

Delaware Compensation Rating Bureau, Inc.



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VIA EMAIL AND FIRST CLASS MAIL

June 19, 2015

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

Re: January 31, 2015 Medical Fee Schedules – Hospital Outpatient Services

Dear Secretary McMahon:

This letter follows our earlier correspondence (June 8, 2015) pertaining to Ambulatory Surgery Centers.

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 Hospital Outpatient Services. We will soon be providing additional correspondence that will present our analyses of the January 31, 2015 medical fee schedules with respect to hospital inpatient 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 Hospital Outpatient 2013 POC estimated payments (calculated as January 31, 2013 Percentage of Charge Multiplied by the Charge Values reported by Hospitals) to be embodied in the January 31, 2015 medical fee schedule was 27 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 Hospital Outpatient services based on available 2013 data. Since no Hospital Outpatient fee schedule existed prior to 2015, for the DCRB data, we applied the percent of charge applicable to hospitals effective January 31, 2014 (which was 75.63%) to the estimated 2014 charges to calculate estimated 2014 payments, which we limited to the charged amounts. The level of detail at which we were able to perform those calculations, in particular the limitation to charged amounts, 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 Hospital Outpatient 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 almost 15 percent to almost 16 percent.

Our estimates of the effect of the January 31, 2015 medical fee schedule on Hospital Outpatient services are more consistent within notable partitions of those services than was the case in our previous analysis of Ambulatory Surgery Centers. For Hospital Outpatient services, our work produced the following results:

- For Geozip 197, we found savings decreases in fee-adjusted charges at 2014 levels for Hospital Outpatient services ranging from less than eight percent to over 15 percent, depending on the data source used.
- For Geozip 199, we found savings in fee-adjusted charges at 2014 levels for Hospital Outpatient services ranging from over 16 percent to more than 23 percent depending on the data source used.
- For Hospital Outpatient services with fee amounts published in the January 31, 2015 medical fee schedule, we found savings in fee-adjusted charges at 2014 levels ranging from about 10 percent to almost 14 percent depending on the data source used.
- For Hospital Outpatient 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 of approximately 19 percent regardless of the data source used.
- We noticed a number of procedures for which the January 31, 2015 medical fee schedule includes specified charges, but for which those charges appear to be only very small fractions of the average charges and payments in the WCOP historical data. Examples of this include HCPCS Codes 97113, 72128 and A0429. The DCRB does not know whether reimbursements for these services going forward will be made in some fashion other than, or in addition to, the application of the fee schedule amount, but it is important to understand that in our analysis these services appear as very large percentage savings – often well over 50 percent.

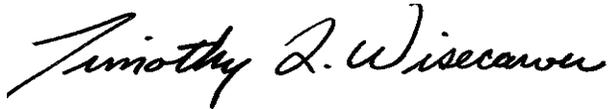
The Honorable John McMahon

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

Sincerely,

A handwritten signature in black ink that reads "Timothy L. Wisecarver". The signature is written in a cursive, flowing style.

Timothy L. Wisecarver
President

Enclosures (With Email)

Memorandum Dated June 19, 2015

Excel File "DCRB Analysis of the WCOP Hospital Outpatient Data.xlsx"

Excel File "DCRB Analysis of the DCRB Hospital Outpatient Data.xlsx"

Enclosures (Hard Copy)

Memorandum Dated June 19, 2015

June 19, 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 Hospital Outpatient Services

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 Hospital Outpatient services:

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 multiplying the POC percentage of 75.63% by 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 Hospital Outpatient services and, to the extent we were able to estimate this, how much those changes might be expected to affect medical expenditures for Hospital Outpatient services in Delaware.

WCOP Data

In the course of work performed in developing the January 31, 2015 Hospital Outpatient fee schedule, the WCOP apparently collected data from Hospitals 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 ratio for Hospital Outpatient services. 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 Hospital Outpatient 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
Status Description
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 60.0% was entered. 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 Hospital Outpatient 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 POC percentage of 60.0%.

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 Hospital Outpatient Data

There were approximately 24% of the 2014 payments related to services reimbursed in 2013 having 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. These status codes were present in both Geozip 197 and Geozip 199.

For procedures where the January 31, 2015 fee schedule contained a specified fee for Hospital Outpatient services, there exists an extremely wide range of results regarding the relationships between those fees and the average charge in 2014.

For procedures subject to specified fees in the January 31, 2015 fee schedule, the EXPECTED NEW PAYMENT LEVEL from WCOP data was approximately 13.82% lower than the ADJUSTED PRIOR PAYMENT LEVEL. The breakdown between Geozips 197 and 199 was 2.34% and 24.15%, respectively.

