

DELAWARE COMPENSATION RATING BUREAU, INC.

Evaluation of House Bill 373 of 2014

**Introduction**

§2322B of House Bill 373 of 2014 (HB373) sets forth procedures and requirements applicable to the health care payment system for workers compensation claims. Among those procedures and requirements are the following notable elements:

§2322B (3)(a):

The Workers' Compensation Oversight Panel (WCOP) shall, by October 1, 2014, establish a fee schedule for all Delaware workers compensation funded procedures, treatments and services based on the Resource Based Relative Value Scale ("RBRVS"), Medical Severity Diagnosis Related Group (MS-DRG), Ambulatory Payment Classification (APC), or equivalent scale used by the Centers for Medicare and Medicaid Services.

The fee schedule shall result in a reduction of 20% in aggregate workers compensation medical expenses by the year beginning January 31, 2015, an additional reduction of 5% of 2014 expenses by the year beginning January 31, 2016 and an additional reduction of 8% of 2014 expenses by the year beginning January 31, 2017.

§2322B (3)(b):

By January 31, 2017, no individual procedure in Delaware paid for through the workers compensation system shall be reimbursed at a rate greater than 200% of that reimbursed by the federal Medicare system, provided that radiology services may be reimbursed at up to 250% of the federal Medicare reimbursement and surgery services may be reimbursed at up to 300% of the federal Medicare reimbursement.

Section 3:

The advisory organization designated by the Department of Insurance pursuant to Title 18, Section 2607 of the Delaware Code (DCRB) shall, within 90 days of enactment of this act, file for approval by the Insurance Commissioner prospective loss costs that shall explicitly and individually account for the impact of any statutory changes in this act.

Note: HB373 was signed into law on July 15, 2014. Accordingly, 90 days after enactment of HB373 is October 13, 2014.

The WCOP and/or subgroups assigned specific tasks by the WCOP have invested, and continue to apply, extensive time and effort toward accomplishing the mandate(s) of HB373. Notwithstanding that ongoing work, however, a fee schedule complying with HB373 has not been established as of the date of this writing. Therefore, the Delaware Compensation Rating Bureau, Inc. (DCRB) did not have a fee schedule(s) to review and consider when preparing the required prospective loss cost filing. That filing is required to be submitted not later than October 13, 2014, and was needed in draft form some time in advance of a joint meeting of the DCRB's Actuarial and Classification & Rating Committees, which was held on September 30, 2014.

The above circumstances placed the DCRB in the position of being required to propose prospective loss costs that account for the effect of a fee schedule(s) that does/do not yet exist.

*DCRB Approach to Evaluating HB373:* The DCRB is aware of what HB373 requires in terms of revisions to the medical fee schedule – savings in aggregate medical expenses of 20 percent by the year beginning January 31, 2015, 25 percent of 2014 expenses by the year beginning January 31, 2016 and 33 percent of 2014 expenses by the year beginning January 31, 2017.

The DCRB does not know what specific values the new fee schedules will use, or what overall changes in medical fee amounts will be reflected in those fee schedules. It is clear that medical fees would have to be reduced by percentages that are larger than the statutory reductions in medical expenses in order to achieve the necessary savings in expenses.

The DCRB cannot presently either corroborate or dispute the accomplishment of HB373's mandates for medical expense reductions through the construct of future fee schedules. Accordingly, the December 1, 2014 DCRB filing of prospective loss costs incorporates savings estimates based entirely on the assumption that the savings specified in the law will be fully realized.

The DCRB will carefully assess the new fee schedules when they become available. The DCRB's review will include a request(s) for supporting information from the WCOP regarding the bases for, and information used in the course of, developing those new schedules. It is expected that the DCRB's review will confirm that the revised fee schedules are consistent with HB373 in all material respects. However, in the event that our review suggests otherwise, the DCRB reserves its right to submit, at any time following the completion of that review, a filing of prospective loss costs and residual market rates consistent with the DCRB's evaluation of the effects of HB373.

Sheet 2 of Exhibit 35 calculates savings factors by payment year for a forty year medical payout pattern. The annual savings of 2014 medical expenses are reflected in the first, second and finally third year of the payout. For the second and third years of the payout pattern, the required reductions in medical expenses pre-empt what would otherwise have

been inflationary adjustments to medical fees and payments based on the CPI-U index. This overlap of provisions amplifies the otherwise attainable savings for this legislation.

On Sheet 1 of Exhibit 35, the savings factors from Sheet 2 are applied to the DCRB's selected medical payout pattern. The resulting cumulative payments (\$675,460) are compared to the unadjusted payout of \$1,000,000, deriving the overall HB3873 potential savings factor of 32.45 percent.

