



## ANALYSIS OF PROPOSED MONTANA RULE CHANGES PROPOSED TO BECOME EFFECTIVE JULY 1, 2015

NCCI was requested by the Montana Department of Labor and Industry to estimate the impact of proposed changes to the medical fee schedules and utilization and treatment guidelines in Montana, effective July 1, 2015.

- NCCI estimates the proposed changes to the medical fee schedules would result in a change to Montana workers compensation system costs of +0.9% (+\$ 2.0M<sup>1</sup>).
- NCCI is unable to objectively quantify the potential cost impact from adopting the third edition of the Montana Utilization and Treatment Guidelines. Any cost impact resulting from adoption of the revised utilization and treatment guidelines would be realized in subsequent claims experience and reflected in future NCCI loss cost filings in Montana.

### Summary of Proposed Changes

The current medical fee schedule in Montana is published by the Montana Department of Labor and Industry (MDLI), and is based on Medicare relative values that were in effect as of July 1, 2014 with Montana-specific base rates and conversion factors. The current utilization and treatment guidelines in Montana is the second edition of the Montana Utilization and Treatment Guidelines that went into effect on July 1, 2014.

The MDLI has proposed the following changes:

1. Update the current Montana Anesthesia and Professional Service Conversion Factors.
2. Adopt the 2015 professional Relative Value Units (RVUs) from the Essential<sup>2</sup> RBRVS per Montana Code Annotated (MCA) Section 39-71-704 and Montana Rule 24.29.1534
3. Update the current Montana Facility Base Rates
4. Adopt the 2015 Medicare relative weights for facility services
5. Adopt the third edition of the Montana Utilization and Treatment Guidelines

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<sup>1</sup> Overall system costs are based on NAIC Annual Statement data. The estimated dollar impact is the percentage impact displayed multiplied by 2013 written premium of \$276M from NAIC Annual Statement data for Montana. This figure does not include self-insurance, the policyholder retained portion of deductible policies, or adjustments for subsequent changes in premium levels. The use of premium as the basis for the dollar impact assumes that expenses and other premium adjustments will be affected proportionally to the change in benefit costs. The dollar impact on overall system costs inclusive of self-insurance is estimated to be \$+3.0M, where data on self-insurance is approximated using the National Academy of Social Insurance's August 2014 publication "Workers' Compensation: Benefits, Coverages, and Costs, 2012."

<sup>2</sup> NCCI has used the Montana-adjusted Resource Based Relative Value Scale (RBRVS) as published by the Centers for Medicare and Medicaid Services (CMS) as a proxy for the Optum RBRVS editions.



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The changes to the conversion factors and base rates are summarized in the table below:

	Anesthesia Conversion Factor	Professional Service Conversion Factor (Except Anesthesia)	Hospital Inpatient Base Rate	Hospital Outpatient Base Rate	Ambulatory Surgical Center (ASC) Base Rate
Current	\$ 62.98	\$ 59.72	\$ 7,984.00	\$ 109.00	\$ 82.00
Proposed	\$ 65.63	\$ 61.49	\$ 8,076.00	\$ 111.00	\$ 83.00

### Actuarial Analysis of Proposed Changes

NCCI's methodology to evaluate the impact of medical fee schedule changes includes three major steps:

1. Calculate the percentage change in maximum reimbursements
  - a. Compare the current and proposed maximum reimbursements by procedure code and determine the percentage change by procedure code.
  - b. Calculate the weighted average percentage change in maximum reimbursements for the fee schedule using observed payments by procedure code as weights.
  
2. Estimate the price level change as a result of the revised fee schedule
  - a. NCCI research by Frank Schmid and Nathan Lord (2013), "The Impact of Physician Fee Schedule Changes in Workers Compensation: Evidence From 31 States", suggests that a portion of a change in maximum reimbursements is realized on payments impacted by the change.
  - b. In response to a fee schedule decrease, NCCI research indicates that payments decline by approximately 50% of the fee schedule change.
    - i. The assumption for the percent realized for fee schedule decreases is 50%.
  - c. In response to a fee schedule increase, NCCI research indicates that payments increase by approximately 80% of the fee schedule change and the magnitude of the response depends on the relative difference between actual payments and fee schedule maximums (i.e. the price departure).
    - i. The formula used to determine the percent realized for fee schedule increases is  $80\% \times (1.10 + 1.20 \times (\text{price departure}))$ .
  
3. Estimate the share of costs that are subject to the fee schedule
  - a. The estimated share is based on a combination of fields, such as procedure code, provider type, and place of service, as reported on the NCCI Medical Data Call, to categorize payments that are subject to the fee schedule.

