



Annual Report on Cost Containment

Fiscal Year 2020

October 15, 2020

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I. Introduction

House Bill 1, 86th Legislature, RS, requires the Office 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 2020 (FY20).

The State Office of Risk Management (Office) is administratively attached to the Office of the Attorney General and is governed by a five-member Board. The Office is charged by law to administer the enterprise risk and insurance management programs, self-insured workers' compensation program for the State of Texas, and continuity of government operations (COOP) program. 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 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 the state entities identified in Labor Code Chapter 501. There are also situations in which certain non-state employees are covered by workers' compensation through the Office.

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

Quick Facts

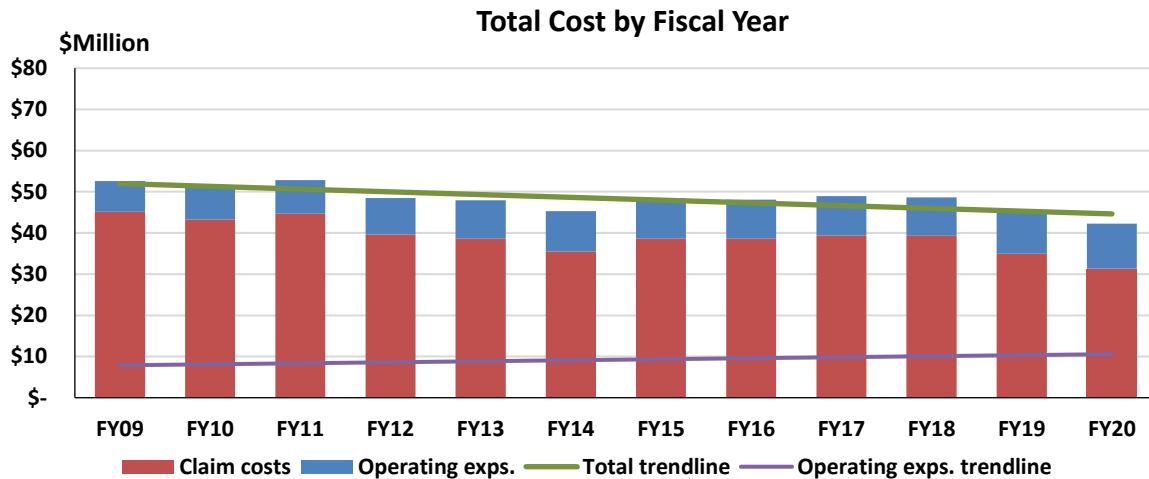
The state employee workers' compensation program covers:

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

II. Cost Containment Strategies

One of the Office'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 following chart shows workers' compensation costs have declined and costs have stabilized:



A. Accident Prevention

The Executive Director of the Office serves as the State Risk Manager and is responsible for supervising the development and administration of a system of risk management for the state. The Office's enterprise risk management program provides risk management services to state agencies, institutions of higher education, and other entities identified by statute. The guidelines adopted by the Board of Directors for a comprehensive risk management program, and the assistance of the Office in implementing such programs, has a direct impact on workers' compensation losses.

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. Senate Bill 612, 86th R.S., requires the Office to review and update the Risk Management for State Agencies (RMSTA) guidelines not later than September 1, 2020. After the initial revision of the RMSTA guidelines, the Office is required to review the guidelines on a biennial basis.

The RMTSA guidelines provide a resource that can be used to train, educate and inform employees on best-practices related to workplace safety. A proactive approach is vital to minimizing injuries, accidents, and controlling workers' compensation costs.

B. Risk Management Program Reviews

The Office employs risk management specialists who review, verify, monitor, and approve risk management programs developed by state entities. A Risk Management Program Review (RMPR) can help a state entity determine the best methods for avoiding/controlling the costs of on-the-job injuries and minimizing lost productivity. The Office also conducts on-site consultations to state entities' physical locations and facilities each fiscal year. If risk exposures are identified during a site visit, the Office provides written recommendations on risk prevention and control measures that

state entities can implement to prevent or reduce claims and losses and tracks resolution efforts. 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. Risk factors will vary depending on the geographic location, types of and diversity in the work being performed, and overall risk profile. For workers' compensation specific risks, the number of employees; hiring, selection, and training practices; and day-to-day activities and job specific requirements can have an impact on the frequency and severity of claims.

