



Medical Cost Trends & Emerging Issues in the California Workers' Compensation System

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California Workers' Compensation Institute
www.cwci.org

Current Events on Medical Delivery

Good news on reform outcomes:

- Frequency, expenses and medical are down
- New fee schedules (RBRVS) on track
- Fewer spine surgeries
- Opioids are trending down
- Rx Formulary coming on-line
- Fewer liens
- \$1.3B in savings (WCIRB)

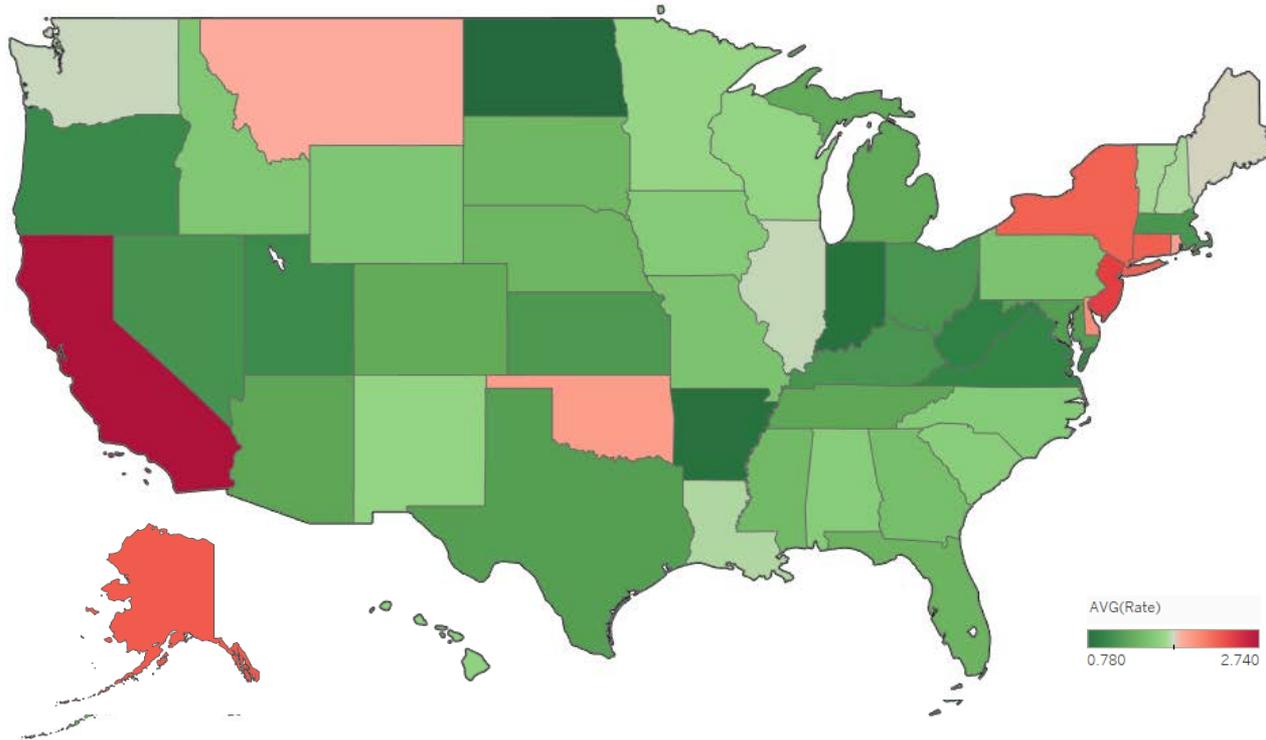
However...

California within the National Landscape

Highest Rate*

Highest Perm Dis Frequency

Highest Expenses

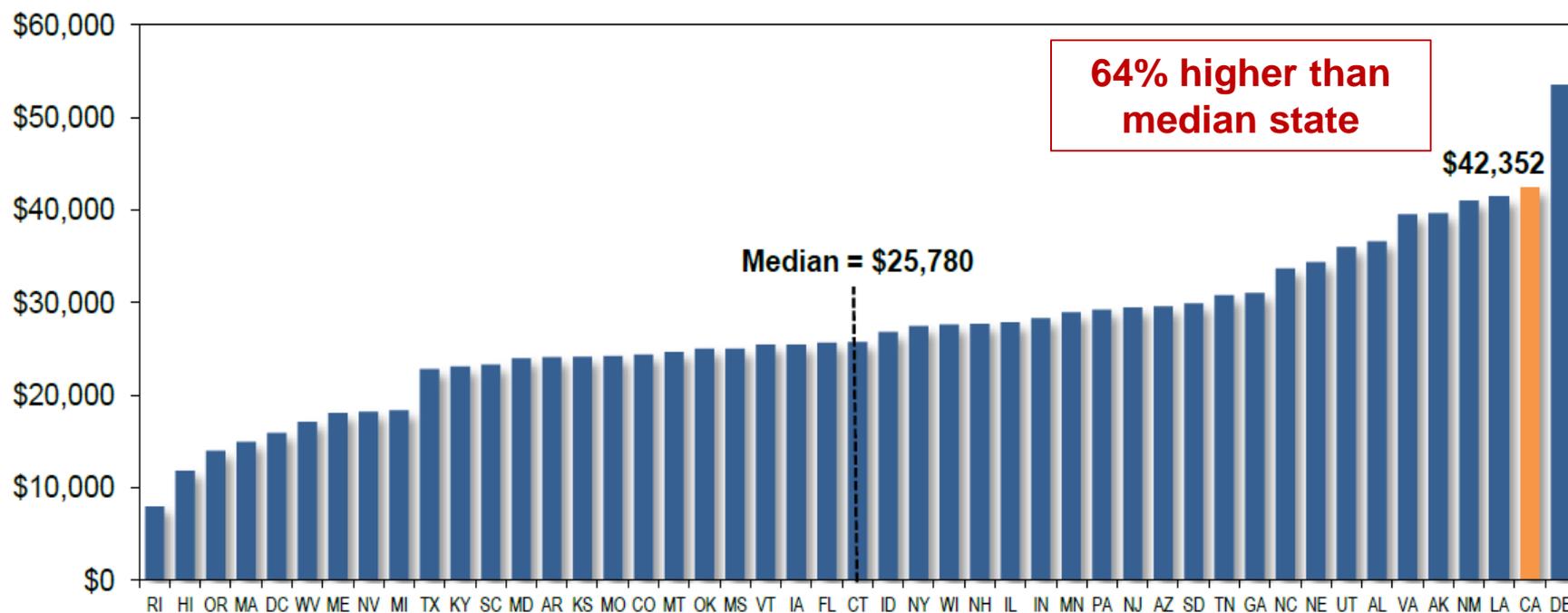


* Using CA weights

Source: Oregon Dept. of Business & Consumer Services Study 2016

National Comparison on Medical Costs Indemnity Claims

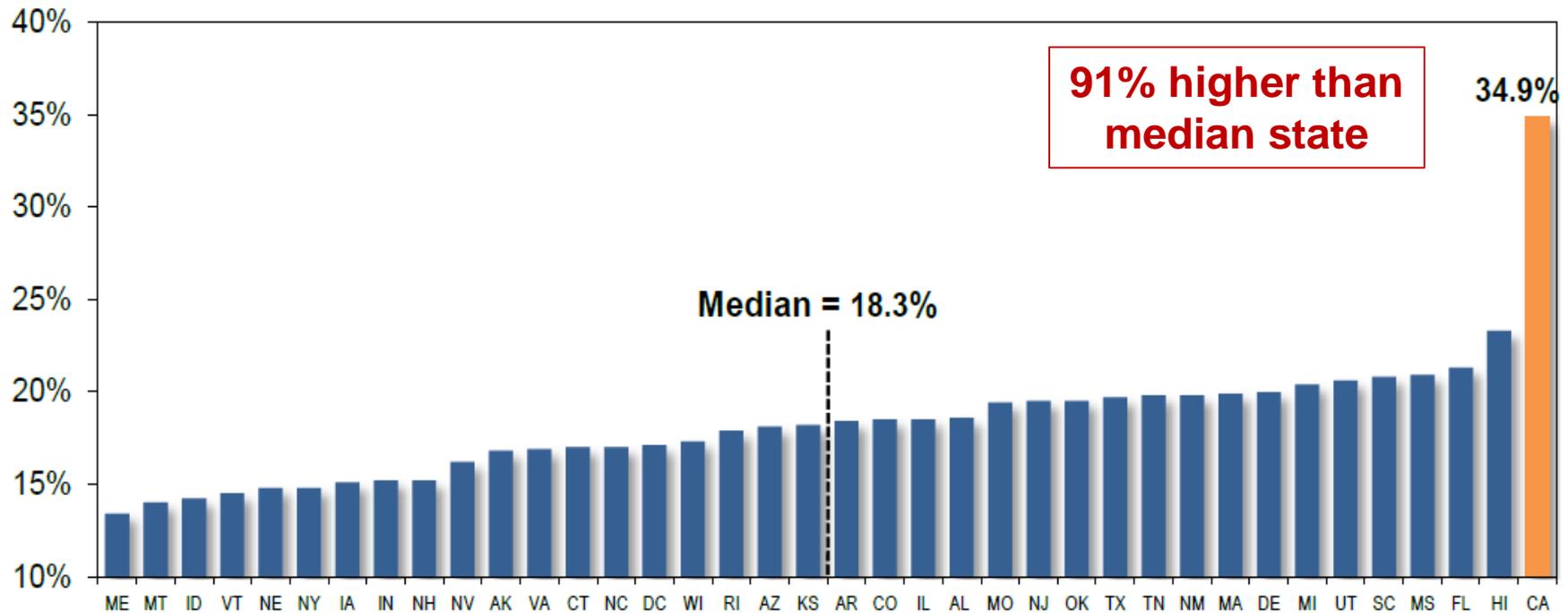
Medical Cost per Indemnity Claim



Source: NCCI Annual Statistical Bulletin, 2016, Exhibit 11

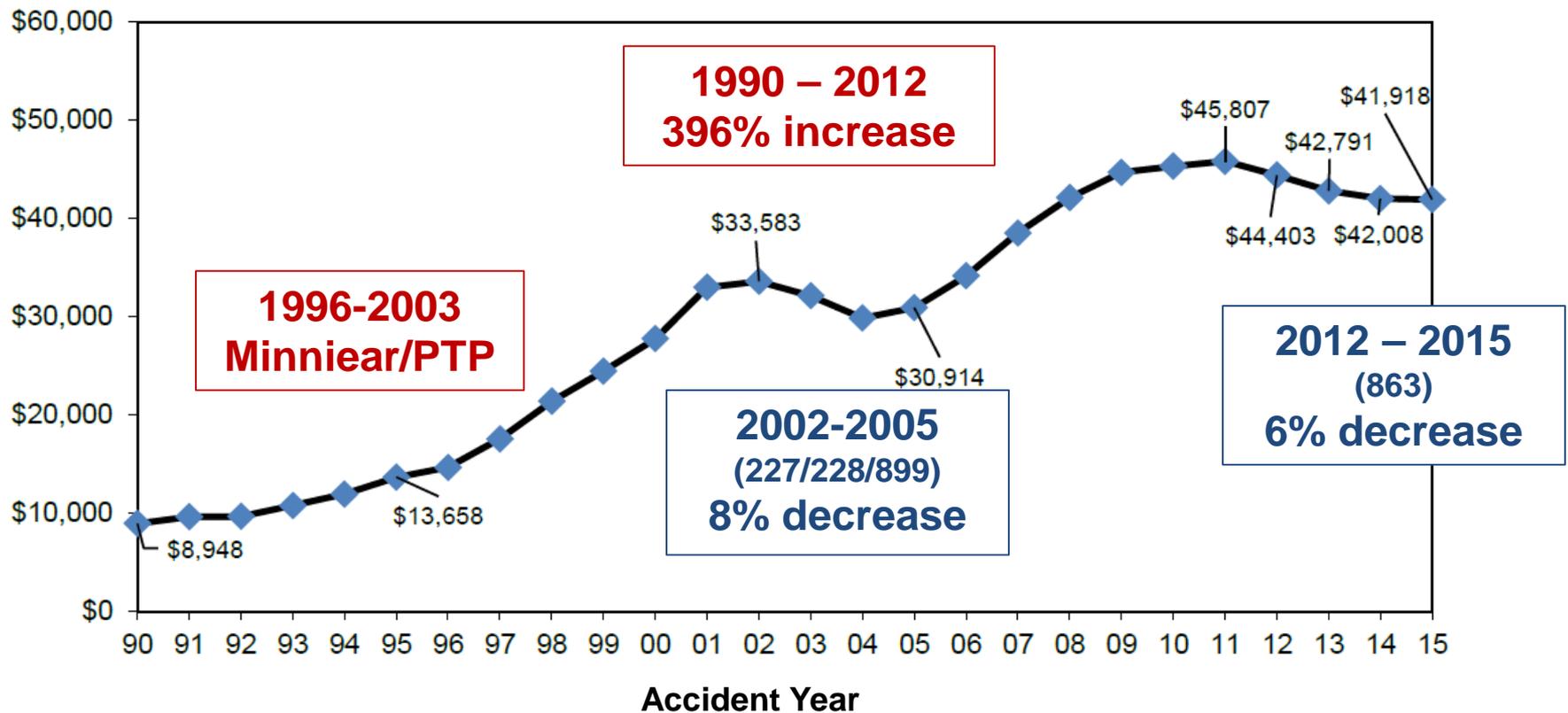
National Comparison on LAE Costs

Ratios of Loss Adjustment Expense Costs to Losses



Source: 2016 NCCI Annual Statistical Bulletin, Exhibit 6

Estimated Average Medical Cost per Indemnity Claim by Accident Year



Source: WCIRB 2016

Inpatient Spinal Surgery

- Controversial nature of spine surgeries
- Many spine surgeries performed without appropriate findings
- High rate of repeat surgeries and “failed back syndrome”
- High rate of spine surgery associated with duplicate payment for hardware
- March 2016 Study

