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BULLETIN

No. 20-11 September 15, 2020

A new CWCI study examines changes in the volume and reimbursement of different types of medical services provided to injured workers in California in the wake of incremental statutory and regulatory changes to the workers' compensation system enacted over the past 20 years, revealing significant shifts in treatment patterns and a redistribution of workers' compensation medical payments.

Using data compiled from its Industry Research Information System (IRIS) database on a sample of indemnity claims in which the initial treatment was rendered during an 18-year span (2000 through 2017), the Institute measured both the volume and amounts paid for workers' compensation medical services by medical service category in the first 24 months following an injured worker's initial treatment. Results from the most recent years show that in most cases, the major impact of reforms was to increase consistency in treatment across injured workers. Because the study focused on medical services within the first 24 months of treatment, there were years in which the results were influenced by reforms from multiple periods, so the analyses in the report highlighted changes in medical treatment utilization and payments for claims in which the initial service was rendered during one of three distinct non-transitional periods:

- 2000 to 2001 – Pre-2004 reforms;
- 2004 to 2010 – Post implementation of SB 228 and SB 899;
- 2013 to 2017 – Post implementation of SB 863, AB 1244, and AB 1124.

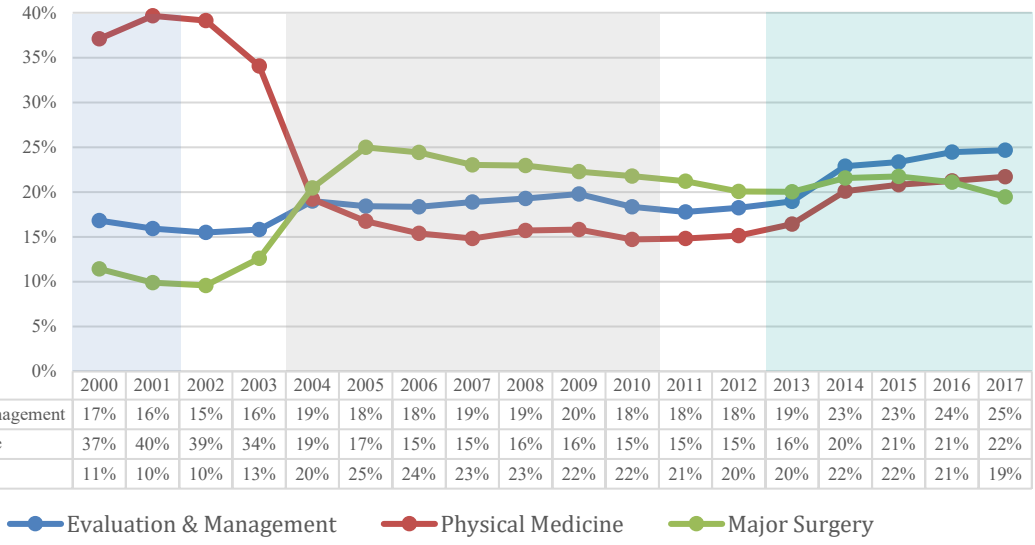
In looking at changes in treatment patterns by service, there are some obvious correlations with the statutory and regulatory reforms, while other changes were likely influenced by other factors. Among the key findings, the study noted:

- a sharp decline in the number of physical medicine visits beginning with claims in which the initial treatment was in 2004 – after the state imposed a 24-visit cap. Here, the impact was most apparent among the outlier claims that had the highest number of physical medicine visits. During the pre-2004 reform period, the distribution of claims with physical medicine showed that claims at the 95th percentile (*i.e.,* the 5 percent of claims with the highest number of physical medicine visits) peaked at 167 physical medicine visits in the first 24 months, but by 2005, following the implementation of SB 228 and SB 899, the 95th percentile dropped to 47 visits.
- a reduction in the regional variation in physical medicine utilization across seven distinct regions of the state. During the pre-2004 reform period, the average number of physical medicine visits ranged from 36.8 in the Sierras and North Counties to 56.5 visits in Los Angeles; but by the post-SB 863, AB 1244 and AB 1124 era of 2013-2017, that range had narrowed significantly to 16.7 visits in the Bay Area and Central Valley to 18.7 visits in the Central Coast.
- a reduction in the percentage of claims with major surgery in the 2013 to 2017 period. This coincided with limitations on duplicate payments for spinal surgery hardware in 2013 and the elimination of those payments in 2014; anti-fraud efforts that included an FBI sting operation that led to the closure of the Pacific Hospital of Long Beach (which had been involved in 20 percent of the state's workers' compensation spinal fusions); tighter utilization controls following the adoption of the Medical Treatment Utilization Schedule (MTUS), Utilization Review (UR), and Independent Medical Review (IMR); and the increased reliance on Medical Provider Networks (MPNs).
- a steady increase in mental health visits within the first 24 months of treatment, beginning with claims in which the initial medical service was in 2005, a trend that corresponds to changes to permanent disability rating rules and guidelines under the 2004 reform. However, the volume of mental health visits dropped sharply beginning in 2013 and 2014 after SB 863 changed the criteria for adding psych injuries onto a claim as a supplemental injury.

- an increase in the percentage of claims with clinical laboratory services (primarily drug testing), which rose from 24.0 percent in 2005 to 36.5 percent in 2011 before declining to 18.8 percent in 2017 – moves that corresponded with the rise and subsequent fall in opioid use and major changes in billing rules.

In terms of medical service payments at 24 months, the study found that the Evaluation & Management (E&M), Physical Medicine, and Major Surgery categories have been key cost drivers over time, and together represented 66 percent of the total medical service payments for claims with a first date of service in 2017. The most significant long-term shift in the distribution of workers' compensation medical payments has been the decline in Physical Medicine's share of the total medical expenditures, which fell from a high of 40 percent for claims with treatment beginning in 2001 to about 15 percent after the 2003-2004 reforms took effect. As Physical Medicine's share began to drop in 2003, other service categories saw their share increase. Most notably, payments for Major Surgery – which include everything from knee and shoulder arthroscopies to spinal fusions – increased from 13 percent of the medical dollars in 2003 to 25 percent by 2005. For nearly a decade after that, Major Surgery's share of the medical payments edged down slowly, though Major Surgery remained the top category in terms of total payments until 2014. It was at that point that the state began the 4-year transition to the Resource-Based Relative Value Scale fee schedule, an SB 863 reform intended to redistribute payments away from medical specialties and toward E&M and Physical Medicine services, reflecting the increased importance placed on primary care services that account for the bulk of the treatment provided to injured workers. By 2017, the final year of the 4-year transition to the RBRVS fee schedule, E&M and Physical Medicine had surpassed Major Surgery in terms of total medical reimbursements, accounting for 25 percent and 22 percent of the total payments respectively. During this period, changes to the fee schedule allowed significant increases in payments for some non-surgical services and the volume of Major Surgery services declined, so as noted in the chart below, Major Surgery's share of the aggregate medical dollars fell to 19 percent -- a 14-year low.

Exhibit 1: Top 3 Major Categories % of Total Spend by Year of First Date of Service



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Evaluation & Management	17%	16%	15%	16%	19%	18%	18%	19%	19%	20%	18%	18%	18%	19%	23%	23%	24%	25%
Physical Medicine	37%	40%	39%	34%	19%	17%	15%	15%	16%	16%	15%	15%	15%	16%	20%	21%	21%	22%
Major Surgery	11%	10%	10%	13%	20%	25%	24%	23%	23%	22%	22%	21%	20%	20%	22%	22%	21%	19%

Full results of the study have been released in a CWCI Research Note, "**Changes in Medical Treatment Trends After 20 Years of Incremental Workers' Compensation Reform,"** which includes background on the reforms of the past two decades, plus exhibits and analyses for the various service categories. CWCI members and subscribers will find the report under the Research tab at www.cwci.org, and it's available for purchase by the public at www.cwci.org/store.html.

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