



BULLETIN

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Initial data on accident year (AY) 2014 California workers' compensation lost-time claims indicate that average medical payments at 3 and 6 months post injury have started to decline in the wake of medical reforms enacted as part of SB 863, though more developed data on claims from prior years still show average losses continued to trend up, with the 12- and 24-month loss data showing payments for prescription drugs and durable medical equipment registered the biggest increases in recent years, more than tripling between AY 2005 and AY 2013.

A new CWCI study takes an updated look at California workers' compensation medical and indemnity loss trends using data derived from CWCI's Industry Claims System. The sample for the latest analysis included policy, claim, benefit and medical service detail from 2.1 million California workers' compensation claims with January 2002 through September 2014 injury dates. All together, the claims in the sample involved more than \$33.8 billion in benefit payments through December 2014. After grouping the data by accident year, the author calculated and compared the average amounts paid for all medical services and for all indemnity payments at seven valuation points: 3, 6, 12, 24, 36, 48, and 60 months post injury. In addition, 12- and 24- month results were broken out for four medical payment sub-categories: medical treatment, pharmaceuticals/durable medical equipment (DME), medical/legal and medical cost containment, as well as for average TD payments and the average number of paid TD days. Key findings:

- Average amounts paid per indemnity claim for all medical services (excluding medical cost containment) at 3 and 6 months post injury for accident year 2014 claims declined by 5.7 and 7.0 percent respectively compared to AY 2013 claims. The average amount paid for these services at 12 months increased a modest 3.8 percent over AY 2013 claims.
- Payments for medical treatment continue to account for a declining share of overall medical payments, falling to 68.9 percent of total medical expenditures at 12-months post injury on AY 2013 claims and 66 percent of total medical spend at 24 months post injury on AY 2012 claims.
- Over the past six years, medical cost containment expenses have ranged between 16.4 percent and 17.2 percent of first-year medical payments, and between 13.6 percent and 14.8 percent of the total medical payments at 24 months post-injury. The share of medical payments going toward medical legal reports has also been fairly stable, ranging between 3.5 and 4.7 percent of first-year medical expenditures, and 6.1 percent to 7.1 percent of total medical payments at 24 months post injury.
- Pharmaceuticals and durable medical equipment are consuming an increasing share of total medical expenditures, accounting for 10 percent of first-year medical payments in AY 2013 and 13.6 percent of medical payments at the 24- month benchmark – both percentages about double what they were in AY 2005. Over that same time frame, the average amount paid for prescription drugs and DME at 12 months post injury more than tripled from \$281 to \$936 per indemnity claim, and more than doubled from \$1,003 to \$2,333 at 24 months, making prescription drugs and DME the fastest growing workers' compensation medical cost component since AY 2005. The most recent results underscore the continued escalation of this component, as total expenditures per indemnity claim for pharmaceuticals and DME at 24 months post injury rose 24.8 percent between AY 2011 and AY 2012 – and that came on top of a 24.3 percent increase between AY 2010 and AY 2011.

- Early returns show the initial amounts paid for indemnity on lost-time claims declined between AY 2013 and AY 2014, with average paid indemnity at 3 months post injury falling 8.1 percent to \$2,287 and average paid indemnity at 6 months falling 6.3 percent to \$4,276.
- The reductions in temporary disability payments that followed the enactment of SB 899 in 2004 have slowly eroded over time. After adjusting for the statutory benefit increases that took effect between 2002 and 2014, average first-year TD payments on AY 2013 claims hit a record \$7,245, up 35.4 percent from the post SB-899 low, while the average amount of TD paid in the first 24-months post injury on AY 2012 claims also reached an all-time high of \$10,986, up 46.3 percent from the AY 2004 low of \$7,510. At least some of that increase can be ascribed to longer periods of temporary disability, as the average number of paid TD days at 12 months post injury increased from 75.5 days on AY 2005 claims to 92.4 days on AY 2013 claims (+14.8 percent), while average paid TD days at 24 months post injury increased from a post-reform low of 108 days on AY 2005 claims to 137.1 days on AY 2012 claims (+26.9 percent).

The Institute has released its new analysis in a CWCI Research Update report, “California Workers’ Compensation Medical & Indemnity Benefit Trends, AY 2002 - 2014.” Using the data from AY 2002 through the most recent year available, the study tracks the changes in average medical payments (not including medical cost containment) for lost-time claims at each of the 7 valuation points; the average amounts paid and the distribution of workers’ compensation medical dollars across the four medical expense categories at 12 and 24 months post injury; the average amount of indemnity paid per claim at each valuation point; and the average amount of TD paid and average number of TD days at 12 and 24 months post injury. In addition, results for all claims – including medical-only claims – are provided as appendices to the report, which is available in the Research section of the Institute’s website at www.cwci.org.

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