



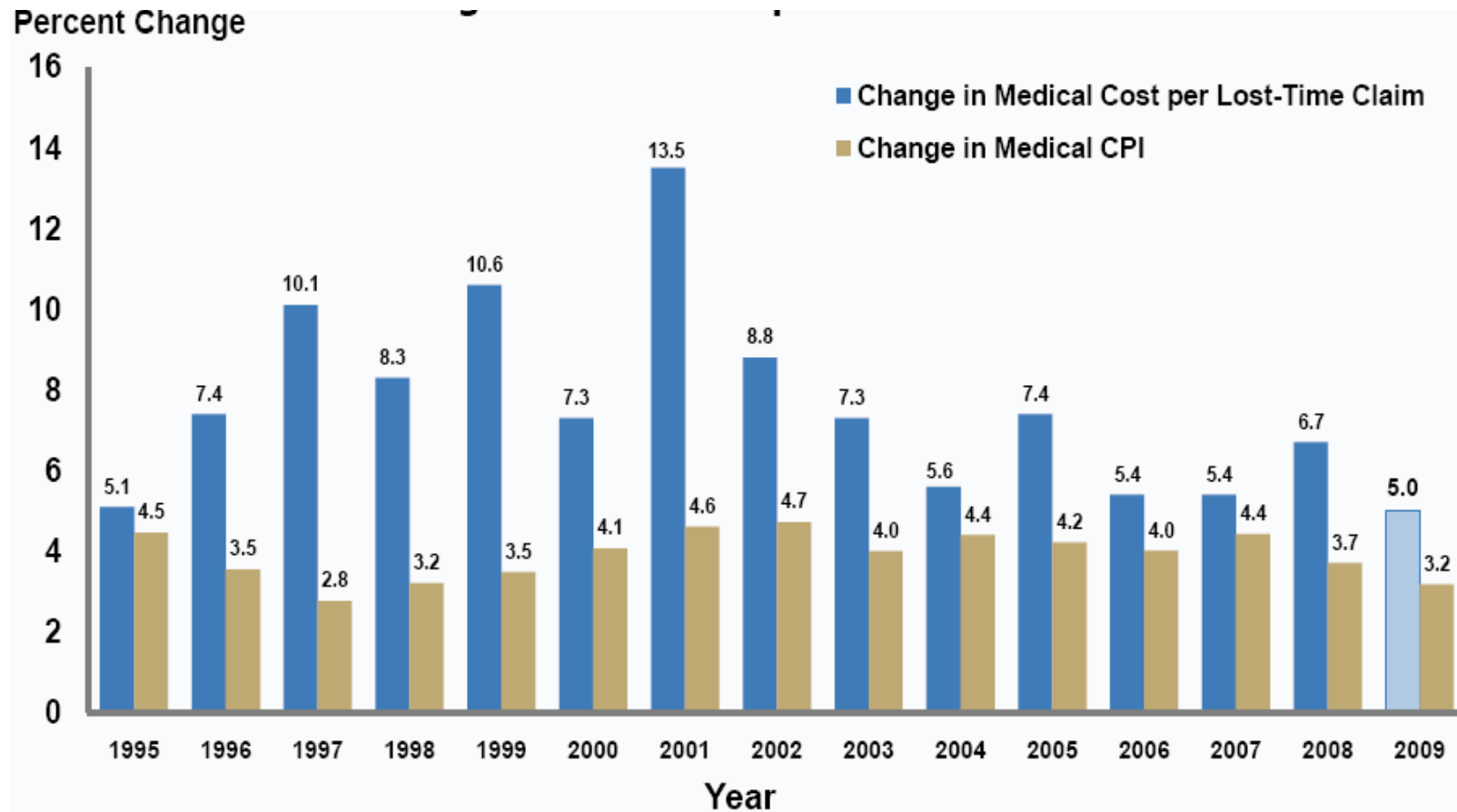
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# Medical Inflation in Workers' Compensation

