

Delaware Compensation Rating Bureau, Inc.



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VIA EMAIL AND FIRST CLASS MAIL

June 30, 2015

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

Re: January 31, 2015 Medical Fee Schedules – Professional Services

Dear Secretary McMahon:

This letter follows our three earlier pieces of correspondence (June 8, 2015 pertaining to Ambulatory Surgery Centers, June 19 pertaining to Hospital Outpatient Services and June 26, 2015 pertaining to Hospital Inpatient 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 Professional Services. We look forward to a cooperative and constructive dialogue about this work.

### SUMMARY OF FINDINGS

Materials that the WCOP provided to the DCRB indicate that the WCOP's intended reduction in Professional Services (Evaluation and Management, procedures described in the Healthcare Common Procedure Coding System (HCPCS), Laboratory, Medicine, Physical Therapy, Radiology and Surgery) to be embodied in the January 31, 2015 medical fee schedule was 32 percent.

Our review considered data that the DCRB obtained under the auspices of our Medical Data Call initiative, a national protocol for collecting line-item detail from bills for medical goods and services provided to injured workers. Our approach used estimates of 2014 charges and 2015 charges for Professional Services based on available 2013 data. We then applied the February 11, 2014 medical fee schedule to the estimated 2014 charges to calculate estimated 2014 payments, which we limited on each data record to the associated charged amount. We then repeated this process using estimated 2015 charges and the January 31, 2015 medical fee schedule. The projected 2015 payments thus derived were compared to the estimated 2014 baseline to measure the effects of the 2015 fee schedule.

Our estimates 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 Professional Services, our review estimated reductions in fee-adjusted charges from 2014 levels as a result of the January 31, 2015 medical fee schedule changes of approximately 27 percent.**

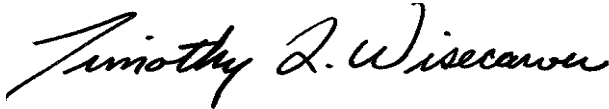
For Professional Services, our work produced the following results:

- For Geozip 197, we found savings in fee-adjusted charges for Professional Services at 2015 levels compared to 2014 levels of almost 28 percent.

- For Geozip 199, we found savings in fee-adjusted charges for Professional Services at 2015 levels compared to 2014 levels of over 24 percent.
- For Professional Services with fee amounts published in the January 31, 2015 medical fee schedule, we found savings in fee-adjusted charges at 2014 levels of more than 27 percent.
- For Professional 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 of approximately 18 percent.

A memorandum further describing the DCRB's analysis of Professional Services, 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 30, 2015  
Excel File "DCRB Analysis of the DCRB Professional Data.xlsx"

Enclosures (Hard Copy)

Memorandum Dated June 30, 2015

June 30, 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 Professional 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 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 Professional Services:

**ADJUSTED PRIOR PAYMENT LEVEL:** This measure represents estimated payments in 2014. The DCRB derived estimated 2014 charges and/or payments based on 2013 data adjusted to an expected 2014 level (i.e. adjusted for expected inflation) and using 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. 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 procedures not having fee schedule amounts, the percent of charge reflected in estimated 2014 payments were applied to estimated 2015 charges to derive estimated 2015 payments. Estimated 2015 payments were capped at estimated 2015 charges on a line-by-line basis.

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 Professional Services and, to the extent we were able to estimate this, how much those changes might be expected to affect medical expenditures for Professional Services in Delaware.

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. Professional Services data was identified by using the following criteria:

1.) Current Procedural Terminology codes between 10021 and 99607 and Healthcare Common Procedure Coding System codes between A0021 and V5364, and

2.) Professional provider taxonomy codes (beginning with 10, 11, 29, 30, 33, 34, 152-156, 163-167, 1711, 173C, 174, 193, 202, 204, 207, 208, 21, 221-229, 23, 24, 363-367, 372-376 and 39)

Below are the Professional provider taxonomy code definitions:

10 = Behavioral Health & Social Service Providers  
11 = Chiropractic Providers  
29 = Laboratories  
30 = Managed Care Organizations  
33 = Suppliers (DME, other suppliers)  
34 = Transportation Services  
152 **through** 156 = Eye and Vision Services Providers  
163 **through** 167 = Nursing Service Providers  
1711 = Acupuncturist  
173C = Reflexologist  
174 = Specialist  
193 = Group Practice  
202, 204, 207, 208 = Allopathic & Osteopathic Physicians  
21 = Podiatric Medicine & Surgery Service Providers  
221 **through** 229 = Respiratory, Developmental, Rehabilitation and Restorative Service Providers (includes Occupational Therapist and Physical Therapist)  
23 = Speech, Language and Hearing Service Providers  
24 = Technologists, Technicians & Other Tech Service Providers  
363 **through** 367 = Physician Assistants & Advanced Practice Nursing Providers  
372 **through** 376 = Nursing Service Related Providers (Home Health Aide)  
39 = Student, Health Care

DCRB's Analysis of the DCRB Professional Services 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 Professional Services line item for services paid in Calendar Year 2013.

