

**ANALYSIS OF CHANGES TO THE MONTANA MEDICAL FEE
SCHEDULE TO BE EFFECTIVE JANUARY 1, 2011
AS PROPOSED ON NOVEMBER 12, 2010**

NCCI estimates that revising the workers compensation (WC) medical fee schedules, as proposed by the Montana Department of Labor and Industry-Employment Relations (ERD) on November 12, 2010, would result in an impact of -1.2% to -1.5% (-\$5.3M to -\$6.7M) on Montana's overall workers compensation system costs.

Note: The 2011 Medicare values for physician fees and hospital inpatient fees are available and are included in NCCI's estimate of the impact due to the physician fee schedule changes and the hospital inpatient fee schedule changes, respectively. However, at the time of this analysis, the 2011 Medicare values for hospital outpatient and ambulatory surgical centers (ASC) are not yet available. The cost impact of these proposed fee changes cannot be finalized until the 2011 values are published. NCCI will produce a revised estimate once the 2011 values are available.

Summary of Proposed Changes

The Montana Department of Labor & Industry – Employment Relations (ERD) proposes to revise the current Montana WC maximum allowable reimbursements (MAR) for physicians, hospitals, and ASC to be based on 2011 Medicare relative values with the following additional changes:

- The conversion factors (CF) for the physician fee schedule are reduced from \$65.28 to \$59.81 for services other than anesthesia and from \$60.97 to \$55.12 for anesthesia services. The proposed schedule is based on Medicare's 2011 Resource Based Relative Value Scale (RBRVS) and also includes Medicare's Geographic Practice Cost Index (GPCI) adjustment in the calculation of the MAR. Currently, the physician fee schedule is based on Medicare's 2010 RBRVS and does not include the GPCI adjustment.
- The CF for hospital outpatient services is reduced from \$105.00 to \$102.40. Both the current and proposed hospital outpatient fee schedule is based on Medicare's Hospital Outpatient Prospective Payment System (OPPS). Medicare's OPPS system is based on Ambulatory Payment Classification (APC). This system classifies cases into groups according to procedures which are expected to have similar resource usage.
- The CF of the ASC fee schedule is reduced from \$79.00 to \$76.80. Both the current and proposed ASC fee schedules are 75% of the corresponding Montana's outpatient hospital fee schedule.
- Implantable devices will no longer be reimbursed separately under the proposed hospital outpatient and ASC fee schedules. Currently, for any implantable device that costs more than \$500, a hospital is entitled to separate reimbursement for the implant which is in addition to the full APC payment.
- The base rate for the hospital inpatient fee schedule is increased from \$7,735 to \$8,091. Both the current and proposed Montana hospital inpatient fee schedules are based on Medicare's Acute Inpatient Prospective Payment System (IPPS). Implantable devices

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will no longer be reimbursed separately. Currently, for any implantable device that costs more than \$10,000, a hospital is entitled to separate reimbursement for the implant which is in addition to the full Medicare Severity Diagnosis Related Group (MS-DRG) payment.

Actuarial Analysis

Physician Fee Schedule

NCCI's methodology assumes that the difference between the current and proposed MAR for each medical procedure is a reasonable estimate of the actual difference in costs due to the changes in reimbursements to the Montana medical fee schedule.

MARs under the current and proposed fee schedules were calculated as follows:

$$\text{Current MAR} = \{(\text{Work RVU}) + (\text{PE RVU}) + (\text{MP RVU})\} \\ \times \text{Montana 2010 Conversion Factor}$$

$$\text{Proposed MAR} = \{[(\text{Work RVU}) \times \text{GPCI}_{\text{Work}}] + (\text{PE RVU} \times \text{GPCI}_{\text{PE}}) + \\ (\text{MP RVU} \times \text{GPCI}_{\text{MP}})\} \times \text{Montana 2011 Conversion Factor}$$

Where:RVU = Relative Value Unit for Physicians,
PE = Practice Expense
MP = Medical Malpractice Insurance

Note, current RVUs are based on the Medicare 2010 RBRVS (published in January 2010) and the proposed RVUs are based on the Medicare 2011 RBRVS (published in November, 2010).

