



Annual Report on Cost Containment

Fiscal Year 2019

October 15, 2019

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I. Introduction

The State Office of Risk Management (Office or SORM) is administratively attached to the Office of the Attorney General and is governed by a five-member Risk Management Board (Board). The Office is charged by law to administer the enterprise risk and insurance management programs, continuity of government operations program, and the self-insured workers' compensation program for the State of Texas. Its mission is 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.

The Office is financed wholly through interagency contracts with other state agencies. The funding program allocates an assessment, similar to a premium, to all participating agencies based on risk profile and other relevant factors identified by the Board.

The State of Texas self-insures for the purposes of workers' compensation. Excluding workers' compensation, there are no other statutory retention programs. The Office administers workers' compensation claims for state entities identified in Labor Code Chapter 501. There are also situations in which certain non-state employees are covered by the workers' compensation through SORM.

The Texas A&M University System, University of Texas System, and the Texas Department of Transportation are statutorily exempted from the Office's workers' compensation program and operate their own individual workers' compensation programs.

HB1 (86R) 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 is the cost containment report for fiscal year 2019 (FY19).

Quick Facts about the Program

The state employee workers' compensation program covers:

- 143 state agencies and institutions of higher education
- 122 Community Supervision and Correction Departments
- Windham School District within the Department of Criminal Justice
- Encompasses approximately 190,000 individual employees

II. Summary of Cost Containment Savings

One of SORM's core statutory missions is to provide covered injured state employees with access to prompt, high-quality medical care within the framework established by the Texas Workers' Compensation Act. The Office must also ensure it provides appropriate income benefits and medical benefits in a manner that is timely and cost-effective. The cost containment savings can be determined by the low cost per \$100 of state payroll and the low cost per covered employee.

FY 19 Costs
<ul style="list-style-type: none">• 50¢ per \$100 of state payroll• \$225.93 per covered employee

III. Cost Containment Measures

The Texas Department of Insurance, Division of Workers' Compensation (TDI-DWC) assesses the performance of workers' compensation insurers during Performance Based Oversight (PBO) assessments at least biennially. The Office is consistently placed in the high performer category by the TDI-DWC. The Office works to reduce overall medical and indemnity costs through improved claim handling practices, education, and training. The Office continuously evaluates its policies and processes and implements change as needed to meet internal and external needs.

A. Medical Bill Audits

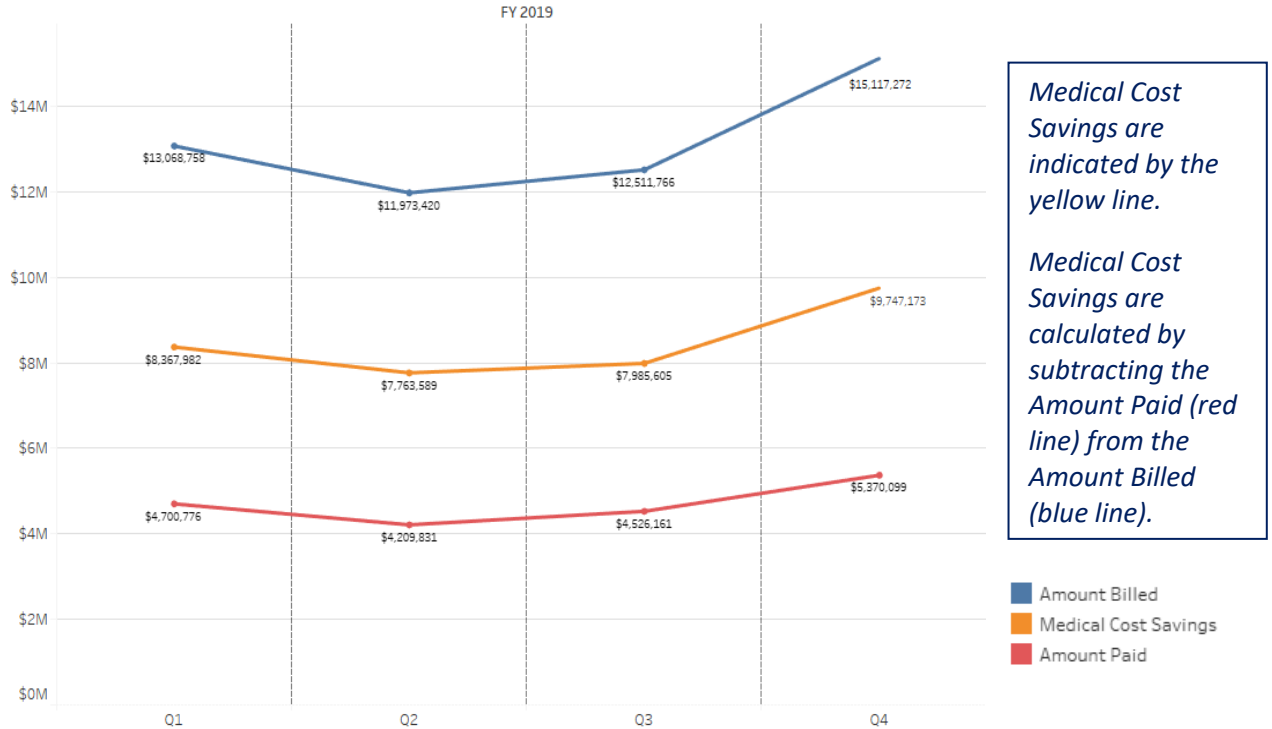
Workers' compensation benefits include medically necessary treatment related to the compensable injury. TDI-DWC sets the amount of reimbursement for health care treatment in non-network claims.

