2000-2007 Oregon Workers' Compensation Medical Payments Trends

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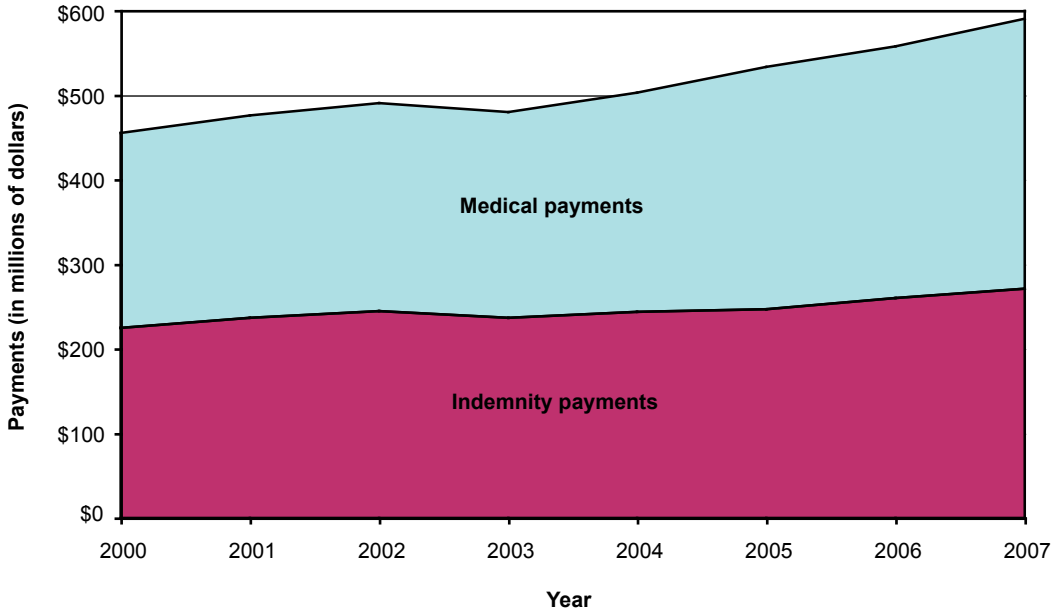
Oregon workers' compensation claim costs are defined as the sum of medical payments and indemnity payments. Medical payments[1] consist of disbursements to medical providers for medical services and to medical supply vendors for supplies provided to workers with on-the-job injuries or illnesses. Indemnity payments are provided to injured workers with a subsequent disability who miss work to offset the impact of resulting wage loss. There are other costs associated with workers' compensation claims as well, such as attorney fees, reimbursements to the noncomplying employers' fund, etc., which are outside the scope of this analysis. "Total costs" in this publication will denote the sum of medical payments and indemnity payments.

Figure 1. Workers' compensation costs by year of payment, 2000-2007 (in millions of dollars)



Total workers' compensation costs increased at an average rate of 3.4 percent per year between 2000 and 2007. Indeed, both medical and indemnity payments increased each year with the exception of 2003 (Figure 1). Medical payments as a percentage of total costs declined from 2000-2002 to just under 50 percent, then increased to 54 percent of total workers' compensation costs in 2007. These changes, from a declining share of medical payments to an increasing share, came about because of fluctuations in the growth rate of medical payments relative to that of indemnity payments.[2] As shown in Figure 2, medical payments were increasing more slowly than indemnity payments prior to 2003; since that time, indemnity payments generally have risen more slowly. This is partially

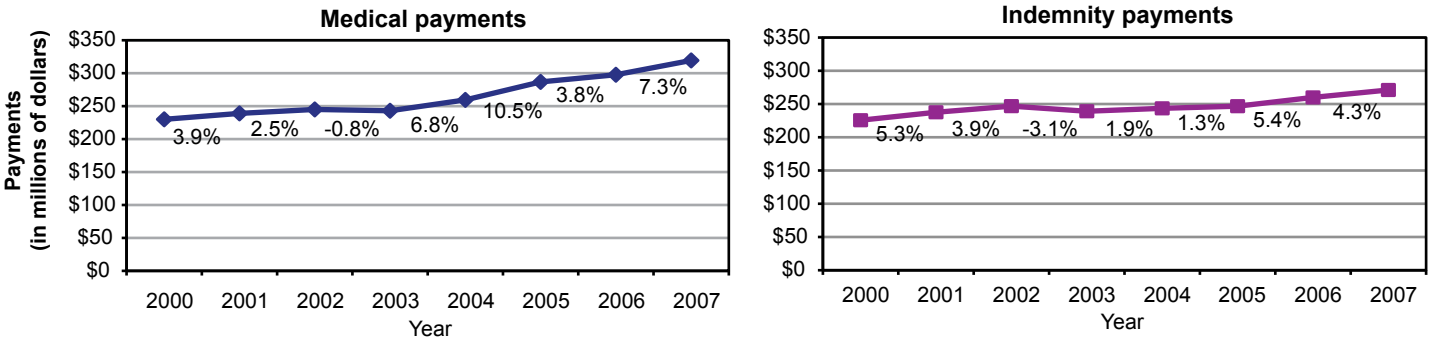
[1]Data are organized by the year the payment was made, not by the year the injury occurred or medical service occurred. For example, a 2006 payment for treatment of an injury from 1999 will be included in the sum of 2006 payments, regardless of when the service was rendered.

