for inflation between July 1, 2013 and January 1, 2016, and required that subsequent adjustments to the health care payment system not recoup the adjustments thus foregone.

No Administrative Code Language

Exhibit: 34-9

Brief Description of Intended Change: The fee schedule includes numerous procedure codes for which the fee is posted as "POC85" meaning that the payment will be made at 85 percent of the charge. HB175 establishes actual fee amounts that will be used as a cap on payments in place of the POC85 designation. This portion of HB175 requires that the fees thus established will not have those values adjusted for inflation during the period July 1, 2013 through January 1, 2016.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

The period July 1, 2013 through January 1, 2016 will include two dates, January 31, 2014 and January 31, 2015, when the fee schedule would normally be adjusted for inflation. This provision effectively places a two year freeze on fee schedule values.

The fees established for services previously paid at 85 percent of charge are now paid at a specific dollar amount and the effect is that, going forward, payments for these procedures will inflate and otherwise behave much like the fees and payments for services currently priced at 90 percent of the 75th percentile. Thus, the savings associated with a 2 year freeze in reimbursement rates for professional services based on a fee schedule at 90% of the 75th percentile from Exhibit 34-7 are assumed appropriate for services moving from POC85 to a fee amount.

An additional amount of professional services, not separately identified in other portions of the analysis of a 2 year freeze in fees, are shown in the middle section of Exhibit 34-9. It has been assumed that payments for these services

will most closely compare to the savings for procedures being moved from POC85 to a fee base and the payments are assigned a savings consistent with the savings identified in the upper portion of Exhibit 34-9.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 3.1 percent. When weighting non-network services (approximately 55 percent of services) with services provided under a network agreement, and therefore unaffected by this provision of HB175, the overall impact is a savings of 1.7 percent.

Payments under this provision of HB175 represent approximately 20.1 percent of total medical payments and the impact on total medical payments is a savings of 0.34 percent.

The impact on combined indemnity and medical payments is an estimated savings of 0.25 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

§2322B (3) (v) provided that the health care payment system in Delaware not be adjusted for inflation between July 1, 2013 and January 1, 2016, and required that subsequent adjustments to the health care payment system not recoup the adjustments thus foregone.

No Administrative Code Language

§2322B (9) (d) provided that no increases to allowable reimbursement rates for Ambulatory Surgical Centers would be permitted between July 1, 2013 and January 1, 2016 and required that subsequent adjustments to Ambulatory Surgical Center reimbursement rates not recoup the adjustments thus foregone.

No Administrative Code Language

§2322B (14) reiterated the prohibition on adjustments of the payment system for inflation between July 1, 2013 and January 1, 2016 or recoupment of the adjustments thus foregone in later adjustments to the payment system.

No Administrative Code Language

Exhibit: 34-10

Brief Description of Intended Change: This portion of HB175 requires that the payment factor for facility fees associated with hospitals and ambulatory surgical centers will not be adjusted to benefit from inflation attributable to increases in CPI-M or CPI-U during the period July 1, 2013 through January 1, 2016.

Description of Process for Estimating Impacts for Affected Portion(s) of Medical Cost:

The period July 1, 2013 through January 1, 2016 will include two dates, January 31, 2014 and January 31, 2015, when the fee schedule would normally be adjusted for inflation. This provision effectively places a two year freeze on fee schedule values.

Exhibit 34-10 shows the calculation of the current adjusted payment factor for hospitals on line 5 under the column labeled "Current". It is assumed that the

factor for ambulatory surgical centers is equal to the hospital factor. Line 1 shows a projected annual increase of 5.7 percent in hospital costs. This figure is calculated in Exhibit 34-11. On line 2 of Exhibit 34-10 it is assumed that the credit for the annual increase in CPI-M or CPI-U is zero as shown under the columns labeled "Year 1" and "Year 2". The year 2 adjusted rate of 0.6796 indicates a savings of 14.4 percent relative to the current adjusted rate of 0.7936.

The bottom portion of Exhibit 34-10 shows the paid weights, separately for non-network and network provided services along with the corresponding savings.

Portion of Overall Medical Costs Subject to Enacted Change(s):

The overall savings attributable to affected non-network services is estimated at 14.4 percent. When weighting non-network services (approximately 40 percent of services) with services provided under a network agreement, and therefore unaffected by this provision of HB175, the overall impact is a savings of 5.73 percent.

Payments under this provision of HB175 represent approximately 29.5 percent of total medical payments and the impact on total medical payments is a savings of 0.1.69 percent.

The impact on combined indemnity and medical payments is an estimated savings of 1.21 percent.

