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BULLETIN

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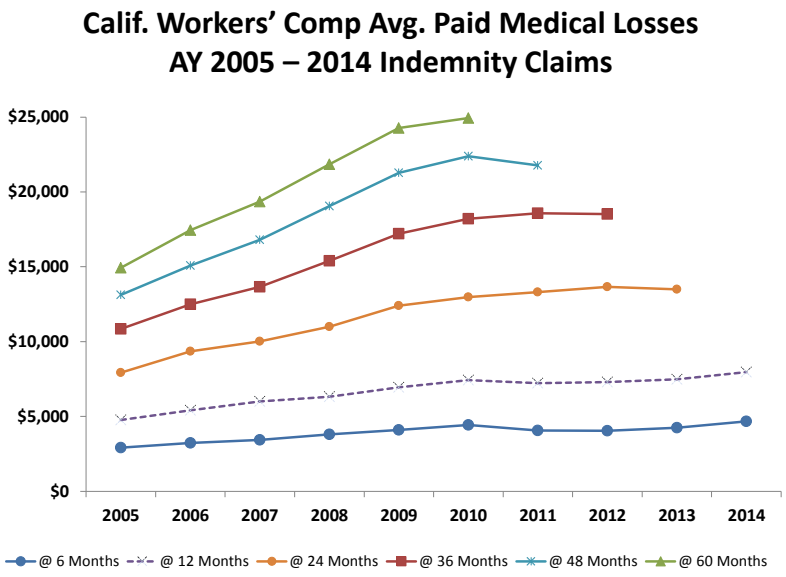
New CWCI research based on payment data from 1.8 million insured and self-insured California workers' comp claims from accident years (AY) 2005 through 2014 valued at the end of June 2015 yields mixed results, as more developed data on older claims show paid medical losses and indemnity leveling out or declining, while less developed data on newer claims indicate that average amounts paid in the early stages of a claim are on the rise.

To monitor workers' compensation payment trends over the past decade, the authors of the study calculated and compared average medical loss and average indemnity payments on claims across all 10 accident years and at six levels of development (6, 12, 24, 36, 48 and 60 months post injury). Overall, medical and indemnity payments on claims in the study sample, measured through June 2015, totaled $25.5 billion. The aggregated "medical loss" figures included payments for medical treatment, drugs and durable medical equipment (DME) and med-legal services, but not payments for medical cost containment, which are loss adjustment expenses.

Results for claims from the two most recent accident years show modest declines in average paid medical losses at 24, 36 and 48 months post injury, though average first-year payments were up, with the average paid at 6 and 12 months post injury for AY 2014 claims increasing 10.4 and 6.2 percent respectively compared to AY 2013 claims. More fully developed data show average paid medical losses at 60 months post injury were 2.7 percent higher in AY 2010 than in AY 2009, but that followed a string of double-digit increases in each of the four preceding years. Comparing the AY 2014 results to the AY 2005 post-reform lows shows that over the long term, average paid medical losses at 6 months were up 60.8 percent and at 12 months they were up 66.6 percent.



In addition to examining medical loss and indemnity payments, the authors also prepared separate analyses to determine and track changes in the average amounts paid for four specific components of workers' compensation:

- medical treatment (which includes physician and nonphysician fees, hospital and ambulatory surgery center fees, lab and pathology fees, medical transportation, etc.);
- pharmaceuticals and DME;
- medical-legal services; and
- medical cost containment (MCC), including utilization review, bill review, medical provider network access fees, independent bill review and independent medical review.

Among the key findings from the analyses of those components:

► Not including drugs and DME, medical-legal services or MCC, which were tracked separately, average medical treatment payments at 24, 36, 48 and 60 months post injury declined between 1 and 6 percent for claims from the latest accident years, while AY 2013 and 2014 data show average 6- and 12-month payments increased 12 percent and 6 percent respectively. Since AY 2005, long-term growth in the average paid for medical treatment ranged from 50.9 percent at 48 months to 56.5 percent at 60 months.

► The average paid per claim for drugs and DME at 6 months post injury showed little change (-0.5 percent) between AY 2013 and AY 2014, hovering near the record high; at 12 months post injury the average rose 3.9 percent to a new high of $937; while at 24 months the average amount paid fell 5.4 percent between AY 2012 and AY 2013. In contrast, at 36, 48 and 60 months post injury, average pharmaceutical/DME payments were still rising at double-digit rates over the two most recent accident years, increasing 15.3 percent, 14.4 percent and 27.3 percent respectively. Long-term development data show that since AY 2005, average amounts paid for pharmaceuticals and DME at the 6 levels of development increased between 157.2 percent and 260.5 percent.

► Average amounts paid for med-legal services at various valuation points have shown year-to-year fluctuations since AY 2005 as fee schedule revisions and other reforms took effect, but long-term trends at the 6 valuations were all up between AY 2005 and the most recent year for which data were available, with increases ranging from 50 percent to 103.4 percent. These increases are likely linked to a shift toward higher-cost, time-based med-legal services noted by CWCI's February 2016 study.

► Average MCC paid at all six valuations has risen sharply since AY 2005, with increases ranging from 112.2 percent to 157.2 percent. Most of that growth, however, was in the first 6 years after the 2002-2004 reforms were put in place, with MCC payments at each valuation more than doubling between AY 2005 and AY 2010 as utilization review programs and medical provider networks were set up. The 2012 reforms led to the adoption of independent medical review, which took effect for AY 2013 claims on January 1, 2013 and for all claims on July 1, 2013, and independent bill review, which took effect for services on or after January 1, 2013, but those programs did not have a major impact on average MCC payments in the study. Over the two most recent accident years, increases in average MCC payments at five of the six levels of development ranged between 0.9 percent and 4.9 percent, the only exception being an 11.4 percent jump in average MCC payments at 24 months between AY 2012 and AY 2013.

► Medical treatment as a proportion of total first-year medical and MCC payments fell from 79.1 percent on AY 2005 claims to 69.2 percent on AY 2014 claims. At the same time, drug and DME payments rose from 5.2 percent to 9.8 percent, med-legal payments rose from 3.8 percent to 4.3 percent, and MCC payments increased from 11.9 percent to 16.6 percent.

► Average indemnity paid per lost-time claim continued to grow in AY 2014, with the average paid at 12 months post-injury rising to $7,677, up 10.5 percent from the AY 2013 level and up 60.4 percent from a decade ago. At longer term valuations (36-, 48- and 60-months post injury), which are more heavily influenced by permanent disability (PD) payments, average indemnity paid per lost-time claim grew steadily from AY 2005 through AY 2009 before leveling off at near-record levels in AY 2010. PD increases and changes in weekly rates mandated by the 2012 reforms, however, have yet to be fully reflected in the long-term results, as they began with AY 2013 claims and are continuing to be phased in for injuries beginning in AY 2014.

CWCI has published its study, including background information, graphics, and analyses, in a Research Update report, "California Workers' Compensation Claims Monitoring: Medical & Indemnity Development, AY 2005 – AY 2014." The report is available to the public in the Research section of the CWCI website, www.cwci.org. The next report in the claims monitoring series, scheduled for later this year, will look at data updated through AY 2015.

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