CWCI California Workers' Compensation Institute

Spotlight Report

Inpatient Hospital Utilization in California Workers' Compensation: 2008 - 2014

By Stacy Jones March 2016

Background/Objective

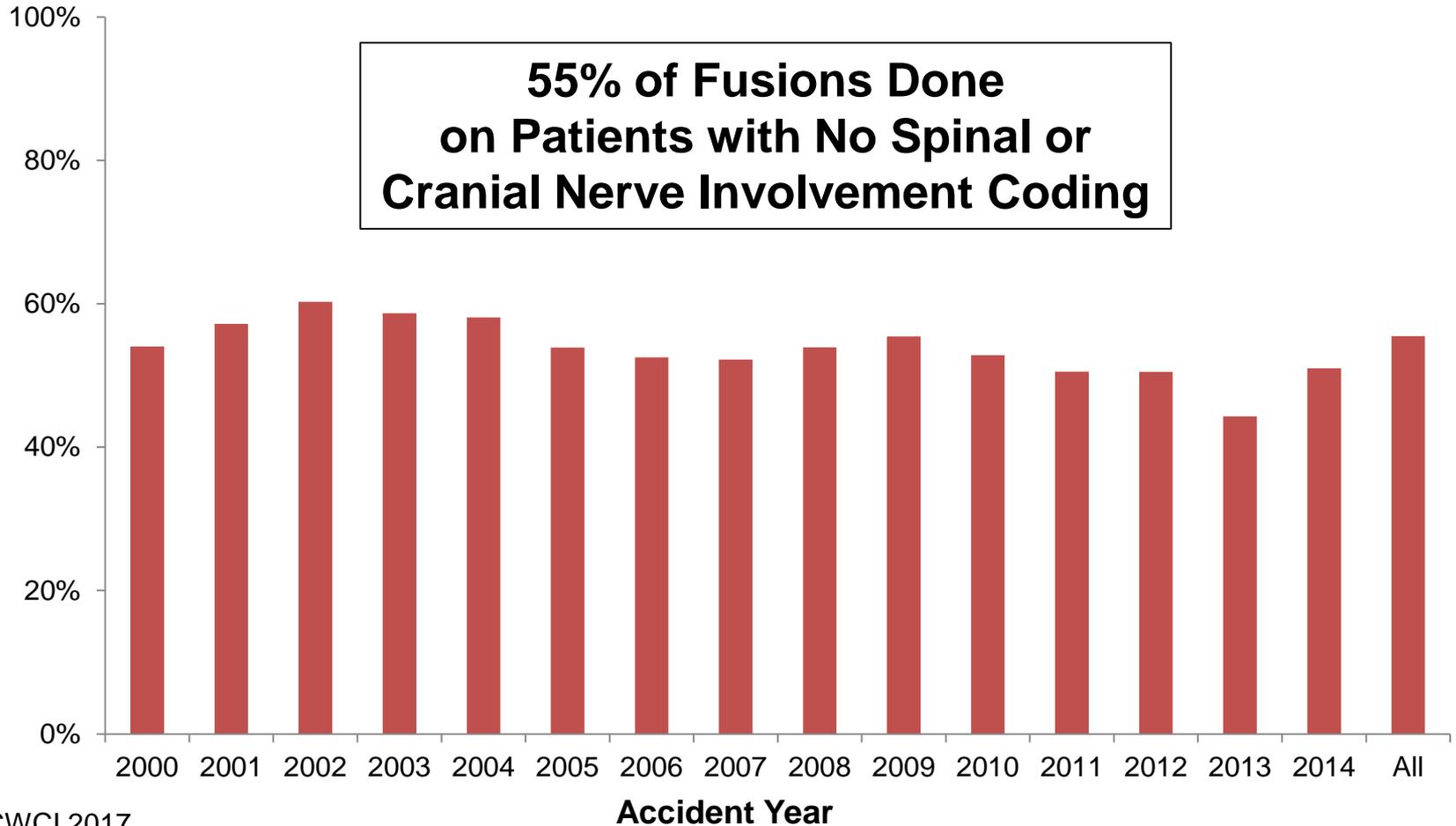
Inpatient hospitalizations historically account for a only a small share of California workers' compensation medical services, but by their very nature these services represent treatment that is intended to address more serious injuries or illnesses. In a December 2014 study CWCI used data compiled by the state on 21.7 million inpatient stays with 2008 to 2013 discharge data to measure and compare the volume and distribution of specific hospital inpatient services and procedures paid by California workers' compensation to those paid under Medicare, Medi-Cal and private coverage plans. The study noted that over that six-year span the number of inpatient hospital discharges fell for all four payer categories, with the greatest reduction noted in hospitalizations covered by private insurance (16.7 percent) and workers' compensation (17.6 percent).¹

The 2014 study also documented a declining number of spinal fusions in workers' compensation, even as these procedures were becoming more prevalent among patients covered by Medicare (13.6 percent) and Medi-Cal (20.5 percent).² An analysis of Medicare and Medi-Cal enrollment and cost trends was outside the scope of the study, but it should be noted that with the introduction of the Affordable Care Act (ACA) and the absorption of other programs covering minors, Medi-Cal enrollment increased by more than half in fiscal year 2012-2013. At the conclusion of the 2014 study Jones and David posited that the trend of decreasing implant-eligible spinal surgeries in workers' compensation would continue due to the elimination of separate reimbursement for implantable devices under the California workers' compensation Inpatient Hospital Fee Schedule. This report revisits the issue of inpatient hospitalizations in California using information from service year 2014 to generate updated data that identifies:

- The distribution of inpatient hospital discharges across payer groups.
- The top 10 Medicare severity-adjusted inpatient diagnosis-related group codes (MS-DRGs) used to describe workers' compensation inpatient discharges.
- Carve-out data analyzing the volume of discharges for spinal fusion surgery.
- Average charge and payment data for the top 10 workers' compensation MS-DRGs.

1. Jones, S. and David, R. Inpatient Utilization in the California Workers' Compensation System. CWCI Research Update, December 2014.
2. Ibid.
3. Chasco, S. Medi-Cal and the Governor's Proposed 2013-14 Budget: Health Care Reform Issues Development and Federal Funding. California Budget Center, January 23, 2013.

