

# HEALTH STRATEGY ASSOCIATES *Smart Moves. Winning Strategies.*

## **Do We Need Total Reform - where is this from & when?**

Joseph Paduda

The Governor's Commission on Workers' Compensation Reform plans to make its recommendations in January. Does the system require a complete overhaul or can it work with some corrections?

Joseph Paduda, Principal with Health Strategy Associates, contends that major reform to the MCA legislation may actually be counterproductive, and that a good part of the solution to the crisis in Workers' Compensation is contained within the present laws. In testimony before the Commission, Paduda made several recommendations that he believes will go a long way towards resolving the cost problem in Florida Workers' Compensation.

### **ON HOSPITAL COSTS**

Hospitals are a frequent target of criticism from Workers' Compensation insurers for their ostensibly high charges. Compared to other states, Florida's hospital costs 19% higher than average, according to the Workers' Compensation Research Institute in Cambridge, Mass. There are several reasons for this, but Paduda said that because the fee schedule for hospitals is based on a discount off billed charges, there is little effective price control. He noted that WCRI's analysis indicates prices, or the cost for each unit of service, are 24% higher in Florida than in the other study states. However, careful hospital selection can lower expenses for the state's Workers' Compensation payers.

Using published data to support his argument, Paduda pointed out that there are indeed wide variations among hospitals in the same area for the same type of care. Much has been made of the cost differences between hospitals in different areas of the state, with the difference in operating costs given as the rationale for cost differentials.

Paduda's analysis illustrated that costs among hospitals in a specific area can differ by more than 40% for similar types of care. As an example, he cited data showing that costs for orthopedic admissions in three hospitals in the Miami area varied by 53%, after severity, hospital cost factors, and other factors were considered. The data also indicated that hospitals that tend to be high cost in one area, such as orthopedics, are also high cost in others, such as neurology.

Paduda recommended that the State of Florida publish more detailed data on hospital costs more often. He suggested requiring Workers' Compensation payers to provide data on hospital expenses (and other

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data as well) to a central data repository, where it would be aggregated and published for review and analysis by any and all stakeholders. He pointed out that the present MCA rules enable Workers' Compensation payers to direct patients to lower cost hospitals, if they know which hospitals are indeed less expensive.

## **ON PHYSICIAN PRACTICE PATTERNS**

Paduda next discussed the physician component of the Workers' Compensation medical dollar. Using data from the Dartmouth Atlas of Health Care, he noted that rates for surgical procedures for which there is little dissent show little variance in frequency from one area of the state to another. However, procedures that are more subjectively prescribed tend to have wider variations in frequency. In particular, Paduda cited back surgery rates which varied from 1.8 per 1,000 Medicare beneficiaries in Miami to 5.8 per 1,000 in Fort Myers.

He was careful to state that no one knows which rate is appropriate, but did note that there are factors that may lead to such wide variation, including a high proportion of general practice physicians compared to orthopedic surgeons in Miami and the opposite in Fort Myers. As there is significant disagreement in the medical community on the appropriate methods of treating back injuries, it may be that the general practice physicians simply treat more conservatively than their surgical colleagues.

Paduda suggested that the State set up a state-wide database of Workers' Compensation medical treatment records that can be accessed by payers, employers, and individuals to compare treatment rates and outcomes across areas. The availability of data will allow providers and payers to make more informed decisions about medical care for injured workers.

## **ON FEE SCHEDULES**

Tying Workers' Compensation reimbursements to the state Medicare fee schedule is a hotly debated issue. One proposal before the Commission suggests paying providers at 150% of Medicare amounts. In its current form, this proposal does not allow payers to pay more or less than that fixed amount, and thereby fixes prices for physician services.

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Paduda sees the following problems with that:

1. The federal government controls Medicare payment schedules and the state would be ceding control of reimbursement to the federal government. If the feds change the fee schedule, it may or may not be to the state's liking.
2. Workers' Compensation care differs from Medicare since it requires some providers to deal with employers, claims adjusters, and care managers in areas such as treatment plan development and coordination, return-to-work planning, and writing patient limits and restrictions. Also Medicare reimbursement rates may not be appropriate for areas such as rehab as the working population is demonstrably different from the Medicare population. Therefore, it is not appropriate to pay providers according to a scale that is not specifically relevant to the work they perform.
3. While the increase of 50% over the Medicare schedule may compensate for some of the extra work, it may overpay some providers and underpay others.
4. Mandating a fixed price of 150% of Medicare is essentially unenforceable, as payers and providers would find ways around the fixed price. Price-fixing is rarely if ever effective, and it would likely be seen as excessive governmental intrusion into private industry.

Instead, Paduda suggested the state leave the present fee schedule in place, albeit with some increase to encourage more providers to participate. He recommended that the state allow payers to pay above or below the schedule if they have a contract with a provider, or are accessing a contract held by a third party. This would allow the market to set prices, and enable providers to charge more if desired while simultaneously enabling payers to seek favorable contracts with selected providers.

In closing, Paduda stated that the problem of high medical costs in Florida's Workers' Compensation system can best be addressed by adding data collection and publication components to the present MCA program. If the market knows which providers are providing what types of treatment at what cost how often, they will be much better equipped to deal with the problem themselves. The alternative is to force price-fixing on a market which has already shown itself to be highly skilled at working around mandated rules and regulations. From his perspective, the best option is for the government to provide the ground rules, and the information, that the market can use to solve this dilemma itself. Rather than legislate a rigid managed care program and unenforceable fee schedule, give the payers the information they need, allow providers to negotiate the price they want, and let the invisible hand work its magic.

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