

Delaware Compensation Rating Bureau, Inc.



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VIA EMAIL AND FIRST CLASS MAIL

June 8, 2015

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

Re: January 31, 2015 Medical Fee Schedules - Ambulatory Surgery Centers

Dear Secretary McMahon:

The Delaware Compensation Rating Bureau, Inc. (DCRB) has undertaken a review of the January 31, 2015 medical fee schedules in Delaware. The purpose of that review was 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.

Although the DCRB has expended substantial time and effort in accomplishing the analysis summarized in this letter and documented in the accompanying attachments, we invite the WCOP to review these materials, to ask questions about our approach or results, and/or to suggest modifications to our calculations and/or the interpretation of our results. Given the extraordinary impact that anticipated savings from HB373 had on the DCRB's December 1, 2014 residual market rate and voluntary market loss cost filing, the DCRB believes that it is imperative that the DCRB and WCOP share as common an impression as possible regarding the effects of the January 31, 2015 medical fee schedules on medical expenditures for workers compensation claims in Delaware.

This letter and its accompanying materials pertain to our review of the portion of the January 31, 2015 medical fee schedules applicable to Ambulatory Surgery Centers (ASCs). We will soon be providing additional correspondence that will present our analyses of the January 31, 2015 medical fee schedules with respect to hospital services (separately for inpatient and outpatient services) and professional services.

We look forward to a cooperative and constructive dialogue about this work, and the series of additional analyses that we will be providing to the WCOP in the near future.

### SUMMARY OF FINDINGS

Materials that the WCOP provided to the DCRB indicate that the WCOP's intended reduction in ASC 2013 payments (calculated as the January 31, 2013 percent of charge multiplied by the charge values reported by ASCs) to be embodied in the January 31, 2015 medical fee schedule was 25 percent.

Our review included consideration of data provided to the DCRB by the WCOP as well as data that the DCRB collected under the auspices of our Medical Data Call initiative. Our approach used estimates of 2014 charges and 2015 charges for ASC services based on available 2013 data. Since no ASC fee schedule existed prior to 2015, for the DCRB data, we applied paid-to-charged relationships seen in 2013 to the estimated 2014 charges, calculating estimated 2014 payments, which we limited to the charged amounts. The level of detail at which we were able to perform those calculations was different for data provided to us by the WCOP (which was summary data by procedure code) compared to the DCRB's own Medical Data Call information (for which we have individual medical bill line items). The projected payments derived from estimated 2014 charges and the 2014 fee schedule were used as the baselines from which the effects of the 2015 fee schedule were measured.

We then repeated the process described above using estimated 2015 charges and the 2015 Delaware fee schedule. The projected 2015 payments thus derived were compared to the 2014 baselines to estimate the effects of the 2015 fee schedule.

Our estimates do not reflect the distribution of individual charges for each procedure code within the summarized WCOP data, and they do not capture the unknown effects of provider contracts or other similar arrangements (which prevail, in lieu of the fee schedule, as a means of determining reimbursements) for either data set used in our analysis. Accordingly, we refer to our projected payments as "fee-adjusted charges".

**Across all ASC procedures, our review estimated reductions in fee-adjusted charges from 2014 levels as a result of the January 31, 2015 medical fee schedule changes ranging from less than one percent to slightly more than six percent.**

There were notable partitions of the ASC services between which the effect of the January 31, 2015 medical fee schedule appears to vary significantly based on our review. Among those divisions of ASC services were the following:

- For Geozip 197, we found impacts in fee-adjusted charges at 2014 levels for ASC services ranging from an increase of about one percent to a savings of approximately six percent, depending on the data source used.
- For Geozip 199, we found savings in fee-adjusted charges at 2014 levels for ASC services ranging from just over six percent to more than 16 percent depending on the data source used.

The Honorable John McMahon

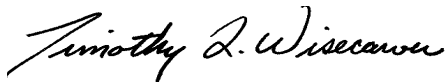
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- For ASC services with fee amounts published in the January 31, 2015 medical fee schedule, we found increases in fee-adjusted charges at 2014 levels of approximately nine percent regardless of the data source used.
- For ASC services subject to reimbursement as a percent of charge in the January 31, 2015 medical fee schedule, we found savings in fee-adjusted charges at 2014 levels ranging from over 16 percent to almost 19 percent depending on the data source used.
- For ASC services billed as procedure codes other than Revenue Codes, we found impacts in fee-adjusted charges at 2014 levels ranging from an increase of almost two percent to a savings of less than one percent depending on the data source used.
- For ASC services billed as Revenue Codes, we found savings in fee-adjusted charges at 2014 levels of more than 15 percent. Because the WCOP data did not include any ASC services billed under Revenue Codes, this finding was limited to the indication based on the DCRB's Medical Data Call information.