Gregory Krohm  
Executive Director  
IAIABC  
July 9, 2010

- 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

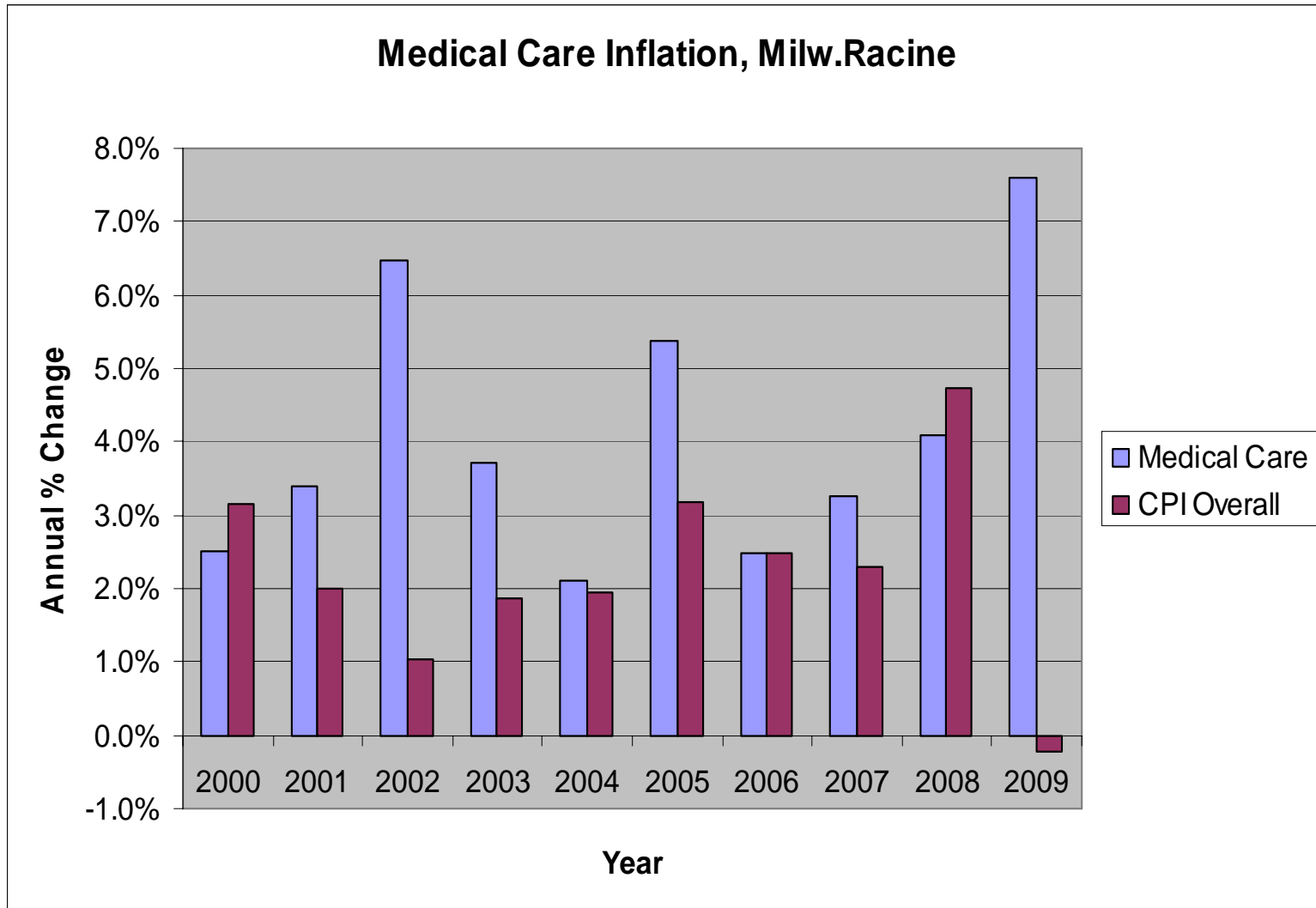


Medical severity 2009p: Preliminary based on data valued as of 12/31/2009

Medical severity 1995–2008: Based on data through 12/31/2008, developed to ultimate