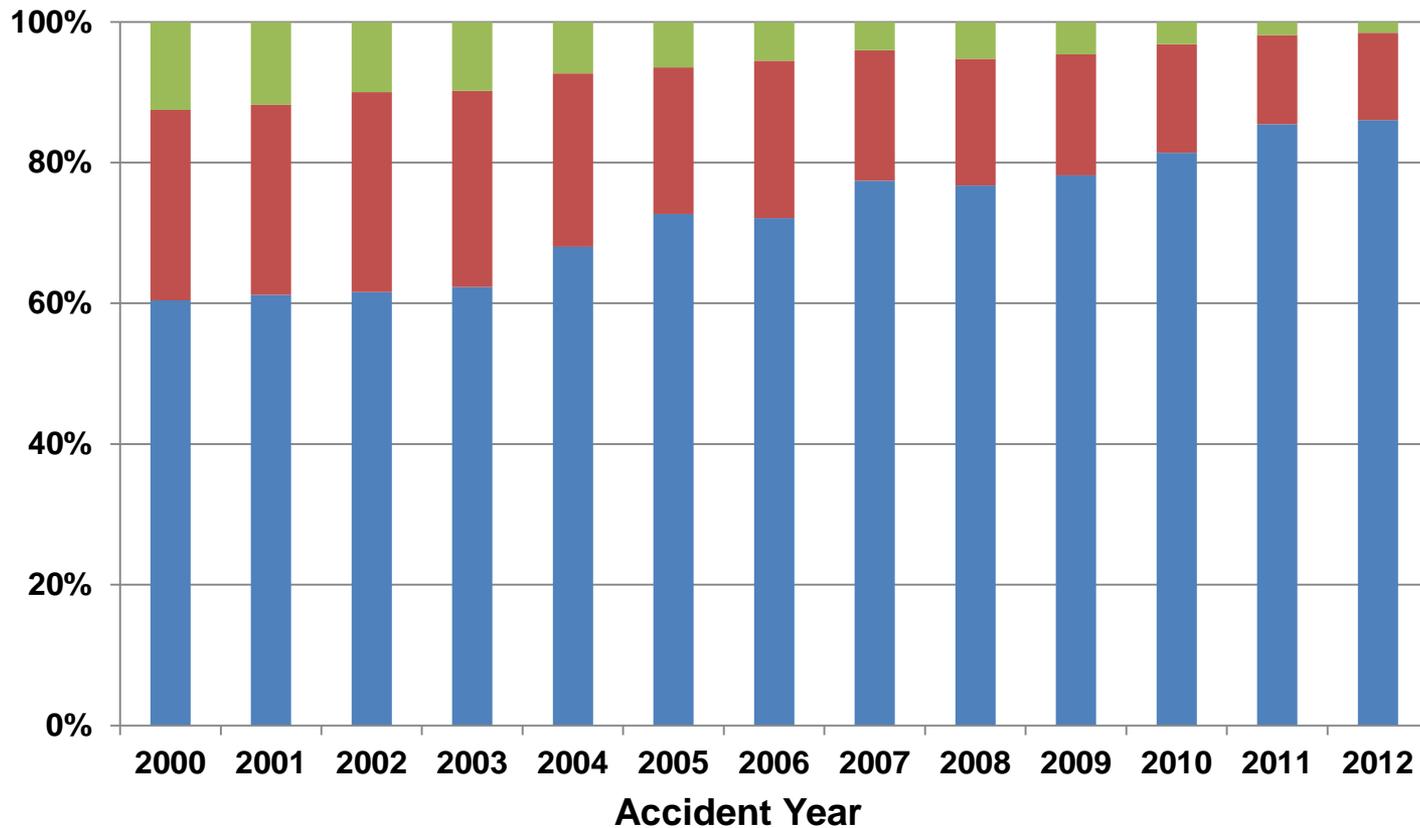
Spinal Fusions



Source: CWCI 2017

Multiple Spinal Fusions

Percent with 1, 2 or 3+ Fusions



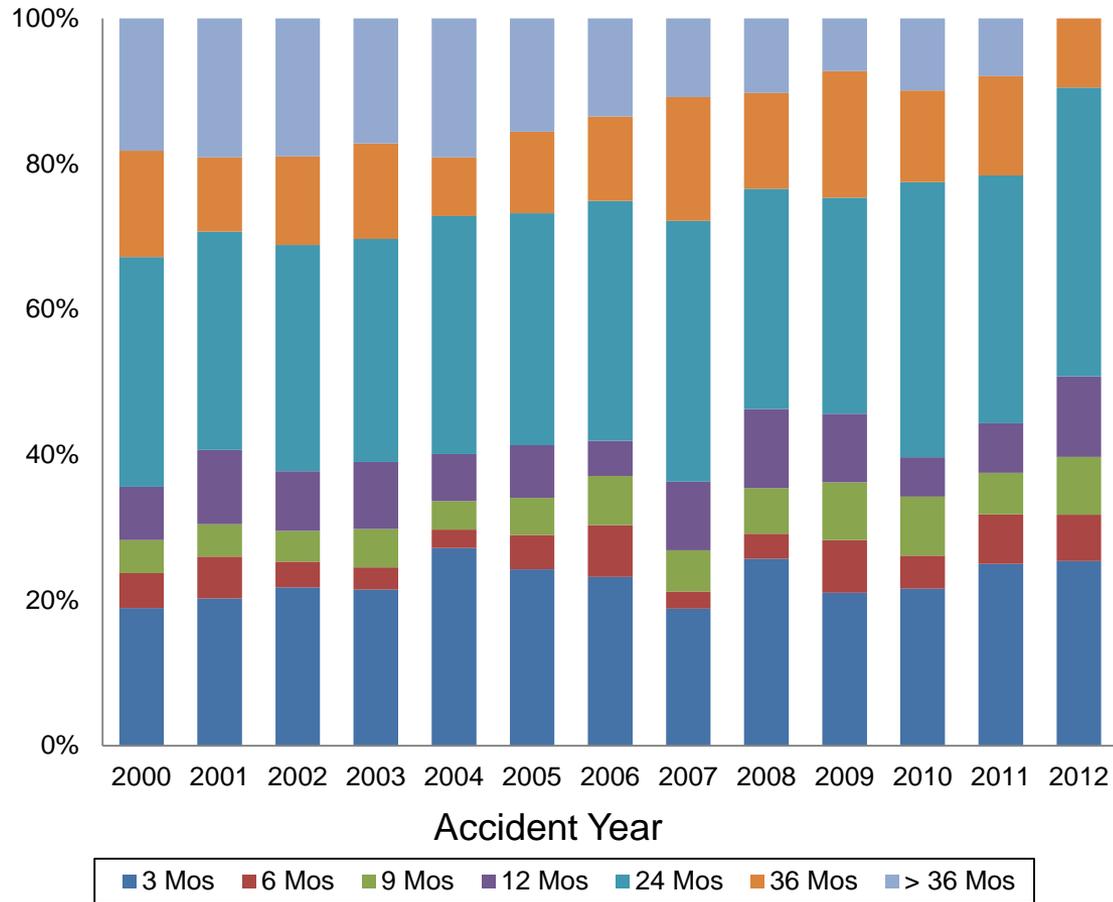
Follow-up surgeries are common

Source: CWCI 2017



Spinal Fusions

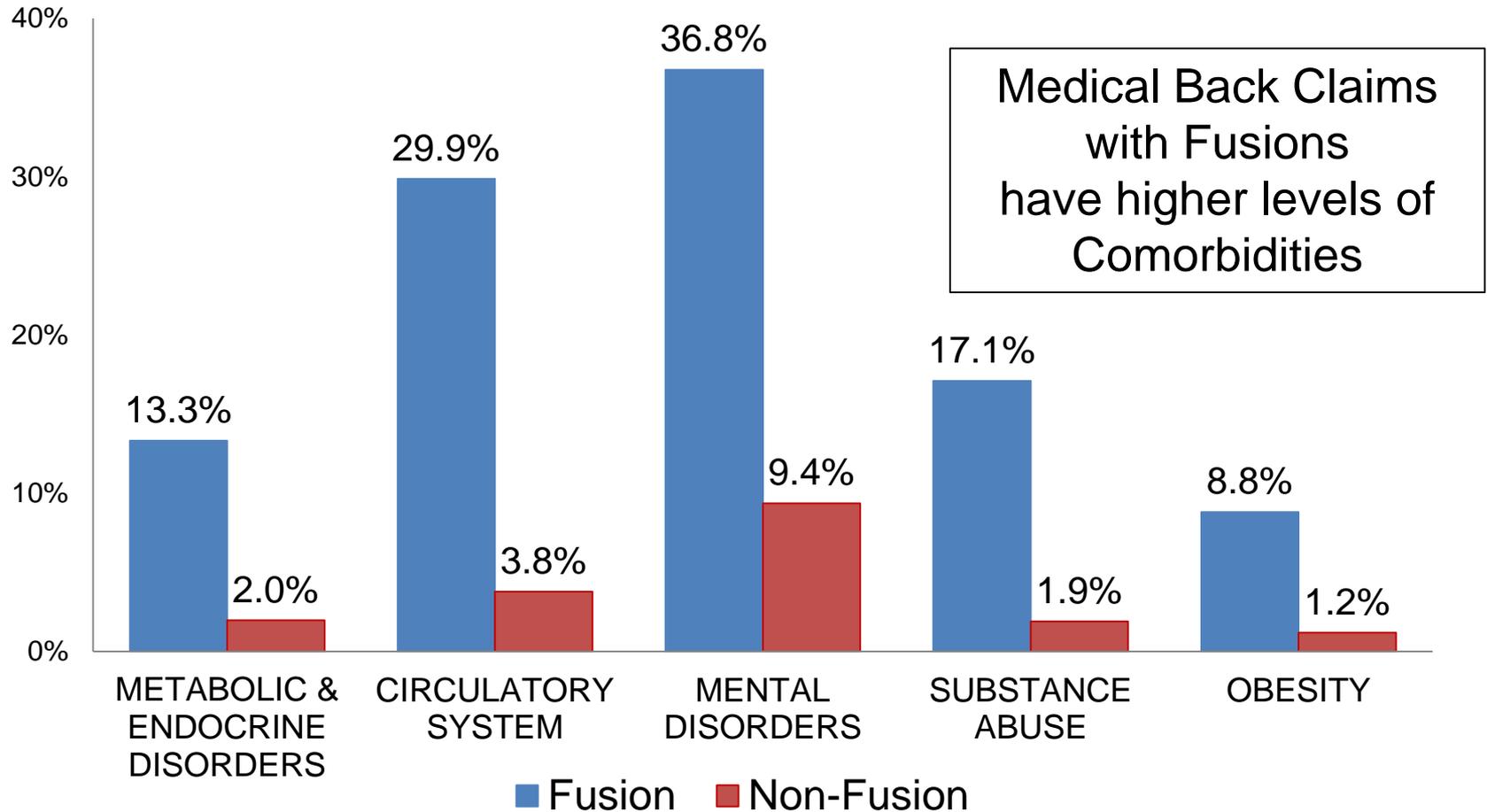
Timing of 2nd Surgeries



Almost half of 2nd surgeries performed within one year of the 1st

Source: CWCI 2017

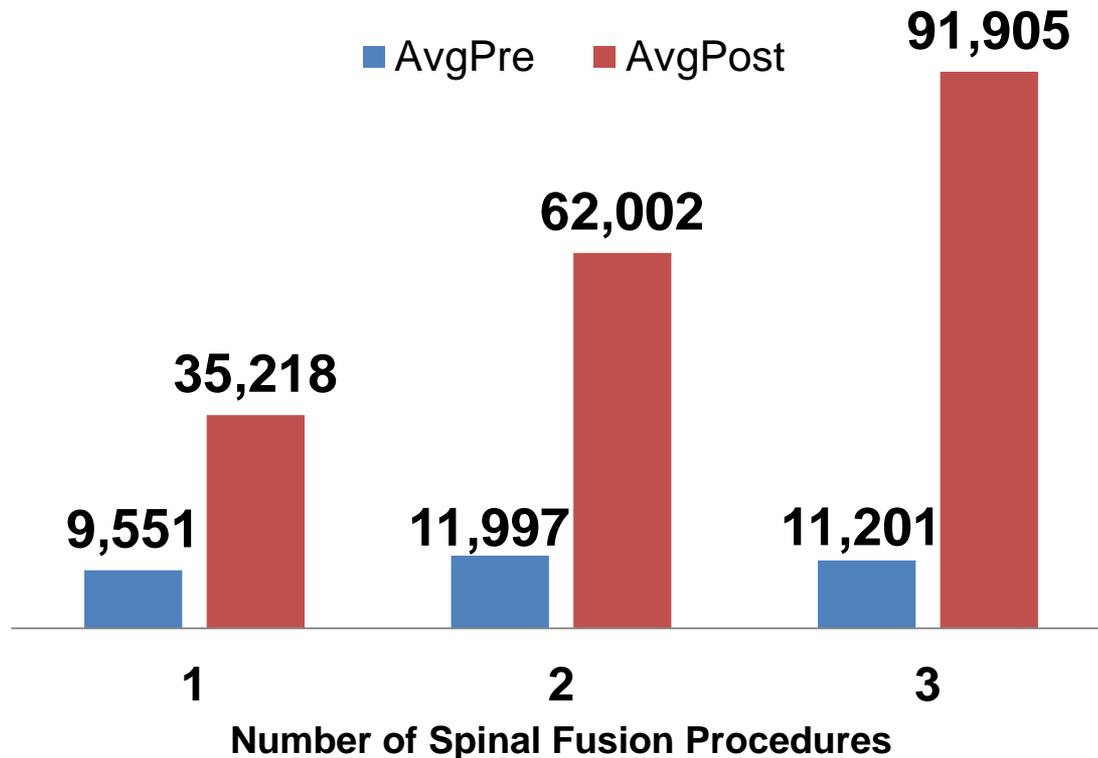
Spinal Fusions Comorbidities



AY 2000 - 2014 Claims

Spinal Fusion as Pain Management? Opioid Use Before & After

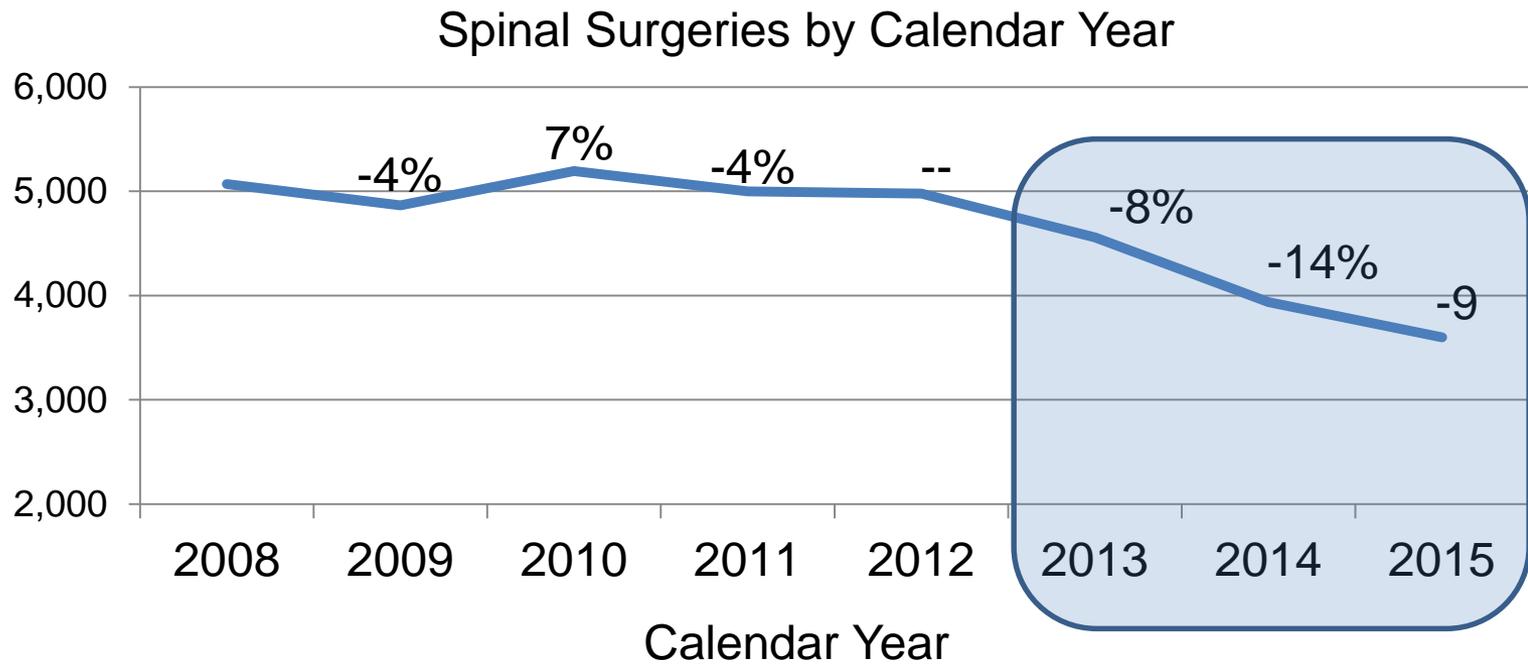
Morphine Equivalents per Claim Pre-Fusion
and Greater than 30 Days Post Last Fusion



Opioid use
spikes 30 days
after surgery

Source: CWCI 2017

Post Reform Spinal Fusions Removal of Duplicate Hardware Payment



Source: OSPHD

Spinal fusions declined
27% following reforms

Source: CWCI 2017

CWCI 2017. All Rights reserved.

Spinal Surgery Rates

Another Reason for the Decline

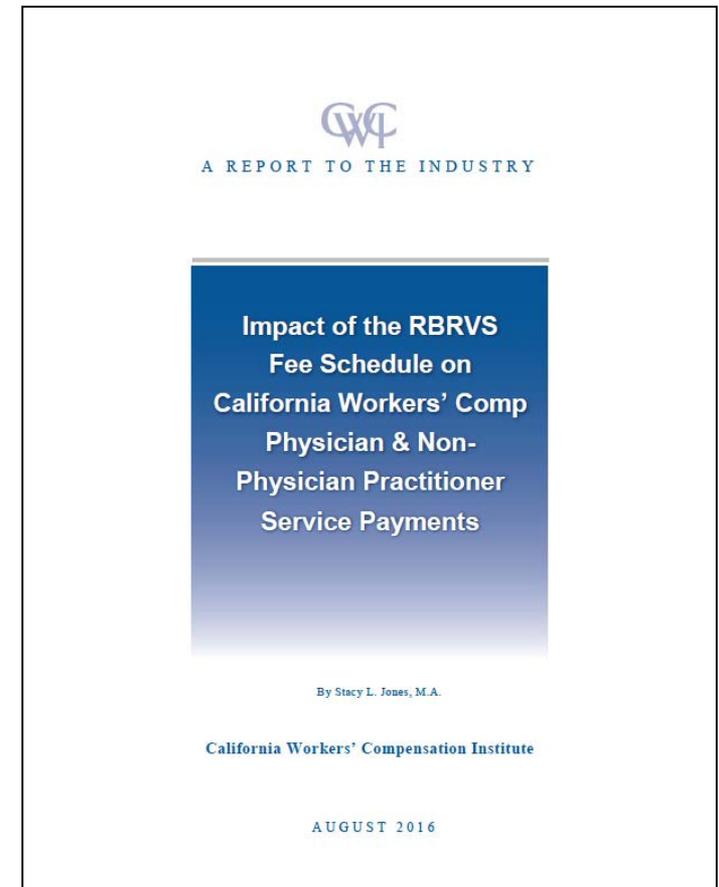
“Operation Spinal Cap”

FBI: Five Individuals, Including Two Doctors, Charged in Kickback Schemes Involving Nearly **\$600 Million in Fraudulent Claims** by Southern California Hospitals

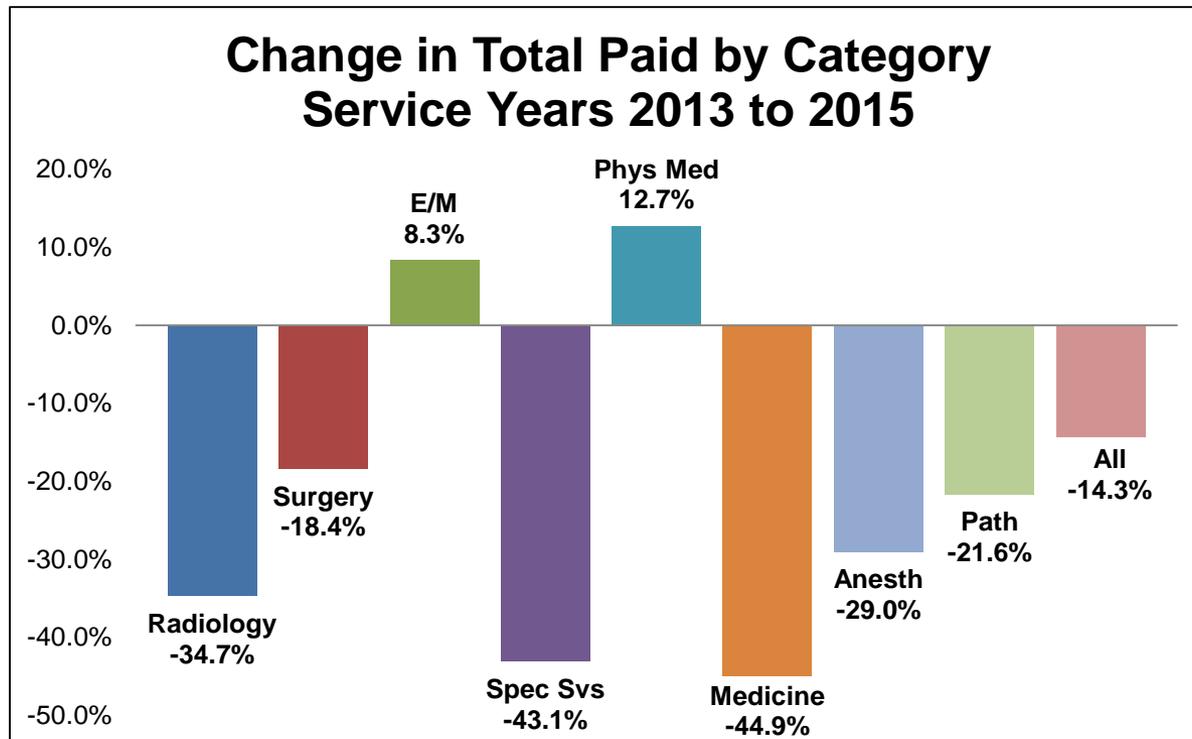
WASHINGTON—In a series of related cases announced today, the former chief financial officer (CFO) of a Long Beach, California, hospital, two orthopedic surgeons and others have been charged in long-running health care fraud schemes that **illegally referred thousands of patients for spinal surgeries and generated nearly \$600 million in fraudulent billings** over an eight-year period

Impact of the RBRVS Fee Schedule

- Published August 2016
- Study analyzes the first two years of the 4-year transition to the RBRVS-based fee schedule for physician and non-physician services.



