California Workers' Compensation Institute
1999 Harrison St., Suite 2100, Oakland, CA 94612
(510) 251-9470
www.cwci.org

BULLETIN

No. 24-12 November 18, 2024

A new CWCI analysis that examines how medical inflation impacts allowable fees under the California workers' compensation Official Medical Fee Schedule (OMFS) finds that physician and non-physician practitioner service fees represent more than half of treatment payments in the system and that differences in inflationary factors used between OMFS and Medicare explain the growing differential between California workers' compensation and Medicare rates for these professional services.

The new analysis focuses on the price indices used to adjust various OMFS payment rates. Maximum fees for different types of medical services provided to injured workers in California are regulated by the OMFS, but each OMFS section uses distinct rules for payment calculation and different inflation factors to update payment rates. The table below summarizes the payment scheme for each OMFS section and the inflationary factors used to update payments.

Summary of California Workers' Compensation OMFS and Inflationary Adjustments

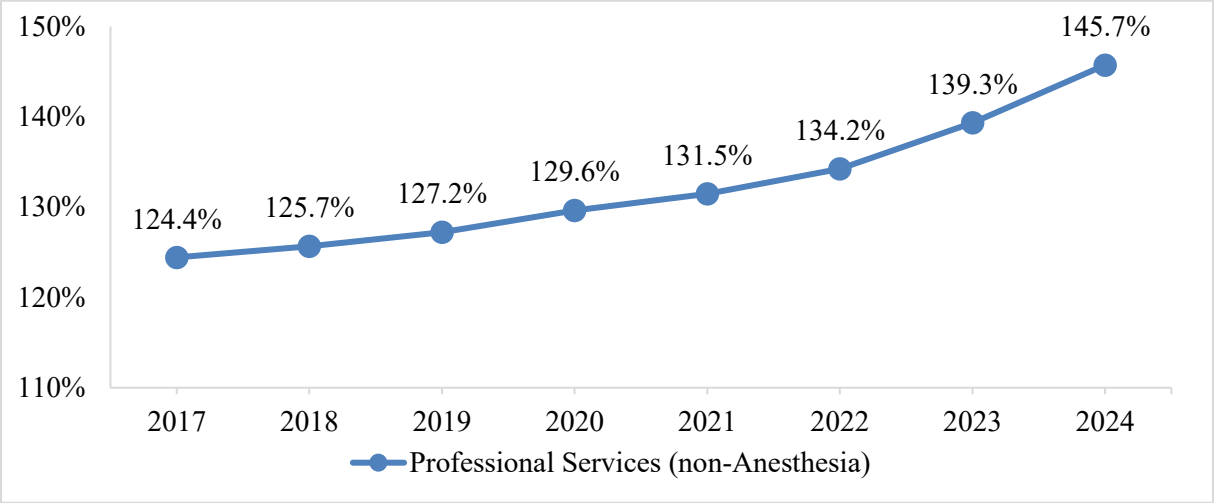
Section	Payment System / Fee Schedule	Inflationary Factor	Percent of Med Treatment Payments[a]
Physician Services and Non-Physician Practitioner Services	Based on Medicare's Resource-Based Relative Value Scale (RBRVS); formula to update conversion factors is different from Medicare	Medicare Economic Index Congressional Adjustments adopted by DWC	53.3%
Inpatient Hospital Services	Reimbursed on a Diagnosis-Related Group (DRG) basis	Hospital market basket for operating costs and the capital market basket for capital costs	17.5%
Outpatient Hospital & Ambulatory Surgery Center	Reimbursed by an Ambulatory Payment Classification (APC)	Hospital market basket	11.7%
Durable Medical Equipment, Prosthetics/Orthotics, and Supplies (DMEPOS)	Payable at 120% of CMS' DMEPOS Fee Schedule	Consumer Price Index for all Urban Consumers (CPI-U)[b]	5.5%
Ambulance (only for ground transportation)	Payable at 120% of CMS' Ambulance Fee Schedule	Ambulance Inflation Factor	2.2%
Laboratory and Pathology	Payable at 120% of the CMS' Clinical Laboratory Fee Schedule (CLFS)	As of 2018, CMS' CLFS payment rates are not updated annually based on inflation	0.5%
Pharmaceuticals	Payable at 100% of the reimbursement specified by the Medi-Cal fixed fee schedule, including the Medi-Cal professional dispensing fee	No auto increase	2.6%
Other	Fee schedules with pending regulations (home health, etc.), miscellaneous codes, etc.	No auto increase	6.7%

[a] Note: Based on CWCI's IRIS data for the second half of the service year 2022. Population: Insured only. Total medical cost excludes payments to med-legal, copy-service, and procedures with no fee schedule. [b] Since 2011, for certain DMEPOS the percentage increase in the CPI-U is reduced by a productivity adjustment.

The Inpatient, Outpatient Facility, Ambulatory Surgical Center, Ambulance Service, and the DMEPOS sections of the fee schedule use Medicare's inflationary factors, and the cumulative percentage increase in the OMFS inflationary

factors for these fee schedules has been lower than economy-wide inflation. But over the past decade, inflationary adjustments for the OMFS conversion factor used to calculate fees in the Professional Services section of the schedule, which account for 53.3 percent of California workers' compensation medical care payments, have not aligned with Medicare because in 2015 Medicare suspended use of the Medicare Economic Index (MEI), a measure of inflation faced by physicians with respect to their practice costs and wage levels, and shifted instead to statutory changes set by Congress. In contrast, in California workers' compensation, use of the MEI remains mandated by statute. From 2015 to 2019, statutory annual adjustments to the Medicare conversion factor were minimal (0.5 percent), and the DWC did not adopt them, but from 2021 to 2024, Congress mandated increases ranging between 1.25 percent and 3.75 percent per year for Medicare, which the Division incorporated into the OMFS in addition to the MEI adjustments. As a result, the OMFS conversion factor as a percentage of Medicare for professional services rose from 124.4 percent in 2017 to 145.7 percent in 2024.

California Workers' Compensation Conversion Factor as a Percentage of Medicare



Note: For 2023, the graph shows conversion factors for service dates between February 15 and December 31, 2023. For 2024, the graph shows conversion factors for service dates between April 1 and December 31, 2024.

In addition to the inflation adjustments, each year fee schedule rates (*e.g.,* price levels) are affected by changes in other factors including:

- the Relative Value Units used in the Resource-Based Relative Value Scale system to quantify the complexity and resources required for medical services;
- the weights assigned to Diagnosis-Related Groups which are used to classify patients based on their principal diagnosis, surgical procedure, age, presence of comorbidities, complications and other factors;
- the weights assigned to the Ambulatory Payment Classification for hospital outpatient services; and
- geographic adjustment variables (like Geographic Practice Cost Indices and wage indexes).

While fee schedule rates set the maximum reimbursable fee for each service, the Institute notes that average payments for physician services are also influenced by changes in utilization, service mix, and discounting practices.

CWCI has published its analysis of the impact of inflation on OMFS fees in a Report to the Industry. The report is available for free under the Research tab on the Institute's website at www.cwci.org.

BY/