A memorandum describing the DCRB's analysis of ASC expenditures, and copies of supporting exhibits for that discussion, are provided as attachments to this letter.

Sincerely,



Timothy L. Wisecarver  
President

Enclosures (With Email)

Memorandum Dated June 8, 2015  
Excel File "DCRB Analysis of the WCOP ASC Data.xlsx"  
Excel File "DCRB Analysis of the DCRB ASC Data.xlsx"

Enclosures (Hard Copy)

Memorandum Dated June 8, 2015

June 8, 2015

To: Delaware Workers Compensation Oversight Panel (WCOP)  
From: The Delaware Compensation Rating Bureau, Inc. (DCRB)  
Subject: DCRB Review and Analysis of January 31, 2015 Medical Fee Schedule  
Pertaining to Ambulatory Surgery Centers (ASCs)

House Bill No. 373 of 2014 (HB373) required a 20 percent reduction in 2014 medical expenditures by the year beginning January 31, 2015.

The DCRB interprets this requirement to mean that medical fees and/or payment procedures in effect beginning January 31, 2015, when applied to charges anticipated for services rendered after January 31, 2015, must produce expenditures 20 percent lower than would have been paid for the same services if billed at 2014 levels and reimbursed using 2014 medical fees and/or payment procedures.

The WCOP collected data from selected provider groups, notably Ambulatory Surgery Centers and Hospitals, during its work in developing the January 31, 2015 medical fee schedules. The WCOP provided summary information from that data to the DCRB, for which we are very appreciative. The DCRB also collected Medical Data Call information, which we were able to use in this analysis.

The DCRB's efforts to measure the effects of changes in the fee schedules effective January 31, 2015 have attempted to compare the following two measures of cost for ASCs:

**ADJUSTED PRIOR PAYMENT LEVEL:** This measure represents estimated payments in 2014, based on services originally paid for in 2013. For the DCRB data, charges submitted for services paid for in 2013 were adjusted to an expected 2014 level (i.e. adjusted for expected inflation) and estimated 2014 payments were then derived by applying the observed paid-to-charged ratios from 2013 to the estimated 2014 charges. For the WCOP data, the DCRB understands that the WCOP derived estimated 2014 charges and/or payments based on its 2013 data.

**EXPECTED NEW PAYMENT LEVEL:** This measure represents estimated payments in 2015, based on services originally paid for in 2013. For both the DCRB and WCOP data, charges submitted for services paid for in 2013 were adjusted to an expected 2015 level (i.e. adjusted for expected inflation). Estimated 2015 payments were then derived based on the estimated 2015 charges by applying the January 31, 2015 medical fee schedule to them. Estimated 2015 payments were capped at estimated 2015 charges. This capping was done at the summary level by procedure code in the WCOP data and by medical bill line item in the DCRB data.

The above comparisons are the essential results of the work that the DCRB has obtained in terms of how much, or how little, the January 31, 2015 medical fee schedule changed from 2014 payment procedures for ASC services and, to the extent we were able to estimate this, how much those changes might be expected to affect medical expenditures for ASC services in Delaware.

### WCOP Data

In the course of work performed in developing the January 31, 2015 ASC fee schedule, the WCOP apparently collected data from ASCs which consisted of charges for which reimbursements were received during Calendar Year 2013. The DCRB understands that this data was supplemented by the WCOP with the derivation of amounts that would have been paid for such services in 2014 based on the 2013 charges and the 2014 paid-to-charged ratios for ASCs. The DCRB has attempted to make the maximum use of a summary of this information provided to it by the WCOP. The summary data, which included combined services by procedure code, did not include provider, claimant, employer or insurer identifications, and did not generally show individual services.

### DCRB's Analysis of the WCOP ASC Data

The DCRB's analysis of the WCOP data is attached to this e-mail.

A description of the columns within the DCRB's analysis of the WCOP data is as follows:

Geozip  
HCPCS  
HCPCS Description  
Status Code  
Medicare Payment Rule  
Relative Weight  
Volume  
TotWgt  
2014 Charges  
2014 Paid

These fields were included in the WCOP data that was provided to the DCRB. For Relative Weight entries that were blank, a POC (percent of charge) percentage of 64.02% was entered for Geozip 197 and 66.5% for Geozip 199. We understood that the Charges and Paid columns are at 2014 levels. The 2014 Paid column is the ADJUSTED PRIOR PAYMENT LEVEL described above.