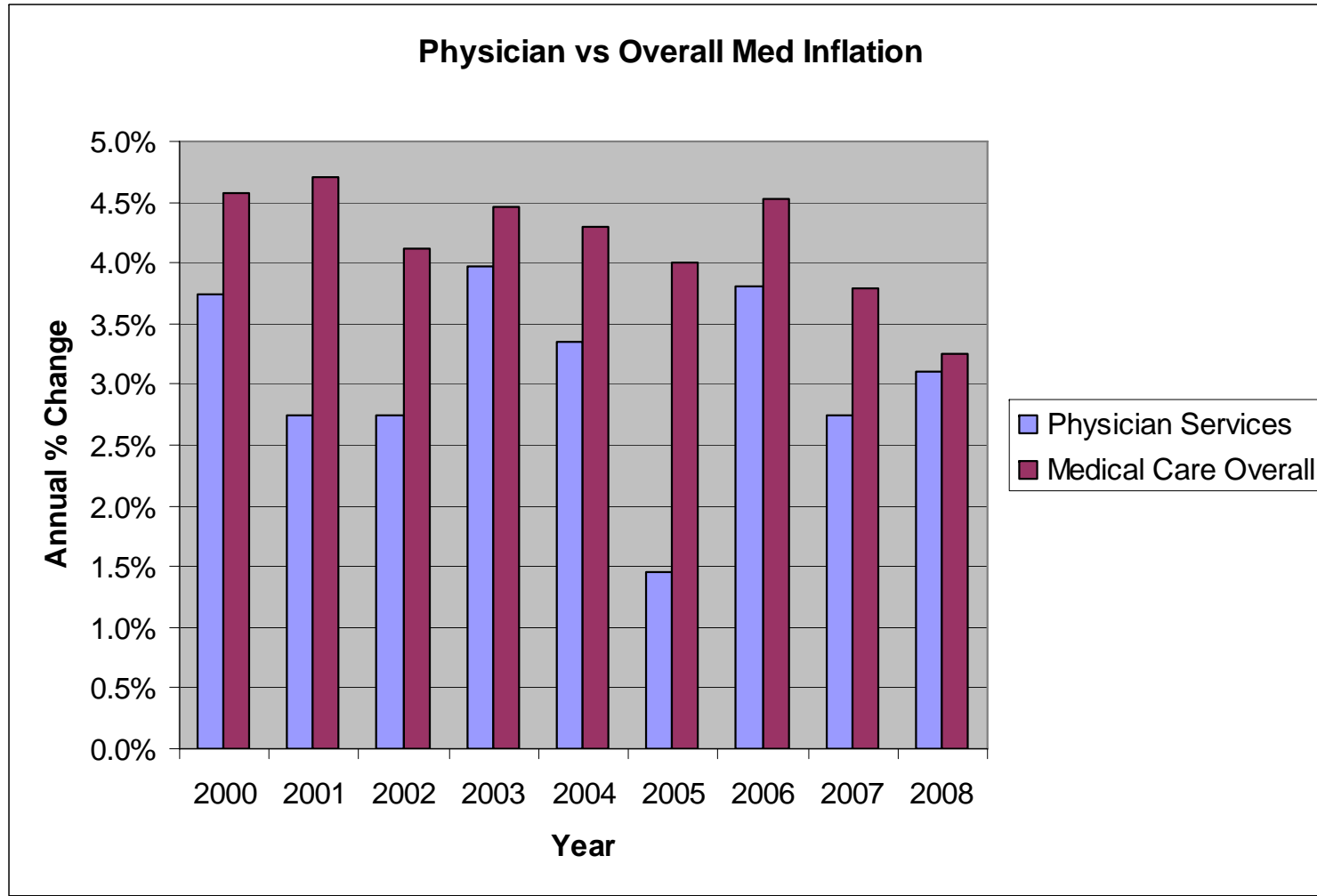
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI



