



VIA EMAIL AND FIRST CLASS MAIL

June 26, 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 Inpatient Services

Dear Secretary McMahon:

This letter follows our two earlier pieces of correspondence (June 8, 2015 pertaining to Ambulatory Surgery Centers and June 19, 2015 pertaining to Hospital Outpatient Services).

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 Inpatient Services. We will soon be providing additional correspondence that will present our analyses of the January 31, 2015 medical fee schedules with respect to 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 Inpatient payments to be embodied in the January 31, 2015 medical fee schedule was 26 percent.

Our review of Hospital Inpatient services has relied exclusively on data provided to the DCRB by the WCOP. Because the Delaware Health Care Payment System did not use Diagnosis-Related Group (DRG) codes to determine reimbursement for Hospital Inpatient services prior to January 31, 2015, data that the DCRB previously collected under the auspices of our Medical Data Call initiative did not use or include those codes and thus could not be compared to Hospital Inpatient reimbursement provisions in the January 31, 2015 medical fee schedule.

Our approach used estimates of 2014 charges and 2015 charges for Hospital Inpatient services based on data provided to us by the WCOP. The WCOP also provided amounts paid for 2014 consistent with their estimated 2014 charges. Those estimated 2014 payments were used as the baselines from which the effects of the 2015 fee schedule were measured.

For the vast majority of Hospital Inpatient services, we applied the January 31, 2015 fee schedule to estimated 2015 charges to estimate 2015 payments. For a few services which remain reimbursable as a percent of charge (including DRG codes 484, 490, 491 and 999) we applied a percent of charges factor of 60 percent to estimated 2015 charges to derive estimated 2015 payments. We limited our estimated 2015 paid amounts by procedure code to the amount of 2015 charges. 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). Accordingly, we refer to our projected payments as "fee-adjusted charges".

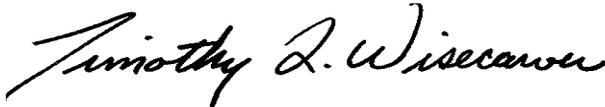
**Across all Hospital Inpatient procedures, our review estimated reductions in fee-adjusted charges from 2014 levels as a result of the January 31, 2015 medical fee schedule changes of over 18 percent.**

For Hospital Inpatient services, our work produced the following results:

- For Geozip 197, we found savings decreases in fee-adjusted charges at 2014 levels for Hospital Inpatient services of approximately 19 percent.
- For Geozip 199, we found savings in fee-adjusted charges at 2014 levels for Hospital Inpatient services of almost 15 percent.
- For Hospital Inpatient services with fee amounts published in the January 31, 2015 medical fee schedule, we found savings in fee-adjusted charges at 2014 levels of approximately 18 percent.
- For Hospital Inpatient 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 23 percent.

A memorandum describing the DCRB's analysis of Hospital Inpatient 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 26, 2015  
Excel File "DCRB Analysis of the WCOP Hospital Inpatient Data.xlsx"

Enclosures (Hard Copy)

Memorandum Dated June 26, 2015

June 26, 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 Inpatient 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'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 Inpatient services:

**ADJUSTED PRIOR PAYMENT LEVEL:** This measure represents estimated payments in 2014 as provided to the DCRB by the WCOP. The DCRB understands that the WCOP derived estimated 2014 charges and/or payments based on 2013 data collected from Delaware hospitals and provisions of the 2014 fee schedule and health care payment system.

**EXPECTED NEW PAYMENT LEVEL:** This measure represents estimated payments in 2015, also based on services originally paid for in 2013. Using the WCOP data, estimated 2014 charges for services paid for in 2013 were adjusted to an expected 2015 level (i.e. adjusted for expected inflation). Estimated 2015 payments were then generally derived based on the estimated 2015 charges by applying the January 31, 2015 medical fee schedule to them. For a few procedures not having fee schedule amounts, we applied a percent of charge factor of 60 percent to estimated 2015 charges to derive estimated 2015

payments. Estimated 2015 payments were capped at estimated 2015 charges. This capping was done at the summary level by procedure code in the WCOP 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 Inpatient services and, to the extent we were able to estimate this, how much those changes might be expected to affect medical expenditures for Hospital Inpatient services in Delaware.