**Delaware Compensation Rating Bureau, Inc.  
HB373 - Estimated Savings**

Year (1)	Medical 40 Year Payout		Savings Factor (4)	Indicated Paid (5) (3)*\$1,000,000	Adjusted Paid (6) (5)*( 1+(4))
	Cum (2)	Increm (3)			
0					
1	0.0560	0.0560	-20.00%	56,000	44,800
2	0.2570	0.2010	-26.18%	201,000	148,378
3	0.3632	0.1062	-35.09%	106,200	68,934
4	0.4234	0.0602	-35.09%	60,200	39,076
5	0.4650	0.0416	-35.09%	41,600	27,003
6	0.4971	0.0321	-35.09%	32,100	20,836
7	0.5235	0.0264	-35.09%	26,400	17,136
8	0.5464	0.0229	-35.09%	22,900	14,864
9	0.5668	0.0204	-35.09%	20,400	13,242
10	0.5855	0.0187	-35.09%	18,700	12,138
11	0.6030	0.0175	-35.09%	17,500	11,359
12	0.6195	0.0165	-35.09%	16,500	10,710
13	0.6353	0.0158	-35.09%	15,800	10,256
14	0.6505	0.0152	-35.09%	15,200	9,866
15	0.6653	0.0148	-35.09%	14,800	9,607
16	0.6797	0.0144	-35.09%	14,400	9,347
17	0.6939	0.0142	-35.09%	14,200	9,217
18	0.7080	0.0141	-35.09%	14,100	9,152
19	0.7218	0.0138	-35.09%	13,800	8,958
20	0.7355	0.0137	-35.09%	13,700	8,893
21	0.7492	0.0137	-35.09%	13,700	8,893
22	0.7629	0.0137	-35.09%	13,700	8,893
23	0.7764	0.0135	-35.09%	13,500	8,763
24	0.7900	0.0136	-35.09%	13,600	8,828
25	0.8034	0.0134	-35.09%	13,400	8,698
26	0.8166	0.0132	-35.09%	13,200	8,568
27	0.8296	0.0130	-35.09%	13,000	8,438
28	0.8424	0.0128	-35.09%	12,800	8,308
29	0.8550	0.0126	-35.09%	12,600	8,179
30	0.8674	0.0124	-35.09%	12,400	8,049
31	0.8797	0.0123	-35.09%	12,300	7,984
32	0.8919	0.0122	-35.09%	12,200	7,919
33	0.9040	0.0121	-35.09%	12,100	7,854
34	0.9160	0.0120	-35.09%	12,000	7,789
35	0.9279	0.0119	-35.09%	11,900	7,724
36	0.9397	0.0118	-35.09%	11,800	7,659
37	0.9514	0.0117	-35.09%	11,700	7,594
38	0.9630	0.0116	-35.09%	11,600	7,530
39	0.9745	0.0115	-35.09%	11,500	7,465
40	1.0000	0.0255	-35.09%	25,500	16,552
	Total		-32.45%	1,000,000	675,460

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HB373 - Estimated Savings**

Year	Allowable Increase	Base Rate	Estimated Additional Savings	Adj Rate	Savings % (-)	Savings Cum % (-)
(7)	(8)	(9) (9 <sub>yr-1</sub> )*(1+(8))	(10)	(11)	(12) (13)-(13 <sub>yr-1</sub> )	(13) (11)/(9) -1
0	-	0.7563				
1	-	0.7563	20%	0.6050	-20.00%	-20.00%
<b>CPI-U</b>						
2	0.0160	0.7684	5%	0.5672	-6.18%	-26.18%
3	0.0160	0.7807	8%	0.5067	-8.91%	-35.09%
4	0.0160	0.7932		0.5148	0.00%	-35.09%
5	0.0160	0.8059		0.5231	0.00%	-35.09%
6	0.0160	0.8188		0.5314	0.00%	-35.09%
7	0.0160	0.8319		0.5399	0.00%	-35.09%
8	0.0160	0.8452		0.5486	0.00%	-35.09%
9	0.0160	0.8587		0.5574	0.00%	-35.09%
10	0.0160	0.8724		0.5663	0.00%	-35.09%
11	0.0160	0.8864		0.5753	0.00%	-35.09%
12	0.0160	0.9006		0.5845	0.00%	-35.09%
13	0.0160	0.9150		0.5939	0.00%	-35.09%
14	0.0160	0.9296		0.6034	0.00%	-35.09%
15	0.0160	0.9445		0.6130	0.00%	-35.09%
16	0.0160	0.9596		0.6229	0.00%	-35.09%
17	0.0160	0.9750		0.6328	0.00%	-35.09%
18	0.0160	0.9906		0.6429	0.00%	-35.09%
19	0.0160	1.0064		0.6532	0.00%	-35.09%
20	0.0160	1.0225		0.6637	0.00%	-35.09%
21	0.0160	1.0389		0.6743	0.00%	-35.09%
22	0.0160	1.0555		0.6851	0.00%	-35.09%
23	0.0160	1.0724		0.6961	0.00%	-35.09%
24	0.0160	1.0896		0.7072	0.00%	-35.09%
25	0.0160	1.1070		0.7185	0.00%	-35.09%
26	0.0160	1.1247		0.7300	0.00%	-35.09%
27	0.0160	1.1427		0.7417	0.00%	-35.09%
28	0.0160	1.1610		0.7535	0.00%	-35.09%
29	0.0160	1.1796		0.7656	0.00%	-35.09%
30	0.0160	1.1984		0.7779	0.00%	-35.09%
31	0.0160	1.2176		0.7903	0.00%	-35.09%
32	0.0160	1.2371		0.8029	0.00%	-35.09%
33	0.0160	1.2569		0.8158	0.00%	-35.09%
34	0.0160	1.2770		0.8288	0.00%	-35.09%
35	0.0160	1.2974		0.8421	0.00%	-35.09%
36	0.0160	1.3182		0.8556	0.00%	-35.09%
37	0.0160	1.3393		0.8693	0.00%	-35.09%
38	0.0160	1.3607		0.8832	0.00%	-35.09%
39	0.0160	1.3825		0.8973	0.00%	-35.09%
40	0.0160	1.4046		0.9117	0.00%	-35.09%