



## ANALYSIS OF PROPOSED FLORIDA MEDICAL FEE REIMBURSEMENT CHANGES FOR OUTPATIENT SERVICES

**NCCI estimates that implementing Medicare multipliers of 1.7364 for category 2 procedures and 3.9479 for category 3 procedures (as described below) would result in an overall cost impact on Florida workers compensation system to be between -0.1% and +0.4% (-\$4.8M to \$19.2M).**

**If this proposal were enacted in its current form, it would be reasonable to expect that the overall impact could be premium neutral.**

### Summary of Proposal

Currently, reimbursement for outpatient services in Florida for workers compensation injuries depends on the category of service as described below:

- Category 1: Any scheduled outpatient radiology or clinical laboratory services that are not performed in conjunction with a scheduled surgery shall be reimbursed by the schedule of maximum reimbursement allowance (MRA's) listed in Florida Workers' Compensation Health Care Provider Reimbursement Manual (FWCRM), 2007 Edition. In addition, any outpatient physical, occupational, and speech therapy is reimbursable by the listed MRA in the FWCRM.
- Category 2: The reimbursement level for scheduled outpatient surgeries is 60% of Usual and Customary Charges (UCC). In addition, any scheduled radiology and clinical laboratory services performed in conjunction with, as defined as being performed on the day of or up to three days before a scheduled surgery, are also reimbursed at 60% of UCC.
- Category 3: All other outpatient procedure should be reimbursed at 75% of UCC.

The proposal is to revise the outpatient schedule to be based on the Medicare Hospital Outpatient Prospective Payment System (OPPS):

- Category 1: There are no changes to this category of services.
- Category 2: The proposal is to reimburse these services at a maximum of 173.64% of Medicare OPPS.
- Category 3: The proposal is to reimburse these services at a maximum of 394.79% of Medicare OPPS.

### Actuarial Analysis

Our analysis involved using two different data sources:

- 1) Florida's Department of Financial Services (DFS) detailed workers compensation medical transaction data for service year 2007 from all carriers. NCCI aggregated this data in two ways to determine the range of cost estimates. First, we performed an analysis including only the data where the billing zip code was within Florida. Second, we performed an analysis including data where the billing zip code was either in or outside Florida.
- 2) Florida workers compensation data licensed to NCCI. This data included the service years 2005-2006.



## ANALYSIS OF PROPOSED FLORIDA MEDICAL FEE REIMBURSEMENT CHANGES FOR OUTPATIENT SERVICES

Using both sources of data, we obtained similar results.

The analysis shown below is based on the DFS workers compensation detailed medical transaction data for service year 2007 from all carriers.

The methodology used to determine the cost impact of the changes in the proposed reimbursement schedule is as follows: our first step was to segregate each procedure into the appropriate categories. We then calculated the current reimbursement amount for each procedure code using the following formula:

### Current Reimbursement

Category 2= 60% x Submitted Charges x Trend Factor

Category 3= 75% x Submitted Charges x Trend Factor

As shown in the equations above, the current charges were inflation-adjusted. Charges from services performed in 2007 were trended to 1/1/2009. A trend factor of 1.074 was derived from the latest available annual change in the hospital outpatient component of the medical CPI using data from economy.com. The trend factor applied to the 2007 charges was 1.113 (=1.074<sup>1.5</sup>):

Medicare's OPSS system is based on Ambulatory Payment Classifications (APC). This system classifies cases into groups according to procedures which are expected to have similar resource use. Each procedure from DFS data was mapped to its corresponding APC code using the relationships provided by Medicare. This mapping can then be used to determine MRA's for each procedure code under a Medicare based schedule. Additionally, we assume in this methodology that the MRA's are proxies for the actual amounts that will be reimbursed.

### Proposed Reimbursement

The formula used to determine the MRA for each procedure under the **proposed fee schedule** is as follows:

2008 Medicare OPSS MRA Amount

= (40% x 2008 OPSS APC Rate) + [(60% x 2008 OPSS APC Rate) x Wage Index]

Florida Outpatient MRA Amount for **Category 2**:

= (2008 Medicare OPSS MRA Amount) x 173.64%

Florida Outpatient MRA Amount for **Category 3**:

= (2008 Medicare OPSS MRA Amount) x 394.79%

Where:

- 40% x OPSS Rate represents the non-labor (cost for drugs, supplies and etc) share.
- 60% x OPSS Rate represents the labor share.

The Medicare OPSS uses the wage indices developed for the Inpatient Prospective Payment System (IPPS). The wage index varies by hospital, which measures the hospital wage level in its geographic area relative to the national average hospital wage level. Using 2007 DFS actual charges of each



**ANALYSIS OF PROPOSED FLORIDA MEDICAL FEE REIMBURSEMENT CHANGES FOR OUTPATIENT SERVICES**

Florida hospital as weights, a weighted average of the Florida’s hospital wage index adjustments was calculated and used in the calculation of the proposed MRA amount.

Once we determine the MRA’s for each procedure code, we then multiply the MRA by the Florida frequency of each code, which is obtained from DFS detailed medical transaction data for outpatient services rendered in service year 2007.

The total cost across all procedures under current and proposed maximum reimbursement levels for each procedure was then calculated. The direct impact on the category of services affected is the ratio of the total cost of procedures under the proposed reimbursement levels to the total cost of procedures under the current reimbursement levels.

For non-surgical procedures in which the MRA was reduced, the savings were adjusted to account for possible changes in hospital billing practices to offset the lost revenue. The magnitude of this adjustment is based on an analysis done by the Centers for Medicare and Medicaid Services which suggests that an increase in the volume and intensity of services is generally associated with a reduction in fee schedule reimbursement rates (see “Physician Volume and Intensity Response” on the CMS website at <http://www.cms.hhs.gov/ActuarialStudies/downloads/PhysicianResponse.pdf>). This analysis suggests an offset between 30% - 50%.

To derive our range of results, we used utilization offsets ranging from 30% to 50%. The impact of this proposal on outpatient hospital costs is estimated to be a change of -0.6% to 5.1%. The impact is then multiplied by the ratio of outpatient hospital costs to total medical costs in Florida (10.1%) to arrive at the impact on medical costs of -0.1% to 0.5%. The impact on medical costs is then multiplied by the ratio of medical costs to overall workers compensation system costs in Florida (70.2%) to arrive at an overall impact of -0.1% to 0.4%.

The above impacts are summarized in the table below:

		<u>30% Utilization</u>	<u>50% Utilization</u>
(1)	Impact on Outpatient Hospital Costs in Florida	-0.6%	5.1%
(2)	Outpatient Hospital Costs as a Percentage of Medical Costs in Florida <sup>1</sup>	10.1%	10.1%
(3)	Impact on Medical Costs in Florida = (1) x (2)	-0.1%	0.5%
(4)	Medical Costs as a Percentage of Overall Workers Compensation System Costs in Florida <sup>2</sup>	70.2%	70.2%
(5)	Total Impact on Overall Workers Compensation System Costs in Florida = (3) x (4)	-0.1%	0.4%

<sup>1</sup> Based on Florida detailed medical transactional data for service years 2007.

<sup>2</sup> Based on policy years 2007 Florida Financial Call data projected to 01/01/2009.