### 2015 Charges

This column represents the amounts in the 2014 Charges column adjusted for the expected effect of medical inflation in 2015 (i.e. they were multiplied by the average annual rate of change in the CPI-M during the first three months of 2015 of 2.5%).

### FS 1/31/15 Base Amt

For procedures with specified fee amounts published in the fee schedule as of January 31, 2015, this column represents the January 31, 2015 ASC fee schedule amounts by geozip and HCPCS code.

For procedures not subject to a specified fee as of January 31, 2015, this column is calculated by dividing the 2015 Charges column by the Volume column and multiplying by the January 31, 2015 POC percentages in the Relative Weight column.

FS 1/31/15 Extended Amt

This column is calculated by multiplying the FS 1/31/15 Base Amt column by the Volume column.

FS 1/31/15 Extended Amt with Charge Amt Cap

This column is the FS 1/31/15 Extended Amt column capped by the values in the 2015 Charges column. This column is the EXPECTED NEW PAYMENT LEVEL described above. The total across procedure codes was viewed as a high estimate of the overall EXPECTED NEW PAYMENT LEVEL (with the overstatement of the estimate being due to the distribution of charges above and below the average).

\$ Difference

This column is the FS 1/31/15 Extended Amt with Charge Amt Cap column minus the 2014 Paid column. A negative amount indicates the dollars of savings by using the January 31, 2015 Fee Schedule.

% Difference

This column is the \$ Difference column divided by the 2014 Paid column. A negative amount indicates the percentage of savings by using the January 31, 2015 Fee Schedule.

The analysis is displayed by HCPCS code, in order of the magnitude of percentage savings calculated, from least (positive percentages) to greatest (negative percentages).

DCRB Observations Regarding the Analysis of the WCOP ASC Data

Geozip 197 was the predominant portion of ASC data, representing over 90 percent of the ADJUSTED PRIOR PAYMENT LEVEL.

Within Geozip 197, a significant part of services reimbursed in 2013 had status codes N, E, B or Y, which the DCRB understands are not reimbursable under the Medicare fee schedule used in Delaware as the basis for the January 31, 2015 fee schedule for workers compensation cases.

While Geozip 199 included some services reimbursed in 2013 with status codes N, E, B or Y, the amount and proportion of those types of services were smaller than was seen in Geozip 197.

For procedures where the January 31, 2015 fee schedule contained a specified fee for ASC services, relationships between those fees and the average charge in 2014 ranged from situations where the fee was a small portion of the 2014 charge to other cases where the fees were about twice as high as the 2014 charges.

For procedures subject to specified fees in the January 31, 2015 fee schedule, the EXPECTED NEW PAYMENT LEVEL from WCOP data was actually higher (by 9.64%) than the ADJUSTED PRIOR PAYMENT LEVEL. Further, for those same procedures within Geozip 199, the EXPECTED NEW PAYMENT LEVEL from WCOP data was approximately 15.33% lower than the ADJUSTED PRIOR PAYMENT LEVEL. However, for those same procedures within Geozip 197, the EXPECTED NEW PAYMENT LEVEL from WCOP data was actually higher (by 12.96%) than the ADJUSTED PRIOR PAYMENT LEVEL.

For procedures reimbursed at a percent of charge under the January 31, 2015 fee schedule, the EXPECTED NEW PAYMENT LEVEL from WCOP data was lower than the ADJUSTED PRIOR PAYMENT LEVEL by approximately 18.86%. The breakdown was fairly consistent between Geozips 197 and 199 at 18.73% and 20.96%, respectively.

**Across all ASC procedures, regardless of how the January 31, 2015 fee schedule determines reimbursements, the EXPECTED NEW PAYMENT LEVEL from WCOP data was approximately 0.79% lower than the ADJUSTED PRIOR PAYMENT LEVEL.**

#### DCRB Data

The DCRB has Medical Data Call information for transaction dates and service dates during 2013. This data is at the level of detail of individual medical bill line items. ASC data was identified by using either of the following criteria:

- 1.) Taxonomy Code 261QA1903X and Place of Service Code 24 (ASC) or 22 (Outpatient Hospital)
- 2.) Any other facility taxonomy code and Place of Service Code 24 (ASC)

#### DCRB's Analysis of the DCRB ASC Data

The DCRB's analysis of the DCRB data is also attached to this e-mail.

