



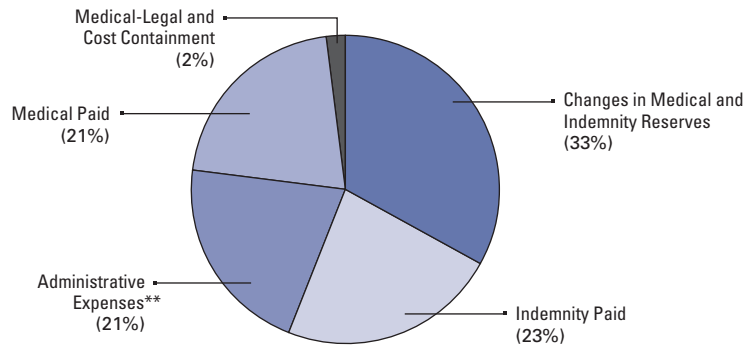
Workers' Compensation Medical Care in California: **Costs**

FACT SHEET

TOTAL COSTS OF THE CALIFORNIA WORKERS' COMPENSATION (WC) SYSTEM consisting of medical care payments and wage replacement benefits to injured workers, along with administrative expenses and adjustments to reserves, more than doubled—growing from about \$9.5 billion in 1995 to about \$25 billion in 2002. During the same period, WC medical expenditures skyrocketed from \$2.6 billion to \$5.3 billion. It is estimated that in 2004, medical payments will account for two-thirds of all WC benefit costs.¹

The rise in medical care expenditures is placing considerable strain on the entire workers' compensation system and prompting policymakers to consider proposals for improving the delivery of WC medical care in the state. Why are California's WC medical costs growing so rapidly, and what can be done to contain costs while ensuring appropriate access to high quality care for injured workers?

Figure 1: Estimated* Costs for All Employers, 2002



*Based on Data from Workers' Compensation Insurance Rating Bureau of California

**Administrative expenses include the full cost to employers of administering, adjudicating, and settling claims as well as agent and brokerage fees.

What Is Driving the Cost Increases?

Medical costs continue to rise despite a decline in the frequency of new workers' compensation claims filings. Few system incentives exist for cost containment, given that workers pay no premiums or share of medical care costs and that health care providers are

1. Workers' Compensation Insurance Rating Bureau (WCIRB). *Annual Reports*, San Francisco: WCIRB, 1996–2003. 2004 estimate direct communication from WCIRB.

compensated on a fee-for-service basis. The rise in WC medical care costs in California can be attributed to a variety of factors, including:

- **Substantial Increases in Medical Costs per Claim.** The average medical cost per lost-time claim was \$31,000 in 2002, more than a three-fold increase since 1992.²
- **Growth of Outpatient Surgery Facility Fees.** Unlike other WC medical services, outpatient surgical facilities are not regulated. WC hospital costs, of which outpatient hospital costs comprise about 60 percent, have increased from \$595.1 million in 1998 to \$1.1 billion in 2002.³
- **Increasing Average Number of Medical Visits per WC Claim.** A California Workers' Compensation Institute study found the average chiropractor visits per claim with chiropractic care in the first

two years after injury rose from 16.7 in 1993 to 28.4 in 1998, a 70 percent increase.⁴

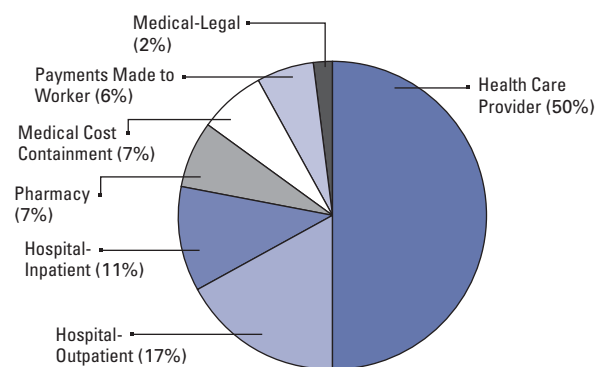
- **Growth in Pharmaceutical Services and Costs.**

WC pharmacy costs grew 243 percent from \$86.4 million in 1997 to \$296.6 million in 2002.⁵

Is California Different from Other States?

Employers in California experience higher costs for WC medical care than employers in most other states and California ranks highest in WC premium rates.⁶ Several reports have pointed to the high utilization of specific kinds of medical services in California's WC system as a major reason for this differential. According to the Workers' Compensation Research Institute, the median number of medical visits per WC claim in California is more than 70 percent greater than other states.⁷ The higher utilization is primarily due to higher rates of particular types of services including physical medicine, psychological therapy, and chiropractic care.

Figure 2. California Distribution of WC Medical Payments, 2002



Source: WC Insurance Rating Bureau of California

Table 1. Service Utilization in CA vs. Other States*

	CA	12-State Median	Difference
Average Payment per Claim	\$5,667	\$5,786	Similar
Services per Visit	3.6	3.2	Similar
Average Visits per Claim	29.7	17.4	+71%
Average Price per Service	\$57	\$101	-44%

*1999-2000 claims with greater than 7 days lost time, (injury/industry mix adjusted). Source: Eccleston, 2003.

- Workers' Compensation Insurance Rating Bureau (WCIRB). *Summary of December 31, 2002 Experience*. WCIRB Bulletin No. 2003-09. May 5, 2003.
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Does Workers' Compensation Cost More Than Other Medical Care?