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 the Office's risk management program, related specifically to occupational injury. The injury frequency rate is important as it reflects not only the effectiveness of the Office'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.

Injury Frequency

- FY20 – 3.49%
- FY19 – 3.22%
- FY18 – 3.24%
- FY17 – 3.37%

C. Workers' Compensation Assessment Allocation

The costs of the state employees' workers' compensation program are funded with legislatively appropriated funding as well as authority for collected subrogation recoveries. The Office is financed wholly through interagency contracts with other state agencies. The funding program allocates an assessment, like a premium, to all participating entities.

Texas workers' compensation insurance companies typically set the workers' compensation premium rate per \$100 of payroll using industry classifications that are based on the type of business. Loss costs for each classification are intended to cover workers' compensation indemnity and medical benefits and associated expenses. In the private industry, high-risk businesses such as construction, will pay a higher premium per \$100 of payroll than low risk businesses with office workers.

The Office does not use classifications in its assessment allocation program. The workers' compensation assessment allocations are based, in part, on the individual loss experience of the state entity. The fewer accidents a state entity has, the more it potentially saves on its assessment.

The rules for the risk allocation program, 28 TAC Chapter 251, Subchapter E, were adopted to:

- Equitably distribute the cost of funding workers' compensation losses, the cost of administering claims, and the cost of providing risk management services to participating state agencies
 - Encourage the development and implementation of risk management programs and practices designed to minimize occupational injuries and illnesses; protect state property; and provide appropriate safety and health training for all state employees
 - Pool large and small risks to enable catastrophic loss(es) to be spread throughout all participating state agencies
 - Encourage compliance with the Office's regulations, policies, and programs.
-

The effectiveness of the Office’s risk management program can also be seen in the low cost per \$100 of state payroll and the low cost per covered employee:

	Cost Per \$100 of State Payroll	Cost Per Covered Employee
FY20	\$0.45	\$211.12
FY19	\$0.50	\$225.11
FY18	\$0.57	\$252.42
FY17	\$0.55	\$239.29

D. Workers' Compensation Claims Handling Practices

The state employees’ workers’ compensation program provides individual state entities with claims administration and comprehensive claims handling services. The Office also ensures that an injured employee, who suffers a compensable injury in the course and scope of employment, has access to medical care and receives wage replacement (income) benefits.

The Office follows best practices for workers' compensation cost containment. Licensed adjusters manage all aspects of a workers’ compensation claim. When an injury occurs, an adjuster promptly conducts a thorough investigation to determine whether the injured state employee has a compensable work-related injury. The assigned adjuster maintains regular and continued communication with injured employee, health care provider, and employer. An active call center provides additional access to a live person during the Office’s business hours.

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.

E. Medical Cost Containment Services

Medical cost containment provides fiscal responsibility with state funds, minimizes costs to employer state entities and injured employees, and reduces costs associated with workers' compensation losses and claims administration. In FY20, the Office engaged in a formal procurement for medical cost containment services designed to control and reduce the overall medical costs of the state employees’ workers’ compensation program.

On February 1, 2020, the Office transitioned to Sedgwick Claims Management Services, Inc. through its subsidiary York Risk Services Group, Inc. doing business as CareWorks Managed Care Services, Inc. (CareWorks) for the following medical cost containment services:

- Certified workers' compensation health care network
- Utilization review services
- Medical bill review services

On April 28, 2020, the Office executed a multi-year contract with Matrix Healthcare Services, Inc., dba myMatrixx, the incumbent vendor, for pharmacy management benefits. The Office also entered into multiple contracts with vendors that provide peer reviews, impairment rating reviews, and required medical examinations, which can result in workers' compensation claims savings.

