

SORM

STATE OFFICE *of* RISK MANAGEMENT



Annual Report on Cost Containment Fiscal Year 2002

October 15, 2002

Introduction

The State Office of Risk Management (the Office or SORM) administers the statewide risk management program for Texas state agencies and the State Employees Workers' Compensation Program. Under the authority of Chapters 412 and 501 of the Texas Labor Code, the Office's mission is to provide active leadership to enable State of Texas agencies to protect their employees, the general public, and the state's physical and financial assets by reducing and controlling risk in the most efficient and cost-effective manner.

Senate Bill 1, 77th Legislature, Regular Session requires SORM to submit an annual report detailing the effectiveness of cost containment measures undertaken during the fiscal year and proposing additional measures to reduce workers' compensation payments in future years. This document is the report on cost containment for fiscal year 2002.

Summary of Cost Containment Savings Fiscal Year 2002

During fiscal year 2002, cash basis claim expenditures totaled approximately \$ 68 million. SORM's cost containment measures in fiscal year 2002 resulted in savings of more than \$44 million for the workers' compensation claims fund and Texas taxpayers. A breakdown by amount for fiscal years 2000 through 2002 is provided below.

SUMMARY OF COST CONTAINMENT SAVINGS

| <u>STRATEGY</u> | <u>2000 SAVINGS</u> | <u>2001 SAVINGS</u> | <u>2002 SAVINGS</u> |
|--|-----------------------|-----------------------|-----------------------|
| Total Medical Bill Audit Savings | 46,296,414 | 51,837,366 | 60,261,042 |
| Duplicate Bill Savings | (13,467,485) | (19,435,075) | (17,670,569) |
| Net Medical Bill Audit Savings | 32,828,929 | 32,402,292 | 42,590,473 |
| PPO Savings | 236,405 | 527,085 | 491,142 |
| Pre-Authorization of Medical Services Savings | 3,347,934 | 3,204,126 | 1,434,625 |
| Subrogation Recovery | <u>627,525</u> | <u>898,077</u> | <u>252,689</u> |
| TOTAL COST CONTAINMENT SAVINGS | \$37,040,793 | \$37,031,580 | \$44,768,929 |

COST CONTAINMENT STRATEGIES

The Office aggressively pursues all available cost containment measures at its disposal in order to meet the Office's fiduciary responsibilities to the taxpayers of Texas and to ensure that workers' compensation benefits are fairly paid to injured state employees. The Office continues to refine its current cost containment strategies and to seek new strategies that can reasonably assist in containing the costs of workers' compensation. The following discussion summarizes the cost containment strategies utilized by SORM during fiscal year 2002.

Medical Bill Audits

The Texas Workers' Compensation Commission (Commission or TWCC), as the regulatory authority over the workers' compensation system in Texas, allows health care providers to submit bills for medical procedures and services based upon the "usual and customary fees" normally charged by the health care provider. However, the Commission adopts "fee schedules" for health care services, which provide maximum allowable fees for services under the workers' compensation system. Insurance carriers are allowed under the Texas Workers' Compensation Act and TWCC adopted Rules to audit bills submitted by health carriers to reduce billed amounts to the maximum allowable rates under the appropriate fee schedule. The difference between usual and customary charges of the health care provider and the maximum allowable rate under the fee schedule are "savings" to the carrier and employer. In the case of the State's self-insured workers' compensation program administered by SORM, the savings accrue to the benefit of state taxpayers.

During fiscal year 2002, SORM's medical cost containment vendor audited 200,456 medical bills. These bills were reviewed for medical necessity, relatedness to the compensable injury, and compliance with TWCC medical fee guidelines. The Office's primary directive to the cost containment vendor is to utilize every possible measure to ensure that medical bills for injured state workers are thoroughly evaluated for these factors. SORM monitors the cost containment vendor's performance and augments the medical cost containment vendor's services with a limited quality control staff.

Preauthorization of Medical Services

The Texas Workers' Compensation Act and TWCC administered Rules provide that health care providers are required to "preauthorize" certain specific medical procedures (e.g., psychiatric care and nonemergency hospitalizations) with workers' compensation insurance carriers prior to the procedures being performed. Preauthorization savings are the result of avoiding expenses by denying unreasonable or unnecessary procedures prior to treatment. The resulting "savings" are estimates provided by the cost containment vendor. SORM is working with the cost containment vendor to develop a more accurate methodology for reporting preauthorization savings.

