



ANALYSIS OF PROPOSED MONTANA RULE CHANGES PROPOSED TO BECOME EFFECTIVE JULY 1, 2016

NCCI was requested by the Montana Department of Labor and Industry to estimate the impact of proposed changes to the medical fee schedules in Montana, effective July 1, 2016. NCCI estimates the proposed changes to the medical fee schedules would result in a change to Montana workers compensation system costs of +0.7% (+2.0M¹).

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 October 1, 2014 for Hospital Inpatient and March 31, 2015 for Professional Service, Hospital Outpatient and Ambulatory Surgical Center (ASC), with Montana-specific base rates and conversion factors.

The MDLI has proposed the following changes:

1. Update the current Montana Anesthesia and Professional Service Conversion Factors
2. Adopt the 2016 professional Relative Value Units (RVUs) from the Essential² RBRVS per Montana Code Annotated (MCA) Section 39-71-704 and Montana Rule 24.29.1534
3. Update the current Montana Hospital Inpatient Base Rate
4. Adopt the January 1, 2016 Medicare relative weights for facility services

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 |
|----------|------------------------------|--|------------------------------|
| Current | \$ 65.63 | \$ 61.49 | \$ 8,076 |
| Proposed | \$ 63.86 | \$ 62.91 | \$ 8,120 |

There are no proposed changes to the hospital outpatient and ASC base rates. The hospital outpatient base rate is \$111, while the ASC base rate is \$83.

¹ Overall system costs are based on NAIC Annual Statement data. The estimated dollar impact is the percentage impact(s) displayed multiplied by 2014 written premium of \$284M 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 +\$2.0M, where data on self-insurance is approximated using the National Academy of Social Insurance's August 2015 publication "Workers' Compensation: Benefits, Coverages, and Costs, 2013."

² 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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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 2014.
- 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.



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Professional Fee Schedule

In Montana, payments for professional services represent 36.4% of total medical payments. The percentage change in Anesthesia services is a flat change of -2.7% ($= \$63.86 / \65.63). 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 = 2015 Medicare Relative Value Units × Current Montana Conversion Factor

Proposed MAR = 2016 Medicare Relative Value Units × Proposed Montana Conversion Factor

Where:

Current Montana Conversion Factor = \$61.49

Proposed Montana Conversion Factor = \$62.91

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 2014. The overall weighted average percentage change in MARs is +1.9%.

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

| Physician Practice Category | Cost Distribution | Percentage Change in MAR |
|---|-------------------|--------------------------|
| Anesthesia | 5.0% | -2.7% |
| Surgery | 21.8% | +2.3% |
| Radiology | 6.3% | +2.6% |
| Pathology | 0.4% | +0.2% |
| Medicine | 34.9% | +2.2% |
| Evaluation & Management | 23.8% | +2.4% |
| Other HCPCS* | 0.1% | +2.3% |
| Physician Payments with no specific MAR | 7.7% | 0.0% |
| Total Physician Costs | 100.0% | +1.9% |

* 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 payments in Montana is -8%³. 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 +1.5% ($= +1.9\% \times 0.80$).

³ A departure of -8% implies that the ratio of actual payments to the fee schedule maximums is 0.92.



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The above estimated impact on physician payments is then multiplied by the percentage of medical costs attributed to physician payments in Montana (36.4%) to arrive at the estimated impact of +0.5% 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 (68.5%) to arrive at the estimated impact on overall workers compensation costs in Montana of +0.3%.

Hospital Inpatient Fee Schedule

In Montana, payments for hospital inpatient services represent 14.2% 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 = 2015 MS-DRG Relative Weights × Current Base Rate + Outlier Amount (if applicable)

Proposed MAR = 2016 MS-DRG Relative Weights × Proposed Base Rate + Outlier Amount (if applicable)

Where:

Current Base Rate = \$8,076

Proposed Base Rate = \$8,120

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 2014. The estimated overall weighted average percentage change in maximums for hospital inpatient services is +2.0%.

Since the reimbursements for inpatient services increased, NCCI expects that 80% of the increase will be realized on physician price levels. The estimated impact on physician payments after the 80% price realization factor is +1.6% (= +2.0% x .80).

The estimated impact on hospital inpatient payments is then multiplied by the percentage of medical costs attributed to hospital inpatient payments (14.2%) to arrive at the estimated impact on medical costs of +0.2%. The resulting estimated impact on medical costs is then multiplied by the percentage of benefit costs attributed to medical costs in Montana (68.5%) to arrive at the estimated impact on overall workers compensation costs +0.1%.



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Hospital Outpatient Fee Schedule

In Montana, payments for hospital outpatient services represent 18.3% 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 = 2015 OPPS relative weight × Current Base Rate

Proposed MAR = 2016 OPPS relative weight × Proposed Base Rate

There is no proposed change to the base rate, which would remain at \$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 2014. The estimated overall weighted average percentage change in reimbursements for total hospital outpatient services is +1.7%.

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 +1.4% (= +1.7% × 0.80).

The estimated impact on hospital outpatient costs is then multiplied by the percentage of medical costs attributed to hospital outpatient payments (18.3%) to arrive at the estimated impact on medical costs of +0.3%. The resulting impact on medical costs is then multiplied by the percentage of Montana benefit costs attributed to medical costs (68.5%) to arrive at the estimated impact on Montana's overall workers compensation system costs of +0.2%.

ASC Fee Schedule

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. There is no proposed change to the base rate, which would remain at \$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



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Year 2014. The estimated overall weighted average percentage change in reimbursements for ASC services is +0.6%.

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 +0.5% (= +0.6% × 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 negligible⁴ impact on both medical costs and overall workers compensation system costs.

Summary of Estimated Impacts

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

| | (A) | (B) | (C) | (D) |
|---|-------------------------------------|------------------------|--|--|
| | Estimated Impact on Type of Service | Share of Medical Costs | Estimated Impact On Medical Costs (A) x (B) | Estimated Impact on Overall Costs (C) x (2) |
| Physician | +1.5% | 36.4% | +0.5% | +0.3% |
| Hospital Inpatient | +1.6% | 14.2% | +0.2% | +0.1% |
| Hospital Outpatient | +1.4% | 18.3% | +0.3% | +0.2% |
| ASC | +0.5% | 5.3% | negligible | negligible |
| (1) Total Estimated Impact on Montana Medical Costs | | | +1.0% | |
| (2) Medical Costs as a Percentage of Overall Workers Compensation Benefit Costs in Montana | | | | 68.5% |
| (3) Total Estimated Impact on Overall Workers Compensation System Costs in Montana = (1) x (2) | | | | +0.7% |

⁴ Negligible is defined in this document to be an impact on system costs of less than 0.1%.