A description of the columns within the DCRB's analysis of Professional Services 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

For procedures with specified fee amounts in the February 11, 2014 medical fee schedule, the values included in this column were derived by comparing the February 11, 2014 fee schedule to estimated 2014 charges. For each line item, the lesser of those two amounts was used as the 2014 paid amount.

For procedures not subject to a specified fee in the February 11, 2014 medical fee schedule, this column is calculated by multiplying the POC percentage of 85% by the 2014 Charges column.

The total 2014 paid across procedure codes represents an estimate of the overall ADJUSTED PRIOR PAYMENT LEVEL.

#### 2015 Paid

For procedures with specified fee amounts published in the fee schedule as of January 31, 2015, the values included in this column were derived by comparing the January 31, 2015 medical fee schedule to estimated 2015 charges. For each line item, the lesser of those two amounts was used as the 2015 paid amount.

For procedures not subject to a specified fee in the January 31, 2015 medical fee schedule, this column is calculated by multiplying the POC percentage of 68% by the 2015 Charges column.

The total 2015 paid across procedure codes represents an estimate of the overall EXPECTED NEW PAYMENT LEVEL.

#### 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 Professional Services 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 27 percent. The savings by geozip were 28.32% for Geozip 197 and 25.04% 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 percent. Within geozip these savings were 18.00 percent for Geozip 197 and 18.25 percent for Geozip 199.

**Across all Professional Services, regardless of how the January 31, 2015 fee schedule determines reimbursements, the EXPECTED NEW PAYMENT LEVEL from DCRB data was approximately 26.96 percent lower than the ADJUSTED PRIOR PAYMENT LEVEL.**

**Delaware Medical Data Call**  
**Professional Data Repricing using January 31, 2015 DE Fee Schedule**  
**Transaction Dates and Service Dates January 1, 2013 - December 31, 2013**

	(A)	(B)	(C)	(D)	(E)	(F)	(G)=(F)/(E)	(H)=(G)-1.000
		2014 CPI-M = 2.4%	2015 CPI-M = 2.5%					
Payment Type	2013 Charges	2014 Charges	2015 Charges	2013 Paid	2014 Paid	2015 Paid	2015 Paid as % of 2014 Paid	% Savings
Fee-Based*	\$31,984,867	\$32,752,503	\$33,571,316	\$21,775,017	\$24,596,383	\$17,862,086	72.62%	-27.38%
POC	\$1,332,319	\$1,364,295	\$1,398,403	\$896,927	\$1,160,785	\$950,914	81.92%	-18.08%
Grand Total	\$33,317,186	\$34,116,799	\$34,969,719	\$22,671,944	\$25,757,168	\$18,813,000	73.04%	-26.96%

Geozip	2013 Charges	2014 Charges	2015 Charges	2013 Paid	2014 Paid	2015 Paid	2015 Paid as % of 2014 Paid	% Savings
197	\$23,194,525	\$23,751,194	\$24,344,974	\$15,815,422	\$18,321,348	\$13,213,333	72.12%	-27.88%
199	\$10,122,661	\$10,365,605	\$10,624,745	\$6,856,522	\$7,435,820	\$5,599,667	75.31%	-24.69%
Grand Total	\$33,317,186	\$34,116,799	\$34,969,719	\$22,671,944	\$25,757,168	\$18,813,000	73.04%	-26.96%

Payment Type	2013 Charges	2014 Charges	2015 Charges	2013 Paid	2014 Paid	2015 Paid	2015 Paid as % of 2014 Paid	% Savings
Fee-Based*, Geozip 197	\$22,291,238	\$22,826,228	\$23,396,884	\$15,239,992	\$17,535,127	\$12,568,632	71.68%	-28.32%
Fee-Based*, Geozip 199	\$9,693,629	\$9,926,276	\$10,174,432	\$6,535,024	\$7,061,256	\$5,293,455	74.96%	-25.04%
Fee-Based* Total	\$31,984,867	\$32,752,503	\$33,571,316	\$21,775,017	\$24,596,383	\$17,862,086	72.62%	-27.38%
POC, Geozip 197	\$903,287	\$924,966	\$948,090	\$575,429	\$786,221	\$644,701	82.00%	-18.00%
POC, Geozip 199	\$429,032	\$439,329	\$450,312	\$321,498	\$374,564	\$306,212	81.75%	-18.25%
POC Total	\$1,332,319	\$1,364,295	\$1,398,403	\$896,927	\$1,160,785	\$950,914	81.92%	-18.08%

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