Peer Reviews and Required Medical Exams

SORM adjusters make use of "Peer Reviews" of medical services and pharmaceuticals and "Required Medical Exams" of claimants as a medical cost control strategy. These Peer Reviews and Required Medical Exams are conducted to verify the medical necessity and reasonableness of prescribed pharmaceuticals and treatments, to determine whether such prescriptions and treatments are related to compensable injuries, to ensure that the injured employee receives quality medical care, and to avoid the costs of unreasonable or unnecessary medical treatment. Therefore, these Peer Reviews and Required Medical Examinations are important elements of SORM's overall cost containment efforts.

Preferred Provider Organizations

Through the cost containment contract, SORM and the cost containment vendor initiated a passive pharmaceutical preferred provider in May 2000. This pharmaceutical PPO sends a prescription card to all workers' compensation claimants who are prescribed medications. When the card is presented at any participating pharmacy, SORM receives a discount below the Texas Workers' Compensation Pharmaceutical Fee Guideline. Participation in this program is voluntary for claimants. SORM realizes significant savings from this voluntary program.

The cost containment vendor also has an arrangement with a network of physicians to treat injured workers. Employees who are treated within this network receive quality medical care, and discount savings from the network are received by SORM. Participation in this program is also voluntary for claimants.

Medical Case Management

Medical Case Management involves the use of a certified medical case manager to serve as a liaison between the injured employee, the employee's healthcare provider, and the insurance carrier. Savings from medical case management are derived from two sources: decreased medical expenses due to the avoidance of unnecessary or prolonged medical treatment; and decreased income benefit payments in the future.

Case management is considered within the workers' compensation insurance industry to be an effective method of reducing claims costs. Therefore, SORM's cost containment contract includes 1,000 hours per year of medical case management services. The Claims Operations staff has intensified its case management efforts through increased adjuster awareness of the benefits of this service and the importance of early case management intervention.

Review of Impairment Ratings

Cost savings often are realized from the review and dispute of impairment ratings. Under the Texas Workers' Compensation Act, injured employees may be entitled to impairment income benefits, which are determined by a whole body impairment rating assigned to the injured employee by the treating physician. Both the injured employee and the insurance carrier have a right to dispute an impairment rating. Accordingly a review of questionable impairment ratings is imperative to containing the costs of indemnity benefits to injured state employees. SORM utilizes an established review process for impairment ratings involving reviews by the assigned claims adjuster, in-house medical

staff, and/or an external independent physician. In addition, the Texas Workers' Compensation Act and TWCC-adopted Rules make provision for an independent review of impairment ratings by a TWCC-assigned "designated doctor". These procedures help ensure the accuracy of the assigned rating and in many cases, decreased impairment income benefits are paid as a result of the differences between the original impairment ratings and the designated doctor ratings.

Fraud Detection and Investigation

SORM employs two full-time staff members to investigate potential fraud and abuse as a part of the Office's workers' compensation fraud detection program. SORM investigates both claimant and medical provider fraud. The Research and Oversight Council on Workers' Compensation (ROC) recently published an article relating to the exorbitant costs associated with fraud in the system. SORM's Information Resources Division plans to develop internal computer programs to gather data and identify potential fraud through data mining and specific data analysis.

Subrogation Recoveries

"Subrogation" is the legal assignment of the rights of the insured to recover the amounts of the loss from one legally liable for the loss to an insurer following payment of a loss. The Office's subrogation program focuses on the early identification of claims involving third party liability, facilitates timely resolution of these cases, and maximizes recovery of claims payments from third parties. The amount SORM collects through subrogation is limited to the amount that has been paid in workers' compensation benefits on the case in question, and the amount available through third party insurance policies or other payment sources. SORM seeks to identify all workers' compensation claims with subrogation potential in order to maximize subrogation recoveries from third parties.

Claims Operations

Provision of an adequate staff to adjust claims and retention of experienced staff claims adjusters continue to be significant issues with SORM that impacts claims costs and cost containment. It is essential that SORM employs an adequate number of claims adjusters, claims assistants and claims supervisors to handle claims in the most efficient and effective manner in order to control costs to the state employees workers' compensation claim fund. The workers' compensation insurance industry standard for the ratio of claims per adjuster is 125 - 150 claims for lost time adjusters and 300 - 350 claims for medical only adjusters. SORM's claims to adjuster ratio in fiscal year 2002 was 284 claims per lost time adjuster and 508 claims per fast track (medical only) adjuster. However, the 284 claims per lost time adjuster includes approximately 59 claims per

adjuster are in an “inactive” claims status with an open reserve, and receive minimal scrutiny. As a result of an inadequate number of adjusters, the State’s workers’ compensation claim fund is currently being adversely impacted. SORM has included a request for 11 additional claims staff positions in the Office’s Legislative Appropriations Request for the 2004 - 2005 Biennium.