The Office has a medical cost containment contract to reprice bills submitted by health care providers and reduce billed amounts to the maximum allowable rates under the appropriate fee schedule. Bills are also reviewed for medical necessity and relatedness to the compensable injury. The charges reduced because of such reviews represent the savings from billed amounts. In the case of the state's self-insured workers' compensation program administered by SORM, these savings accrue to the benefit of the state's taxpayers.

The Office's Medical Quality Assurance (MQA) unit is responsible for reviewing medical bills that are re-priced by SORM's medical bill audit vendor before payment is issued. The MQA unit verifies the accuracy of the proposed payment, ensures medical treatment is related to the compensable injury, confirms services have received preauthorization approval when required, and confirms the bill was timely filed.

The amount of savings realized through the application of the medical fee guidelines and network reductions for FY 19 are shown in the following chart:

FY19 Medical Cost Savings



Note: When dates of service for health care treatment occur in August, SORM may not realize the savings until billed by the health care provider in the following fiscal year. Therefore, the first quarter of every fiscal year may appear to have slightly inflated savings and, conversely, the fourth quarter every fiscal year may appear to have slightly deflated savings.

B. Workers’ Compensation Health Care Network

The Office has a medical cost containment contract with a certified workers’ compensation health care network to provide state employees with access to health care with primary and specialty medical providers, who are familiar with workers’ compensation injuries. The amount of reimbursement for services provided by a network provider is determined by the contract between the network and the provider.

C. Preauthorization of Medical Services

The Texas Workers’ Compensation Act and the rules adopted by the TDI-DWC require health care providers to obtain preauthorization of certain medical procedures prior to services being provided. The health care services must be prospectively reviewed and preauthorized as medically necessary before the service is provided to an injured employee. The preauthorization guidelines can vary between non-network and network claims.

The Office also has a medical cost containment contract for utilization review services related to preauthorization requests. Preauthorization savings represent the avoidance of expenses related to unnecessary procedures or services prior to being provided and billed. It should be noted that health care not previously preauthorized might be approved later if there is a change in medical diagnoses, documentation is provided to support the request, or an alternative treatment is approved. Under these circumstances “savings” attributable to preauthorization will not accurately reflect the true cost of treatment.

The following chart displays the FY19 cost-avoidance estimates related to preauthorization:

Preauthorization of Medical Services Cost Containment			
Network Status	Requested Cost*	Approved Cost**	Cost Avoidance
Network	\$ 6,390,924	\$4,335,872	\$2,055,052
Non-Network	\$ 5,984,314	\$4,356,274	\$1,628,080
	\$12,375,238	\$8,692,146	\$3,683,132

*This represents the value of requested services processed through preauthorization.