Impact of the RBRVS Fee Schedule



Summary points:

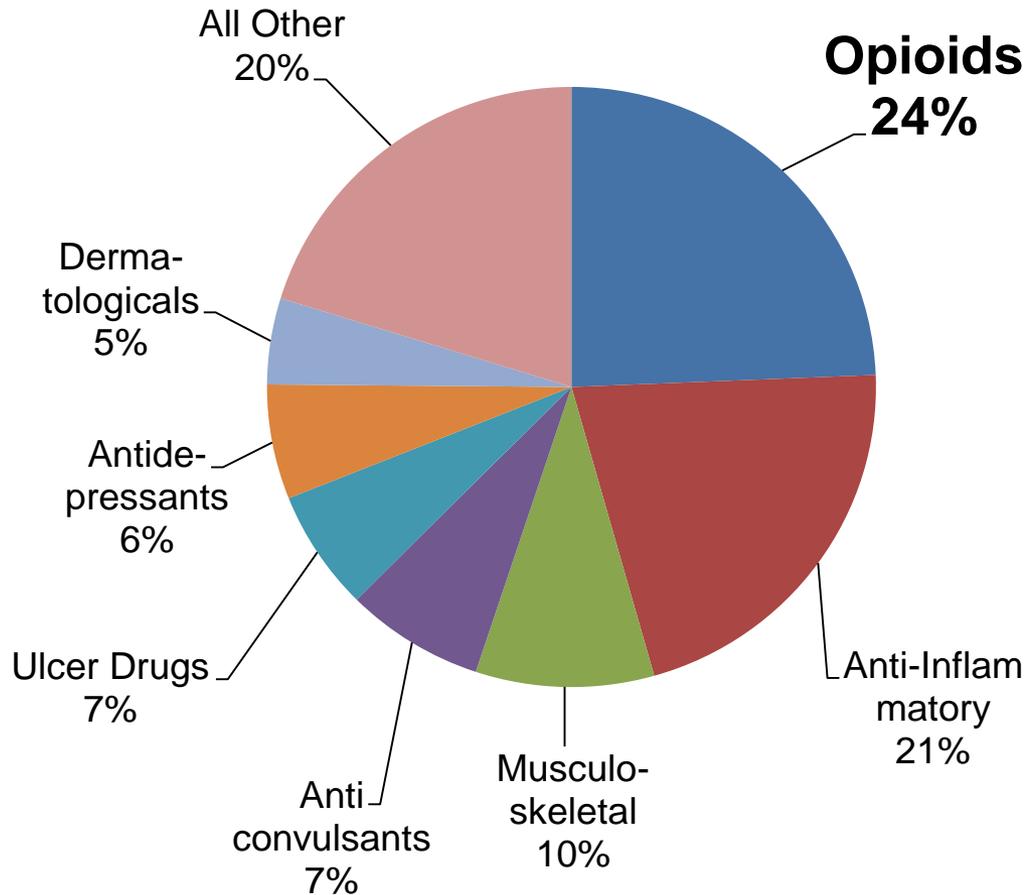
- Total paid -14.3%
- Wide variation between service categories



Pharmaceutical Utilization and Cost Trends & Formulary Update



Distribution of Therapeutic Groups - Prescriptions

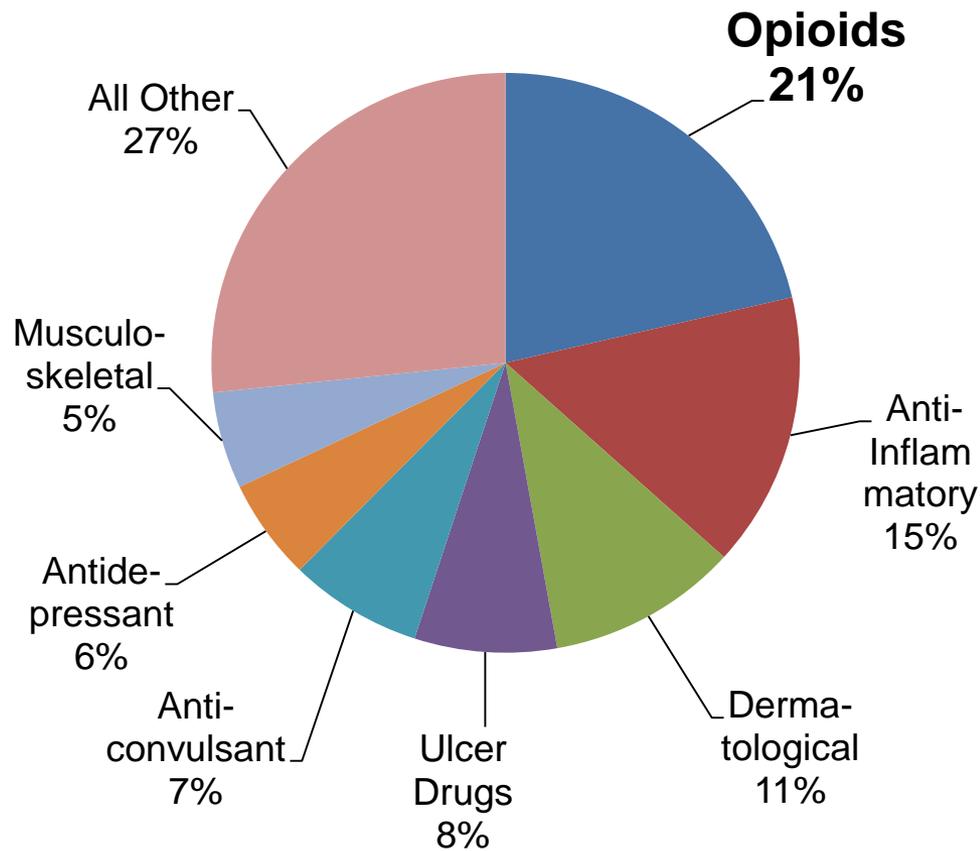


Opioids remain the most frequent script of all therapeutic groups

Calendar Year 2016



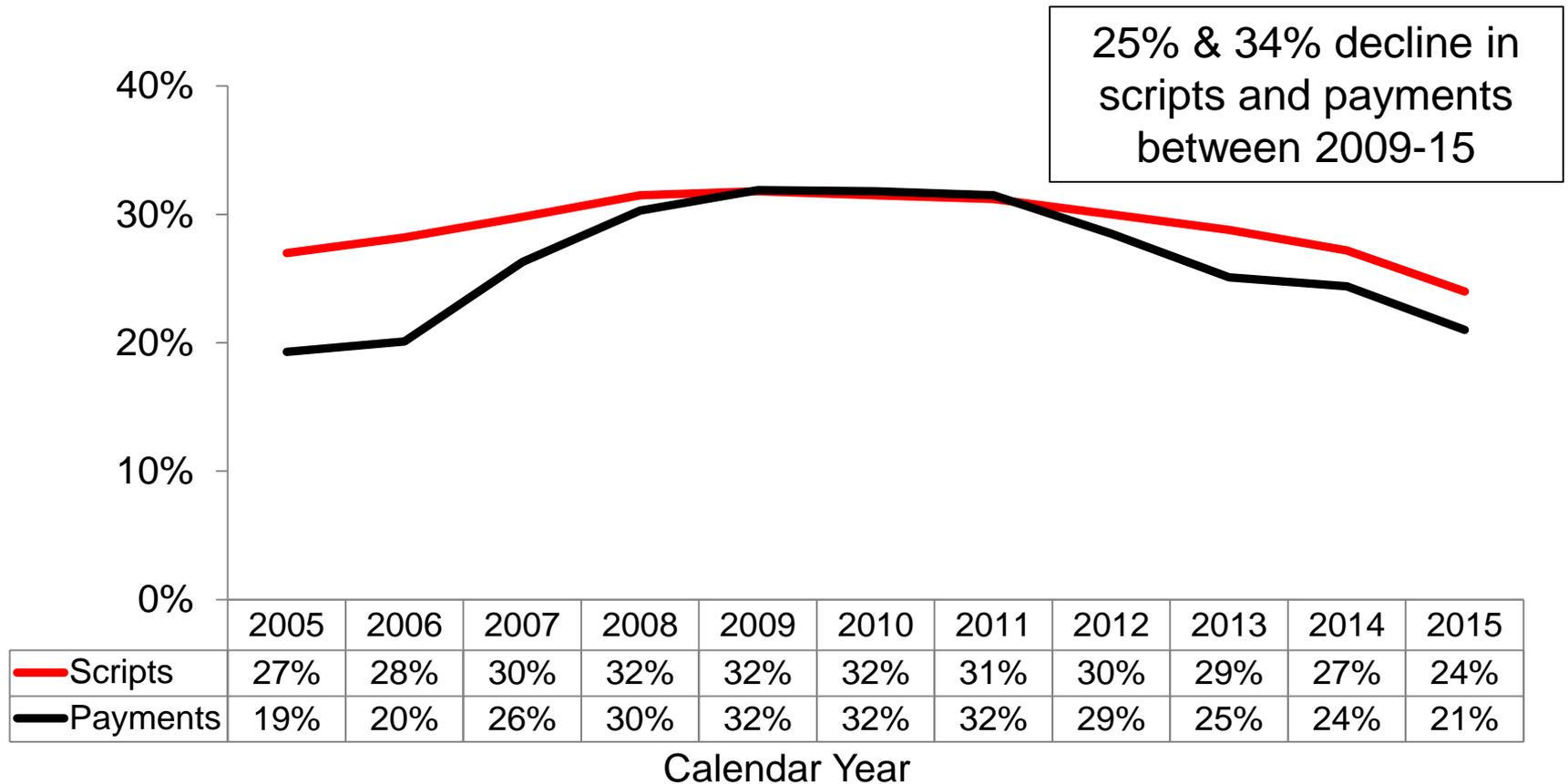
Distribution of Therapeutic Groups - Payments