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 18.68%. That savings was also seen in the aggregated results for each geozip.

Across all Hospital Outpatient procedures, regardless of how the January 31, 2015 fee schedule determines reimbursements, the EXPECTED NEW PAYMENT LEVEL from WCOP data was approximately 14.96% 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. Hospital Outpatient data was identified by Place of Service Code = 22 (Hospital Outpatient) and Provider Taxonomy Code beginning with 27 (Hospital Units) or 28 (Hospitals).

DCRB's Analysis of the DCRB Hospital Outpatient 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 Hospital Outpatient 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 Hospital Outpatient services prior to the January 31, 2015 fee schedule, this column is calculated by multiplying the POC percentage of 75.63% 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 by the POC percentage of 60.0% 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 Hospital Outpatient Data

For procedures subject to specified fees in the January 31, 2015 fee schedule, the EXPECTED NEW PAYMENT LEVEL from DCRB data was lower than the ADJUSTED PRIOR PAYMENT LEVEL by approximately 10.32%. As noted above, the comparable value from WCOP data was 13.82%. The savings by geozip using the DCRB data was 7.76% for Geozip 197 and 13.68% 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 18.68%. That savings was also seen in the aggregated results for each geozip. These results were the same as those seen in the WCOP data.

Across all Hospital Outpatient procedures, regardless of how the January 31, 2015 fee schedule determines reimbursements, the EXPECTED NEW PAYMENT LEVEL from DCRB data was approximately 15.63% lower than the ADJUSTED PRIOR PAYMENT LEVEL. The comparable value for the WCOP data was 14.96% lower.

**WCOP Data
Hospital Outpatient Data Repricing using January 31, 2015 DE Fee Schedule**

	Volume	Tot Wgt	2014 Charges	2014 Paid	2015 Charges	Extended Amt	FS 1/31/15 Extended Amt with Charge	FS 1/31/15 Amt Cap	\$ Difference	% Difference
Fee-Based* Total	35,722	30,258	\$9,337,861	\$7,062,592	\$9,571,307	\$6,990,429	\$6,086,487	\$6,086,487	-\$976,105	-13.82%
POC Total	52,635	117	\$2,853,452	\$2,158,071	\$2,924,788	\$1,754,873	\$1,754,873	\$1,754,873	-\$403,198	-18.68%
Grand Total	88,357	30,375	\$12,191,312	\$9,220,663	\$12,496,095	\$8,745,302	\$7,841,360	\$7,841,360	-\$1,379,303	-14.96%
Geozip 197	55,596	17,109	\$6,515,365	\$4,927,902	\$6,678,249	\$5,177,775	\$4,553,759	\$4,553,759	-\$374,143	-7.59%
Geozip 199	32,761	13,266	\$5,675,947	\$4,292,761	\$5,817,846	\$3,567,527	\$3,287,601	\$3,287,601	-\$1,005,160	-23.42%
Grand Total	88,357	30,375	\$12,191,312	\$9,220,663	\$12,496,095	\$8,745,302	\$7,841,360	\$7,841,360	-\$1,379,303	-14.96%

	Volume	Tot Wgt	2014 Charges	2014 Paid	2015 Charges	Extended Amt	FS 1/31/15 Extended Amt with Charge	FS 1/31/15 Amt Cap	\$ Difference	% Difference
Fee-Based*, Geozip 197	23,728	16,993	\$4,420,745	\$3,343,738	\$4,531,263	\$3,889,583	\$3,265,567	\$3,265,567	-\$78,171	-2.34%
Fee-Based*, Geozip 199	11,994	13,266	\$4,917,116	\$3,718,854	\$5,040,044	\$3,100,846	\$2,820,920	\$2,820,920	-\$897,934	-24.15%
Fee-Based* Total	35,722	30,258	\$9,337,861	\$7,062,592	\$9,571,307	\$6,990,429	\$6,086,487	\$6,086,487	-\$976,105	-13.82%
POC, Geozip 197	31,868	117	\$2,094,621	\$1,584,164	\$2,146,986	\$1,288,192	\$1,288,192	\$1,288,192	-\$295,972	-18.68%
POC, Geozip 199	20,767	0	\$758,831	\$573,907	\$777,802	\$466,681	\$466,681	\$466,681	-\$107,226	-18.68%
POC Total	52,635	117	\$2,853,452	\$2,158,071	\$2,924,788	\$1,754,873	\$1,754,873	\$1,754,873	-\$403,198	-18.68%

*Fee-Based: Procedures for which fee amounts are published in the January 31, 2015 Fee Schedule.