**This represents the value of requested services that were authorized through preauthorization.

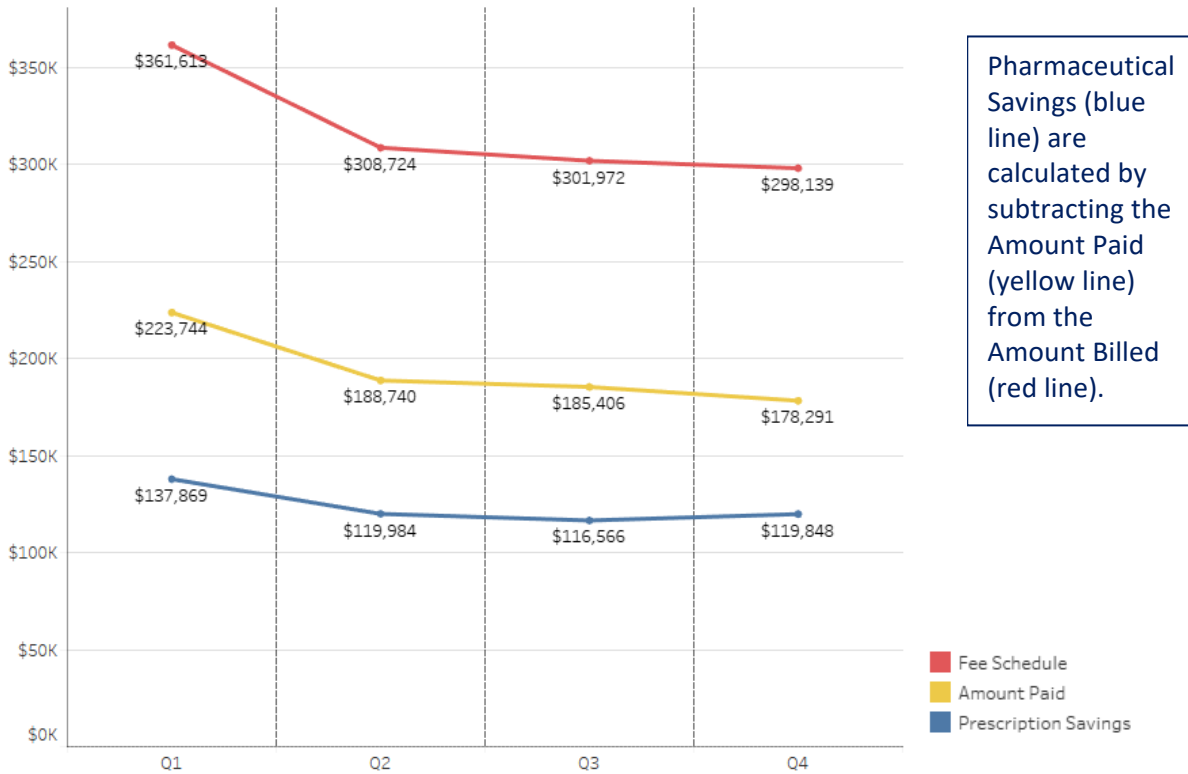
D. Pharmacy Benefits Management

Workers’ compensation benefits include medically necessary prescription drugs and over-the-counter medication. The reimbursement fees for prescription drugs are set by the TDI-DWC.

The Office has a medical cost containment contract with a pharmacy benefit manager (PBM), to ensure cost-savings and prompt service for medically necessary medications. The PBM provides a prescription card to all workers’ compensation claimants. Participation in this program is voluntary for injured workers. When the prescription card is presented at a participating pharmacy, the pharmacy can quickly provide the necessary medication to the injured worker.

The Office receives a discount below the pharmaceutical fee guideline on the medication obtained through the PBM. The following chart shows the FY2019 savings from the voluntary PBM program:

FY19 PBM Cost Savings



E. Subrogation and Subsequent Injury Fund Recoveries

Subrogation reduces costs in two distinct ways. First, if a workers’ compensation claim is based on an injury where a third party’s negligence was the primary cause of the injury, SORM can assert a subrogation lien against the third-party’s liability carrier or payer for the amount that has been paid in workers’ compensation benefits on the claim. Any monies recovered through subrogation are used for the payment of workers’ compensation benefits to state employees.

An additional feature of a subrogation lien is the avoidance of future expenses in an amount equal to the injured worker’s direct recovery from the third-party settlement that exceeds the workers’ compensation lien. Workers’ compensation insurance carriers have a statutory right to treat the additional settlement amount as an offset against potential future benefits that may be sought by the claimant. Consequently, until the claimant exhausts the third-party settlement, SORM does not have to pay future benefits.

The subsequent injury fund (SIF) is a dedicated account in the general revenue fund that is used to reimburse an insurance carrier when it has made an overpayment of benefits based on a decision or order from the TDI-DWC and the decision or order is later reversed or modified. This type of reimbursement can remove either all, or a large portion of, the expenditures the Office made in certain disputed claims.

	FY19Q1	FY19Q2	FY19Q3	FY19Q4	Totals
Restitution	\$765	\$0	\$4,696	\$6	\$5,466
SIF	\$30,911	\$31,422	\$0	\$0	\$62,333
Subrogation	\$94,299	\$214,779	\$102,019	\$44,162	\$455,259
Grand Total	\$125,975	\$246,201	\$106,715	\$42,162	\$523,058

F. Timely Payment of Medical and Pharmacy Bills

The Office must take final action on medical and pharmacy bills no later than the 45th day after the complete bill was received and must take final action on a request for reconsideration no later than 30 days after the request was received. If the Office does not comply with the payment deadlines, it must pay interest to the health care provider and could be subject to an administrative fine.