Opioids have the highest payments of all therapeutic groups

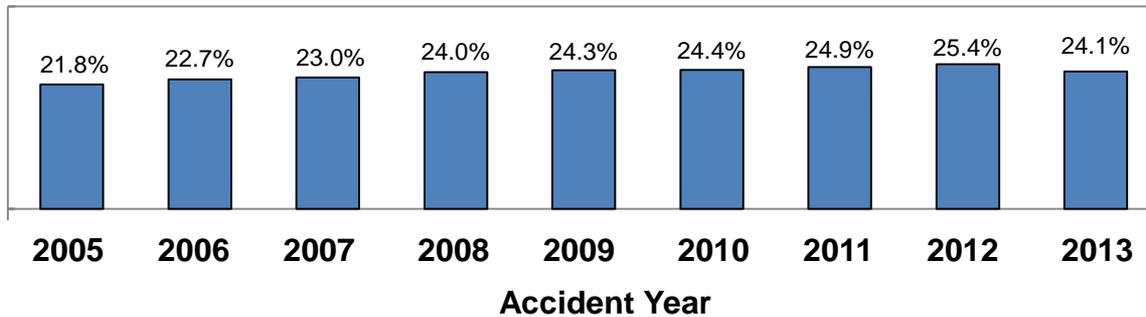
Calendar Year 2016

Analgesic Opioid Prescriptions & Payments



Changes in Opioid Utilization

Claim Based Measures at 24M Development

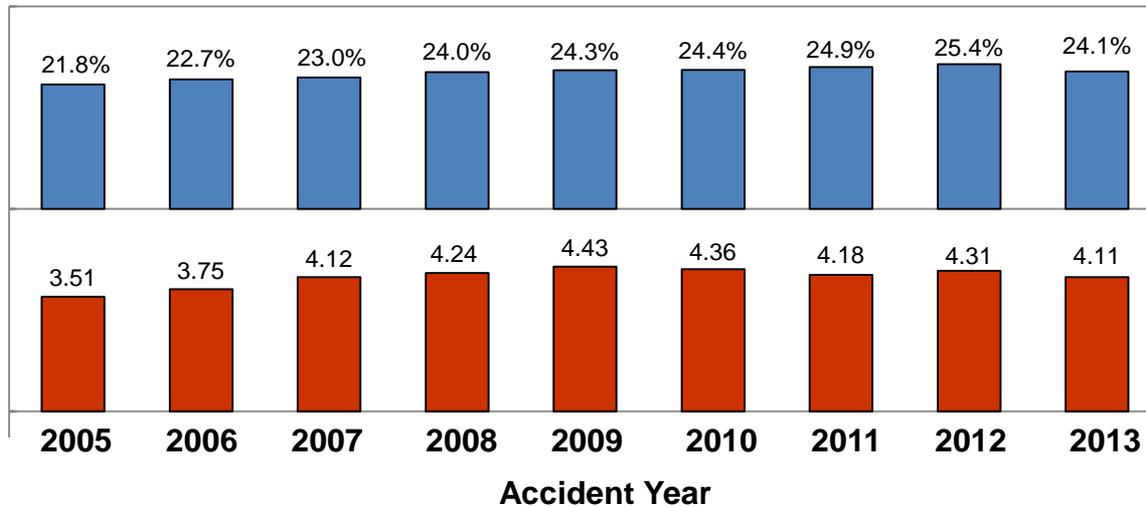


Percent of injured workers w/ opioids

11% increase between AY 2005-2013

Changes in Opioid Utilization

Claim Based Measures at 24M Development

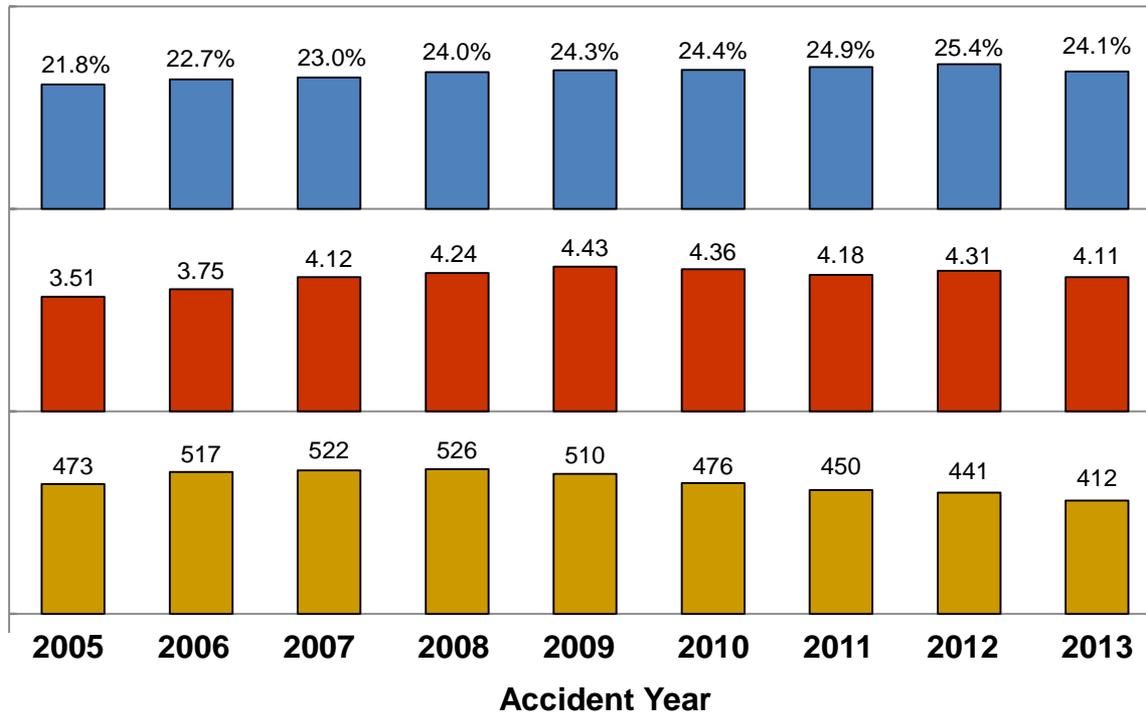


**Average opioid
scripts/claim**

**Decreased 7%
from 2009 peak**

Changes in Opioid Utilization

Claim Based Measures at 24M Development

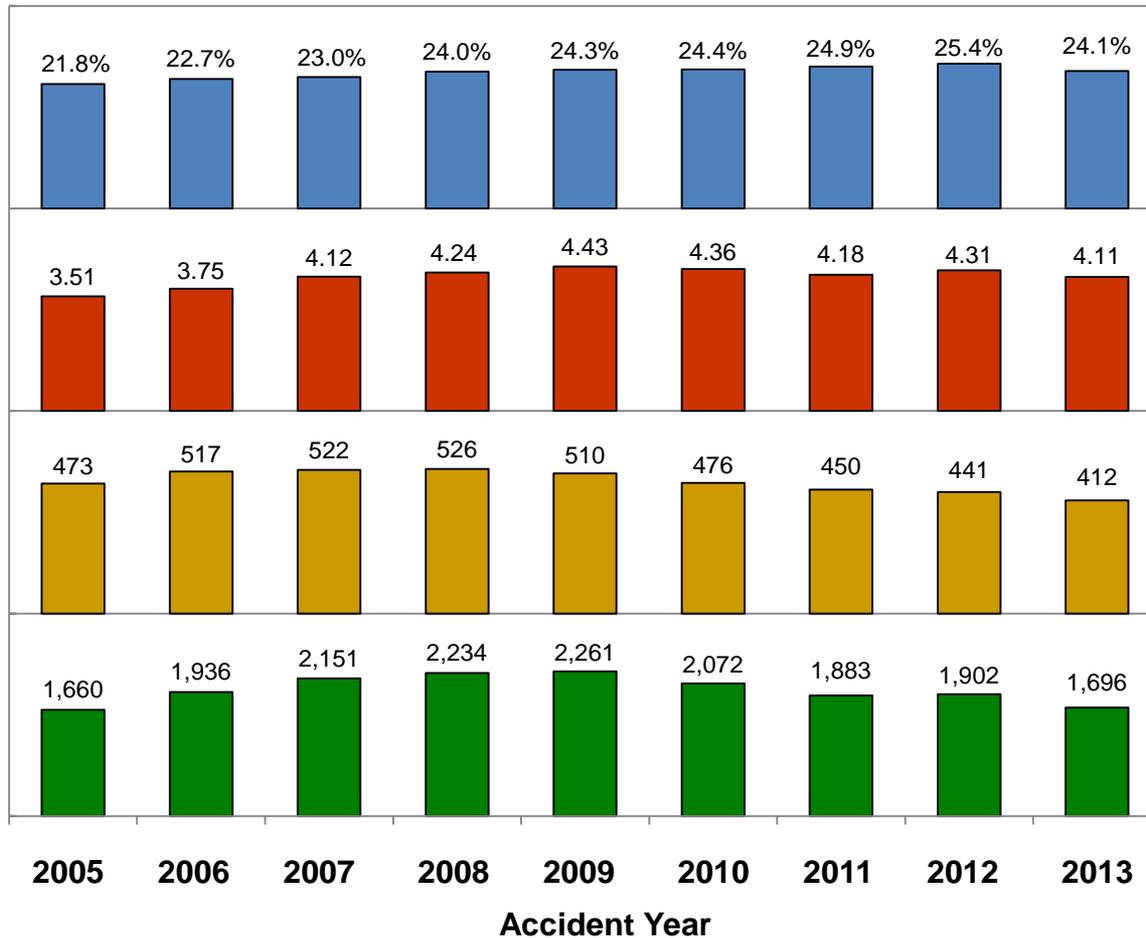


**Average morphine
equivalents
per script**

**Decreased
22% from
peak in 2008**

Changes in Opioid Utilization

Claim Based Measures at 24M Development



Average cumulative morphine equivalents per injured worker

Decreased 25% from peak in 2009

The Missing Piece In Rx Control: Formularies

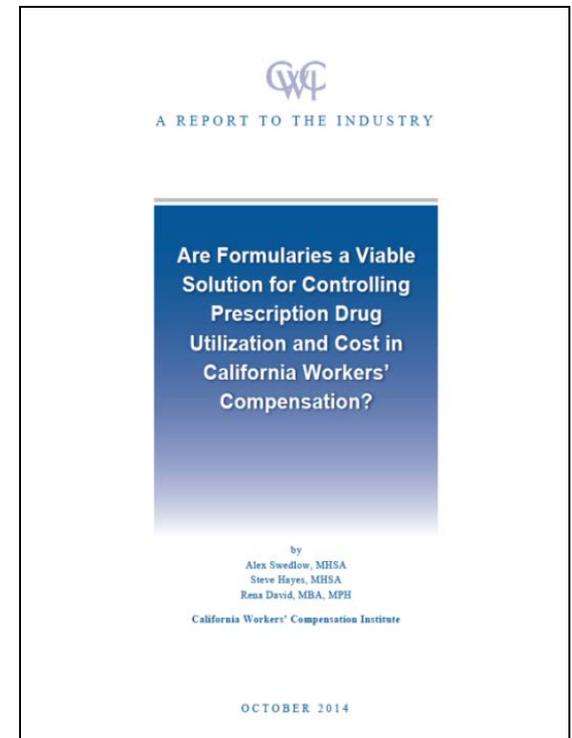
November 2014 CWCI Study: Potential impact of a state formulary

- Modeled CA data using Texas and Washington State Formularies
- Estimated system-wide savings of 10 – 50%

AB 1124 - October 2015

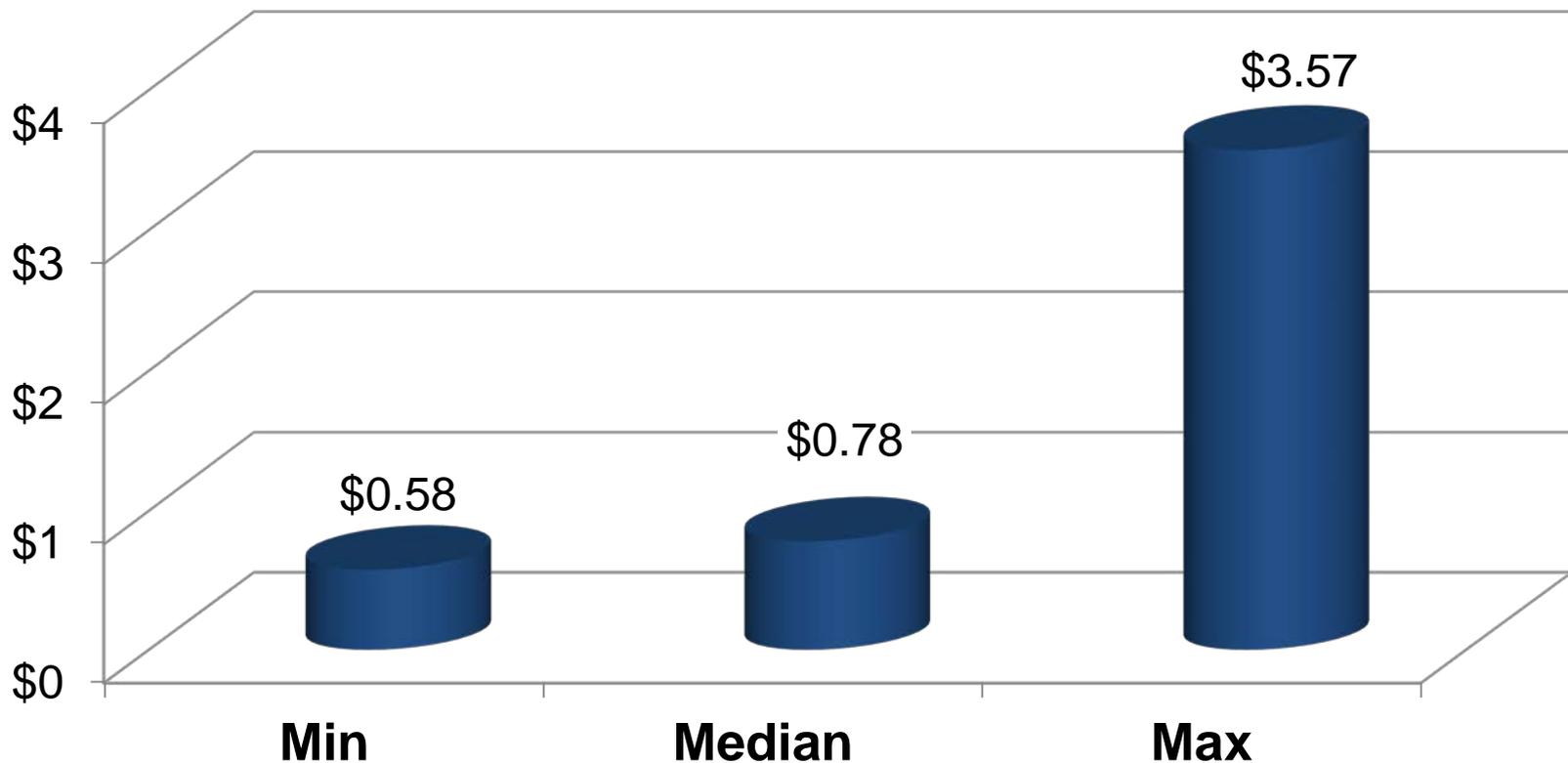
- Calls for creation of a State Formulary

Target Implementation - July 2017



Formulary Considerations: Average Wholesale Price Variation

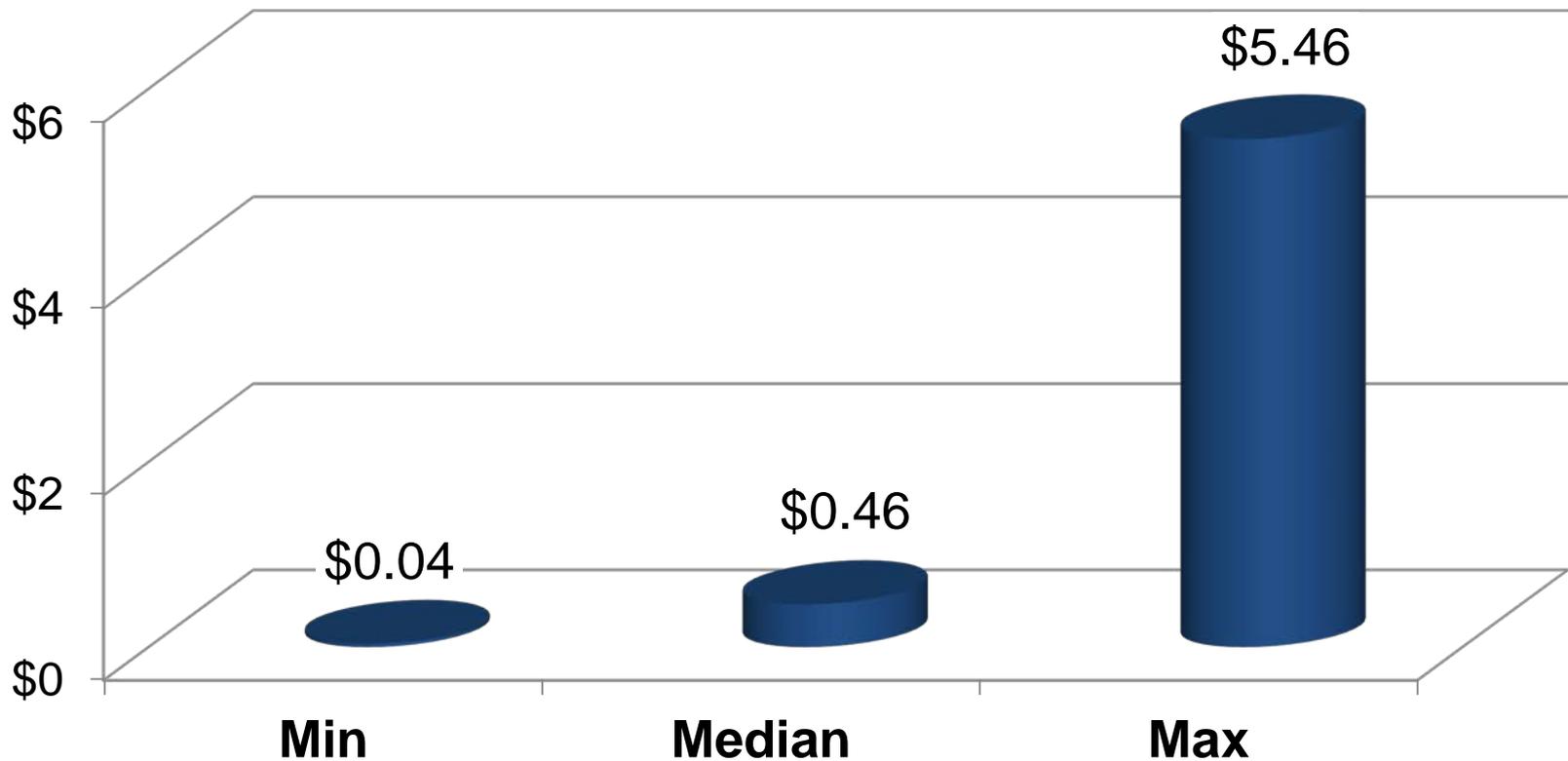
Hydrocodone-Acetaminophen Tab 10-325 MG



Source: CWCI 2016

Formulary Considerations: Average Wholesale Price Variation

Ibuprofen Tab 800 MG



Source: CWCI 2016

Implementing AB 1124 Drug Formulary and update of MTUS

State of California
Department of Industrial Relations
Press Room

Home Labor Law Cal/OSHA - Safety & Health Workers' Comp Self Insurance Ag

Division of Workers' Compensation (DWC)

DWC forums - Implementing AB 1124 Drug Formulary and update of MTUS guidelines

For this forum, comments must be sent by email to DWCForums@dir.ca.gov. All other forum rules apply to submitting comments.