GPCIs measure the resource cost differences by geographic area in the three components of the fee schedule—physician work, practice expenses (PE) (such as employee wages, rents, and medical equipment and supplies) and malpractice insurance (MP).

The current and proposed reimbursement for each procedure is calculated by multiplying the current and proposed MAR by the number of occurrences for that procedure, obtained from detailed Montana medical transaction data¹.

The estimated impact on costs subject to the physician fee schedule is the ratio of the total costs of procedures under the proposed physician fee schedule to the total costs of procedures under the current physician fee schedule. The direct impact on physician costs of the fee schedule changes is -1.8%.

¹ Based on the combined Montana workers compensation data licensed to NCCI and supplemental data obtained, for service year 2008. The carriers whose data is included in this analysis represent over 80% of Montana's WC market share.

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For those procedures in which the fee schedule maximum was reduced, the savings were adjusted to account for the anticipated increases in volume and shifts in the mix of services that will likely offset some of the reduction in fees. The magnitude of this adjustment is based on an analysis performed by the Centers for Medicare and Medicaid Services, which suggests that an increase in the volume and intensity of services is associated with a reduction in fee schedule reimbursement rates (refer to *Physician Volume and Intensity Response* on the CMS Web site at <http://www.cms.hhs.gov/ActuarialStudies/downloads/PhysicianResponse.pdf>). This study suggests that any savings due to revising the schedule will be offset by 30%-50%. **In our analysis, a range of 20% to 40% was used** (based on actuarial judgment). The selected offset was reduced because NCCI expects less impact due to shifts in volume and intensity of services. Montana's fees have been based on Medicare based fee schedules for all types of medical services since 2008 and providers have adjusted to the fee schedule structure. In addition, the stability and comprehensiveness of Montana's medical fee schedules would lessen the incentives to shift place of service. No adjustment was made for physicians' anesthesia or surgical procedures because we assume these procedures do not incur an increase in volume and intensity of services due to a reduction in the reimbursement level.

The estimated impacts by service category including an offset for anticipated shifts in volume and intensity are shown below.

Service Category	Cost Distribution¹	Impact (20% Offset)	Impact (40% Offset)
Anesthesia	5.1%	-9.6%	-9.6%
Surgery	29.4%	-1.9%	-1.9%
Radiology	19.8%	+0.3%	+0.4%
Pathology and Laboratory	0.1%	+2.0%	+2.1%
Medicine	23.5%	-0.8%	-0.4%
Evaluation & Management	22.1%	-2.0%	-1.5%
Impact on Physician Costs	100.0%	-1.6%	-1.4%

The impact on physician costs is then multiplied by the Montana percentage of medical costs that are subject to the physician fee schedule (36.7%¹) to arrive at an impact on medical costs in Montana. The resulting impacts on medical costs are then multiplied by the percentage of Montana benefit costs that are medical costs (71.5%²) to yield impacts on Montana's overall workers compensation system costs. **NCCI estimates that revising the physician fee schedule would result in a decrease of 0.4% (-\$1.8M) on Montana's overall workers compensation system costs.**

¹ Based on the combined Montana workers compensation data licensed to NCCI and supplemental data obtained, for service year 2008. The carriers whose data is included in this analysis represent over 80% of Montana's WC market share.

² Based on Policy years 2005-2007 Financial Call data projected to 1/1/2011.

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ASC and Hospital Outpatient Schedules

Hospital Outpatient:

The current Montana CF for hospital outpatient is \$105. The proposed CF is \$102.40.

As noted above, the 2011 Medicare outpatient schedule is not currently available. Therefore, the direct impact on hospital outpatient costs is the ratio of the conversion factor under the proposed outpatient schedule to the conversion factor under the current outpatient schedule. The direct impact is therefore -2.5%. After applying the 20% utilization offset, the impact is -2.0%. After applying the 40% utilization offset, the impact is -1.5%.