In this analysis, NCCI relies primarily on two data sources:

- Detailed medical data underlying the calculations in this analysis are based on NCCI's Medical Data Call for Montana for Service Year 2013.



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- The share of benefit costs attributed to medical benefits is based on NCCI's Financial Call data for Montana from the latest 3 policy years projected to the effective date of the proposed benefit changes.

### Professional Fee Schedule

In Montana, payments for professional services represent 35.7% of total medical payments. The percentage change in Anesthesia services is a flat change of +4.2% (=\$65.63 / \$62.98). To calculate the percentage change in maximums for professional services other than Anesthesia, we calculate the percentage change in maximum allowable reimbursements (MARs) for each procedure code as follows:

Current MAR = 2014 Medicare Relative Value Units × Current Montana Conversion Factor

Proposed MAR = 2015 Medicare Relative Value Units × Proposed Montana Conversion Factor

Where:

Current Montana Conversion Factor = \$59.72

Proposed Montana Conversion Factor = \$61.49

The overall change in maximums for professional services is a weighted average of the percentage change in MAR (proposed MAR/ current MAR) by procedure code weighted by the observed payments by procedure code as reported on NCCI's Medical Data Call, for Montana for Service Year 2013. The overall weighted average percentage change in MARs is +3.4%.

The estimated impact by category is shown in the table below.

Physician Practice Category	Cost Distribution	Percentage Change in MAR
Anesthesia	5.2%	+4.2%
Surgery	22.4%	+6.5%
Radiology	8.1%	-5.2%
Pathology	0.1%	+6.5%
General Medicine	3.4%	+4.1%
Physical Medicine	30.4%	+3.4%
Evaluation & Management	23.4%	+4.3%
Other HCPCS*	0.0%	+3.6%
Physician Payments with no specific MAR	7.0%	0.0%
<b>Total Physician Costs</b>	<b>100.0%</b>	<b>+3.4%</b>

\* Healthcare Common Procedure Coding System

Since the overall average maximum reimbursements for physician services increased, the percentage expected to be realized from the fee schedule increase is estimated according to the formula  $80\% \times (1.10 + 1.20 \times (\text{price departure}))$ . The observed price departure for physician



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payments in Montana is  $-8\%$ <sup>3</sup>. The percentage realized is estimated to be  $80\%$  ( $= 80\% \times (1.10 + 1.20 \times (-0.08))$ ). The estimated impact on physician payments due to the physician fee schedule change is  $+2.7\%$  ( $= +3.4\% \times 0.80$ ).

The above estimated impact on physician payments is then multiplied by the percentage of medical costs attributed to physician payments in Montana ( $35.7\%$ ) to arrive at the estimated impact of  $+1.0\%$  on medical costs. The resulting estimated impact on medical costs is then multiplied by the percentage of benefit costs attributed to medical costs in Montana ( $67.5\%$ ) to arrive at the estimated impact on overall workers compensation costs in Montana of  $+0.7\%$ .

### Hospital Inpatient

In Montana, payments for hospital inpatient services represent  $16.6\%$  of total medical payments. The fee schedule is based on the Medicare Inpatient Prospective Payment System (IPPS) with a Montana-specific base rate. To calculate the percentage change in reimbursements for hospital inpatient services, we calculate the percentage change in MARs for each hospital inpatient bill that is reported with a Medicare Severity Diagnosis Related Group (MS-DRG) Code as follows:

Current MAR = 2014 MS-DRG Relative Weights  $\times$  Current Base Rate + Outlier Amount (if applicable)

Proposed MAR = 2015 MS-DRG Relative Weights  $\times$  Proposed Base Rate + Outlier Amount (if applicable)

Where:

Current Base Rate = \$7,984

Proposed Base Rate = \$8,076

The overall change in maximums for hospital inpatient services is a weighted average of the percentage change in MAR (proposed MAR/ current MAR) for each bill weighted by the observed payments by bill as reported on NCCI's Medical Data Call, for Montana for Service Year 2013. The estimated overall weighted average percentage change in maximums for hospital inpatient services is  $-3.2\%$ .

Since the reimbursements for inpatient services decreased, NCCI expects that  $50\%$  of the decrease will be realized on physician price levels. The estimated impact on physician payments after the  $50\%$  price realization factor is  $-1.6\%$  ( $= -3.2\% \times .50$ ).

The estimated impact on hospital inpatient payments is then multiplied by the percentage of medical costs attributed to hospital inpatient payments ( $16.6\%$ ) to arrive at the estimated impact on medical costs of  $-0.3\%$ . The resulting estimated impact on medical costs is then multiplied by the percentage of Montana benefit costs attributed to medical costs ( $67.5\%$ ) to arrive at the estimated impact on Montana's overall workers compensation system costs of  $-0.2\%$ .