Delaware Medical Data Call

**Hospital Outpatient Data Repricing using January 31, 2015 DE Fee Schedule
 Hospital Outpatient identified by Place of Service Code = 22 (Hospital Outpatient) and Provider Taxonomy Code begins with 27 (Hospital Units) or 28 (Hospitals)
 Transaction Dates and Service Dates January 1, 2013 - December 31, 2013**

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

Payment Type	(A) 2013 Charges		(B) 2014 Charges		(C) 2015 Charges		(D) 2013 Paid	(E) 2014 Paid	(F) 2015 Paid	(G)=(F)/(E)	(H)=(G)-1.000
	2013 Charges	2013 Paid	2014 Charges	2014 Paid	2015 Charges	2015 Paid	2013 Paid	2014 Paid	2015 Paid	2015 Paid as % of 2014 Paid	% Savings
Fee-Based*	\$2,014,018	\$1,328,243	\$2,062,354	\$1,559,758	\$2,113,913	\$1,328,243	\$1,328,243	\$1,559,758	\$1,398,743	89.68%	-10.32%
POC	\$3,507,408	\$2,339,982	\$3,591,586	\$2,716,317	\$3,681,376	\$2,339,982	\$2,339,982	\$2,716,317	\$2,208,826	81.32%	-18.68%
Grand Total	\$5,521,426	\$3,668,225	\$5,653,940	\$4,276,075	\$5,795,289	\$3,668,225	\$3,668,225	\$4,276,075	\$3,607,569	84.37%	-15.63%

Geozip	2013 Charges		2014 Charges		2015 Charges		2013 Paid	2014 Paid	2015 Paid	2015 Paid as % of 2014 Paid	% Savings
	2013 Charges	2013 Paid	2014 Charges	2014 Paid	2015 Charges	2015 Paid	2013 Paid	2014 Paid	2015 Paid	2015 Paid as % of 2014 Paid	% Savings
197	\$3,597,034	\$2,341,671	\$3,683,363	\$2,785,727	\$3,775,447	\$2,341,671	\$2,341,671	\$2,785,727	\$2,361,878	84.78%	-15.22%
199	\$1,924,392	\$1,326,555	\$1,970,578	\$1,490,348	\$2,019,842	\$1,326,555	\$1,326,555	\$1,490,348	\$1,245,691	83.58%	-16.42%
Grand Total	\$5,521,426	\$3,668,225	\$5,653,940	\$4,276,075	\$5,795,289	\$3,668,225	\$4,276,075	\$3,607,569	\$3,607,569	84.37%	-15.63%

Payment Type	2013 Charges		2014 Charges		2015 Charges		2013 Paid	2014 Paid	2015 Paid	2015 Paid as % of 2014 Paid	% Savings
	2013 Charges	2013 Paid	2014 Charges	2014 Paid	2015 Charges	2015 Paid	2013 Paid	2014 Paid	2015 Paid	2015 Paid as % of 2014 Paid	% Savings
Fee-Based*, Geozip 197	\$1,141,938	\$740,726	\$1,169,344	\$884,375	\$1,198,578	\$740,726	\$740,726	\$884,375	\$815,757	92.24%	-7.76%
Fee-Based*, Geozip 199	\$872,080	\$587,518	\$893,010	\$675,383	\$915,335	\$587,518	\$587,518	\$675,383	\$582,987	86.32%	-13.68%
Fee-Based* Total	\$2,014,018	\$1,328,243	\$2,062,354	\$1,559,758	\$2,113,913	\$1,328,243	\$1,328,243	\$1,559,758	\$1,398,743	89.68%	-10.32%
POC, Geozip 197	\$2,455,096	\$1,600,945	\$2,514,019	\$1,901,352	\$2,576,869	\$1,600,945	\$1,600,945	\$1,901,352	\$1,546,122	81.32%	-18.68%
POC, Geozip 199	\$1,052,312	\$739,037	\$1,077,568	\$814,964	\$1,104,507	\$739,037	\$739,037	\$814,964	\$662,704	81.32%	-18.68%
POC Total	\$3,507,408	\$2,339,982	\$3,681,376	\$2,716,317	\$3,681,376	\$2,339,982	\$2,339,982	\$2,716,317	\$2,208,826	81.32%	-18.68%

*Fee-Based: Procedures for which fee amounts are published in the January 31, 2015 Fee Schedule.