Medical Inflation in Workers’ Compensation

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IAIABC
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Overview

- Medical inflation US medical expenditure
- Workers’ compensation medical inflation
- Some cost drivers
  - General medicine
  - WC
- Significant variation in cost drivers by state
- Root cause of cost increases in WC
NCCI Countrywide Trend

Percent Change

Year


5.1 4.5 3.5 2.8 3.2 3.5 4.1 4.6 8.8 7.3 4.0 5.6 4.4 5.4 4.4 3.7 5.0 3.2

Change in Medical Cost per Lost-Time Claim
Change in Medical CPI

Medical severity 2009p: Preliminary based on data valued as of 12/31/2009
Medical severity 1995-2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI
General Medical Inflation in WI

Medical Care Inflation, Milw.Racine

Year

Annual % Change

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009

Source: BLS
Inflation by Provider Type

Physician vs Overall Med Inflation

Year

Annual % Change

Source: BLS
## WI Relative to Other States

View WCRI Benchmarks

### Interstate Comparison: Medical Claim Costs and Utilization by Provider Type, 2007/2008 Claims with More Than 7 Days of Lost Time, Adjusted for Injury and Industry Mix (12 months’ average maturity)

<table>
<thead>
<tr>
<th>Measure</th>
<th>CA</th>
<th>FL</th>
<th>IA</th>
<th>IL</th>
<th>IN</th>
<th>LA</th>
<th>MA</th>
<th>MD</th>
<th>MI</th>
<th>MN</th>
<th>NC</th>
<th>PA</th>
<th>TN</th>
<th>TX</th>
<th>WI</th>
<th>15-State Median</th>
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</thead>
<tbody>
<tr>
<td>Physician Percentage of medical payments</td>
<td>49%</td>
<td>34%</td>
<td>37%</td>
<td>41%</td>
<td>35%</td>
<td>32%</td>
<td>36%</td>
<td>32%</td>
<td>34%</td>
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<td>28%</td>
<td>20%</td>
<td>42%</td>
<td>37%</td>
<td>41%</td>
<td>35%</td>
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<tr>
<td>Percentage of all claims</td>
<td>98%</td>
<td>96%</td>
<td>95%</td>
<td>95%</td>
<td>97%</td>
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<td>1.14</td>
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<td>0.94</td>
<td>0.90</td>
<td>0.87</td>
<td>0.87</td>
<td>1.06</td>
<td>1.10</td>
<td>1.12</td>
<td>1.12</td>
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<td>12.4</td>
<td>9.6</td>
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<td>7.8</td>
<td>10.2</td>
<td>10.4</td>
<td>9.5</td>
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<td>11.9</td>
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<td>3%</td>
<td>3%</td>
<td>4%</td>
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<td>7%</td>
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<tr>
<td>Average number of services per visit</td>
<td>3.1</td>
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<td>2.7</td>
<td>3.8</td>
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<tr>
<td>Average payment per visit</td>
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<td>$113</td>
<td>$89</td>
<td>$162</td>
<td>$80</td>
<td>$596</td>
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</tr>
</tbody>
</table>

**Source:** WCRI, Compscope Benchmarks

**WI consistently higher than median for Physicians**

**Chiro does not seem to be out of line**
• “In 2006, the average medical cost per claim borne by employers was 19 percent above the median of 14 states in the WCRI CompScope™ benchmark studies”

• “Medical costs and medical prices for claims with more than 7 days of lost time rose rapidly from 2001 to 2006, while worker outcomes were not materially changed”

• “...value proposition in Wisconsin is stronger than in the majority of states studied, ...trend in value is toward lower value
• An increase in treatments per claim contributed a little more than half

• An increase in average cost per service generated a little more than a quarter

• A shift to more costly injuries accounted for about a fifth of the increase in medical severity
Medical Legal Expenses

Significant Variation Without Obvious Cause

Source: WCRI, Compscope Benchmarks
• “Ultimate projected workers’ comp medical costs per claim increased 55% from 2002 to 2008, reaching $36,849 per claim.” Yet costs for medical management are rising even more quickly.

• “Expenditures for these services more than doubled as a percentage of medical during the same period – from 4.9% to 11% of all medical costs.

Source: Alex Swedlow, CWCI, 2010
• The ultimate cause of excess medical inflation in WC is the pathological incentives created by payment systems.
• There is virtually no financial incentive for doctors or other providers to deliver high quality care to injured workers.
  – This is particularly true in WI.
• The force keeping the system together is the inherent sense of professionalism and good training of most medical providers.
Pay for Performance

- The key to improvement is selecting high performance doctors to deliver care
- They must be attracted by incentives
  - Better compensation
  - Less paperwork
- Supply of occupation docs is declining and needs to be reversed by the above incentives making occupational medicine more attractive
- Barriers to getting these changes through
  - Unwillingness of states to limit free choice of providers outside of a panel
  - Difficulty in dropping non-performing docs
  - Restrictions on paying above a fee schedule ceiling
• IAIABC and American College of Occupational and Environmental Medicine (ACOEM) hosted a very important workshop on our “pay for performance” initiative

• 30 high placed leaders (insurers, doctors, employers, TPAs) met to:
  – Identify problems with medical delivery
  – Examine innovative models for service delivery
  – Explore barriers to implementing new models more widely
Reforms Needed

- Reverse the exodus from occupational medicine
- Build high quality provider networks
- Need well developed performance metric
- Pay providers on the basis of performance and good outcomes for injured workers
Thank you

Questions and comments are very welcome:

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