[2]As noted, both medical and indemnity payments declined in 2003, however indemnity payments decreased more (-3.1 percent) than did medical payments (-0.8 percent); therefore, medical payments as a proportion of the total increased.

explained by relatively higher increases in the medical Consumer Price Index (CPI), which drives medical payments, compared to increases in average weekly wages, which drive indemnity payments. Recent research from the National Council on Compensation Insurance using data from multiple states found that "slightly more than half of increased medical share was due to differences in medical and wage inflation rates."[3]

This publication examines the trends in medical payments from 2000-2007 and their distribution by insurer category, provider type, service category, and claim type.

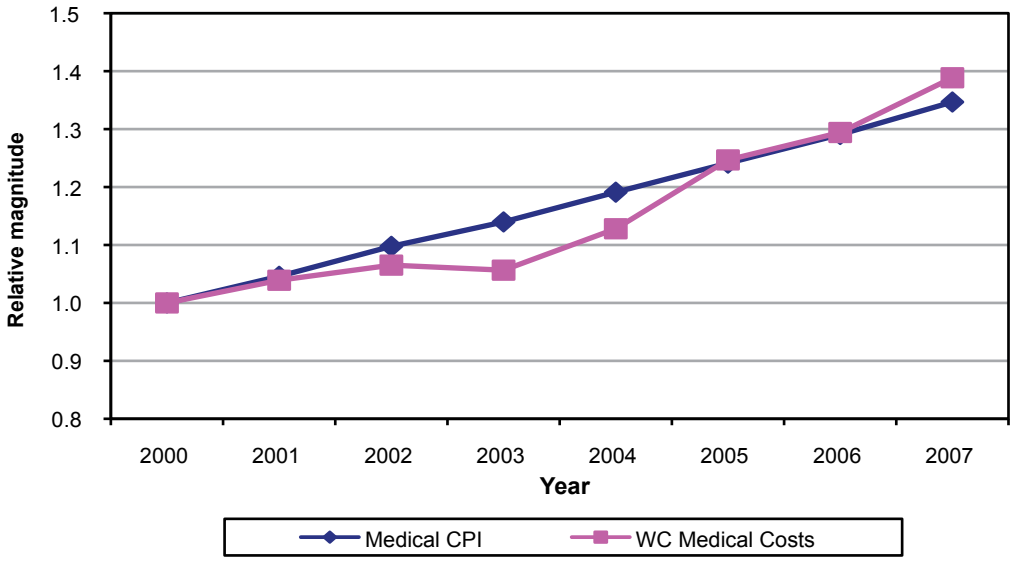
Figure 2. Workers' compensation medical and indemnity payments, 2000-2007



Note: Numbers between data points represent percent change from year to year.

Workers' compensation medical payments in Oregon have increased at an annual rate of 4.7 percent over the period 2000-2007, in spite of the slight decrease in medical payments in 2003. The increasing cost of medical care nationwide as reflected by the medical CPI has been relatively constant over this period at about 4 percent per year. Despite annual fluctuations, the cost of medical care in the workers' compensation system in Oregon has kept pace with the CPI (Figure 3).

Figure 3. Workers' compensation medical payments relative to medical CPI[4], 2000-2007