### WCOP Data

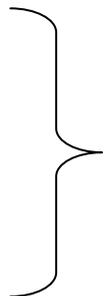
In the course of work performed in developing the January 31, 2015 Hospital Inpatient fee schedule, the WCOP apparently collected data from Hospitals which consisted of charges for which reimbursements were received during Calendar Year 2013. The DCRB understands that this data was supplemented by the WCOP with the derivation of amounts that would have been paid for such services in 2014 based on the 2013 charges and provisions in the 2014 health care payment system. 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 Inpatient 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  
MS-DRG  
Description  
Weights  
Volume  
TotWt  
2014 Charges  
2014 Paid



These fields were included in the WCOP data that was provided to the DCRB. We understood that the 2014 Charges and 2014 Paid were derived by the WCOP from reported 2013 data. 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 Inpatient fee schedule amounts by geozip and MS-DRG 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 percent of charge factor 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 MS-DRG 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 Inpatient Data

For procedures where the January 31, 2015 fee schedule contained a specified fee for Hospital Inpatient services, there exists an extremely wide range of results regarding the relationships between those fees and the average charge in 2014. As shown in column U of the Excel spreadsheet (this column is labelled in rows 6 and 7 as “(O) = (L)/(N) Avg. Paid / FS 1/31/15 Base Amt”), there were a dozen procedures with charges more than 300 percent of the 2015 fees, and twenty-five more procedures with 2014 charges more than double but less than three times the 2015 fee schedule amounts. At the other end of the spectrum for this comparison, there were 35 procedures with charges less than the 2015 fee schedule amounts.

For procedures subject to specified fees in the January 31, 2015 fee schedule, the EXPECTED NEW PAYMENT LEVEL from WCOP data was approximately 17.83% lower than the ADJUSTED PRIOR PAYMENT LEVEL. The breakdown between Geozips 197 and 199 was 18.28% and 13.28%, 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 22.85%. Those savings varied somewhat by geozip with Geozip 197 showing a savings of 22.32 percent and Geozip 199 showing a savings of 26.66 percent.

**Across all Hospital Inpatient procedures, regardless of how the January 31, 2015 fee schedule determines reimbursements, the EXPECTED NEW PAYMENT LEVEL from WCOP data was approximately 18.24% lower than the ADJUSTED PRIOR PAYMENT LEVEL.**

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

Fee-Based* Total	426	1,136	\$18,082,201	\$13,542,420	\$18,534,256	\$11,303,865	\$11,127,971	-\$2,414,449	-17.83%
POC Total	41	54	\$1,509,209	\$1,203,020	\$1,546,939	\$928,163	\$928,163	-\$274,857	-22.85%
Grand Total	467	1,190	\$19,591,410	\$14,745,440	\$20,081,195	\$12,232,028	\$12,056,135	-\$2,689,306	-18.24%
Geozip 197	407	1,098	\$17,861,915	\$13,374,055	\$18,308,463	\$11,026,360	\$10,886,301	-\$2,487,754	-18.60%
Geozip 199	60	93	\$1,729,495	\$1,371,385	\$1,772,732	\$1,205,668	\$1,169,833	-\$201,552	-14.70%
Grand Total	467	1,190	\$19,591,410	\$14,745,440	\$20,081,195	\$12,232,028	\$12,056,135	-\$2,689,306	-18.24%
Fee-Based*, Geozip 197	374	1,043	\$16,526,143	\$12,316,480	\$16,939,297	\$10,204,860	\$10,064,802	-\$2,251,678	-18.28%
Fee-Based*, Geozip 199	52	93	\$1,556,058	\$1,225,941	\$1,594,959	\$1,099,005	\$1,063,170	-\$162,771	-13.28%
Fee-Based* Total	426	1,136	\$18,082,201	\$13,542,420	\$18,534,256	\$11,303,865	\$11,127,971	-\$2,414,449	-17.83%
POC, Geozip 197	33	54	\$1,335,772	\$1,057,576	\$1,369,166	\$821,500	\$821,500	-\$236,076	-22.32%
POC, Geozip 199	8	0	\$173,437	\$145,444	\$177,773	\$106,664	\$106,664	-\$38,781	-26.66%
POC Total	41	54	\$1,509,209	\$1,203,020	\$1,546,939	\$928,163	\$928,163	-\$274,857	-22.85%

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