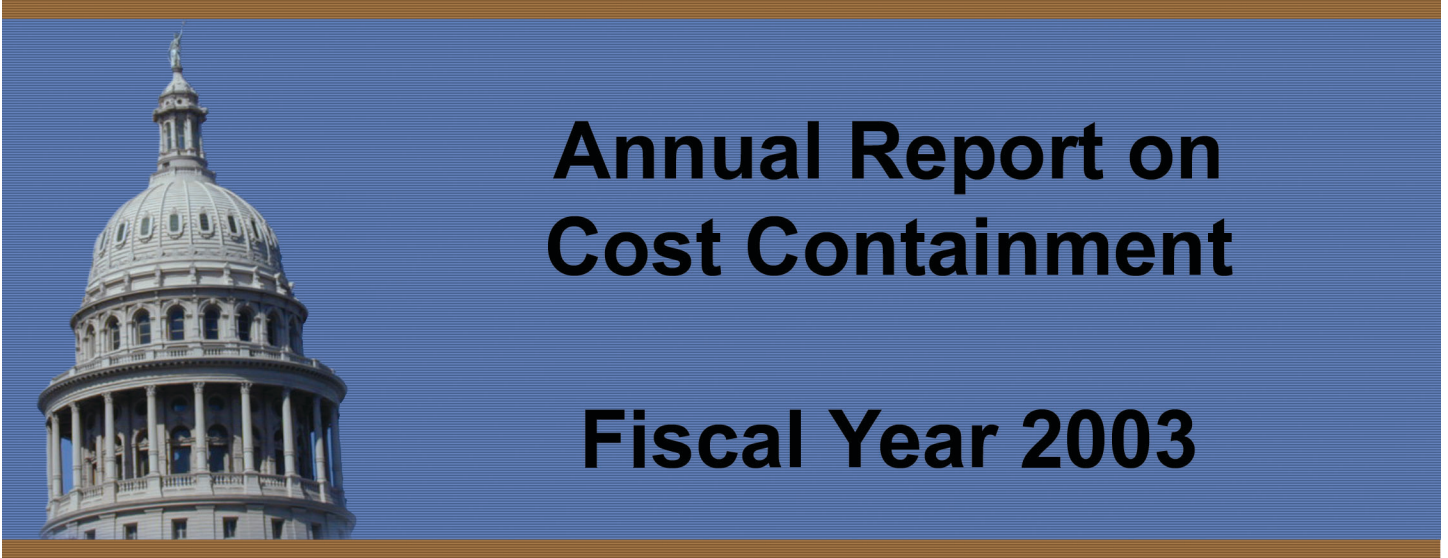


STATE OFFICE *of* RISK MANAGEMENT



**Annual Report on
Cost Containment**

Fiscal Year 2003

OCTOBER 15, 2003

Introduction

The State Office of Risk Management (Office) administers the workers' compensation program for state employees and the state risk management program for client agencies. 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.

House Bill 1, 78th Legislature, Regular Session 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 document is the report on cost containment for fiscal year 2003.

Summary of Cost Containment Savings: Fiscal Year 2003

During fiscal year 2003, cash basis claim expenditures totaled \$70 million, of which medical expenditures accounted for \$42 million. The Office's cost containment measures in fiscal year 2003 resulted in savings of more than \$52 million for the workers' compensation claims fund and Texas taxpayers. A breakdown by amount for fiscal years 2001 through 2003 is provided below.

SUMMARY OF COST CONTAINMENT SAVINGS

<u>STRATEGY</u>	<u>2001 SAVINGS</u>	<u>2002 SAVINGS</u>	<u>2003 SAVINGS</u>
Total Medical Bill Audit Savings	51,837,366	60,261,042	68,554,645
Duplicate Bill Savings	(19,435,075)	(17,670,569)	(19,277,164)
Net Medical Bill Audit Savings	32,402,292	42,590,473	49,277,481
PPO Savings	527,085	491,142	325,248
Pre-Authorization of Medical Services	3,204,126*	1,434,625*	2,083,739*
Subrogation Recovery	<u>898,077</u>	<u>252,689</u>	<u>917,175</u>
TOTAL COST CONTAINMENT SAVINGS	\$37,031,580	\$44,768,929	\$52,603,643

** Cost of procedures not performed at time of request, as estimated by the cost containment vendor. (See explanation in "Pre-authorization of Medical Services" text below.)*

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 The Office during fiscal year 2003.

Medical Bill Audit

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 The Office, the savings accrue to the benefit of state taxpayers.

The Office's medical cost containment vendor audited 203,290 medical bills during fiscal year 2003. These bills were reviewed for medical necessity, relatedness and compliance with medical fee guidelines. The agency's directive to the cost containment vendor was to utilize every possible measure to ensure that medical bills for injured state workers were thoroughly evaluated for these factors. The Office augmented the medical cost containment vendor's services with its own medical bill quality control staff.