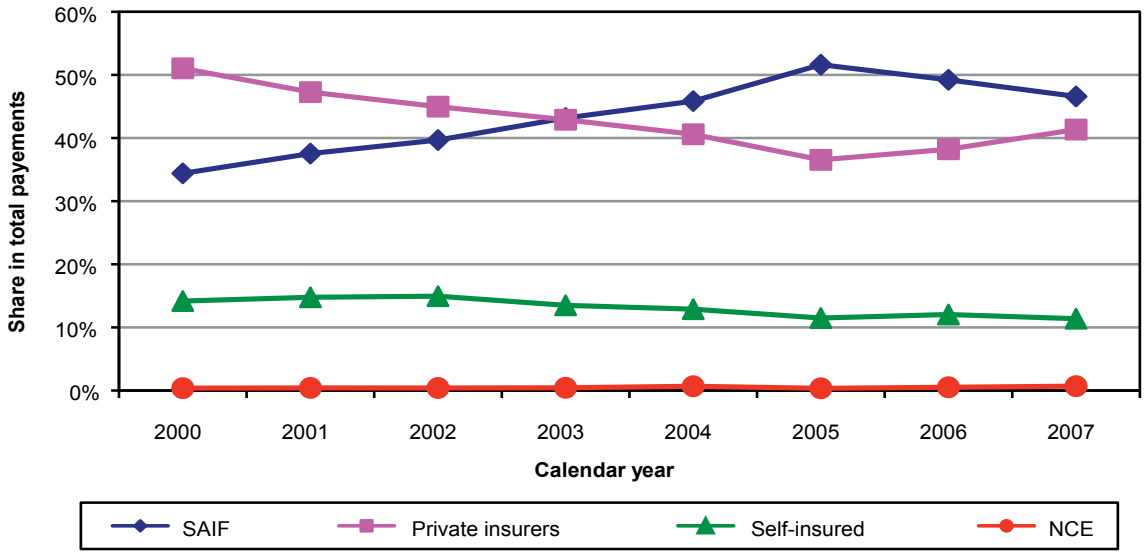
[3]Shuford, H., and Restrepo, T. (2008). Analyzing the shift in the medical share of total benefits. NCCI Research Brief, Winter 2008, NCCI Holdings, Inc.

[4]U.S. Bureau of Labor Statistics Medical Care CPI-U, U.S. city average, not seasonally adjusted.

Insurer category

Workers' compensation medical expenses in Oregon are covered by entities in one of the following insurer categories: the state accident insurance fund (SAIF), private insurance companies, self-insured employers, or the noncomplying employer program.[5] Shares of medical payments by self-insured employers and the noncomplying employer program remained relatively stable over the 2000-2007 period, about 13 percent and 0.5 percent, respectively (Figure 4). However, the volume of payments made by SAIF and private insurers has varied. From 2000-2005, the share of SAIF payments increased while the share of private insurer payments decreased. Beginning in 2003, the share of medical payments made by SAIF exceeded that of private insurers. In the past two years, the gap between SAIF and private insurers has narrowed.

Figure 4. Medical payments by insurer category, 2000-2007



Provider type

Insurers and self-insured employers make medical payments to a variety of different types of providers. Medical payment data reported to the Department of Consumer and Business Services (DCBS) are categorized into 19 provider types. Provider-type categories with the highest total payments from 2000-2007 are medical doctors, hospital outpatient providers, and hospital inpatient providers (Table 1).

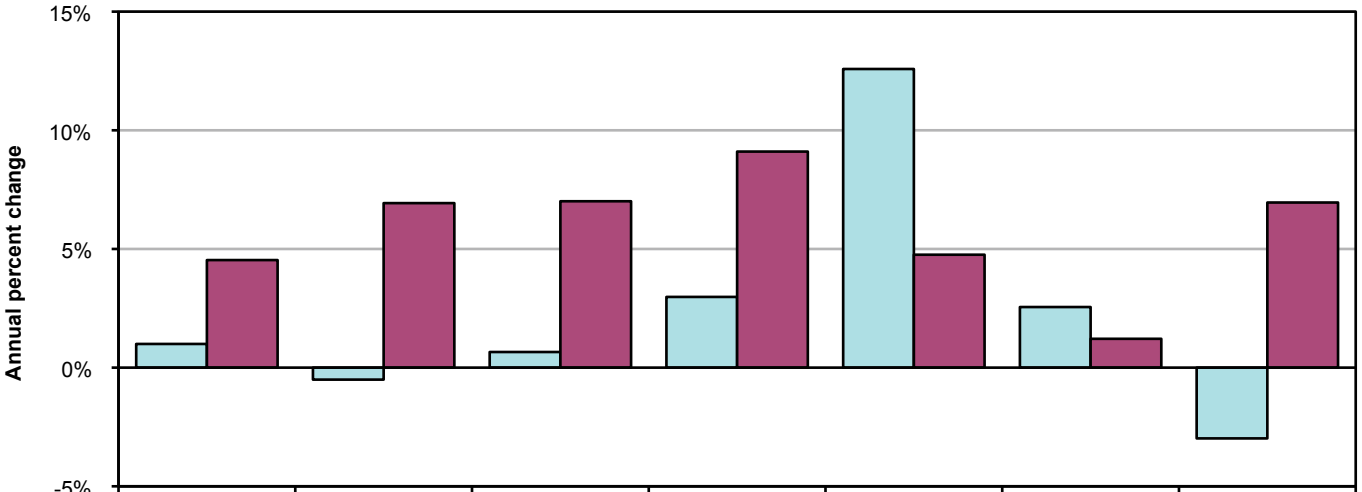
Table 1. Medical payments by provider type (in millions of dollars), 2000-2007