The comment period closes Sept. 16, 2016

You may also mail in-depth comments to:
Division of Workers' Compensation
P. O. Box 420603
San Francisco, CA 94142
Attn: DWC forums

Please review the documents posted here:

- Text of Regulation version version
- MTUS Preferred Drug List [↗](#)
- Implementing a Drug Formulary for California's Workers' Compensation Program – RAND, August 2016

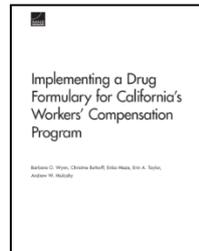
Key Draft Components Released August 26th:

- DWC Draft Regulations
- MTUS Drug List
- RAND Report

Proposed Regs Released March 20th Formulary Hearing May 1st



Drug Name	Generic Name	ATC Code	Formulary Status	Notes
Aspirin	Aspirin	B01AC06	Preferred	
Ibuprofen	Ibuprofen	B02BA01	Preferred	
Acetaminophen	Acetaminophen	N02BA01	Preferred	
Hydrocodone	Hydrocodone	N02BA01	Preferred	
Codeine	Codeine	N02BA01	Preferred	
Valium	Diazepam	N02BA01	Preferred	
Xanax	Alprazolam	N02BA01	Preferred	
Prozac	Fluoxetine	N02BA01	Preferred	
Zoloft	Sertraline	N02BA01	Preferred	
Wellbutrin	Bupropion	N02BA01	Preferred	
Lexapro	Escitalopram	N02BA01	Preferred	
Prozac	Fluoxetine	N02BA01	Preferred	
Zoloft	Sertraline	N02BA01	Preferred	
Wellbutrin	Bupropion	N02BA01	Preferred	
Lexapro	Escitalopram	N02BA01	Preferred	



Intent of the formulary

- Improve quality of care
- Reduce UR (45%) and IMR (48%) friction costs
- Lower cost

Implementing AB 1124 Drug Formulary and update of MTUS

Proposed Formulary Components Released March 20th :

- MTUS Drug List (N=242)

[PROPOSED FOR ADOPTION] MTUS Drug List (8 CCR § 9792.27.14)						
<small>The MTUS Drug List must be used in conjunction with 1) the MTUS Guidelines, which contain specific treatment recommendations based on condition and phase of treatment and 2) the drug formulary rules. (See 8 CCR §9792.20-9792.27.21) "Reference in Guidelines" indicates guideline title(s) which discuss the drug. In each guideline there may be conditions for which the drug is Recommended (✓), Not Recommended (✗), or No Recommendation (⊖). Consult guideline to determine the recommendation for the condition to be treated and to assure proper phase of care use. Preferred / Non-Preferred - "Preferred" indicates drug may be prescribed/dispensed without seeking authorization through Prospective Review if in accordance with MTUS. 1) Physician dispensed "Preferred" drugs limited to one 7-day supply without Prospective Review. 2) Prescription/dispensing of Brand name Preferred drug where generic is available requires authorization through Prospective Review. "Non-Preferred" or "Not Listed" drug requires authorization through Prospective Review prior to prescribing or dispensing. (See 8 CCR §9792.27.1 through §9792.27.21 for complete rules.) *Special Fill - Indicates the Non-Preferred drug may be prescribed/dispensed without Prospective Review: 1) Rx at initial visit within 7 days of injury, and 2) Supply not to exceed #days indicated, and 3) is a generic or single source brand, or brand where physician substantiates medical necessity, and 4) if in accord with MTUS. (See 8 CCR § 9792.27.11.) **Perioperative Fill - Indicates the Non-Preferred drug may be prescribed/dispensed without Prospective Review: 1) Rx issued during the perioperative period (2 days before through 4 days after surgery), and 2) Supply not to exceed #days indicated, and 3) is a generic or single source brand, or brand where physician substantiates medical necessity, and 4) if in accord with MTUS. (See 8 CCR § 9792.27.12.)</small>						
Drug Ingredient	Preferred / Non-Preferred*	Special Fill**	Peri-Op**	Drug Class	Reference in Guidelines	
1 Acetaminophen	Preferred			Analgesics - NonNarcotic	✓ Cervical and Thoracic Spine Disorders ✓ Chronic Pain ✓✗ Elbow Disorders ✓ Eye ✓✗ Hand, Wrist, and Forearm Disorders ✓ Hip and Groin Disorders ✓ Knee Disorders ✓ Low Back Disorders	
2 Adalimumab	Non-Preferred			Analgesics - Anti-Inflammatory (TNF-alpha blocker)	✗ Chronic Pain ✗ Hip and Groin Disorders ✗ Knee Disorders ✗ Low Back Disorders	
3 Albuterol Sulfate	Preferred			Antihistamic and Bronchodilator Agents	✓✗ Chronic Pain ✓⊖ Hip and Groin Disorders ✓⊖ Knee Disorders ✓⊖ Low Back Disorders ✓ Shoulder ✓✗ Work Related Asthma	
4 Alendronate Sodium	Non-Preferred			Endocrine and Metabolic Agents Misc (Bisphosphonate)	✗ Chronic Pain ✗ Hip and Groin Disorders ✗ Knee Disorders ✗ Low Back Disorders ✗ Shoulder	
5 Amantadine HCL	Non-Preferred			Antiparkinson Agents (NMDA receptor antagonist)	✗ Chronic Pain ✗ Low Back Disorders	
6 Amitriptyline HCL	Non-Preferred			Antidepressants (TCAs)	Disorders ✓ Chronic Pain ✗⊖ Hip and Groin Disorders ✓✗⊖ Knee Disorders ✓⊖ Low Back Disorders ✓✗ Shoulder	
7 Amlodipine Besylate	Non-Preferred			Calcium Channel Blockers	✓ Hand, Wrist, and Forearm Disorders ✓ Low Back Disorders	
8 Amoxicillin/Clavulanate P	Preferred			Antibiotics (Penicillins)	✓ Hand, Wrist, and Forearm Disorders ✓ Low Back Disorders	

Drugs are designated into categories:

- Preferred (no mandatory prospective UR)
- Non-Preferred (no mandatory prospective UR)
- **Not Listed** (no mandatory prospective UR)

Implementing AB 1124: Drug Formulary

Preferred, Non-Preferred, or Not Listed
Prescriptions and Payments



	% of Prescriptions	% of Payments
■ Preferred	25.8%	19.7%
■ Non-Preferred	53.4%	48.1%
■ Not Listed	20.7%	32.2%

26% of currently dispensed drugs are “fast tracked” around prospective UR
74% of currently dispensed drugs eligible for prospective UR



Reengineering Medical Dispute Resolution: Media Perception and Reality

Access to Care: A System-Wide Problem? Anecdotes vs Public Policy Research

ProPublica / NPR

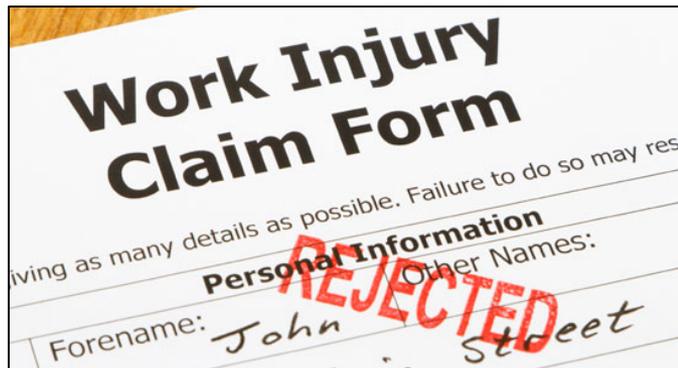


The Demolition of Workers' Comp

by Michael Grabbell, ProPublica, and
Howard Berkes, NPR, March 4, 2015

Over the past decade, states have slashed workers' compensation benefits, denying injured workers help when they need it most and shifting the costs of workplace accidents to taxpayers. [More »](#)

KNBC



Medical Dispute Resolution: From Physician Request to Final Decision

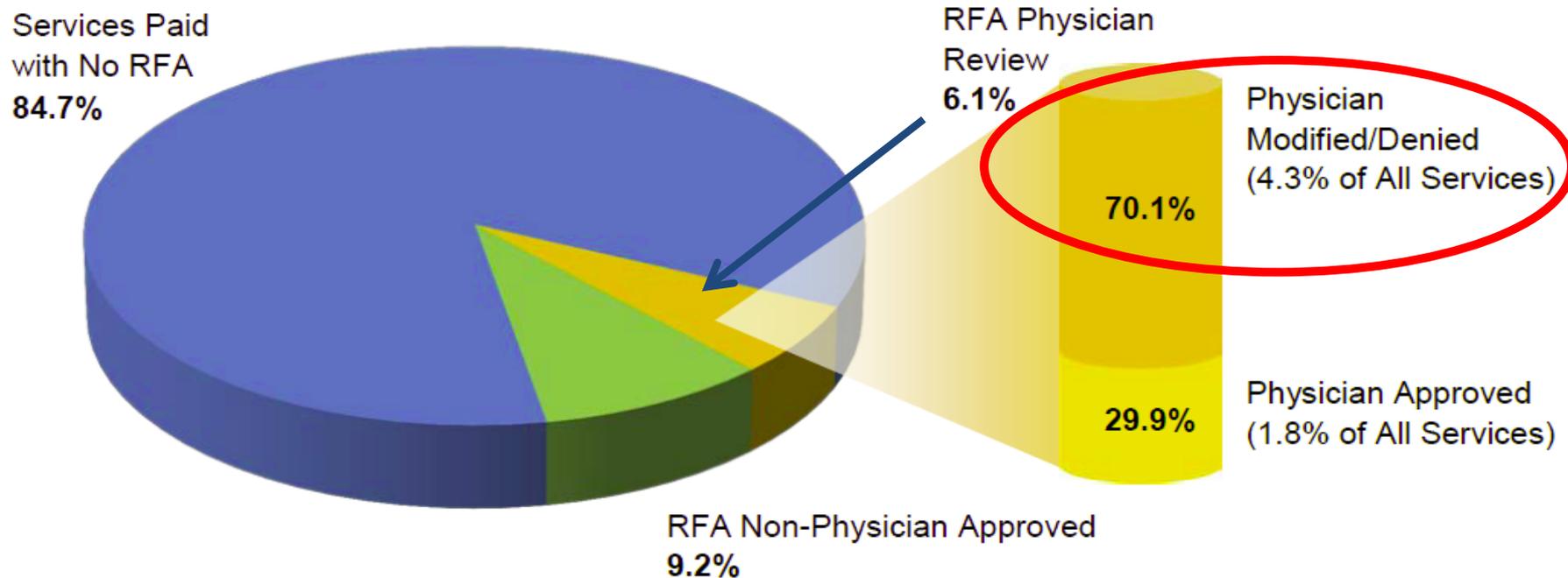
Handoffs in Medical Management

- Request for treatment
- Request for Approval (RFA)
- Utilization Review (UR)
- Independent Medical Review (IMR)



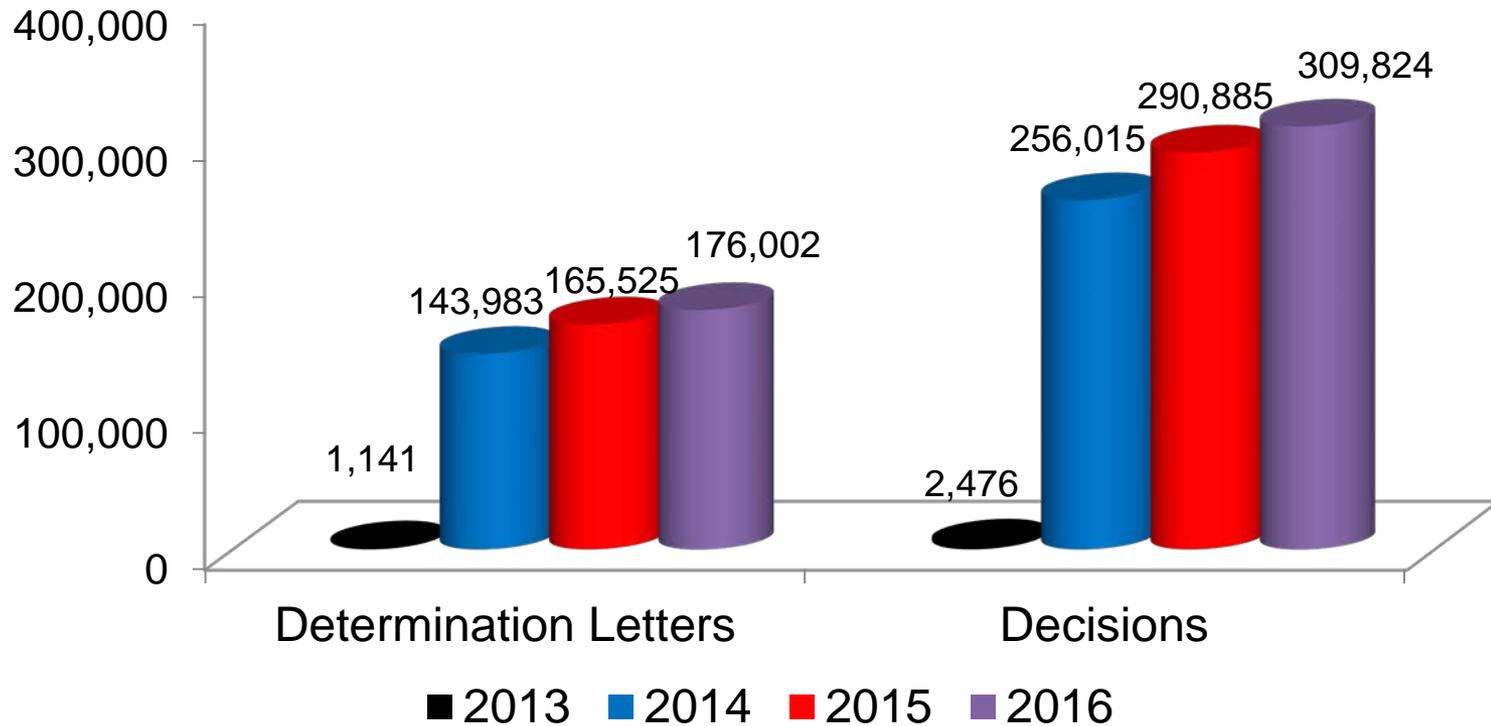
Medical Dispute Resolution: From Physician Request to Final Decision