Source: BLS

# Inflation by Provider Type



# WI Relative to Other States

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## 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)**

Measure	CA <sup>a</sup>	FL	IA	IL	IN	LA	MA	MD	MI	MN	NC	PA	TN	TX	WI	15-State Median <sup>b</sup>
<b>Physician</b>																
Percentage of medical payments	49%	34%	37%	41%	35%	32%	36%	32%	34%	35%	28%	29%	42%	37%	41%	35%
Percentage of all claims	98%	98%	95%	95%	97%	97%	91%	96%	97%	96%	97%	97%	99%	97%	95%	97%
Average medical payment per claim	\$3,599	\$3,459	\$4,332	\$6,191	\$4,491	\$3,554	\$2,070	\$2,355	\$2,671	\$3,410	\$3,233	\$3,018	\$4,339	\$2,973	\$5,457	\$3,459
Index of per claim utilization	112	112	93	114	99	100	75	94	100	87	103	112	112	105	88	100
Average number of visits per claim	13.3	10.6	9.0	12.4	9.6	10.0	7.8	10.2	10.4	9.5	10.4	11.9	10.4	11.0	9.2	10.4
Average number of services per visit <sup>c</sup>	2.9	2.5	2.3	2.9	2.5	2.5	2.1	2.5	2.7	2.6	2.5	2.7	2.5	2.5	2.2	2.5
Index of average prices	98	100	137	174	145	109	99	86	97	126	95	96	123	91	215	100
Average payment per visit	\$270	\$327	\$483	\$499	\$470	\$357	\$264	\$230	\$257	\$359	\$312	\$254	\$416	\$270	\$596	\$327
<b>Chiropractor</b>																
Percentage of medical payments	2%	0%	0%	2%	0%	0%	1%	2%	0%	2%	0%	2%	0%	5%	1%	1%
Percentage of all claims	11%	3%	6%	8%	2%	3%	7%	9%	3%	13%	2%	8%	2%	16%	10%	7%
Average medical payment per claim	\$1,091	\$965	\$805	\$2,810	\$733	\$1,372	\$1,052	\$1,327	\$1,082	\$1,673	\$918	\$2,421	\$658	\$2,586	\$1,422	\$1,091
Index of per claim utilization	88	102	71	168	52	n/a <sup>d</sup>	116	130	97	140	85	206	72	233	94	100
Average number of visits per claim	10.6	10.8	9.2	17.9	7.2	12.2	16.8	16.1	12.5	17.4	11.7	21.5	7.4	16.0	14.9	12.5
Average number of services per visit <sup>e</sup>	3.1	3.6	2.7	3.8	2.4	n/a <sup>e</sup>	2.7	3.3	2.7	3.3	3.3	3.8	3.2	4.3	2.5	3.2
Index of average prices <sup>f</sup>	98	88	86	142	108	115	73	90	104	100	86	103	87	102	126	100
Average payment per visit	\$103	\$90	\$88	\$157	\$101	\$113	\$63	\$82	\$87	\$96	\$78	\$113	\$89	\$162	\$96	\$96
<b>PT/OT</b>																
Percentage of medical payments	8%	11%	7%	11%	9%	11%	8%	12%	10%	5%	7%	12%	9%	11%	6%	9%
Percentage of all claims	56%	58%	39%	43%	46%	47%	33%	42%	35%	31%	45%	46%	50%	52%	28%	45%
Average medical payment per claim	\$976	\$1,864	\$1,908	\$3,835	\$2,410	\$2,464	\$1,238	\$2,068	\$2,133	\$1,531	\$1,644	\$2,628	\$1,760	\$1,603	\$2,666	\$1,908