The turnover rate for SORM’s claims operations staff has been substantially reduced over the past three years. In fiscal year 2000, the rate of turnover was 15.2% for the claims operations and medical cost containment monitoring staff. However, the rate in fiscal year 2000 was reduced to 6.6%. In order to accomplish these reductions, the Office made significant organizational changes and modifications to internal operations, and increased salary levels to attract and retain a highly qualified and experienced claims staff.

With the high volume of claims handled by SORM, reducing the medical cost of claims has become a major priority at SORM. This change in philosophy will help to ensure that medical claims that have not received the priority they deserve in the past do receive the required attention in the future. This is not an overnight solution, but it is a step in the right direction as the Office evaluates claims and realigns priorities with specific claims-handling strategies in mind.

Claims Operations formed a new claims team, the Medical Management Review Team, in August, 2002. The team is currently made up of a supervisor/senior adjuster, registered nurse, and skilled adjusters with a high level of medical knowledge. The Office plans to add additional trained nurses to the team in fiscal year 2003. By uniting experienced adjusters and trained nurses, SORM hopes to target those claims which have significant medical activity but until now have received only minimal scrutiny. This team will identify and handle potential “problem claims” in an effort to eliminate overutilization by certain providers and claimants, and will closely scrutinize claims where claimants are no longer eligible for indemnity benefits but continue to have medical benefit entitlements. The team will look for provider fraud, overutilization of medical treatment, and medical treatment not related to the injury.

Claims Operations also established a Customer Service Call Center in April, 2002. The focus of Call Center personnel is CUSTOMER SERVICE, and the goal is to offer the best assistance at the time of the first call. Prior to implementation of the Call Center, SORM claims adjusters spent an extraordinary amount of time returning phone calls extracted from their voice mail, only to find their voice mail full again. Additionally, they were having difficulty in pro-actively handling and adjusting their claims. State agency claims coordinators, injured state employees, and medical providers often complained that it was difficult to contact their adjusters because they were always on the phone.

The Call Center is staffed by licensed, trainee adjusters who are trained in the administrative functions and issues involved in claims handling. Call Center staff is available to assist callers with the majority of their issues. If the Call Center staff is

unable to assist the caller, the caller is transferred to the handling adjuster, another adjuster on that team, or a member of the Claims Operations supervisory staff. By allowing the Call Center staff to answer most of the questions, the handling adjusters are available more often to assist callers who need their assistance. This also allows them the time needed for pro-active claims handling.

Since implementation of the Call Center, SORM has experienced a reduced number of incoming phone calls. Previously, claims staff received numerous second and third calls from customers in an effort to discuss a problem or claims issue with an adjuster. Since the implementation of the Call Center, the amount of time customers are “on hold” has been significantly reduced. SORM has received numerous favorable comments regarding the implementation of the Call Center. We are continuing to improve our processes in our efforts at SORM to enhance customer service in any manner that we can.

SORM concentrates efforts to improve communications between the SORM adjusting staff and the cost containment vendor’s staff. Adjusters are notified by the cost containment vendor when bills have been submitted for unrelated medical conditions and/or body parts allowing the adjuster to review and file disputes when necessary. The cost containment vendor also notifies the adjuster when there has been more than one year between treatments, which provides adjusters the opportunity to determine the relatedness, reasonableness and necessity of the current treatment. A routine internal audit of SORM’s claims adjusters has also been incorporated to review accuracy, promptness of payments, and adherence to TWCC rules and guidelines.

The Office provides claims adjusting staff with numerous opportunities to attend training programs to increase their knowledge of claims issues, claims adjusting techniques, and medical management techniques. These training programs meet the requirements established by the Texas Department of Insurance for continuing education credits for adjusters.

House Bill 2600

House Bill 2600 passed by the 77th Legislature makes provision for improved medical cost containment and quality control. Several measures contained in the statute that have considerable potential to contain costs and are discussed below.

Article 1 provides for improved regulation of doctors treating within the workers’ compensation system by developing a new regulatory structure, requiring registration and training for certain doctors, and defining sanctions for doctors, carriers and utilization review agents. This article should improve the quality and decrease costs of medical care in the workers’ compensation system. The article also establishes the role and duties of the TWCC Medical Advisor, and creates a Medical Quality Review Panel, which provides medical expertise necessary to review medical practices under the new regulations and sanctions.