Handoffs in Medical Management



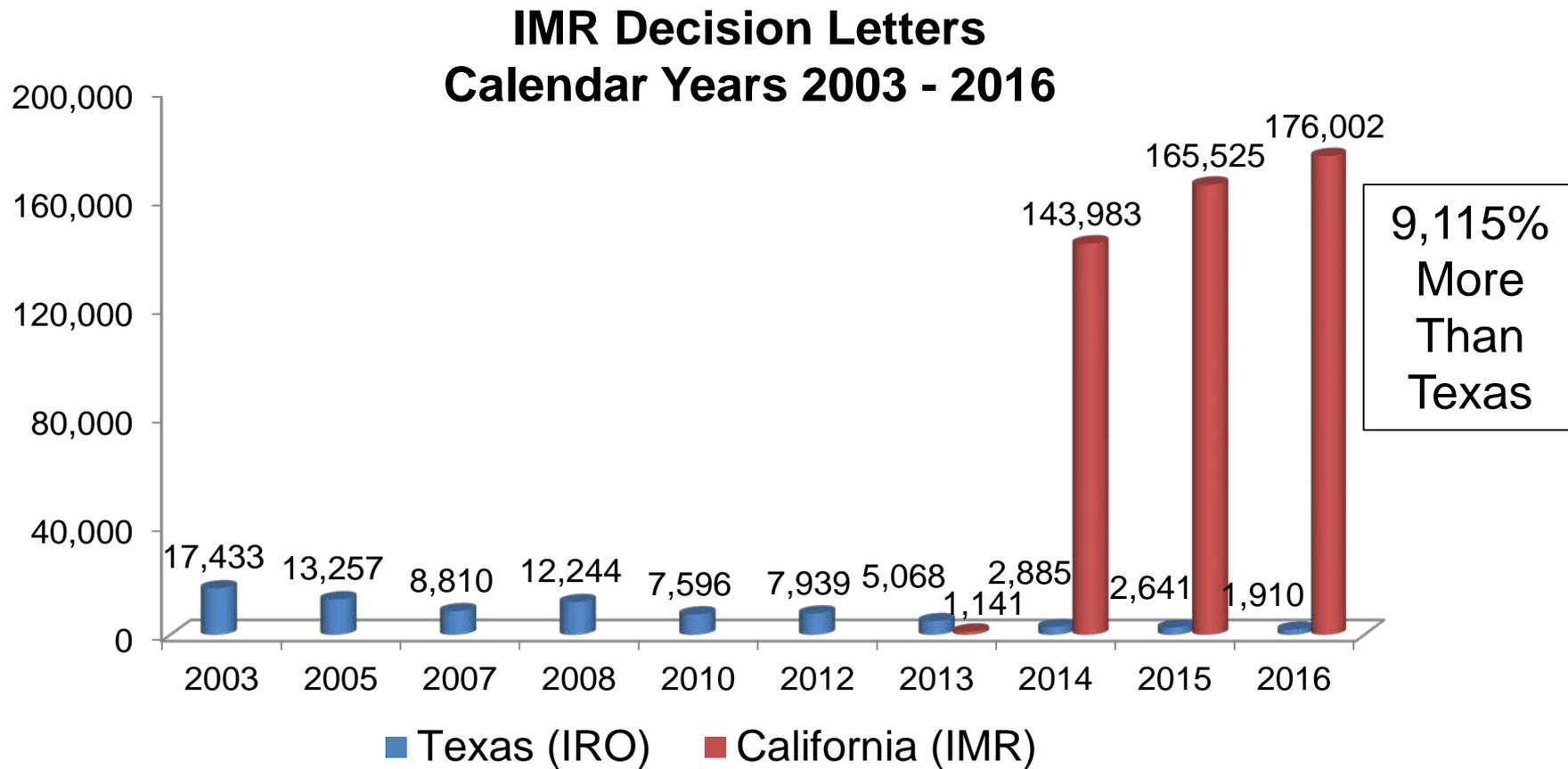
Unintended Consequence: High IMR Volume 2014 - 2016 Results

IMR Determination Letters & Decisions 2013 - 2016



Source: DWC Update, 2017; CWCI 2017

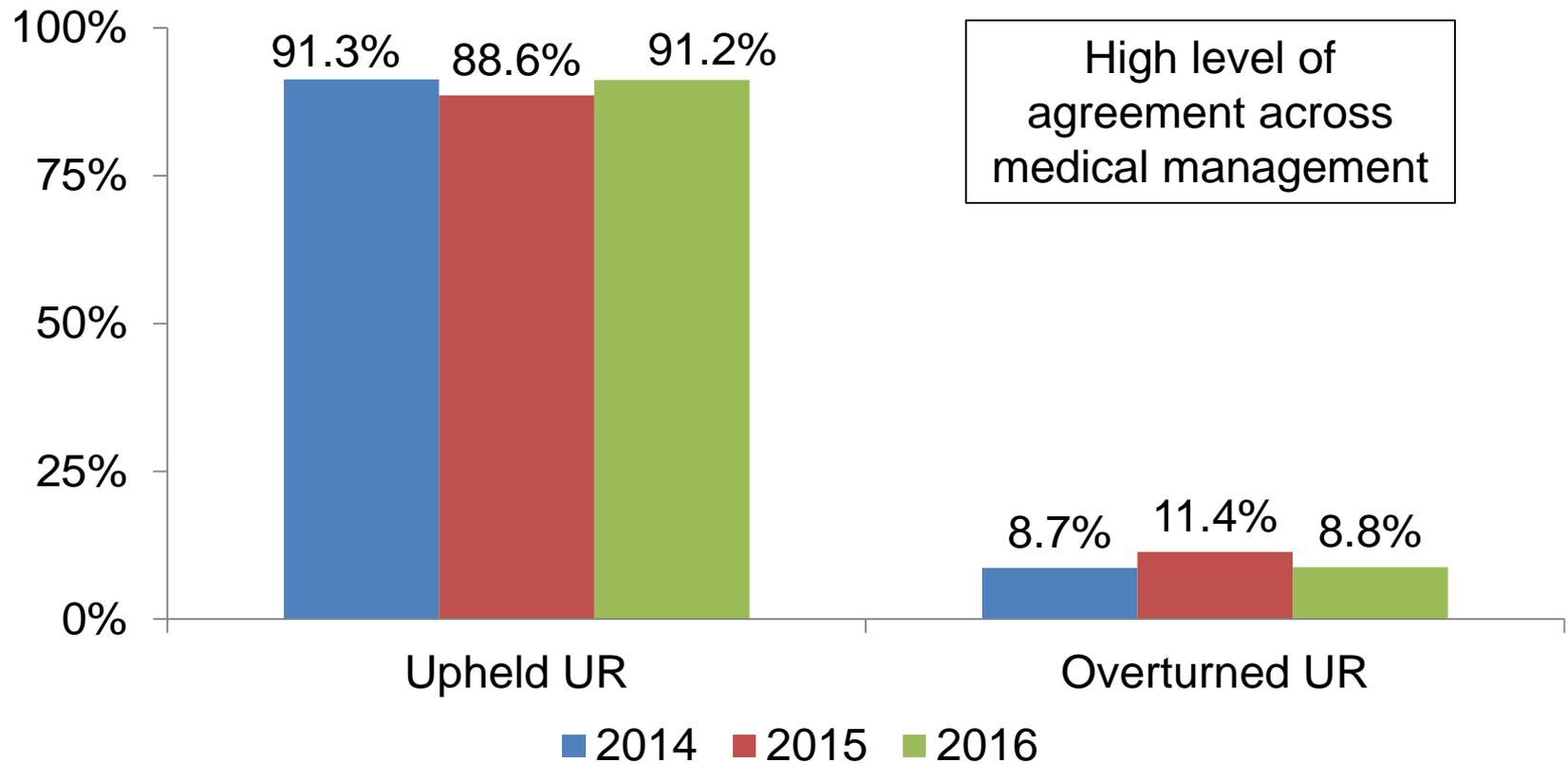
Independent Medical Review Letters Texas vs. California



Source: Texas Department of Insurance, Division of Workers' Compensation; CWCI 2016

IMR: 2014 - 2016 Results

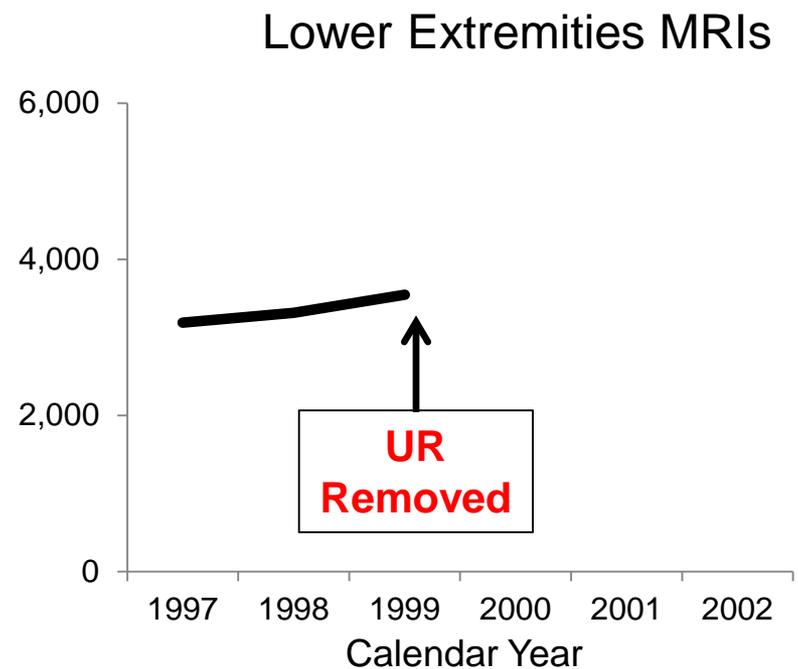
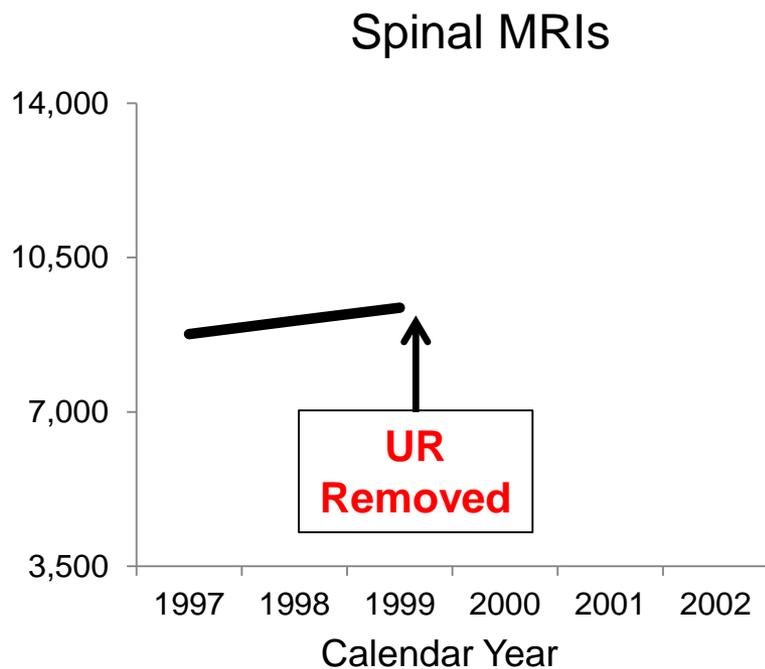
UR Denials/Modifications Upheld vs Overturned



Source: CWCI 2017

Balancing Medical Dispute Resolution

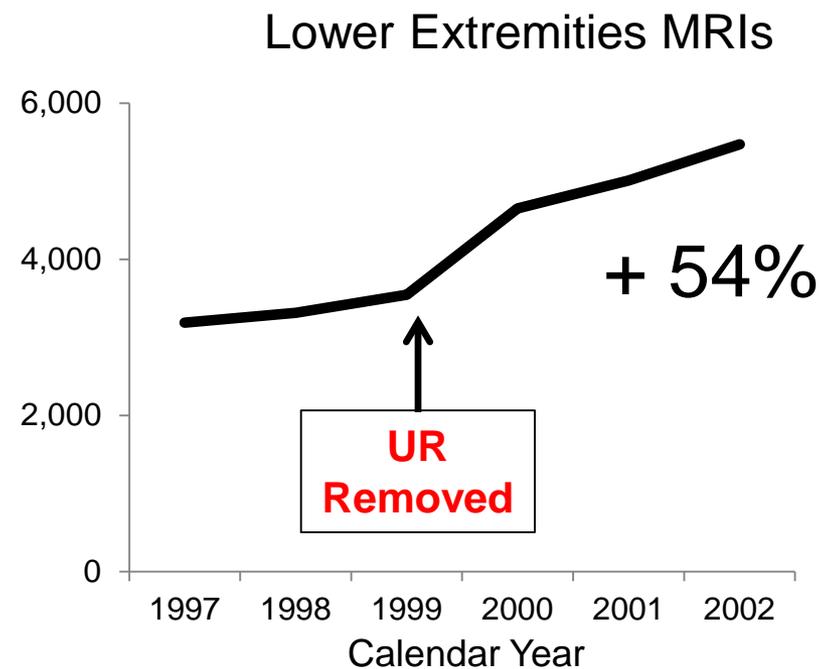
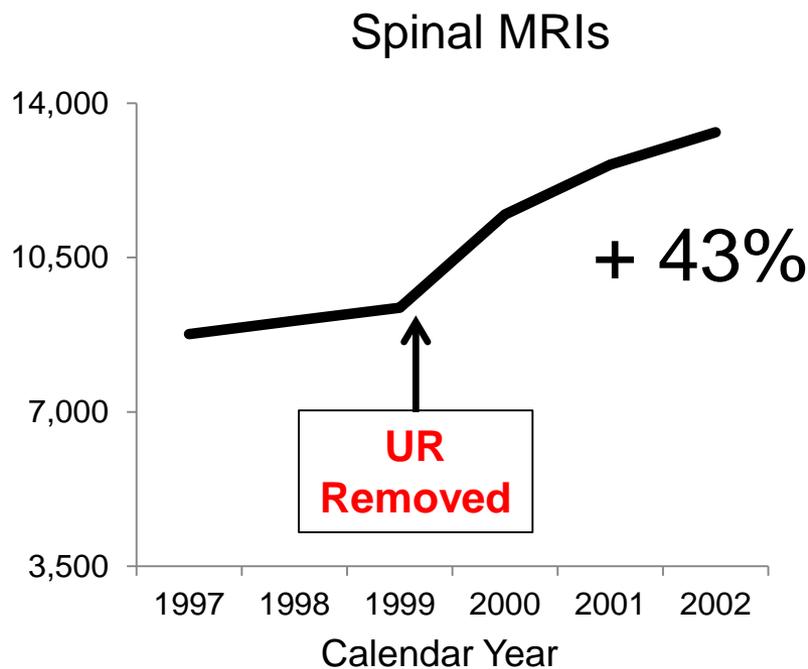
Medical Management and “ROI” Washington State: The Impact of Removing UR



Source: Glass 2010

Balancing Medical Dispute Resolution

Medical Management and “ROI” Washington State: The Impact of Removing UR



Source: Glass 2010

One State, Many Outcomes

Regional Variation in CA WC



California Workers' Compensation Institute
IRIS Regional SCORE CARD Los Angeles (L.A.) County Claims

IRIS Regional Score Cards use subsets of accident year (AY) 2005-2018 claims data from CWD's Industry Research Information System (IRIS) database to measure and analyze various aspects of claims experience within 8 regions of California. Score Cards for each region will be released over the next few months, and each will profile claimant characteristics and show distributions of claims within the region broken out by industry sector, premium drug claim type, common "trauma" and "loss" or injury categories, and primary diagnoses. Several exhibits, including the percentage of claims with PD payments at 36 months post injury, attorney involvement rates, claim closure rates, 2014 prescription drug distributions, breakdowns of medical development by the Schedule Section at 12 and 24 months, medical network utilization rates, notice and treatment time lags and 12- and 36-month loss development compare results for the region against all other regions, and in many cases also show statewide results, providing a wealth of detailed data not only on claims within the region, but within all of California.