Pre-Authorization 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. The Office is working with the cost containment vendor to develop a more accurate methodology for reporting preauthorization savings.

Peer Reviews and Required Medical Exams

The Office adjusters increased their 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. There is a cost associated with the increased use of these services, however these services have significantly enhanced the

Office's medical cost containment strategies. Unnecessary and unrelated medical services that were previously paid are now identified and payments are denied. This enables adjusters to successfully defend the positions The Office has taken in those denials through the dispute resolution process. Therefore, these Peer Reviews and Required Medical Examinations are important elements of The Office's overall cost containment efforts. The Office is seeking additional ancillary medical services to further enhance cost containment efforts and strategies.

Preferred Provider Organizations

Through the cost containment contract, The Office 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, The Office receives a discount below the Texas Workers' Compensation Pharmaceutical Fee Guideline. Participation in this program is voluntary for claimants. The Office 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 The Office. Participation in this program is also voluntary for claimants. The Office will continue to explore the potential for expanded PPO access in the future to increase savings.

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. The Office'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.

The 1000 hours of case management services provided in the current cost containment contract is not sufficient to meet the Office's caseload needs. As a result, the Office has included case management in a Request For Proposals for Ancillary Medical Services to ensure that these services are available to adjusters as they are required. The Office has

also developed a Request For Proposals for Vocational Rehabilitation Services in an effort to increase the return to work of injured employees through early intervention in those cases where the potential exists for entitlement to supplemental income benefits (SIBS). This area was not previously addressed in the Office's medical cost containment strategy. It is anticipated that the successful use of Vocational Rehabilitation Services early on in these claims will significantly reduce the state's exposure to SIBS.

Review of Impairment Ratings

Cost savings often are realized from the review and dispute of incorrect 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. The Office 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

The Office employs two full-time staff members to investigate potential fraud and abuse as a part of the Office's workers' compensation fraud detection program. The Office investigates both claimant and medical provider fraud. Additionally, the Office has formed an internal committee consisting of representatives from Claims Operations, Medical Cost Containment, Information Resources and investigative staff in an effort to more readily identify trends and potential abuse and/or fraud by parties in the system. The Office's Information Resources Division has initiated development of a Risk Management Information System which will incorporate internal computer programs to gather data and assist with identifying 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 The Office 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. The Office seeks to identify all workers' compensation claims with subrogation potential in order to maximize subrogation recoveries from third parties. The Office has continued to re-design and expand efforts in this area to increase reimbursement amounts collected.

Claims Operations

Provision of an adequate staff to adjust claims and retention of experienced staff claims adjusters continue to be significant issues for the Office that impacts claims costs and medical cost containment. It is essential that the Office employs an adequate number of qualified and experienced 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. The Office's claims to adjuster ratio in fiscal year 2003 was 197 claims per lost time adjuster and 405 claims per fast track (medical only) adjuster.

The turnover rate for the Office's claims operations staff was substantially reduced during the period 2000 - 2002 and has remained at approximately the same level in 2003. With the high volume of claims handled by the Office, reducing the medical cost of claims has become a major priority. 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.

The Office's Claims Operations Division 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 added additional medically trained personnel to the team in fiscal year 2003. By uniting experienced adjusters and trained nurses, The Office has targeted those claims which have significant medical activity but until recently only received minimal scrutiny. This team identifies and handles potential "problem claims" which has resulted in eliminating some of overutilization of medical treatment and services by certain providers and claimants. The team provides ongoing scrutiny of claims where claimants are no longer eligible for indemnity benefits but continue to have medical benefit entitlements. The team identifies provider fraud, overutilization of

medical treatment, and medical treatment not related to the injury and takes action to eliminate it.

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, The Office 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, the Office has experienced a reduced number of incoming phone calls and the amount of time customers are "on hold" has been significantly reduced. The Office receives numerous favorable comments regarding the Call Center. A by-product of the Call Center Operation has been that the trainee adjusters have developed the adjusting skills necessary to handle "medical only" (fast track) claims. The team is currently handling approximately 700 claims and is projected to handle 2000 by December 2003. This has had the net result of using previous fast track adjusters for lost time claims adjusting and has favorably impacted the workload of other adjusters in the agency. The Office continues to improve processes to enhance customer service.

The Office has improved communications between the Office 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 six months between treatments, which provides adjusters the opportunity to determine the relatedness, reasonableness and necessity of the current treatment. A routine internal audit of the Office's claims adjusting activities 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.

Risk Assessment and Loss Prevention Services

The Office'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. The Office emphasizes visiting and assisting those state agencies experiencing the largest dollar losses and having the highest rates of accidents/injuries. The Office has also increased the number of on-site visits to state agency field offices located throughout the State.



300 W. 15th Street, Austin, Texas 78701
P.O. Box 13777, Austin, Texas 78711-3777
(512) 475-1440, FAX (512) 472-0234
www.sorm.state.tx.us