F. Workers' Compensation Health Care Network

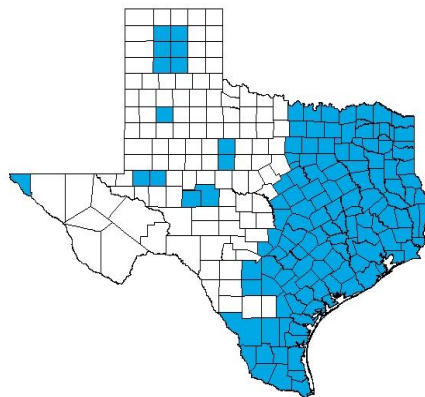
Texas Insurance Code Chapter 1305 requires a workers' compensation network to develop and maintain an ongoing Quality Improvement Program (QIP) designed to objectively and systematically monitor and evaluate the quality and appropriateness of care and services and to pursue opportunities for improvement. The annual QIP must address both the quality of clinical care and the quality of services using factors such as, type of services provided, populations served by the network in terms of age groups, disease or injury categories, special risk status, medical outcomes, and return-to-work outcomes.

The Centers for Medicare & Medicaid Services¹ and the Texas Department of Insurance, Division of Workers' Compensation (TDI-DWC) use value-based measures to evaluate provider and network performance. In its *2020 Workers' Compensation Network Report Card Results*,² TDI-DWC concludes that networks tend to be more cost-efficient than non-network claims based on these factors:

- Initial access to non-emergency care
- Lower hospital utilization
- Lower prices per service
- Better return-to-work and functional outcomes

Certified workers' compensation network service area requirements are established by TDI.³ Injured employees in the CareWorks network service area have access to health care with facilities and primary and specialty medical providers who are familiar with workers' compensation injuries and TDI-DWC billing requirements and required forms. The network provides reasonably necessary medical treatment and services while also controlling medical costs and utilization. Given the statewide scope of the workers' compensation program, in FY20 the CareWorks network was selected to expand available network service area .

CareWorks Service Area Map



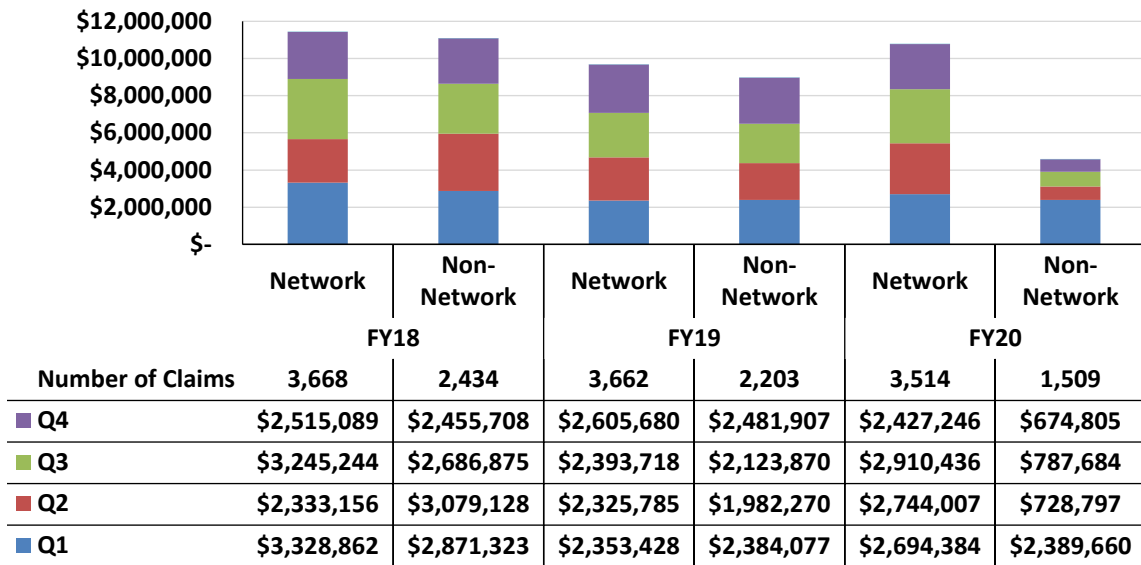
Pursuant to contract, CareWorks is required to utilize non-network claims data to identify counties where expansion of the network's service area is merited. The following chart demonstrates initial reporting for expanded network coverage and reduced non-network costs for FY20:

¹ <https://www.cms.gov/newsroom/fact-sheets/value-based-care-state-medicare-directors-letter>

² <https://www.tdi.texas.gov/reports/wcreg/documents/netrc2020.pdf>

³ <https://www.tdi.texas.gov/wc/wcnet/documents/accessplans.pdf>

Network and Non-Network Costs FY18 - FY20



G. Medical Treatment Guidelines

TDI-DWC has adopted treatment guidelines that should be used as a framework to develop treatment for injured employees. Health care providers must consider care above or below the guidelines consistent with the unique factors associated with an injury. Health care that is provided in accordance with the treatment guidelines is presumed reasonable and reasonably required.

Similarly, a workers' compensation health care network can adopt treatment guidelines and individual treatment protocols. The treatment guidelines and individual treatment protocols must be evidence-based, scientifically valid, and outcome-focused and be designed to reduce inappropriate or unnecessary health care while safeguarding necessary care.

Treatments and services which exceed, or are not included, in the treatment guidelines may require preauthorization.

H. 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 such 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.

CareWorks performs utilization review services related to preauthorization requests. Preauthorization savings represent the avoidance of expenses related to unreasonable or unnecessary procedures or services prior to being provided and billed. It should be noted that health care that was not preauthorized may be approved later if there is a change in medical diagnoses or documentation is provided to support the request or alternative treatment may be approved. Under these circumstances "savings" attributable to preauthorization will not accurately reflect the true cost of treatment.

The cost-avoidance estimates associated with CareWorks utilization review of preauthorization from February 1, 2020 through August 31, 2020 are:

	Network	Non-Network
Requested Cost	\$3,630,562	\$822,423
Approved Cost	\$2,927,921	\$718,911
Cost Avoidance	\$702,641	\$103,512

The cost avoidance resulting from utilization review reported in previous Cost Containment Reports is shown below:

	Requested Cost	Approved Cost	Cost Avoidance
FY19	\$12,375,238	\$8,692,146	\$3,683,132
FY18	\$8,893,606	\$6,088,925	\$2,804,680
FY17	\$8,802,736	\$6,137,300	\$2,739,049

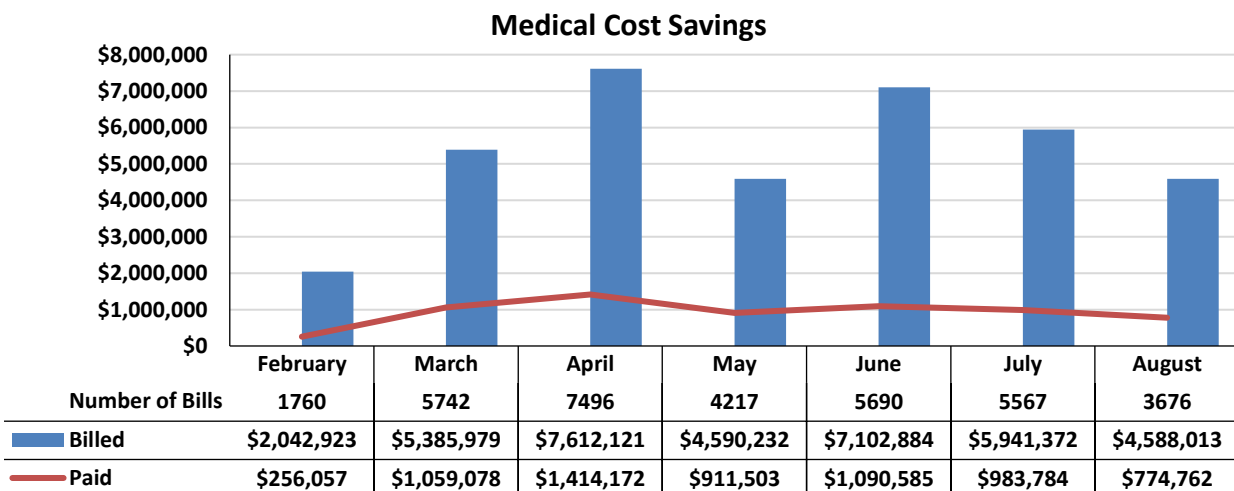
I. TDI-DWC Fee Schedules

Workers' compensation benefits include medically necessary treatment, prescription drugs, and over-the-counter medication related to the compensable injury. TDI-DWC sets the amount of reimbursement for health care treatment and services and prescription drugs in non-network claims. The fee guidelines must be fair and reasonable and designed to ensure the quality of medical care and to achieve effective medical cost control. The amount of reimbursement for health care treatment and services provided by a network provider is determined by the contract between the network and the provider.

