P&C Industry Trends and Compliance Advisory Forum

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2016 Predictions

- Emergency Room prices will rise
- Physician owned entities will grow
- Multiple tax identification numbers
- Florida’s fee schedules driving care
  - The new “massage” and “acupuncture” is now exercise and trigger point
  - Performance of expensive procedures (MRI – CT) early
- Under coding – intentional
- Inappropriate use of modifier -59 to bypass edit/review
- Benchmark rate challenges increase
- ICD-10 will be implemented
ICD-10
ICD-10
Monthly Adoption Rates

<table>
<thead>
<tr>
<th>Month</th>
<th>Monthly Adoption Rate</th>
<th>Cumulative Adoption Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>October</td>
<td>80.0%</td>
<td>75.0%</td>
</tr>
<tr>
<td>November</td>
<td>85.0%</td>
<td>80.0%</td>
</tr>
<tr>
<td>December</td>
<td>90.0%</td>
<td>85.0%</td>
</tr>
<tr>
<td>January</td>
<td>95.0%</td>
<td>90.0%</td>
</tr>
<tr>
<td>February</td>
<td>100.0%</td>
<td>95.0%</td>
</tr>
</tbody>
</table>

Current monthly rate: 94.7%
Current cumulative rate: 92.0%
### Current Non-Compliant Providers

<table>
<thead>
<tr>
<th>Provider State</th>
<th>Total ICD-9 Providers</th>
<th>Bills</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>7508</td>
<td>2771</td>
</tr>
<tr>
<td>NJ</td>
<td>6052</td>
<td>5756</td>
</tr>
<tr>
<td>FL</td>
<td>5206</td>
<td>5542</td>
</tr>
<tr>
<td>TX</td>
<td>4798</td>
<td>2642</td>
</tr>
<tr>
<td>NY</td>
<td>4249</td>
<td>4793</td>
</tr>
</tbody>
</table>

74,659 Providers

45,579 Bills

Data as of 9/30/2016 – Providers are cumulative, bills are September
# ICD-10 Diagnosis Distribution

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. S13.4XXA</td>
<td>Whiplash injury of cervical spine, initial encounter</td>
<td>137,795</td>
</tr>
<tr>
<td>2. M54.5</td>
<td>Low back pain</td>
<td>136,434</td>
</tr>
<tr>
<td>3. M54.2</td>
<td>Cervicalgia</td>
<td>136,220</td>
</tr>
<tr>
<td>4. S33.5XXA</td>
<td>Sprain of ligaments of lumbar spine, initial encounter</td>
<td>110,069</td>
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<tr>
<td>5. S23.3XXA</td>
<td>Sprain of ligaments of thoracic spine, initial encounter</td>
<td>107,350</td>
</tr>
<tr>
<td>6. M99.01</td>
<td>Segmental and somatic dysfunction of cervical region</td>
<td>75,593</td>
</tr>
<tr>
<td>7. S16.1XXA</td>
<td>Strain of muscle, fascia and tendon at neck level, initial encounter</td>
<td>52,788</td>
</tr>
<tr>
<td>8. M54.12</td>
<td>Radiculopathy, cervical region</td>
<td>46,747</td>
</tr>
<tr>
<td>10. R51</td>
<td>Headache</td>
<td>36,281</td>
</tr>
</tbody>
</table>

*Average diagnoses per claim: 14  *Average diagnoses per bill: 4

* Depends on state
Upcoming Issues and Implementation

October 1, 2016

- No more grace period
- Providers must use entire code set
- Providers must distinguish between chronic and acute conditions
- Providers must indicate side of body

Challenges for P&C

- Continue to see ICD-9
- Encounter codes will need to be monitored for full bill review
- Third party gap
Value Based Healthcare
Value Based Healthcare

TODAY vs. VALUE BASED HEALTHCARE

Volume

Fee for Service
No Rewards for Quality
Coordination of care not valued
No incentives for IT investment

Quality

Managed Population Payments
Incentives for great outcomes, Penalties for bad
Accountability from patient to payment
IT is core to value
New and Future Models

- Accountable Care Organizations
- Pay for Performance
- Bundled Payments
- MACRA
The goal of the **Medicare Access and CHIP Reauthorization Act of 2015** (MACRA) is to improve the quality of care for Medicare patients and transition clinicians from volume-based to value-based payments by 2019.
What does it mean for the P&C Industry?