The following chart shows the average turnaround time to audit medical and pharmacy bills by SORM’s medical cost containment vendor in FY 19:

FY 19 Average Turnaround	
Initial Audits	15 Days
Appeal Audits	19 Days
PBM Audits	9 Days

G. Coordination and Outreach to Employers

When SORM receives notice of a claim, an email is automatically generated to the employer’s claims coordinator. This email explains the information the employer needs to provide to SORM, which includes information required to accurately calculate an average weekly wage. Paying timely and accurate indemnity benefits reduces cost by eliminating interest on late payments, reducing and/or avoiding potentially non-recoupable overpayments, and eliminates potential administrative penalties.

H. Timely Payment of Medical and Indemnity Benefits

Labor Code Section 402.075 requires TDI-DWC to assess the performance of insurance carriers during Performance Based Oversight (PBO) assessments at least biennially. A PBO measures the timely payment of indemnity benefits and medical billing and the transmission of electronic data to TDI-DWC. In the past, SORM has been identified as a high performer during PBO assessments in 2009, 2010, 2011, 2012, 2014, 2016, and 2018.

I. Recoupment of Indemnity Overpayments

The Office tracks overpayment of indemnity information internally. If SORM’s Indemnity Quality Assurance unit (IQA) identifies an overpayment of indemnity benefits that are recoupable from future indemnity benefits, IQA sends a recommendation on recoupment to the assigned adjuster. Indemnity recoupment must comply with the TDI-DWC’s statutes

and rules.

J. Impairment Ratings Reviews

Cost savings are also realized from the review and dispute of incorrect impairment ratings. Under the Workers' Compensation Act, injured employees may be entitled to impairment income benefits (IIBs) determined by a whole-body impairment rating assigned to the injured employee by an examining physician. Both the injured employee and the insurance carrier have the right to dispute an impairment rating. A review of questionable impairment ratings ensures the indemnity benefits paid to injured state employee are accurate and can reduce the overpayment of benefits.

K. Peer Reviews and Required Medical Examinations

The Office utilizes peer reviews of medical services and pharmaceuticals and required medical examinations of injured workers to verify the medical necessity and reasonableness of medical treatments and prescribed pharmaceuticals; to determine whether such treatments and prescriptions are related to compensable injuries; and to ensure that the injured employee receives quality medical care.

These services can be utilized when a determination requires medical expertise beyond what may be expected of a licensed adjuster. The opinions obtained form the basis of actions taken the by SORM and establish the factual and medical evidence necessary to defend SORM's determinations through the dispute resolution process. Due to these opinions, more appropriate care is provided to injured workers, while delivering savings through the elimination of unnecessary care.

L. Fraud Detection and Investigation

The Office employs investigators who examine potential fraud and abuse as a part of SORM's workers' compensation fraud detection program. The Office investigates both individual and medical provider fraud; actively pursuing administrative and criminal prosecution against those who attempt to receive monies and benefits to which they are not entitled.

M. Risk Assessment and Loss Prevention Services

The Office's risk management specialists serve as consultants to state agencies, conduct risk assessments, and assist in developing and implementing risk management programs to prevent and control losses.

The *Incident Rate of Injuries and Illnesses per 100 Covered Full-Time State Employees* provides an objective measure of the results of implementation of covered state entities risk management plans and the results of SORM's risk management program, related specifically to occupational injury. The injury frequency rate is important, as it reflects not only the effectiveness of

FY 19 Injury Frequency Rate
3.23%

SORM's risk management program in identifying risks to covered state entities, but also reflects covered state entities actions regarding implementation of recommendations to control and correct the conditions that lead to injured state employees.

IV. Proposed Additional Measures

A. Risk Management Program Reviews

The Office's Enterprise Risk Management Division uses data analysis in its Risk Management Program Reviews of agencies and institutions of higher education. Utilization of data and comparative analytics will allow SORM's risk managers to allocate and prioritize resources, assisting agencies and institutions of higher education in accordance to need. The Office's goal is to focus on hazards or risks that need to be addressed strategically and proactively to reduce the frequency and severity of workers' compensation claims.

B. Risk Management for State Agencies Guidelines

By statute, the Office is required to develop guidelines that can be used by state entities to develop and implement a comprehensive risk management program to reduce property, liability, and workers' compensation losses. S B 612, (86R) requires SORM to review and update the Risk Management for State Agencies (RMSTA) guidelines no later than September 1, 2020. After the initial revision and adoption of the RMSTA guidelines, SORM is required to review the RMSTA guidelines on a biennial basis.

The Office's goal is to incorporate the ISO 31000 Risk Management Guidelines and Principles (ISO 31000) into the revised RMSTA guidelines. State entities can also utilize the ISO 31000 principles and framework to compare their current risk management practices with internationally recognized standards.

C. Enhanced Reporting

The Office plans to conduct a survey of workers' compensation industry reporting standards, in conjunction with an extensive internal data analysis to better demonstrate SORM's performance. The goal will be able to compare SORM's performance against other private insurance companies to illustrate the savings its operations provide to the State of Texas.