Delaware Compensation Rating Bureau, Inc.

Savings Evaluation for December 1, 2013 Filing

Statutory Basis: HB175

Rule Citation(s) for Implementation of Change Where Applicable:

None

Exhibit: 34-11

Description of Exhibit 34-11:

Exhibit 34-11 shows a five year summary of the CPI – Urban and various medical indices. It is the basis for the selection of various projected inflation rates used throughout this analysis of HB175 savings.

The CPI-U 5 year average is 2.1 percent. The annual inflation rate for Delaware hospital services is calculated at 5.7 percent and the annual inflation rate for Delaware professional services is calculated at 2.3 percent.

DELAWARE COMPENSATION RATING BUREAU, INC.

ESTIMATED COST SAVINGS OF HOUSE BILL 175 OF 2013

	Base Payments	% Savings (-)		
		To Base Payments	To Total Medical	To Total Indemnity & Medical
HB175 - Adjustments to Reimbursement Rates				
Services moving to 85% of 90% of 75th percentile	9,873,496	-4.3%	-0.3%	-0.2%
Pharmaceuticals (paid at a % of AWP plus handling fee)	14,878,940	-4.6%	-0.5%	-0.3%
Drug Tests (\$100 per test, maximum of 4 times)	733,362	-65.5%	-0.3%	-0.2%
Anesthesia (\$100 Northern Zips, \$76 Southern Zips)	3,334,685	-20.3%	-0.5%	-0.3%
Professional - Other - Total	28,710,072	-2.8%	-0.6%	-0.4%
Hot & Cold Packs (eliminate charge when provided as part of a physical therapy visit)	1,588,276	-97.9%	-1.1%	-0.8%
All Medical	143,037,687	-3.2%	-3.2%	-2.3%
HB175 - Impact of 2 Year Freeze in Reimbursement Rates				
Professional (service reimbursed at 90/75)	47,309,382	-2.18%	-0.72%	-0.52%
Professional (services reimbursed at 85% of 90/75)	9,873,497	-1.82%	-0.13%	-0.09%
Professional - Other - Total	28,710,072	-1.70%	-0.34%	-0.25%
Facility Fees for hospitals, ambulatory surgical services)	42,265,796	-5.73%	-1.69%	-1.21%
Pharmaceuticals (freeze not applicable)	14,878,940	0.00%	0.00%	0.00%
All Medical	143,037,687	-2.88%	-2.88%	-2.07%
Combine Medical Savings			-5.99%	

Delaware Compensation Rating Bureau, Inc.
Estimated Savings - Pathology, Radiology, Laboratory and Durable Medical Equipment
Medical Fees Set at 85% of 90% of the 75th Percentile

Non-Network Services Only	Base Paid	Paid at Fee	Savings (-)	Savings %
Services Currently at 90/75				
Measured Services	2,100,760	1,823,810	(276,949)	-13.2%
Other 90/75 Services Subject to Savings	699,317	607,124	(92,193)	-13.2%
Subtotal	2,800,077	2,430,934	(369,142)	-13.2%
Services Currently at POC85				
Measured Services	1,074,406	1,051,791	(22,614)	-2.1%
Other POC85 Services Subject to Savings	934,163	914,500	(19,663)	-2.1%
Subtotal	2,008,569	1,966,291	(42,277)	-2.1%
Other Services Subject to Savings	178,959	162,108	(16,851)	-9.4% *
Total - Non-Network Services	4,987,604	4,559,334	(428,271)	-8.6%
Network Services				
Not Subject to Savings	4,886,084	4,886,084	-	0.0%
Total - All Services	9,873,688	9,445,417	(428,271)	-4.3%
* Savings % based on:				
Total - Measured Services	3,175,165	2,875,602	(299,564)	-9.4%

Delaware Compensation Rating Bureau, Inc.
Estimated Savings - Pharmaceuticals at a Percentage of AWP Plus Handling Fee

Non-Network Services Only	Paid at POC85	Paid at Fee	Savings (-)	Savings %
Measured Services				
Brand drugs	961,184	828,568	(132,616)	-13.8%
Generic drugs	1,021,929	896,594	(125,336)	-12.3%
Total	1,983,113	1,725,161	(257,952)	-13.0%
Other Services Subject to Savings	3,235,373	2,814,535	(420,838)	-13.0%
Total - All Non-Network Services	5,218,486	4,539,697	(678,790)	-13.0%
 Network Services				
Not Subject to Savings	9,660,453	9,660,453	-	0.0%
 Total - All Services	 14,878,940	 14,200,150	 (678,790)	 -4.6%