Using DCRB data, the DCRB was able to re-price each individual ASC line item for services paid in Calendar Year 2013. This re-pricing was performed in the same fashion as was described above for the WCOP summary-level data.

A description of the columns within the DCRB's analysis of DCRB data is as follows:

2013 Charges

This column represents the amounts of Calendar Year 2013 Charges.

2014 Charges

This column represents the amounts in the 2013 Charges column adjusted for the expected effect of medical inflation in 2014 (i.e. they were multiplied by the 2014 average annual rate of change in CPI-M of 2.4%).

2015 Charges

This column represents the amounts in the 2014 Charges column adjusted for the expected effect of medical inflation in 2015 (i.e. they were multiplied by the average annual rate of change in the CPI-M during the first three months of 2015 of 2.5%).

2013 Paid

This column represents the amounts of Calendar Year 2013 Paid.

2014 Paid

Since no fee schedule exists for ASCs prior to the January 31, 2015 fee schedule, this column is calculated by dividing the 2013 Paid column by the 2013 Charges column and then multiplying by the 2014 Charges column. That result was then capped by the values in the 2014 Charges column. This column is the ADJUSTED PRIOR PAYMENT LEVEL described above.

2015 Paid

For procedures with specified fee amounts published in the fee schedule as of January 31, 2015, this column is calculated by multiplying the fee amount by the number of units associated with the procedure code. That result was then capped by the values in the 2015 Charges column.

For procedures not subject to a specified fee as of January 31, 2015, this column is calculated by multiplying the POC percentage for the procedure code by the 2015 Charges column. That result was then capped by the values in the 2015 Charges column.

The total across procedure codes was viewed as a high estimate of the overall EXPECTED NEW PAYMENT LEVEL (with the overstatement of the estimate being due to the distribution of charges above and below the average).

2015 Paid as % of 2014 Paid

This column is the 2015 Paid column divided by the 2014 Paid column.

% Savings

This column is the 2015 Paid as % of 2014 Paid column minus unity (i.e. 1.000). A negative amount indicates the percentage of savings by using the January 31, 2015 Fee Schedule.



DCRB Observations Regarding the Analysis of the DCRB ASC Data

For procedures subject to specified fees in the January 31, 2015 fee schedule, the EXPECTED NEW PAYMENT LEVEL from DCRB data was actually higher (by 8.89%) than the ADJUSTED PRIOR PAYMENT LEVEL. As noted above, the comparable value from WCOP data was 9.64%. Further, the EXPECTED NEW PAYMENT LEVEL was also higher than the ADJUSTED PRIOR PAYMENT LEVEL by geozip using the DCRB data (10.58% for Geozip 197 and 2.57% for Geozip 199).

For procedures reimbursed at a percent of charge under the January 31, 2015 fee schedule, the EXPECTED NEW PAYMENT LEVEL from DCRB data was lower than the ADJUSTED PRIOR PAYMENT LEVEL by approximately 16.25%. The breakdown was fairly consistent between Geozips 197 and 199 at 16.89% and 13.23%, respectively. This consistency was also seen with the WCOP data.

**Across all ASC procedures, regardless of how the January 31, 2015 fee schedule determines reimbursements, the EXPECTED NEW PAYMENT LEVEL from DCRB data was approximately 6.07% lower than the ADJUSTED PRIOR PAYMENT LEVEL. The comparable value for the WCOP data was 0.79% lower.**

**WCOP Data**  
**Ambulatory Surgical Center (ASC) Data Repricing using January 31, 2015 DE Fee Schedule**

	Volume	TotWgt	Charges	2014 Paid	Charges	Base Amt	Extended	Extended	\$ Difference	% Difference
Fee-Based* Total	2,830	40,380	\$5,429,589	\$4,396,291	\$5,565,329		\$5,668,435	\$4,820,182	\$423,891	9.64%
POC Total	3,254	90	\$3,133,699	\$2,539,616	\$3,212,041		\$2,060,670	\$2,060,670	-\$478,946	-18.86%
Grand Total	6,084	40,470	\$8,563,288	\$6,935,907	\$8,777,370		\$7,729,105	\$6,880,852	-\$55,055	-0.79%
Geozip 197	5,725	36,470	\$7,790,263	\$6,273,133	\$7,985,019		\$7,112,193	\$6,327,944	\$54,811	0.87%
Geozip 199	359	4,000	\$773,025	\$662,774	\$792,351		\$616,913	\$552,908	-\$109,866	-16.58%
Grand Total	6,084	40,470	\$8,563,288	\$6,935,907	\$8,777,370		\$7,729,105	\$6,880,852	-\$55,055	-0.79%

