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BULLETIN

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Network physicians have become the dominant managers of workers' compensation medical care in California since 2000, and their use accelerated after medical provider networks (MPNs) were introduced in 2005, but a new CWCI study shows that overall, savings associated with network management have diminished in recent years, though the results vary significantly by network and by region.

A number of legislative reforms enacted over the past 20 years promoted the adoption of managed care principles – including the use of physician networks – in California workers' compensation. To gauge the level of use of networks in the system, the Institute compiled data from more than 1.8 million work injury claims from accident years (AY) 2000 through June of AY 2011, measuring the percentage of all claims and indemnity claims in which the primary treating physician (PTP) who manages the injured worker's medical care was a network provider. The study also tracks average medical payments on network vs. non-network claims across that 11-1/2 year span, and examines the changing nature and characteristics of claims in which treatment is managed inside and outside of a network. To follow the evolution of networks over time, the authors compared data from 3 subsets of claims from the study sample, based on the dates of injury:

- AY 2000-2002 claims, representing the PPO period, prior to the adoption of MPNs;
- AY 2003-2008 claims, representing the MPN transition period; and
- AY 2009 - June 2011 claims, representing the full MPN period, when MPNs were fully operational.

Among the key findings of the study:

- Overall, network utilization increased from 55.4 percent in the PPO period to 79.5 percent in the full MPN period, while for indemnity claims it increased from 44.2 percent to 77.2 percent.
- The proportion of all network indemnity claims with attorney involvement increased from 38.1 percent in the PPO period to 44.6 percent in the full MPN period, but network indemnity claims still had lower attorney involvement rates than non-network indemnity claims.
- Network claims had higher claim closure rates, however the claim closure rate for network claims at 12 months post-injury decreased from 72.7 percent in the PPO period to 61.2 percent in the full MPN period.
- The percentage of network indemnity claims with at least one opioid prescription increased from 39.1 percent in the PPO period to 54.5 percent in the full MPN period.
- Average risk-adjusted medical payments on indemnity claims at 24 months post injury were 16 percent less for network claims than for non-network claims in the PPO era, but were only 3 percent less in the full MPN period.
- Differences in average risk-adjusted medical payments between network and non-network claims varied greatly by region, ranging from no difference in Los Angeles County to a 20 percent difference in San Diego County in the full MPN period.
- Average risk-adjusted medical payments on indemnity claims with attorney involvement were 14 percent less for network claims than non-network claims in the PPO period, but were 2 percent more in the full MPN period.
- Average risk-adjusted medical payments on network claims with opioids were 16 percent less for network claims than for non-network claims in the PPO period, but were 20 percent less in the full MPN period.

The bottom line is that physician networks now manage most California workers' compensation treatment, but in recent years the cost savings historically associated with network medical management have declined. As noted above, after controlling for independent variables including claimant characteristics (age, gender, industry, comorbidities); injury type (med-only, TD, PD); and administrative aspects (days from injury to first treatment, days from injury to claims administrator notification, attorney involvement, open vs. closed claims), average savings associated with network vs. non-network medical management on lost-time claims declined from 16 percent in the PPO era to 3 percent after MPNs became fully operational. Among the factors that may have contributed to this deterioration, the authors note that as MPN coverage increased, networks had to expand their physician rosters to meet provider access standards, making it more difficult for them to be selective and to evaluate provider practice patterns.

Though the study documented a reduction in cost savings associated with network management overall, there was considerable variation across the individual networks in the study sample, with just as many networks generating lower average costs per claim as higher average costs per claim when their results were compared to those of claims managed outside of a network. This suggests not only variations among network physician rosters, but in the medical management and reimbursement systems used by the various networks, as well in the populations and regions served.

The geographic variation was particularly significant, as the study found that during the PPO period, average risk-adjusted medical payments at 24 months post-injury on network claims were less than those of non-network claims in all major regions of the state, with savings ranging from 11 percent to 24 percent. In four regions, networks continued to generate significant savings throughout the MPN transition and full MPN periods. In the Bay Area, the spread between average medical payments on network and non-network claims edged down from 17 percent in the PPO period to 15 percent in the full MPN era; while in San Diego, the gap narrowed from 24 percent to 20 percent. At the same time, in the Central Coast the spread between average medical payments on network and non-network claims grew from 13 percent to 17 percent, and in the Valleys, it increased from 11 percent to 15 percent. In contrast, in the Orange County/Inland Empire, the gap between medical payments on network and non-network claims decreased from 17 percent in the PPO period to 4 percent after MPNs were fully implemented; in the Sierras the differential fell from 16 percent to 6 percent; and in the Northern Counties the gap narrowed from 16 percent to no difference. While these reductions were all significant and affected the statewide results, the most notable and impactful reduction in the payment differential between network and non-network managed claims was in Los Angeles County (which accounts for a quarter of the claims in the state). The study found that in Los Angeles County, the savings associated with network management completely evaporated in recent years, with the spread between the average medical payments for network and non-network claims declining from 12 percent in the PPO era to no difference in the full-MPN period.

The Institute has published a Research Note, "PPO to MPN: Impact of Physician Networks in the California Workers' Compensation System," that includes additional details and graphics from the study. CWCI members and subscribers who use their registered email and password to log on to the Institute website will find the report in the Research section of the CWCI website.

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