The above impacts are then multiplied by the Montana percentage of medical costs that are subject to the hospital outpatient fee schedule (15.2%¹). The resulting impacts on medical costs are then multiplied by the percentage of Montana benefit costs that are medical costs (71.5%²) to yield impacts on Montana's overall workers compensation system costs. **NCCI estimates that revising the hospital outpatient WC medical fee schedule conversion factor will result in a decrease of between 0.2% (-\$0.9M) and 0.1% (-\$0.4M) on Montana's overall workers compensation system costs. This estimate is subject to update when the 2011 Medicare outpatient schedule becomes available.**

ASC:

The current Montana CF for ASC is \$79. The proposed CF is \$76.80.

As noted above, the 2011 Medicare ASC schedule is not currently available. Therefore, the direct impact on ASC costs is the ratio of the conversion factor under the proposed ASC schedule to the conversion factor under the current ASC schedule. The direct impact is therefore -2.8%. After applying the 20% utilization offset, the impact is -2.2%. After applying the 40% utilization offset, the impact is -1.7%.

The above impacts are then multiplied by the Montana percentage of medical costs that are subject to the ASC fee schedule (5.3%¹). The resulting impacts on medical costs are then multiplied by the percentage of Montana benefit costs that are medical costs (71.5%²) to yield impacts on Montana's overall workers compensation system costs. **NCCI estimates that revising the ASC WC medical fee schedule conversion factor will result in a decrease of approximately 0.1% (-\$0.4M) on Montana's overall workers compensation system costs. This estimate is subject to update when the 2011 Medicare ASC schedule becomes available.**

Note: the estimated cost impacts for the Montana hospital outpatient and ASC fee schedule changes do not include the changes to the implantable device reimbursements for hospital outpatient and ASC services.

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Hospital Inpatient Schedule

NCCI analyzed each bill from detailed Montana workers compensation hospital inpatient data provided to NCCI for service year 2009. NCCI modeled the reimbursement amounts according to the current and proposed rules, including the outlier payments and changes to separate implantable device payments.

The process for determining current reimbursements is as follows: For each bill, NCCI calculated the current inpatient reimbursement rates using the base rate of \$7,735 multiplied by the MS-DRG weight. If a bill's charge (excluding implants) exceeds the outlier threshold of 3 times MS-DRG payment amount, the outlier payment is equal to the charges (excluding implants) above the threshold multiplied by the sum of 15% and the specific hospital's operating ratio of costs to charged (RCC)³. The total payment for this bill is the outlier payment plus the Montana MS-DRG payment (see the table below). For a bill with an implantable device that costs more than \$10,000, there is an additional payment (to the full MS-DRG payment) for the device that is determined by adding 115% of the actual invoice cost, plus the handling and freight cost for the implantable device. Note: the implantable device charge is excluded from the outlier calculation.

The table below displays an example of the calculation of total current payment for a bill with an assigned MS-DRG 496 (*Local excision & removal int fix devices exc hip & femur with CC*) and an implantable device more than \$10,000 in cost:

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		=(1) x (2)					=[(4) -(5) - 3x(3)] x [(6) + .15]	=(3)+(7)+(8)
2010 Medicare MS-DRG Weight	Current Base Rate	Current MS-DRG Amount	Total Charge Submitted for a Bill	Charge for Implant	RCC³	Implant Invoice Cost x 115%	Current Outlier Payment	Total Current Payment
1.6254	\$7,735	\$12,572	\$60,000	\$20,000	0.474	15,000	\$1,424	\$28,997

NCCI modeled the proposed hospital inpatient reimbursement according to the proposed rules. Under the new rules, implantable devices will no longer be reimbursed separately and the actual implantable device payment that is equal to 115% of the actual invoice cost, plus the handling and freight cost for the implantable device, will be used to determine the outlier payment. NCCI calculated the proposed inpatient reimbursement rates using the proposed base rate of \$8,091 multiplied by the MS-DRG weight.

³ Since NCCI does not have detailed payment data by hospital, an average hospital RCC of .474 was used in this analysis, which is based on the fourteen regulated Montana hospitals' RCCs which are published in ARM 24.29.1432(1)(f).