Article 2 establishes a framework wherein a new voluntary medical care delivery program might be incorporated into the Texas workers' compensation system. The Article established a Healthcare Network Advisory Committee (HNAC) and charged the Committee to study the feasibility of establishing fee-for-service regional workers' compensation networks in Texas. The purposes of such networks would be to provide better outcomes in workers' compensation for health care, reduced medical costs, faster return to work of injured employees, and increased network participation. The HNAC is reviewing and developing standards of care and report cards for network participants, and is establishing a framework and procedures for operation of the networks.

During fiscal years 2002-2003, the HNAC is conducting the feasibility study. If the concept is deemed feasible, TWCC is required to contract with a network vendor(s) by December 31, 2002 to establish regional workers' compensation networks.. If a network is established, state agencies and SORM are required by HB 2600 to participate in the network. Participation in the network by injured state employees would be voluntary.

The Executive Director of SORM is an appointee of the Governor to the Healthcare Network Advisory Committee. If a regional workers' compensation healthcare network is established, SORM will work with TWCC and HNAC to maximize state agency and state employee participation in the network.

Article 3 of the statute establishes a return to work program. Insurance carriers are required to provide certain return-to-work services to work with employers to provide return to work assistance designed to expedite safe return to work following periods of disability due to job related injuries/illnesses. Getting injured employees back to the workplace can substantially reduce the costs of workers' compensation claims. SORM's risk management specialists work with Texas state agencies to ensure return to work programs are established and implemented.

Article 6 directs TWCC to align fee guidelines and reimbursement methodologies with those used in other health care systems, with modification as necessary for the workers' compensation system. The article also requires TWCC treatment guidelines to be scientifically valid, outcome based and nationally recognized. As of the date of this report, TWCC's adopted fee guidelines, which are based on the medicare rate structure, have not taken effect. Assuming the new fee guidelines are implemented, the potential exists for substantial reductions to occur in medical services provided under the workers' compensation system. SORM anticipates significant savings to accrue from implementation of the new medical-based fee guidelines and outcome-based treatment guidelines.

Article 6 also authorizes the use of generic substitutions for prescription drugs. Treating physicians of injured employees are required to write prescriptions for generics unless brand name drugs are otherwise specified. Article 6 also authorizes treating doctors to prescribe over-the-counter medications, and requires insurance carriers to reimburse for these medications.

Article 6 modifies the medical dispute resolution process by shifting medical disputes regarding necessity of care from TWCC to an Independent Review Organization. These IROs should provide more rapid medical dispute decisions and ensure that disputed care on issues subject to preauthorization are determined by licensed doctors.

Article 14 establishes the risk allocation program for workers' compensation costs of state agencies administered by SORM. The risk allocation program makes state agencies responsible for their own risk management and workers' compensation costs administered by SORM. The article provides incentives for state agencies to operate safely and to improve claims coordination and management. This program is also authorized by House Bill 2976.

SORM is active in working with TWCC, workers' compensation system stakeholders, and state agencies to implement the provisions of HB2600 with the goal of improving care for injured state employees and effectively managing the costs of injuries to the state.

Risk Assessment and Loss Prevention Services

SORM's risk management specialists serve as consultants to state agencies to assist in conducting risk assessments and developing and implementing risk management programs to prevent and control losses. During risk management program reviews and on-site consultations, particular emphasis is placed on policies, programs and procedures that promote workplace safety and employee wellness, accident prevention and loss control. SORM emphasizes visiting and assisting those state agencies experiencing the largest dollar losses and having the highest rates of accidents/injuries. SORM has also increased the number of on-site visits to state agency field offices located throughout the State.

State Agency Training and Education

In fiscal year 2002, the number of classes requested by client agencies for courses covering safety, loss prevention and workers' compensation issues increased by 40% and the number of attendees increased by 70% from the previous fiscal year. SORM offers self study on-line continuing education courses for adjuster license renewal purposes and the Training and Education staff is designing a program that will train, test and fingerprint SORM and client agency staff for the Texas Department of Insurance adjuster license. A New Employee Orientation training module is being developed that will include customer service, workplace violence prevention, hostility management, time and stress management and handling difficult calls. Staff created a Mail Handling Safety course and posters after the post-9/11 anthrax incident and conducted that course for the benefit of 21 state agencies.



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