

DELAWARE COMPENSATION RATING BUREAU, INC.

Evaluation of House Bill 373 of 2014

Introduction

§2322B of House Bill 373 of 2014 (HB373) set forth procedures and requirements applicable to the health care payment system for workers compensation claims, and particularly impacting the fee schedule for all Delaware workers compensation funded procedures, treatments and services. Among those procedures and requirements are the following notable elements:

§2322B (3)(a):

The Workers' Compensation Oversight Panel (WCOP) was required to establish a fee schedule(s) 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(s) are required to 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) was required, within 90 days of enactment of HB373, to file for approval by the Insurance Commissioner prospective loss costs that explicitly and individually accounted for the impact of any statutory changes in HB373.

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

The January 31, 2015 Delaware fee schedules were not published until well after the date by which the DCRB was required to submit its December 1, 2014 residual market rate and voluntary market loss cost filing. In the absence of any evidence of the nature and/or magnitude of changes that the WCOP would make to the fee schedules, and notwithstanding the many challenges that DCRB perceived with respect to successfully accomplishing the profound changes in medical expenditures mandated by HB373, the DCRB's December 1, 2014 filing of prospective loss costs incorporated savings estimates based entirely on the assumption that the savings specified in the law would be fully realized.

The DCRB has now had an opportunity to carefully assess the January 31, 2015 fee schedules. That analysis addressed four discrete sets of fee schedule provisions: Ambulatory Surgical Centers, Hospital Outpatient Services, Hospital Inpatient Services and Other Professional Services.

Collectively, the DCRB's evaluations of the above-referenced fee schedule provisions derived an indicated change in medical expenditures before accounting for any changes in treatment and/or billing practices, and excluding any muting effects of prevailing reimbursement contracts or similar arrangements between providers of medical goods and services and entities such as insurance companies that pay for those goods and services payers on the impact of fee schedule changes on payments. That indication was approximately 20 percent. Given the exclusions from, and limitations applicable to, the analysis that could be accomplished at this time, the DCRB does not expect that a full 20 percent reduction in medical expenditures will be realized from the January 31, 2015 fee schedule changes. However, the DCRB cannot yet credibly quantify the extent to which changes in medical expenditures may fall short of the legislatively-prescribed target.

Under these circumstances, the DCRB has elected to again apply the full level of savings called for in HB373 to the development of the December 1, 2015 residual market rate and voluntary market loss cost change. When Medical Data Call information pertaining to services provided subject to the new fee schedules has been collected and compiled for a period of several months, the DCRB does expect to be able to credibly measure the changes in expenditures occurring after the implementation of the new fee schedules. If that review suggests that savings mandated under the law have not been accomplished, 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 attributable to the intended effects of the legislation. The expected annual savings from 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 (\$670,712) are compared to the unadjusted payout of \$1,000,000, deriving the overall HB373 potential savings factor of 32.93 percent.

Delaware Compensation Rating Bureau, Inc.
HB373 - Estimated Savings

Year (1)	Medical 40 Year Payout		Estimated 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	-20.67%	56,000	44,425
2	0.2570	0.2010	-26.47%	201,000	147,795
3	0.3632	0.1062	-35.60%	106,200	68,393
4	0.4234	0.0602	-35.60%	60,200	38,769
5	0.4650	0.0416	-35.60%	41,600	26,790
6	0.4971	0.0321	-35.60%	32,100	20,672
7	0.5235	0.0264	-35.60%	26,400	17,002
8	0.5464	0.0229	-35.60%	22,900	14,748
9	0.5668	0.0204	-35.60%	20,400	13,138
10	0.5855	0.0187	-35.60%	18,700	12,043
11	0.6030	0.0175	-35.60%	17,500	11,270
12	0.6195	0.0165	-35.60%	16,500	10,626
13	0.6353	0.0158	-35.60%	15,800	10,175
14	0.6505	0.0152	-35.60%	15,200	9,789
15	0.6653	0.0148	-35.60%	14,800	9,531
16	0.6797	0.0144	-35.60%	14,400	9,274
17	0.6939	0.0142	-35.60%	14,200	9,145
18	0.7080	0.0141	-35.60%	14,100	9,080
19	0.7218	0.0138	-35.60%	13,800	8,887
20	0.7355	0.0137	-35.60%	13,700	8,823
21	0.7492	0.0137	-35.60%	13,700	8,823
22	0.7629	0.0137	-35.60%	13,700	8,823
23	0.7764	0.0135	-35.60%	13,500	8,694
24	0.7900	0.0136	-35.60%	13,600	8,758
25	0.8034	0.0134	-35.60%	13,400	8,630
26	0.8166	0.0132	-35.60%	13,200	8,501
27	0.8296	0.0130	-35.60%	13,000	8,372
28	0.8424	0.0128	-35.60%	12,800	8,243
29	0.8550	0.0126	-35.60%	12,600	8,114
30	0.8674	0.0124	-35.60%	12,400	7,986
31	0.8797	0.0123	-35.60%	12,300	7,921
32	0.8919	0.0122	-35.60%	12,200	7,857
33	0.9040	0.0121	-35.60%	12,100	7,792
34	0.9160	0.0120	-35.60%	12,000	7,728
35	0.9279	0.0119	-35.60%	11,900	7,664
36	0.9397	0.0118	-35.60%	11,800	7,599
37	0.9514	0.0117	-35.60%	11,700	7,535
38	0.9630	0.0116	-35.60%	11,600	7,470
39	0.9745	0.0115	-35.60%	11,500	7,406
40	1.0000	0.0255	-35.60%	25,500	16,422
		Total	-32.93%	1,000,000	670,712