J. Medical Bill Review

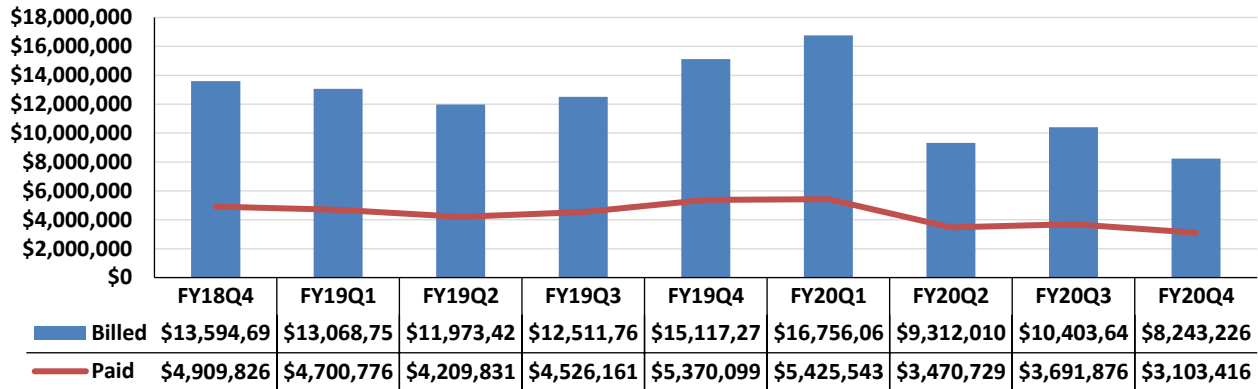
CareWorks audits medical bills submitted by health care providers and reduces billed amounts to the maximum allowable rates under the appropriate fee schedule and/or network contract. Bills are also reviewed for medical necessity and relatedness to the compensable injury. Charges reduced through the application of medical fee guidelines and network reductions represent savings from the billed amounts. In the case of the state employees' workers' compensation program, these savings accrue to the benefit of the state's taxpayers.

The amount of savings realized from February 1, 2020 through August 31, 2020, when CareWorks began to perform medical bill review services, is shown in the following chart:



The medical cost savings resulting from medical bill review services for previous fiscal years is shown below:

Total Medical Cost Savings FY18Q4 - FY20Q4



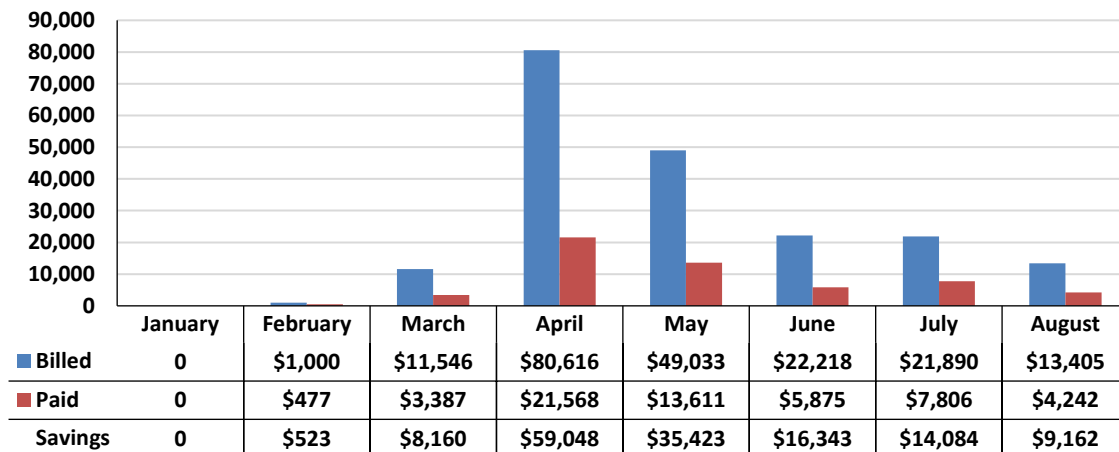
K. Telemedicine and Telehealth Services

The Texas Labor Code and TDI-DWC’s rules allow for billing and reimbursement of certain telemedicine and telehealth services in workers' compensation claims. Injured employees may receive these services regardless of their geographic location. Telemedicine services are those provided by a physician licensed in Texas. Telehealth services are those provided by health care professionals other than physicians.

Telemedicine and telehealth services must be on the list of covered services and providers must include specific information on the CMS-1500. The reimbursement rates follow TDI-DWC’s fee schedules and network reimbursement schedules.

The following chart indicates there is limited utilization of telemedicine and telehealth services in the workers' compensation program administered by the Office. However, the fee schedule and network reductions result in savings:

Telemedicine and Telehealth Cost January 2020 - August 2020

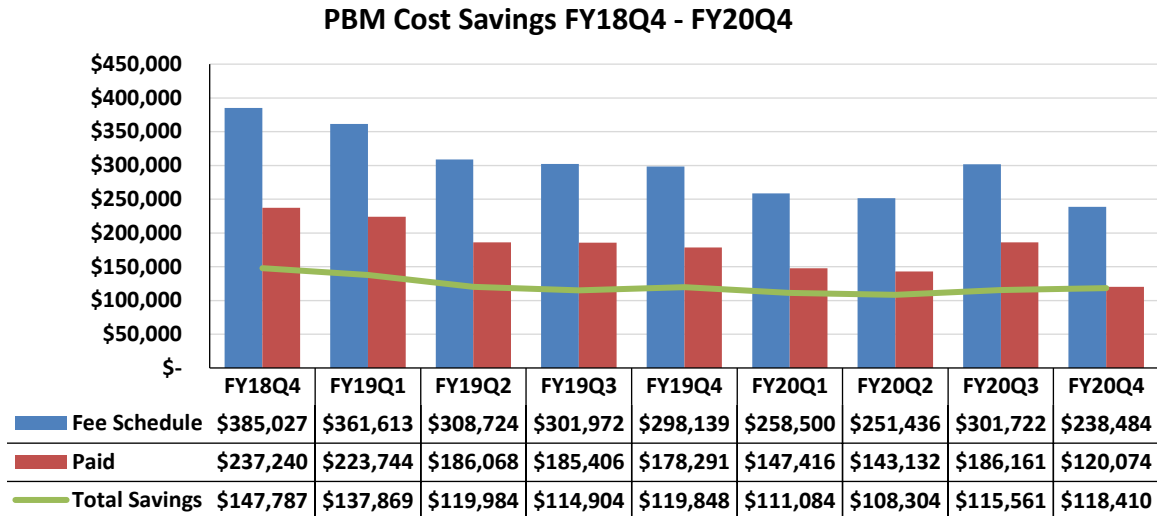


*The Office attributes the increased utilization of telemedicine and telehealth services to the COVID-19 pandemic.

L. Pharmacy Benefits Management

Workers' compensation benefits include medically necessary prescription drugs and over-the-counter medication. 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. Participation in this program is entirely voluntary for injured workers.

The reimbursement fees for prescription drugs are set by TDI-DWC. The Office receives a discount below the pharmaceutical fee guideline on the medication obtained through the PBM. The following chart shows savings from the voluntary PBM program:



M. 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 care and pharmaceuticals utilization; 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 the Office and establish the factual and medical evidence necessary to defend the Office's determinations through the dispute resolution process. As a result of these opinions more appropriate care is provided to injured workers while delivering savings through the elimination of unnecessary care.

N. 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 also reduce overpayment of benefits.

O. 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, the Office 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.

Second, 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, the Office does not have to pay future benefits.