Delaware Compensation Rating Bureau, Inc.
Estimated Savings - Drug Testing
Valued at \$100 Per Test, Cap of 4 Times Per Year (Cap also applies to network services)

	Base Paid	Adjusted Paid	Savings (-)	Savings %
Non-Network Services Only				
Measured Services	442,951	114,918	(328,032)	-74.1%
Other Services Subject to Savings	118,876	30,841	(88,035)	-74.1%
Subtotal	561,826	145,759	(416,067)	-74.1%
 Network Services				
Savings Attributable to Cap of 4 Per Year	171,536	107,385	(64,151)	-37.4%
 Total - All Services	 733,362	 253,145	 (480,218)	 -65.5%

Delaware Compensation Rating Bureau, Inc.
Estimated Savings - Anesthesia
Northern Zip Codes (197/198) at \$100, Southern Zip Codes (199) at \$76

	Base Paid	Paid at Fee	Savings (-)	Savings %
Non-Network Services Only				
Measured Services	308,059	155,106	(152,953)	-49.7%
Other Services Subject to Savings	1,052,788	530,072	(522,716)	-49.7%
Subtotal	1,360,847	685,178	(675,669)	-49.7%
Network Services				
Not Subject to Savings	1,973,839	1,973,839	-	0.0%
Total - All Services	3,334,685	2,659,016	(675,669)	-20.3%

Delaware Compensation Rating Bureau, Inc.
Estimated Savings - Professional Services Moving From POC85 to a Fee Amount

Non-Network Services Only	Paid at POC85	Paid at Fee	Savings (-)	Savings %
Measured Services	7,161,156	6,801,014	(360,142)	-5.0%
Other Services Subject to Savings	1,245,092	1,182,475	(62,617)	-5.0%
Total	8,406,248	7,983,489	(422,759)	-5.0%
Network Services				
Not Subject to Savings	2,584,873	2,584,873	-	0.0%
Total - All Services	10,991,120	10,568,362	(422,759)	-3.8%

Estimated Savings - Other Professional Services at New Fee Amount

	Paid Amount	Paid at Fee	Savings (-)	Savings %
Non-Network Services Only	7,361,400	6,991,188	(370,212)	-5.0%
Network Services	10,357,553	10,357,553	-	0.0%
Total - All Services	17,718,953	17,348,741	(370,212)	-2.1%

Estimated Savings - Other Professional Combined

	Paid Amount	Paid at Fee	Savings (-)	Savings %
Non-Network Services Only	15,767,648	14,974,677	(792,971)	-5.0%
Network Services	12,942,426	12,942,426	-	0.0%
Total - All Services	28,710,073	27,917,103	(792,971)	-2.8%

Note: Savings % from calculation for "Services moving from POC85 to a Fee Amount".

Delaware Compensation Rating Bureau, Inc.
Estimated Savings - 2 Year Freeze in Reimbursement Rates
Professional Services Based on Fee Schedule at 90% of the 75th Percentile

EXHIBIT 34-7

Non-Network Services Only	Annual Change	Year 1	Year 2
1 Indicated Fee Schedule Increase	2.10%	1.0210	1.0424
2 Indicated Charge & Payment Increase	2.30%	1.0230	1.0465
3 Projected Total Paid (without Freezing Fees) *		35,219,075	35,977,845
4 Projected Total Paid (with Fees Frozen) **		34,681,949	34,856,172
5 Ratio (4)/(3)		0.985	0.969
6 Savings (-) % [(5)-1]		-1.5%	-3.1%

* Based on indicated increases in Fee Schd & Charges

** Based on existing Fee Schd & indicated increase in Charges

	Base Paid	Savings (-)	Savings %
Total - Non-network Services (2 Year Actual Payments)	33,313,715	(1,032,725)	-3.1%
Network Services Only			
Not Subject to Savings	13,995,667	-	0.0%
Total - All Services	47,309,382	(1,032,725)	-2.18%

Delaware Compensation Rating Bureau, Inc.
Estimated Savings - 2 Year Freeze in Reimbursement Rates
Professional Services Based on Fee Schedule at 85% of 90% of the 75th Percentile

Non-Network Services Only	Annual	Year 1	Year 2
1 Indicated Fee Schedule Increase	2.10%	1.0210	1.0424
2 Indicated Charge & Payment Increase	2.30%	1.0230	1.0465
3 Projected Total Paid (without Freezing Fees) *		31,191,106	31,854,291
4 Projected Total Paid (with Fees Frozen) **		30,631,478	30,716,245
5 Ratio (4)/(3)		0.982	0.964
6 Savings (-) % [(5)-1]		-1.8%	-3.6%