**Problem Today**

- Payments are made on volume vs. quality
- Micromanagement of care and cost associated
- State regulations
- Policy
- Beliefs: Does it work?

**View Point**

- Injuries lend themselves to modeling care
- Geography is a plus
- ACO is an “infant” PPO of the future
- Not an all or nothing
- Better outcomes for all
Sample Bundled Model
Rotator Cuff Tear

Michigan, Wayne County

<table>
<thead>
<tr>
<th>Cost</th>
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<tbody>
<tr>
<td>mean</td>
<td>$17,070.44</td>
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<tr>
<td>median</td>
<td>$16,893.00</td>
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<tr>
<td>mode(s)</td>
<td>$16,944.00</td>
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<tr>
<td>90\textsuperscript{th} p-tile</td>
<td>$17,232.00</td>
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</table>

<table>
<thead>
<tr>
<th>Duration</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>mean</td>
<td>77</td>
</tr>
<tr>
<td>median</td>
<td>78</td>
</tr>
<tr>
<td>mode</td>
<td>72</td>
</tr>
<tr>
<td>90\textsuperscript{th} ptile</td>
<td>90</td>
</tr>
</tbody>
</table>
National Trends
What is happening at the federal level?

- MACRA
- Medicare
- P&C integration with HIPAA
While the Medical Price Index (MPI) in auto first party has nearly matched the BLS CPI for all services, the worker’s compensation MPI has lagged slightly. Unit charge has kept pace with the BLS CPI for all services.
National Medical Price Index

Auto First Party

Evaluation & management services are the primary drivers for the increase in the medical price index.
National Medical Price Index

Workers’ Compensation

Similar to Auto, Evaluation & Management services are the primary drivers for the rise in index.

Source: Statistics, adjusted. Consumer Price Index- All Services-All Urban Consumers, Series CUUR0000SA0. Available at http://data.bls.gov/cgi-bin/surveymost?cu12:47 PM
National Charge Severity

Charge severity has approximately doubled in Auto Third Party and Workers’ Compensation while Auto First Party remained flat.
National Injury Trend Severity
Auto First Party

The simple introduction of a Nerve and Disc related diagnosis will result in at least a two-fold increase in severity regardless of coverage type.
Evaluation & Management

Unit charge, in and out of the emergency room, has increased dramatically

Diagnosis

Nerve & Disc injuries are on the rise and their severity is at least twice as high as soft tissue

Severity

Charge severity in Auto Third Party and Workers’ Compensation has doubled
Auto Casualty
Florida
Auto First and Third Party

Policy Language
Potential Effect of Repeal – No Fault
Challenges
Florida

Auto First Party FastTrack Comparison

Our all in data is closely aligned with the FastTrack data

source: ISS FastTrack Plus data from Independent Statistical Service (ISS) a subsidiary of Property Casualty Insurers Association of America (PCI)
Florida Charge Severity

Third party charge severity is up 26% since 2011
Florida

Recommended Allowance Severity

First party had been drifting downward through 2014 and is poised to drift higher through 2016
Florida Auto First Party Physical Medicine

The downward trend is the result of statutory changes and claim handling procedures.
Florida
Auto First Party

Challenges in Florida include Emergency Room and Radiology facility fees billed on the UB form
Florida

Loss Year Projections

It is anticipated that 2016 claims will approximate the 2011 loss year results reversing the recent trend experienced.
Florida
Loss Year Projections

Utilization will continue to drive the results in Florida
While both our claim data and ISS’s FastTrack data have demonstrated a steady decline in first party severity, the market is poised for reversal.

Challenges around hospital emergency room services and radiology fees appear to be driving the reversal.
Michigan
Auto First and Third Party

No-Fault Legislation
Chiropractic
Challenges
Michigan

First Party FastTrack Comparison

There is a significant gap between our average recommended allowance and FastTrack data.