The General Appropriations Act sets the annual target for the Office’s subrogation recoveries. The chart below shows the combined total of recoveries from subrogation, criminal restitution, and the TDI-DWC Subsequent Injury Fund:

	Target	Third-Party Recoveries	Advance Against Future Benefits
FY20	\$567,750	\$813,850	\$3,152,138
FY19	\$567,750	\$523,058	\$1,585,072
FY18	\$567,750	\$695,339	\$1,287,772
FY17	\$567,750	\$633,273	*

*New policies and procedures were implemented in FY18 to ensure comprehensive data is captured and reported regarding subrogation recoveries.

P. Timely Payment of Medical and Indemnity Benefits

The Workers’ Compensation Act requires the Office to provide appropriate income benefits and medical benefits in a manner that is timely and cost-effective. Income benefits must be initiated within certain time frames and notice requirements apply when benefit changes occur. The timeframes for payment or denial of payments for health care services are also set by TDI-DWC. Compliance with these deadlines is important to avoid unnecessary delay in providing benefits to a claimant. The Office must also pay interest if an income benefit or medical bill payment is late. Failure to comply with payment deadlines also subjects the Office to administrative fines.

Labor Code Section 402.075 requires TDI-DWC to assess the performance of insurance carriers during Performance Based Oversight (PBO) assessments at least biennially. PBO measures the timely payment of indemnity benefits and medical billing and the transmission of electronic data to TDI-DWC.

The Office has been identified as a high performer during PBO assessments in 2009, 2010, 2011, 2012, 2014, 2016, 2018, and 2019.

Q. Recoupment of Indemnity Overpayments

The Office tracks overpayment of indemnity information internally. If the Office’s Indemnity Quality Assurance unit (IQA) identifies an overpayment of indemnity that can be recouped 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.

R. Fraud Detection and Investigation

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

III. Proposed Additional Cost Containment Measures

A. Risk Management Information System

In the 86th R.S., the Office received authorization to implement a comprehensive, configurable, and cloud-enabled risk management information system (RMIS) to modernize its technological infrastructure and integrate its statutory programs - enterprise risk and insurance management, workers' compensation claims administration, and COOP planning. The Office contracted with Origami Risk, LLC, on September 16, 2020, for a RMIS that will, among other features, continuously update relational data and provide real-time information on workers' compensation claims.

Claims analysis is a crucial component to any effective workers' compensation claims management program. Access to detailed, up-to-date, comprehensive data on losses should increase the ability to proactively address risk by comparing claims, assessing severity, and making cause and effect correlations.

Workers' compensation claims activities can be streamlined to improve adjusters' productivity levels, compliance with regulatory reporting requirements, and cut claims costs. State entities will have the ability to report injuries 24-hour a day. The RMIS can easily transmit claims activity data to and from external sources; compare claims to drive decision making; and deploy rules-based decision-making tools to automate clerical activities that keep the claims process moving.

The claims management module of a RMIS provides adjusters with automated access to forms, rates, rules, and regulations to streamline their adjudication process. Built-in compliance rules evaluate claims activity to automatically fill out the correct document from a library of forms and letters of correspondence. An indemnity benefits rules engine further evaluates claims to calculate average weekly wage (AWW) and indemnity benefits. Furthermore, adjusters can have a search engine that provides access federal and state laws, regulations, and rates.

The RMIS can integrate with multiple third-party systems such as medical cost containment providers, human resource systems, and accounting and payroll applications. Integration can also allow adjusters to easily utilize the Official Disability Guidelines (ODG) on medical treatment and return-to-work to benchmark outcomes in workers' compensation claims. ODG's Reserve Calculator is a statistical modeling program that incorporates unique factors that may increase claims costs. Adjusters can use risk levels provided by the ODG Reserve Calculator to specifically address high risk claims as well as claims that fall outside the ODG's treatment guidelines, costs, and return-to-work standards.

B. Workers' Compensation Network Providers

The Office and CareWorks can study the feasibility of using data on provider types and out-of-network referrals to identify provider types and specialties that should be added to or included in the network. Potentially, CareWorks could also use network provider utilization data to identify lower-performing, higher-cost providers who may need to change behavior in order to create quality, efficient, and effective care.