Delaware Compensation Rating Bureau, Inc.
HB373 - Estimated Savings

Year	Allowable Increase	Base Rate	Statutory Additional Savings	Adj Rate	Estimated Savings % (-)	Estimated Savings Cum % (-)
(7)	(8)	(9) (9 _{yr-1})*(1+(8))	(10)	(11)	(12) (13)-(13 _{yr-1})	(13) (11)/(9) -1
0	-	0.7563				
1	-	0.7563	20%	0.6000 *	-20.67%	-20.67%
CPI-U						
2	0.0200	0.7714	5%	0.5672	-5.80%	-26.47%
3	0.0200	0.7869	8%	0.5067	-9.13%	-35.60%
4	0.0200	0.8026		0.5169	0.00%	-35.60%
5	0.0200	0.8186		0.5272	0.00%	-35.60%
6	0.0200	0.8350		0.5377	0.00%	-35.60%
7	0.0200	0.8517		0.5485	0.00%	-35.60%
8	0.0200	0.8688		0.5595	0.00%	-35.60%
9	0.0200	0.8861		0.5707	0.00%	-35.60%
10	0.0200	0.9038		0.5821	0.00%	-35.60%
11	0.0200	0.9219		0.5937	0.00%	-35.60%
12	0.0200	0.9404		0.6056	0.00%	-35.60%
13	0.0200	0.9592		0.6177	0.00%	-35.60%
14	0.0200	0.9784		0.6300	0.00%	-35.60%
15	0.0200	0.9979		0.6426	0.00%	-35.60%
16	0.0200	1.0179		0.6555	0.00%	-35.60%
17	0.0200	1.0382		0.6686	0.00%	-35.60%
18	0.0200	1.0590		0.6820	0.00%	-35.60%
19	0.0200	1.0802		0.6956	0.00%	-35.60%
20	0.0200	1.1018		0.7095	0.00%	-35.60%
21	0.0200	1.1238		0.7237	0.00%	-35.60%
22	0.0200	1.1463		0.7382	0.00%	-35.60%
23	0.0200	1.1692		0.7530	0.00%	-35.60%
24	0.0200	1.1926		0.7680	0.00%	-35.60%
25	0.0200	1.2165		0.7834	0.00%	-35.60%
26	0.0200	1.2408		0.7990	0.00%	-35.60%
27	0.0200	1.2656		0.8150	0.00%	-35.60%
28	0.0200	1.2909		0.8313	0.00%	-35.60%
29	0.0200	1.3167		0.8480	0.00%	-35.60%
30	0.0200	1.3431		0.8649	0.00%	-35.60%
31	0.0200	1.3699		0.8822	0.00%	-35.60%
32	0.0200	1.3973		0.8999	0.00%	-35.60%
33	0.0200	1.4253		0.9179	0.00%	-35.60%
34	0.0200	1.4538		0.9362	0.00%	-35.60%
35	0.0200	1.4829		0.9549	0.00%	-35.60%
36	0.0200	1.5125		0.9740	0.00%	-35.60%
37	0.0200	1.5428		0.9935	0.00%	-35.60%
38	0.0200	1.5736		1.0134	0.00%	-35.60%
39	0.0200	1.6051		1.0337	0.00%	-35.60%
40	0.0200	1.6372		1.0543	0.00%	-35.60%

* Adopted by Delaware Department of Labor in January 31, 2015 Fee Schedule