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<sup>3</sup>A departure of  $-8\%$  implies that the ratio of actual payments to the fee schedule maximums is  $0.92$ .



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### Hospital Outpatient Fee Schedule

In Montana, payments for hospital outpatient services represent 16.8% of total medical payments. The fee schedule is based on the Medicare Outpatient Prospective Payment System (OPPS) with a Montana-specific base rate. To calculate the percentage change in maximum reimbursements for hospital outpatient services, we calculate the percentage change in MAR for each procedure code listed on the fee schedule as follows:

Current MAR = 2014 OPPS relative weight × Current Base Rate

Proposed MAR = 2015 OPPS relative weight × Proposed Base Rate

Where:

Current Base Rate = \$109

Proposed Base Rate = \$111

For procedure codes with MARs based on usual and customary charges, NCCI assumed no change to the MARs.

The overall change in maximums for hospital outpatient services is a weighted average of the percentage change in MAR (proposed MAR/ current MAR) for each transaction weighted by the observed payments by transaction as reported on NCCI's Medical Data Call, for Montana for Service Year 2013. The estimated overall weighted average percentage change in reimbursements for total hospital outpatient services is +4.1%.

Since the overall average maximum reimbursement for hospital outpatient services increased, the percent expected to be realized from the fee schedule increase is estimated to be 80%. The estimated impact on hospital outpatient payments is +3.3% (= +4.1% × 0.80).

The estimated impact on hospital outpatient costs is then multiplied by the percentage of medical costs attributed to hospital outpatient payments (16.8%) to arrive at the estimated impact on medical costs of +0.6%. The resulting impact on medical costs is then multiplied by the percentage of Montana benefit costs attributed to medical costs (67.5%) to arrive at the estimated impact on Montana's overall workers compensation system costs of +0.4%.

### Ambulatory Surgical Center (ASC) Analysis

In Montana, payments for ASC services represent 5.3% of total medical payments. The current and proposed reimbursements are calculated in an analogous manner to the hospital outpatient analysis. The current base rate is \$82 and the proposed base rate is \$83. To calculate the percentage change in maximum reimbursements for ASC services, we calculate the percentage change in MAR for each procedure code listed on the fee schedule. The overall change in maximum reimbursements for ASC services is a weighted average of the percentage change in MAR (proposed MAR/ current MAR) by procedure code weighted by the observed payments by procedure code as reported on NCCI's Medical Data Call, for Montana for Service Year 2013. The estimated overall weighted average percentage change in reimbursements for ASC services is +0.4%.



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Since the overall average maximum reimbursement for ASC services increased, the percent expected to be realized from the fee schedule increase is estimated to be 80%. The estimated impact on ASC payments is +0.3% (= +0.4% × 0.80).

The estimated impact on ASC costs is then multiplied by the percentage of medical costs attributed to ASC payments (5.3%) to arrive at a negligible impact on medical costs and overall workers compensation system costs.

### Utilization and Treatment Guidelines Update

The third edition of the Montana Utilization and Treatment Guidelines (Guidelines) includes updates to the Cervical Spine Injury and Low Back Pain chapters.

The updates to the Guidelines have the potential to impact workers compensation costs, however the magnitude is uncertain. NCCI is unable to objectively quantify the potential cost impact from the adoption of the third edition of the Guidelines due to lack of relevant statistical data upon which to predicate an estimate. Any cost impact would be realized in subsequent claims experience and reflected in future NCCI loss cost filings in Montana.

### Summary of Estimated Impacts

The estimated impacts on Montana's workers compensation system due to the proposed fee schedule changes are summarized in the table below:

	(A)	(B)	(C)	(D)
	Impact on Type of Service	Medical Cost Distribution	Estimated Impact On Medical Costs (A) x (B)	Estimated Impact on Overall Costs (C) x (2)
<b>Physician</b>	+2.7%	35.7%	+1.0%	+0.7%
<b>Hospital Inpatient</b>	-1.6%	16.6%	-0.3%	-0.2%
<b>Hospital Outpatient</b>	+3.3%	16.8%	+0.6%	+0.4%
<b>ASC</b>	+0.3%	5.3%	0.0%	0.0%
<b>(1) Total Impact on Montana Medical Costs</b>			<b>+1.3%</b>	
<b>(2) Medical Costs as a Percentage of Overall Workers Compensation Benefit Costs in Montana</b>				<b>67.5%</b>
<b>(3) Total Estimated Impact on Overall Workers Compensation System Costs in Montana = (1) x (2)</b>				<b>+0.9%</b>