The first Score Card in the series focuses on claims filed by residents of the largest county in the state, Los Angeles County, an area that has gained a reputation as a highly litigious, high-cost workers' compensation environment. The Score Card notes that a quarter of all California workers' compensation claims are filed by L.A. County residents, while benefit payments on those claims account for nearly 32% of total workers' compensation paid losses in the state.

A list of the exhibits included in the Score Card is provided below. Click the title to go directly to an exhibit.

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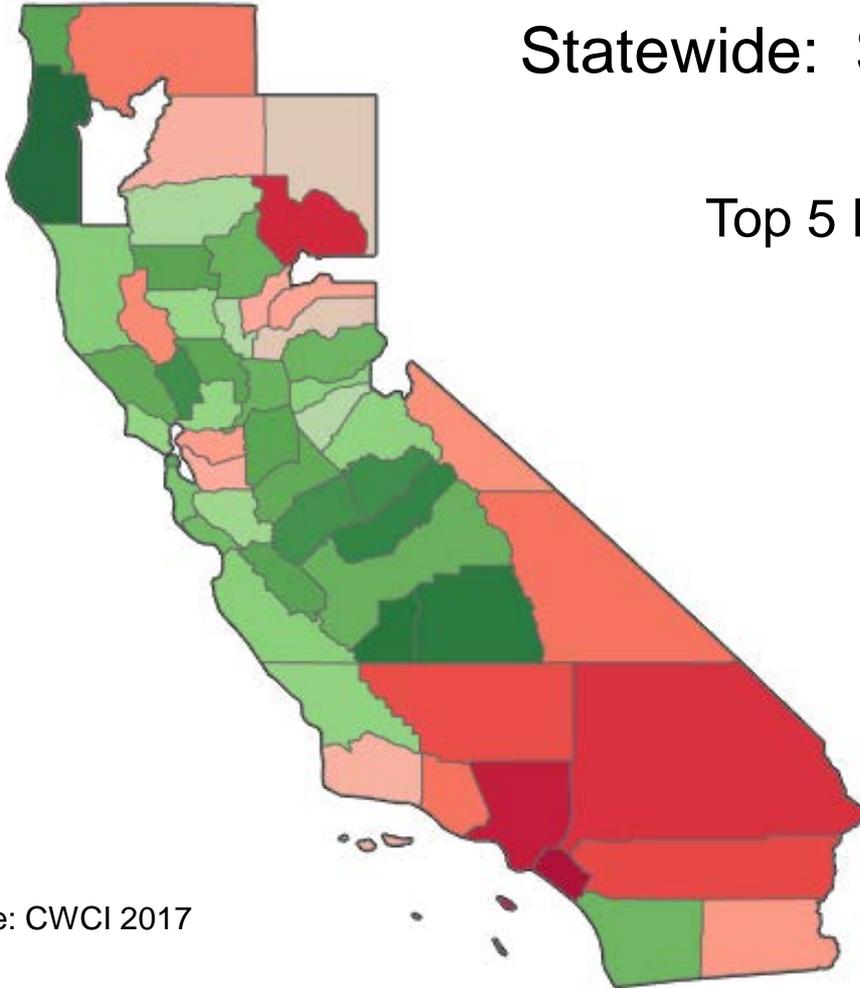
8 Regional Scorecards.

1. Los Angeles County
2. Inland Empire
3. Valleys
4. Bay Area
5. San Diego
6. Central Coast
7. North Counties
8. Sierras

Average Total Paid to Date

AY 2007-2016 Indemnity Claims

Statewide: \$46,399



Top 5 Highest Cost Counties

1	Orange	\$55,369
2	Los Angeles	\$53,857
3	Plumas	\$52,717
4	San Bernardino	\$52,094
5	Riverside	\$50,515

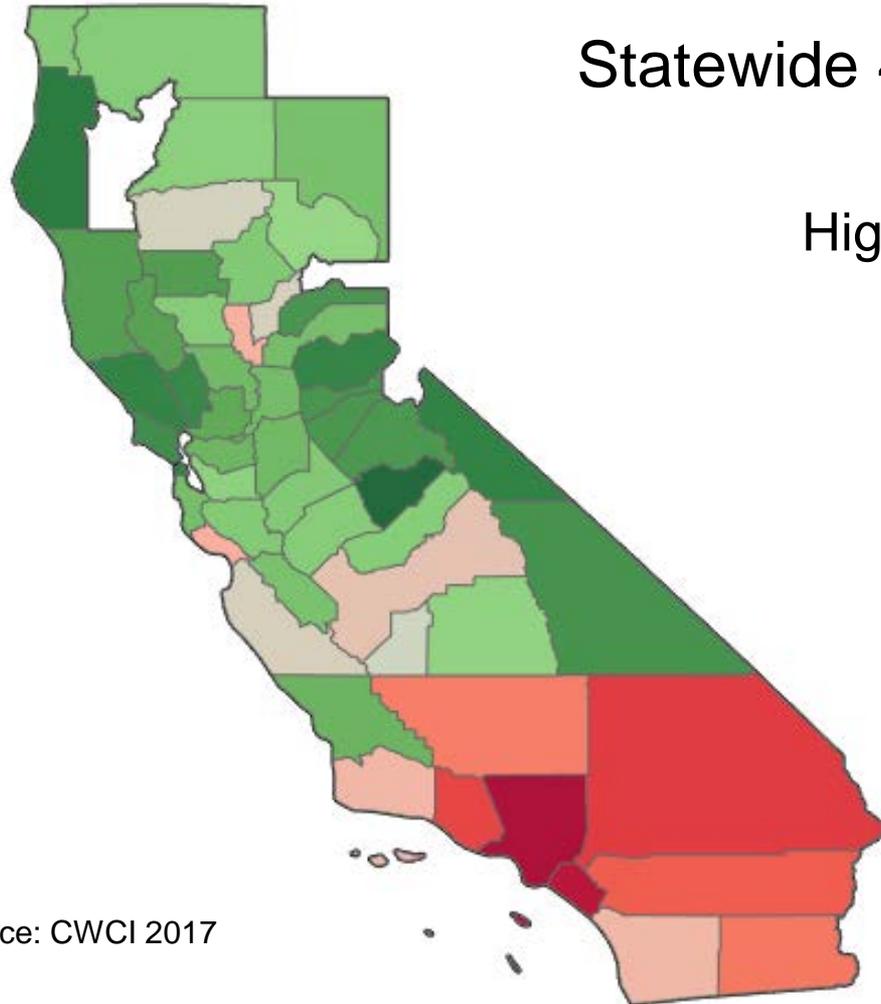
Top 5 Lowest Cost Counties

1	Humboldt	\$29,784
2	Kings	\$31,138
3	Tulare	\$31,528
4	Madera	\$32,604
5	Mariposa	\$33,672

Source: CWCI 2017

Attorney Involvement

AY 2007-2016 Indemnity Claims



Statewide 48.8%

Highest Percentage

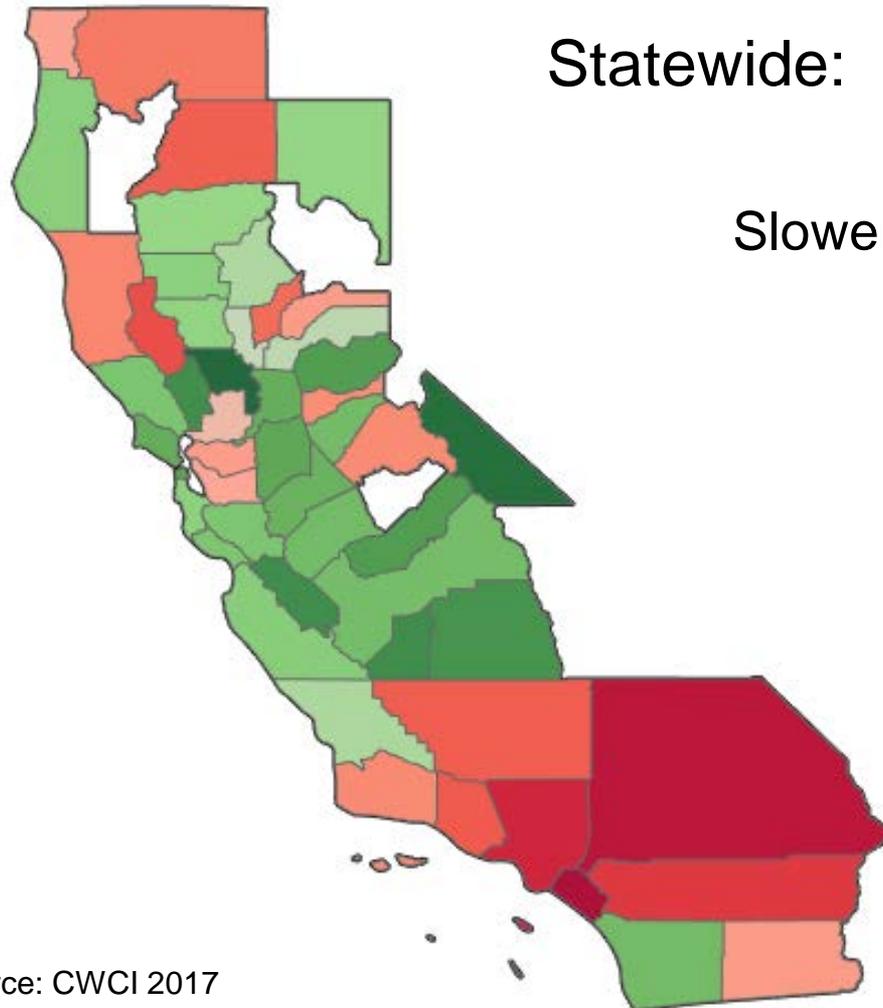
1	Los Angeles	59.5%
2	Orange	58.3%
3	San Bernardino	54.6%
4	Ventura	53.7%
5	Riverside	52.0%

Lowest Percentage

1	Mariposa	28.8%
2	Humboldt	31.1%
3	Mono	32.0%
4	San Francisco	32.1%
5	Sonoma	32.3%

Source: CWCI 2017

Return to Work (Paid Temp Disability Days) AY 2007-2016 Indemnity Claims



Slower RTW

1	Orange	154.0
2	San Bernardino	151.5
3	Los Angeles	147.9
4	Riverside	144.4
5	Lake	140.7

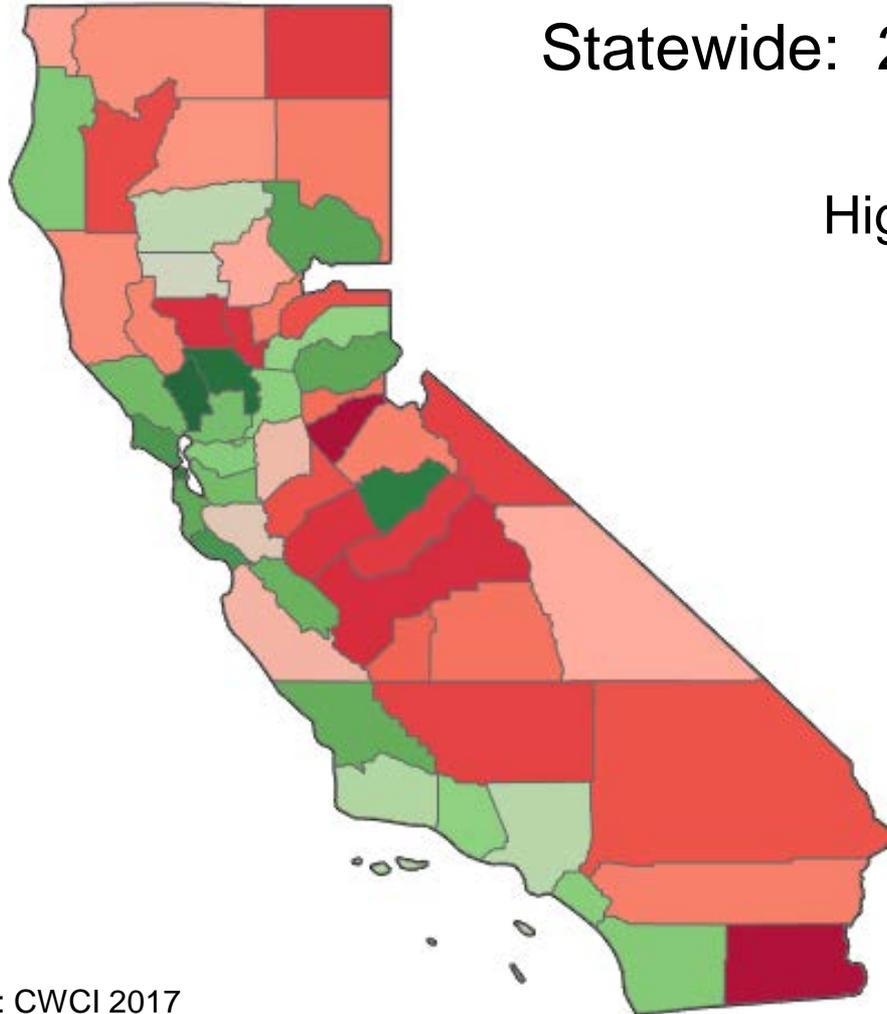
Faster RTW

1	Yolo	90.2
2	Mono	91.8
3	Kings	99.9
4	San Benito	99.9
5	Napa	100.2

Source: CWCI 2017

Opioid Use at 24 Months Post Injury

AY 2014 Claims with Opioid Script(s)



Statewide: 24.1%

Highest

1	Calaveras	33.8%
2	Imperial	33.7%
3	Fresno	31.5%
4	Colusa	31.4%
5	Sutter	31.2%

Lowest

1	Napa	14.5%
2	Yolo	15.0%
3	San Francisco	16.0%
4	Mariposa	16.1%
5	Santa Cruz	17.9%