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

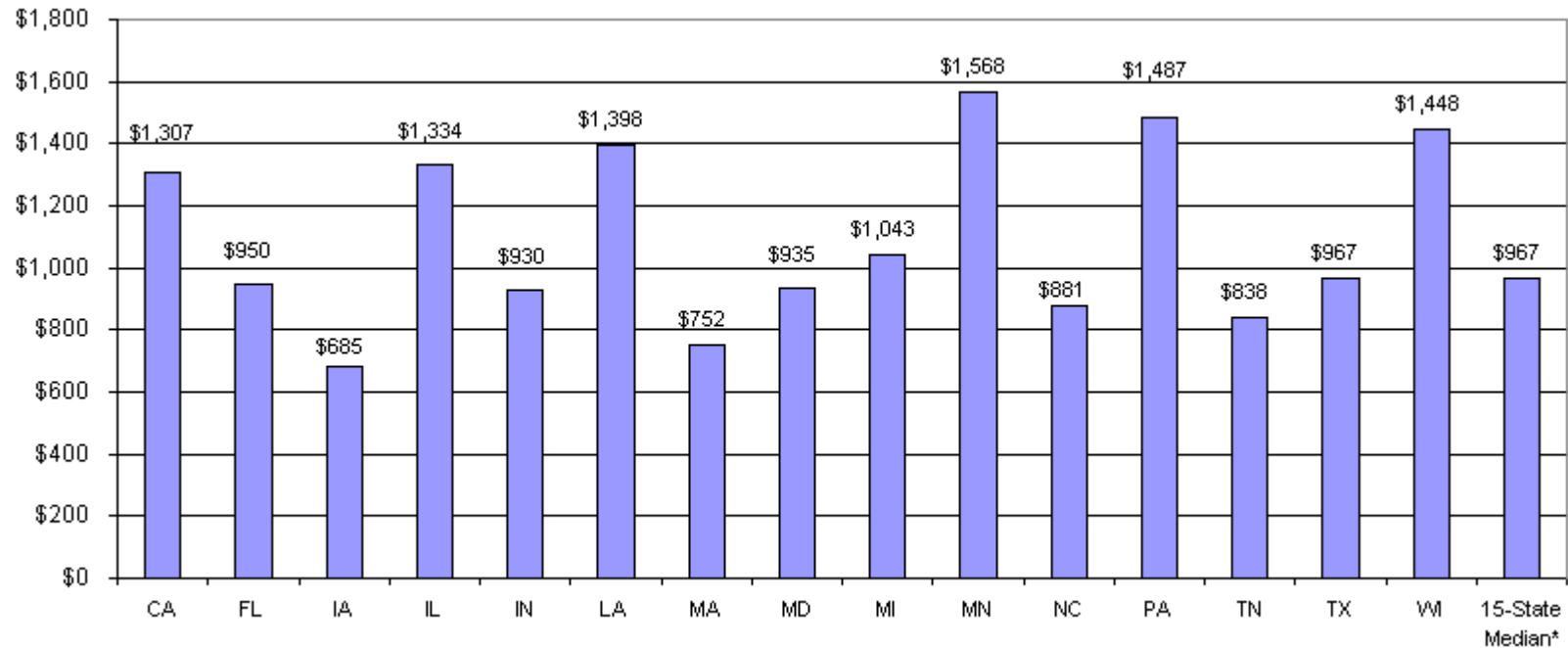


# NCCI Analysis of Causes of Medical Cost Increase

- 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



## Significant Variation Without Obvious Cause



Source: WCRI, Compscope Benchmarks



## Medical Cost Containment Part of the Problem?

- “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

- 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



# Pay for Performance: The Ultimate in Cost Containment

- IAIABC and American College of Occupational and Environmental Medicine (ACCOEM) 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

- 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:

[gkrohm@iaiaabc.org](mailto:gkrohm@iaiaabc.org)