

HEALTH STRATEGY ASSOCIATES *Smart Moves. Winning Strategies.*

Looking Deeper Into Medical Costs: What's Driving Today's High Medical Loss Ratios

Joseph Paduda

Rapid increases in loss ratios driven in large part by medical trend rates over 10% have driven many Workers' Compensation carriers and TPAs to re-examine their managed care programs. For many, this examination has been disconcerting at best. Case management expenses appear to deliver little return on investment, few procedures are altered as a result of pre-certification, and PPO savings and penetration rates are showing marginal, if any improvement.

Those payers that have turned to their internal managed care staff for answers have found that those operations, trimmed to the bone after the longest soft market in memory, offer few opportunities for or capability of delivering additional expense reduction. All this at a time when medical providers are once again flexing their muscles, obtaining more favorable reimbursement rates from even the strongest HMOs. At times like these, what's a Workers' Compensation payer to do?

The first priority is to understand the problem. And the most important concept to grasp is that in Workers' Compensation, medical expense is not a monolithic problem with a similar solution. In fact, the Workers' Compensation Research Institute's analyses show that not only are there tremendous variations in medical expenses between states, they also indicate that what are problem areas in some states are not in others. No wonder then that generic managed care programs are failing to deliver returns. It is a safe bet that they are directing resources to attack problems that don't exist, while ignoring areas that are much more problematic.

Studying the WCRI's CompScope™ reports provides several excellent examples of the differences in medical expense profile in different areas. One of the areas that is highlighted in these reports is physical therapy, and the broader category of physical medicine. Accounting for almost a quarter of medical expenses, physical medicine is involved in the majority of lost time claims, and thus is associated with the relatively few claims that drive most of the loss cost. Historically, Workers' Compensation payers dealt with PT expenses through a combination of broad-based discounted PPOS and occasionally utilization review and/or pre-cert.

PPOs typically contract with facilities, individual clinics, and hospitals for PT at a percentage off fee schedule, charges, and/or usual and customary ranging from 10-20%. While these “discounts” seem

HEALTH STRATEGY ASSOCIATES *Smart Moves. Winning Strategies.*

reasonable at first blush, the “savings” they deliver is illusory. The problem with PT is not the price per service but the amount of services delivered, something generic PPO arrangements can't control. Typically, PT treatment courses can run from 12-18 visits. At \$75 per visit (post-discount), total costs can easily hit \$900 - \$1350 per case.

Unfortunately, as the cost per service or even per day in PT is relatively low, many payers don't believe it pays to require pre-cert of PT. And those that do often find that the ROI is marginal at best. The reason? Again, generic solutions to what are very different problems. For example, the CompScope report shows there is wide variation in the delivery of physical medicine around the country.

In Florida, PT utilization in non-hospital settings is a comparatively minor contributor to medical costs. However, hospital-based PT is quite expensive on a cost per service basis. By comparison, physical medicine expense in Texas is primarily a utilization issue. The number of services delivered in Texas is significantly higher than in eight other states in the CompScope analysis. This high utilization correlates with higher costs for physical medicine; Texas' costs are 99.4% above the average.

With a richer and deeper understanding of the problem, we can now develop solutions that are going to deliver the results we need. To continue with the example above, while it may not pay to pre-cert non-hospital PT in Florida, the ROI on pre-cert for PT provided by a hospital should be quite good. In contrast, given Texas' expense picture, pre-cert appears to be very attractive. Unfortunately, Texas Workers' Compensation laws are not particularly supportive, making it difficult to enforce reductions in care.

PT is but one example of the diverse and dynamic problem that is Workers' Compensation medical expense management. Similar variations are present in hospital expenses, pharmacy costs, the use of surgery and radiology, in fact the entire scope of medical services. Successful Workers' Compensation payers will recognize that in order to control these costs, they have to broaden and deepen their understanding of the components of the medical dollar.

###

Joseph Paduda, Principal of Health Strategy Associates, is an independent consultant focused in the Workers' Compensation and managed care markets. His clients include large Workers' Compensation insurers, managed care organizations, self-insured employers, and software and systems companies. Prior to his present position, Mr. Paduda was vice president of MetraComp, a United HealthCare Company specializing in the application of managed care techniques to the Group Disability and Workers' Compensation industry. Paduda was responsible for marketing, sales, and account management. Paduda holds a Master's of Science Degree in Health Management from the American University and is a frequent speaker



HEALTH STRATEGY

ASSOCIATES *Smart Moves. Winning Strategies.*

on managed care issues. He lives and works in Madison, Connecticut and can be reached at 203 245 1249 or
jpaduda@healthstrategyassoc.com