Fee-Based*, Geozip 197	2,552	36,470	\$4,826,549	\$3,880,102	\$4,947,213		\$5,167,389	\$4,383,140	\$503,038	12.96%
Fee-Based*, Geozip 199	278	3,911	\$603,040	\$516,189	\$618,116		\$501,047	\$437,042	-\$79,147	-15.33%
Fee-Based* Total	2,830	40,380	\$5,429,589	\$4,396,291	\$5,565,329		\$5,668,435	\$4,820,182	\$423,891	9.64%
POC, Geozip 197	3,173	0	\$2,963,714	\$2,393,031	\$3,037,807		\$1,944,804	\$1,944,804	-\$448,227	-18.73%
POC, Geozip 199	81	90	\$169,985	\$146,585	\$174,235		\$115,866	\$115,866	-\$30,719	-20.96%
POC Total	3,254	90	\$3,133,699	\$2,539,616	\$3,212,041		\$2,060,670	\$2,060,670	-\$478,946	-18.86%

**Delaware Medical Data Call**

**Ambulatory Surgical Center (ASC) Data Repricing using January 31, 2015 DE Fee Schedule**

**ASC identified by Taxonomy Code 261QA1903X and Place of Service Code 24 (ASC) or 22 (Outpatient Hospital)**

**OR Any Other Facility Taxonomy Code and Place of Service Code 24 (ASC)**

**Transaction Dates and Service Dates January 1, 2013 - December 31, 2013**

2014 CPI-M = 2.4%  
2015 CPI-M = 2.5%

	(A)	(B)	(C)	(D)	(E)	(F)	(G)=(F)/(E)	(H)=(G)-1.000
<b>Payment Type</b>	<b>2013 Charges</b>	<b>2014 Charges</b>	<b>2015 Charges</b>	<b>2013 Paid</b>	<b>2014 Paid</b>	<b>2015 Paid</b>	<b>2015 Paid as % of 2014 Paid</b>	<b>% Savings</b>
Fee Schedule	\$1,283,839	\$1,314,651	\$1,347,517	\$1,033,103	\$1,062,662	\$1,157,176	108.89%	8.89%
POC	\$1,834,221	\$1,878,242	\$1,925,198	\$1,516,804	\$1,561,762	\$1,307,978	83.75%	-16.25%
Grand Total	\$3,118,059	\$3,192,893	\$3,272,715	\$2,549,907	\$2,624,424	\$2,465,153	93.93%	-6.07%

<b>Geozip</b>	<b>2013 Charges</b>	<b>2014 Charges</b>	<b>2015 Charges</b>	<b>2013 Paid</b>	<b>2014 Paid</b>	<b>2015 Paid</b>	<b>2015 Paid as % of 2014 Paid</b>	<b>% Savings</b>
197	\$2,502,629	\$2,562,692	\$2,626,760	\$2,071,754	\$2,128,809	\$1,999,789	93.94%	-6.06%
199	\$615,430	\$630,201	\$645,956	\$478,153	\$495,616	\$465,364	93.90%	-6.10%
Grand Total	\$3,118,059	\$3,192,893	\$3,272,715	\$2,549,907	\$2,624,424	\$2,465,153	93.93%	-6.07%

<b>Payment Type</b>	<b>2013 Charges</b>	<b>2014 Charges</b>	<b>2015 Charges</b>	<b>2013 Paid</b>	<b>2014 Paid</b>	<b>2015 Paid</b>	<b>2015 Paid as % of 2014 Paid</b>	<b>% Savings</b>
Fee Schedule, Geozip 197	\$991,830	\$1,015,634	\$1,041,024	\$816,179	\$839,168	\$927,927	110.58%	10.58%
Fee Schedule, Geozip 199	\$292,009	\$299,017	\$306,493	\$216,924	\$223,495	\$229,248	102.57%	2.57%
Fee Schedule Total	\$1,283,839	\$1,314,651	\$1,347,517	\$1,033,103	\$1,062,662	\$1,157,176	108.89%	8.89%
POC, Geozip 197	\$1,510,799	\$1,547,059	\$1,585,735	\$1,255,575	\$1,289,641	\$1,071,862	83.11%	-16.89%
POC, Geozip 199	\$323,421	\$331,183	\$339,463	\$261,229	\$272,121	\$236,116	86.77%	-13.23%
POC Total	\$1,834,221	\$1,878,242	\$1,925,198	\$1,516,804	\$1,561,762	\$1,307,978	83.75%	-16.25%