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Using the example above, the proposed cost for the same bill would be \$22,885 as outlined below. The proposal would reduce the maximum reimbursement amount for this bill from \$28,997 to \$22,885:

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		= (1) x (2)					= [(4) - (5) + (7) - 3x(3)] x [(6) + .15]	= (3) + (8)
2011 Medicare MS-DRG Weight	Proposed Base Rate	Proposed MS-DRG Amount	Total Charge Submitted for a Bill	Charge for Implant	RCC³	Implant Invoice Cost x 115%	Proposed Outlier Payment	Total Proposed Payment
1.6207	\$8,091	\$13,113	\$60,000	\$20,000	0.474	15,000	\$9,772	\$22,885

The overall impact on inpatient costs in Montana is the ratio of the sum of proposed costs under the proposed rules to the sum of all current costs under the current rules. The direct impact is -9.8%. After applying the 20% utilization offset, the impact is -7.8%. After applying the 40% utilization offset, the impact is -5.9%.

The above impacts are then multiplied by the Montana percentage of medical costs that are inpatient hospital costs (14.6%¹). The resulting impacts on medical costs are then multiplied by the percentage of Montana benefit costs that are medical costs (71.5%²) to yield impacts on Montana's overall workers compensation system costs. **NCCI estimates that revising the Inpatient Hospital WC medical fee schedules will result in a decrease of between 0.8% (-\$3.6M) and 0.6% (-\$2.7M) on Montana's overall workers compensation system costs.**

The impact due to the changes in the physician, hospital outpatient, ASC and hospital inpatient fee schedules is summarized in the following table:

¹ Based on the combined Montana workers compensation data licensed to NCCI and supplemental data obtained, for service year 2008. The carriers whose data is included in this analysis represent over 80% of Montana's WC market share.

² Based on Policy years 2005-2007 Financial Call data projected to 1/1/2011.

³ Since NCCI does not have detailed payment data by hospital, an average hospital RCC of .474 was used in this analysis, which is based on the fourteen regulated Montana hospitals' RCCs which are published in ARM 24.29.1432(1)(f).

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		Impact (20% Offset)	Impact (40% Offset)
(1)	Impact on Physician Costs in Montana	-1.6%	-1.4%
(2)	Physician Costs Subject to the MT physician fee schedule as a Percentage of Medical Costs in Montana ¹	36.7%	36.7%
(3)	Impact on Medical Costs in Montana due to changes in the Physician Fee Schedule = (1) x (2)	-0.6%	-0.5%
(4)	Impact on Hospital Outpatient Costs in Montana	-2.0%	-1.5%
(5)	Hospital Outpatient Costs as a Percentage of Medical Costs in Montana ¹	15.2%	15.2%
(6)	Impact on Medical Costs in Montana due to changes in the Hospital Outpatient Fee Schedule = (4) x (5)	-0.3%	-0.2%
(7)	Impact on ASC Costs in Montana	-2.2%	-1.7%
(8)	ASC Costs as a Percentage of Medical Costs in Montana ¹	5.3%	5.3%
(9)	Impact on Medical Costs in Montana due to changes in the ASC fee schedule = (7) x (8)	-0.1%	-0.1%
(10)	Impact on Inpatient Hospital Costs in Montana	-7.8%	-5.9%
(11)	Inpatient Hospital Costs as a Percentage of Medical Costs in Montana ¹	14.6%	14.6%
(12)	Impact on Medical Costs in Montana due to changes in the Hospital Inpatient fee schedule = (10) x (11)	-1.1%	-0.9%
(13)	Total impact on Total Medical Costs due to combined changes to Physician, Hospital Inpatient, Hospital Outpatient and ASC Fee Schedules = (3)+(6)+(9)+(12)	-2.1%	-1.7%
(14)	Medical Costs as a Percentage of Overall Workers Compensation System Costs in Montana ²	71.5%	71.5%
(15)	Total Impact on Overall Workers Compensation System Costs in Montana = (13) x (14)	-1.5%	-1.2%

¹ Based on the combined Montana workers compensation data licensed to NCCI and supplemental data obtained, for service year 2008. The carriers whose data is included in this analysis represent over 80% of Montana's WC market share.

² Based on Policy years 2005-2007 Financial Call data projected to 1/1/2011.