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BULLETIN

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Switching from a statewide to a locality-specific geographic adjustment factor (GAF) in the calculation of California workers' comp physician and non-physician service fees has not resulted in a major shift in where the dollars go, and despite concerns, the switch does not appear to have led to providers assigning bills to higher practice area locations or caused rural providers to leave the system.

In 2013, the Division of Workers' Compensation began to develop a new Official Medical Fee Schedule (OMFS) based on Medicare's Resource-Based Relative Value Scale (RBRVS) for physician and non-physician services -- one of the key reforms in SB 863, the 2012 workers' compensation reform package signed by Governor Brown. Under an RBRVS model, medical service fees are based on the cost of resources needed to provide the service, which include three components: physician work; practice expense; and malpractice insurance, each of which is assigned a relative value unit (RVU). To compensate for regional variations in cost factors such as non-physician staff wages, office rent, and liability insurance, a geographic factor is used to calculate each RVU. At the time DWC implemented the RBRVS fee schedule in 2014, the Medicare Geographic Practice Cost Index (GPCI) used to control for regional cost disparities had not been updated since 1997. Rather than adopting the use of outdated factors that did not adequately address geographic variation the DWC replaced the GPCI with a statewide average geographic adjustment factor for the calculation of each RVU. In that same year, however, Congress passed federal legislation requiring that by 2017 the Medicare fee schedule begin transitioning to a system that uses smaller Metropolitan Statistical Area (MSA) localities when applying regional cost adjustments. Under the MSA-based structure, the number of payment localities in California increased from 9 to 32. To improve payment accuracy and align OMFS allowable fees with those allowed by Medicare and other systems, in 2018, the DWC incorporated the MSA-based geographic adjustment factors into the OMFS for services rendered to injured workers on or after January 1, 2019.

To assess the initial impact of this change, CWCI used data from its Industry Research Information System database and focused on ten Evaluation and Management (E&M) office visit services provided to injured workers in 2018 (the last year prior to the switch to the MSA-based geographic adjustment factors), and 2019 (the first year following their adoption.) The E&M services included in the study sample represent both initial visits (CPT Codes 99201 through 99205) and follow-up office visits (CPT Codes 99211 through 99215), and are used by both primary and secondary treating physicians who provide core services to injured workers, so they offer the widest array of geographic localities within California. Comparing 2018 and 2019 data, the study looked for changes in:

- the distribution of E&M services and payments among MSA-assigned counties;
- the average amounts paid within MSA-assigned counties;
- the overall mix of E&M services used within the state; and
- the proportion of E&M services that were paid below the amount allowed by the fee schedule and the change in the average discount.

Looking at the distribution of E&M services and payments among the MSA-assigned counties, the study found that both before and after the adoption of the new geographic adjustment factors, medical providers in Los Angeles County accounted for a much larger share of the office visit services and payments than providers in any other locality, though their proportion of services and payments did decrease by about 5 percentage points in the first year after the locality-specific geographic adjustment factor was adopted. The decreases in Los Angeles County, however, were balanced by 5 percentage point increases in the proportion of E&M visits and payments to medical providers in neighboring San Bernardino/Riverside Counties, a shift that occurred after a large occupational medicine group expanded its services into the Inland Empire. Other than that, there were no significant changes in the proportion of E&M services or payments among the geographic localities, and no indication of a shift in services or payments to providers in either urban or rural areas of the state.

The distribution of the E&M visit codes by volume for each of the study years shows that the switch to the new geographic adjustment factor had little effect on the types of E&M services used, as follow-up office visits by established patients remained the most prevalent type of office visits in workers' compensation, accounting for 86.5 percent of the E&M services in 2018 and 80.5 percent in 2019. The 6-percentage point increase in the new patient office visits was spread across the five new visit codes (CPT codes 99201 - 99205)

Comparing weighted average amounts paid in 2018 and 2019 for all E&M office visit codes across all MSA-assigned counties shows the changes in payments following the switch to the locality specific geographic adjustment factor ranged from an 11.3 percent decrease in Kings County (where the OMFS called for an average reduction of 13.0 percent in allowable fees) to a 12.1 percent increase in Marin County (where the OMFS called for a 10 percent increase in allowable fees). Average increases in E&M payments were relatively small in San Bernardino/Riverside (2.6 percent), Los Angeles County (2.9 percent), and Orange County (3.2 percent), but because these three localities accounted for about half of all E&M visits in the state, they had the greatest impact on the change in the total amount paid for these services last year.

Percent Change in Avg Fee Schedule Allowance and Avg Payment Amounts for MSA-Assigned Counties 2018 vs. 2019 Dates of Service

MSA-Assigned Counties	Avg OMFS Allowance	Avg Paid	MSA-Assigned Counties	Avg OMFS Allowance	Avg Paid
KINGS	-13.0%	-11.3%	SUTTER, YUBA	1.2%	-0.1%
KERN	-5.9%	-7.9%	SAN JOAQUIN	0.8%	1.4%
BUTTE	-4.8%	-7.4%	MADERA	8.0%	1.7%
SANTA BARBARA	-1.8%	-4.9%	VENTURA	5.2%	1.8%
SAN LUIS OBISPO	-3.4%	-4.8%	SAN BENITO	7.7%	2.0%
SAN DIEGO	-1.0%	-4.5%	SHASTA	3.9%	2.0%
IMPERIAL	-4.8%	-3.5%	SAN BERNARDINO, RIVERSIDE	1.0%	2.6%
TULARE	-5.4%	-3.3%	LOS ANGELES	4.5%	2.9%
FRESNO	-2.0%	-2.5%	ORANGE	6.7%	3.2%
SACRAMENTO, PLACER, YOLO, EL DORADO	-1.5%	-2.4%	NAPA	8.2%	4.6%
MERCED	-6.6%	-2.3%	SAN FRANCISCO	13.9%	6.3%
SONOMA	0.6%	-1.8%	SAN MATEO	13.1%	8.2%
STANISLAUS	-1.2%	-1.3%	ALAMEDA AND CONTRA COSTA	12.9%	8.2%
SANTA CRUZ	3.9%	-1.0%	SOLANO	9.0%	8.2%
MONTEREY	2.1%	-0.9%	SANTA CLARA	13.8%	8.7%
ALL OTHER COUNTIES	-1.8%	-0.8%	MARIN	10.0%	12.1%

A key factor influencing the average amounts paid across all localities was the use of discount contracts, such as those paid to providers within an employer's medical provider network, which allow for payments below the fee schedule amounts. The percentage of E&M services in the study sample that were paid at a discounted rate declined slightly from 78.3 percent in 2018 to 76.6 percent in 2019, but over that same period the average discount increased from 15.5 percent to 17.1 percent, so thus far the use of these contracts has helped to mitigate the impact of the change to the fee schedule's geographic adjustment factor on the average amounts paid for E&M services.

CWCI has released its study, including additional background, analyses, and graphics, in a Spotlight Report, **"The Impact of the California Workers' Compensation Official Medical Fee Schedule's New Geographic Adjustment Factor."** Institute members and subscribers can log in to access the report in the Research section at www.cwci.org, while others can purchase a copy for $12 at www.cwci.org/store.html.

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