* Based on indicated increases in Fee Schd & Charges

** Based on existing Fee Schd & indicated increase in Charges

	Base Paid	Savings (-)	Savings %
Total - Non-network Services (2 Year Actual Payments)	4,987,413	(179,547)	-3.6%
Network Services Only			
Not Subject to Savings	4,886,084	-	0.0%
Total - All Services	9,873,497	(179,547)	-1.82%

**Delaware Compensation Rating Bureau, Inc.
Estimated Savings - 2 Year Freeze in Reimbursement Rates
Professional Services Moving From POC85 to a Fee Amount**

	Paid Amount	Savings (-)	Savings %
Non-Network Services Only	8,406,248	(260,594)	-3.1%
Network Services	2,584,872	-	0.0%
Total - All Services	10,991,120	(260,594)	-2.4%

Other Professional Services at New Fee Amount

	Paid Amount	Savings (-)	Savings %
Non-Network Services Only	7,361,400	(228,203)	-3.1%
Network Services	10,357,553	-	0.0%
Total - All Services	17,718,953	(228,203)	-1.3%

Estimated Savings - Other Professional Combined

	Paid Amount	Savings (-)	Savings %
Non-Network Services Only	15,767,648	(488,797)	-3.10%
Network Services	12,942,425	-	0.00%
Total - All Services	28,710,073	(488,797)	-1.70%

Note: Savings % from calculation for "Services moving from Exhibit XX-6.

Delaware Compensation Rating Bureau, Inc.
Estimated Savings - 2 Year Freeze in Reimbursement Rates
Facility Fees - Hospitals & Ambulatory Surgical Centers

	Current	Projected Average	Year 1	Year 2
1 Hospitals - Annual Increase	4.34%	5.70%	5.70%	5.70%
2 CPI-M - Annual Increase	3.70%	3.40%	0.00%	0.00%
3 Difference (as %)	0.64%	2.30%	5.70%	5.70%
Difference (As Factor)	0.0064	0.0230	0.0570	0.0570
4 Base Rate	0.8000		0.7936	0.7366
5 Adjusted Rate (4)-(3)	0.7936		0.7366	0.6796
6 Ratio (5)/(5 _{current})			0.928	0.856
7 Savings (-) % [(6)-1]			-7.2%	-14.4%

Summary	Paid Amount	Savings (-)	Savings %
Non-Network Services	16,815,055	(2,421,368)	-14.40%
Network Services	25,450,741	-	0.00%
Total - Facility Fees	42,265,796	(2,421,368)	-5.73%

Delaware Compensation Rating Bureau, Inc.

Projected Annual Increases in Cost of Hospital & Professional Services

Consumer Price Index - All Urban Consumers
 12-Month Percent Change
 Not Seasonally Adjusted

ALL STATES

Year	Urban All Items	Medical Care				Professional Services	Physicians' Services	Services by				Outpatient Hospital Svcs
		Medical Care	Commodities	Medical Care Services	Other Med Prof			Hospital and Related Svcs	Hospital Services	Inpatient Hospital Svcs		
2008	3.8	3.7	2.1	4.2	3.4	2.7	4.1	7.0	7.4	7.1	7.7	
2009	-0.4	3.2	3.1	3.2	2.7	3.0	2.1	6.4	6.9	6.7	7.4	
2010	1.6	3.4	3.1	3.5	2.8	3.3	2.2	7.0	7.8	8.8	6.1	
2011	3.2	3.0	3.0	3.1	2.3	2.7	1.4	5.6	6.2	6.8	5.1	
2012	2.1	3.7	2.9	3.9	1.9	2.1	1.0	4.8	5.1	5.2	5.0	
5-Yr Avg	2.1	3.4	2.8	3.6	2.6	2.8	2.2	6.2	6.7	6.9	6.3	

Source: Bureau of Labor Statistics

			Hospital and Related Svcs		* De Hospital Base Rate	0.8000
U.S.	2012		4.8		De Hospital Adjusted Rate	0.7936
De Hospitals			4.3 *		Difference	0.0064
Difference			0.5		De Hospital inflation (1/31/2013 CPI-M)	3.70
Ratio De to US			0.90		Difference	0.64
					Adj De Hospital Inflation	4.3
			Hospital and Related Svcs			
U.S.	5-Yr Avg		6.2			
Difference			0.5			
De Hospitals			5.7			
			Professional Services			
U.S.	5-Yr Avg		2.6			
Ratio De to US			0.90			
De Professional			2.3			