NOTE: the gap is likely the result of services we do not capture (i.e. essential services, lost wages...etc)

Source: ISS FastTrack
Michigan
Charge Severity

Third Party special damages have increased three-fold
Michigan

Recommended Allowance Severity

Similar pattern emerges when recommended allowance is considered
Michigan

Third Party Charge Severity

The primary third party severity drivers are room and board and operating room fees associated with the UB billing.
Michigan

Third Party Physical Medicine

On the CMS form, Physical Medicine and Diagnostic Radiology have seen significant increases associated with third party charges.
Michigan
First Party

While first party severity is relatively flat, there is upward pressure from trauma related hospital services.
Michigan Loss Year Projections

With its higher limits, Michigan is expected to see a more dramatic increase in loss.
Michigan Loss Year Projections

Utilization will continue to be the primary force behind Michigan results.
Michigan

• Third party trends are due to surgery related hospital stays

• While first party trends are flat, there remains upward pressure from Emergency room and ancillary facility services

• Affordable Care Act influenced changes from inpatient to other hospital services
Workers’ Compensation
California
Workers’ Compensation

Outpatient Medical Fee Schedule
Drug Formulary – AB1124
Medical Treatment Utilization Schedule
California Severity

Workers’ compensation severity has increased 104% since 2012
Physical medicine, diagnostic radiology and evaluation and management have seen significant increases in allowed per claimant results.
California

Physical medicine, as mentioned earlier is a utilization driven
California Workers’ Compensation

• Treatment of head injury claims have increased the most since 2011, but these claims represent a very small portion of total claims.

• Soft tissue claims represent approximately 45% of claims and total allowed in California and they have experienced a 50% increase in cost.
Texas Workers’ Compensation

Air Ambulance
Annual Fee Schedule Changes
Performance Based Oversight
Severity has been steadily increasing since 2011.
Texas

The two largest contributors to total allowed, Physical Medicine and Evaluation and Management, have experienced significant increases in allowed per claimant.
Texas Workers’ Compensation

• Texas has experienced a greater percent of claimants with fractures and dislocations in recent years that have driven utilization of physical medicine services up
New Jersey
Workers’ Compensation

eBill Legislation – A3401
No Workers’ Compensation Fee Schedule
New Jersey

Allowed Severity

Severity as measured by allowed per claimant has been steadily increasing since 2012
New Jersey

Physical Medicine and Evaluation and Management drive the results primarily through increased utilization
New Jersey

Utilization of Physical Medicine services has nearly doubled since 2011
New Jersey Workers’ Compensation

- The average allowed per claimant has increased approximately 150% since 2011.
- During the same period, Physical Medicine and Evaluation and Management experienced an approximate 170% and 115% increase respectively.
- Utilization of physical medicine increased 150%.
Overall Trends and Takeaways
Auto

- Emergency room professional and ancillary services will continue to rise and drive severity
- Physical medicine and utilization will continue to expand unless closely monitored
- Evaluation and Management will continue to rise and drive severity
- Monitoring change from soft tissue injury to more severe (nerve and disc) will drive severity upward
Workers’ Compensation

- Evaluation and Management will continue to rise and drive severity
- Diagnostic radiology emerging since 2014
- Florida UB encounters are overwhelming the charges compared to other states
Predictions for 2017

- ER prices will continue to rise
- Other hospital cost centers will rise
- FL– auto & work comp will start to rise in severity
- Value Based models in WC & 3rd party will be tested
- New CPT 2017 codes will have reactions in severity
- UCR Rate disputes will plateau
- ICD-10 will provided needed insight
Regulatory Compliance

Problems
- Frequent regulatory changes
- Unpredictable effective dates
- Ambiguous language
- Subjective data definitions

Solutions
- Workers’ Compensation
- Auto First Party
- Auto Third Party

Outcome
- Mitchell’s Compliance Team innovates approaches in adapting complex regulatory requirements into technology solutions.
- 4,000+ compliance features delivered annually
- 650+ Data Sources analyze and monitor industry changes

Mitchell Compliance Team
- Industry Leaders
  - 65+ Compliance Professionals
  - 750+ years collective experience
  - Major leadership roles with industry trade associations
  - Nationally recognized as the source of P&C expertise

Customer Compliance Group
- Customer-open access
  - Customer Involvement
  - Lean Agile inclusion of customer input
  - Open transparent relationships
  - Frequent Communications
Thank you!

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