WC medical care in California costs more than that provided by other payers (e.g., employer-sponsored health insurance and Medicare). Studies have determined that:

- Total medical treatment costs are estimated to be 50 to 100 percent higher in workers' compensation than treatments paid for by private health insurance.⁸
- Workers' compensation paid 40 to 45 percent more per prescription medication than drugs purchased by employer-sponsored health plans.⁹
- Across all diagnostic related groups (DRG), the average charged amounts for WC hospital admissions in California are 4 percent higher (\$26,072) compared to admissions (\$25,047) paid for by group health. However, average payments are 30 percent higher (\$9,637) for WC inpatient admissions than for group health admissions (\$7,428).¹⁰
- A study performed by the California Commission on Health and Safety and Workers' Compensation found that charges are highly variable for outpatient facility fees and on average cost more for a given procedure than in group health.¹¹

Table 2. Median Visits per WC Claim, by Provider*

PROVIDER	CA	12-State Median	Difference
Physician	11.6	7.8	+49%
Chiropractors	34.1	16.6	+105%
PT/OT	17.0	12.2	+39%

*1999–2000 claims with greater than 7 days lost time, (injury/industry mix adjusted). Source: Eccleston, 2003.

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9. Neuhauser F, et al. *Study of Cost of Pharmaceuticals in Workers' Compensation*. San Francisco: California Commission on Health and Safety and Workers' Compensation. 2000.
10. Kominski G. and L. Gardner. *Inpatient Hospital Fee Schedule and Outpatient Surgery Study*. San Francisco: California Commission on Health and Safety and Workers' Compensation. 2001.
11. Kominski G. and L. Gardner. *Inpatient Hospital Fee Schedule and Outpatient Surgery Study*. San Francisco: California Commission on Health and Safety and Workers' Compensation. 2001.

Strategies for Containing WC Medical Costs in California

Effective medical cost containment in workers' compensation will require a concerted approach in which state agencies, health care providers, insurers, employers, and employees work together to adopt approaches for managing costs while ensuring access to appropriate high quality care. Possible strategies for controlling costs include:

- **Fee Schedules.** Currently, medical fees for California WC cases are paid under the provisions of the Official Medical Fee Schedule (OMFS). Inpatient services are regulated under a hospital fee schedule. Certain types of services, such as outpatient surgical procedures, ambulance services, emergency room visits, and home health care, are not covered by the OMFS. Evidence suggests that expanding the scope of WC fee schedules and linking them to the Medicare payment system can lower system costs and potentially reduce administrative burden, but their use needs to be closely monitored to ensure that injured workers retain appropriate access to needed medical services.
- **Utilization Review.** Utilization review (UR) is used by insurers to assess the necessity and reasonableness of medical services based upon adopted standards. Since 1995, all WC insurers have been required to adopt UR standards to monitor services in an attempt to control inappropriate over-utilization of care, and thus decrease costs. The use of UR needs to be balanced against the

need for patients to easily receive the care they need without unnecessary delays.

- **Managed Care.** The California Health Care Organization (HCO) program, established by the 1993 workers' compensation reform package, expanded the use of managed care techniques, which typically include restricting care to a network of designated providers, negotiated fee arrangements with participating providers, case management, and the use of treatment guidelines. Studies in other states have shown that managed care can lower the costs of medical care by as much as 20 to 30 percent, but patients in WC managed care plans generally have reported lower satisfaction with the care received.¹²
- **Treatment Guidelines.** The California Industrial Medical Council (IMC) has developed advisory treatment guidelines to assist in making decisions about appropriate care for the most common types of work-related injuries. Studies have not yet been performed to assess providers' compliance with these treatment guidelines or their effect on costs. Consideration is being given to mandating comprehensive guidelines for WC cases, thereby expanding their use and potential applicability in WC legal proceedings.
- **Closer Integration Between WC and Group Health.** Suggestions have been made to more closely coordinate or combine WC medical care with the general medical care provided to patients by group

health insurers to reduce overall administrative costs and derive other efficiencies in care.

California established a pilot program in 1995 to test the concept of an integrated, 24-hour care arrangement. Although enrollment in the pilot program was relatively low, an evaluation of that program found that costs for lost-time cases were lowered by 4.7 to 6.5 percent, but that costs for medical-only claims were 20 to 34 percent higher for those treated in the pilot program.¹³

Additional fact sheets on access, quality of care, and an overview of the WC system are available at www.chcf.org and www.dir.ca.gov/chswc.

AUTHORS

Allard E. Dembe, Sc.D., Center for Health Policy & Research, University of Massachusetts Medical School
Juliann Sum, J.D., Sc.M., Labor Occupational Health Program, University of California at Berkeley
Christine Baker, M.A., Kirsten Stromberg, and Irina Nemirovsky, California Commission on Health and Safety and Workers' Compensation

CONTACT INFO



CALIFORNIA HEALTHCARE FOUNDATION
476 Ninth Street
Oakland, CA 94607
tel: 510.238.1040
fax: 510.238.1388
www.chcf.org



COMMISSION ON HEALTH AND SAFETY
AND WORKERS' COMPENSATION
455 Golden Gate Avenue 10th Floor
San Francisco, CA 94102
tel: 415.703.4220
fax: 415.703.4234
www.dir.ca.gov/chswc

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