Provider type	2000	2001	2002	2003	2004	2005	2006	2007
Medical doctor	73	76	76	76	80	87	90	92
Hospital outpatient	54	58	59	53	58	66	69	72
Hospital inpatient	24	23	25	24	29	34	33	37
Physical therapist	17	18	18	18	19	22	24	25
Pharmacy	10	12	14	14	16	16	15	19
Radiologist	8	8	9	9	9	9	9	9
Chiropractor	6	6	6	6	6	6	7	7
Remaining medical providers*	38	38	40	43	43	48	51	58

* Remaining providers include: acupuncturists, ambulatory surgical centers, dentists, home health care, laboratory, medical supplies, naturopaths, nurse practitioners, nursing home care, occupational therapists, optometrists, osteopaths, physician assistants, podiatrists, psychologists, other medical providers, and registered nurse practitioners.

[5]The noncomplying employer program, administered by DCBS, pays medical expenses for injured workers whose employers have not purchased workers' compensation coverage.

Figure 5. Annual percent change in medical payments by provider type



	Medical Doctor	Hospital Outpatient	Hospital Inpatient	Physical Therapist	Pharmacy	Radiologist	Chiropractor
2001-2003	1.0%	-0.5%	0.7%	3.0%	12.6%	2.6%	-3.0%
2004-2007	4.5%	6.9%	7.0%	9.1%	4.8%	1.2%	7.0%

Provider type

Payments for all categories except pharmacy and radiology increased at higher rates from 2004-2007 compared to 2000-2003 (Figure 5). Hospital inpatient payments increased at a rate of 0.7 percent per year between 2000-2003 and at a rate of 7 percent per year from 2004-2007. Total hospital outpatient payments show a somewhat similar trend, from a 0.5 percent annual decrease to a 6.9 percent annual increase in more recent years. Although smaller in absolute dollar terms, the chiropractor category changed from a decline of 3 percent annually to an increase of 7 percent.

Service category

Medical payments can also be classified according to the type of service provided and method of regulation. For the purpose of this analysis, medical services were assigned to the following service categories:

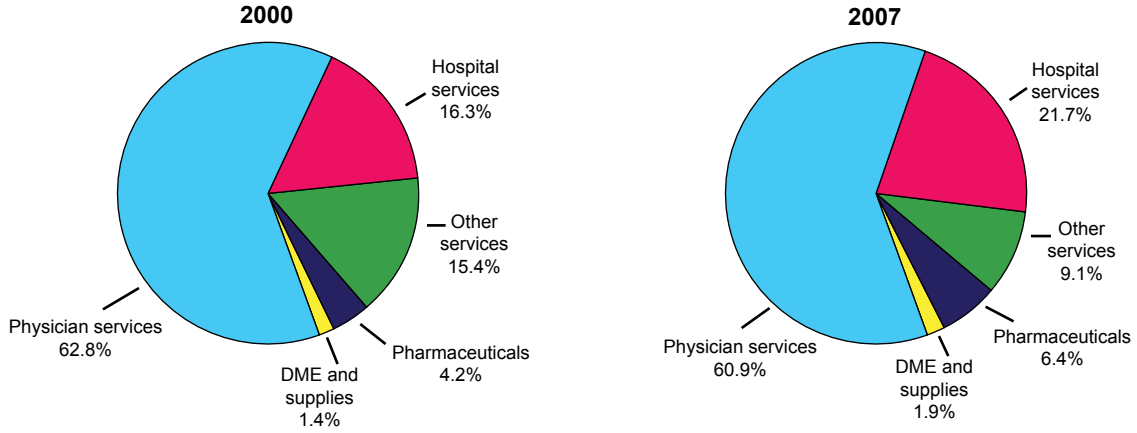
- **Physician services** are paid according to the Resource-Based Relative Value System established by Medicare and conversion factors developed by DCBS.
- **Hospital services**[6] are reimbursed according to each hospital's cost-to-charge ratio, which is derived by DCBS, based in part on the hospital's financial standing and geographic location.
- **Pharmaceuticals** were paid at 88 percent of the average wholesale price (AWP) plus an $8.70 dispensing fee during the years 2004-2007. Prior to that, they were paid at 95 percent of AWP and a $6.70 dispensing fee.[7]
- **Durable medical equipment (DME)** is paid at 85 percent of the manufacturer's suggested retail price or at 140 percent of the actual cost, whichever is greater. Medical supplies are paid for as charged by the provider.
- **Other services** are those services that do not fit into any of the above mentioned service categories. They include certain medical procedures and payments classified with insurers' internal codes for which there is no recognized standard.

[6]This category includes all of the hospital inpatient services and the portion of hospital outpatient services that cannot be classified as a fee-schedule service.

[7]As of July 1, 2008, pharmaceuticals are paid at 83.5 percent of AWP plus a $2.00 dispensing fee.

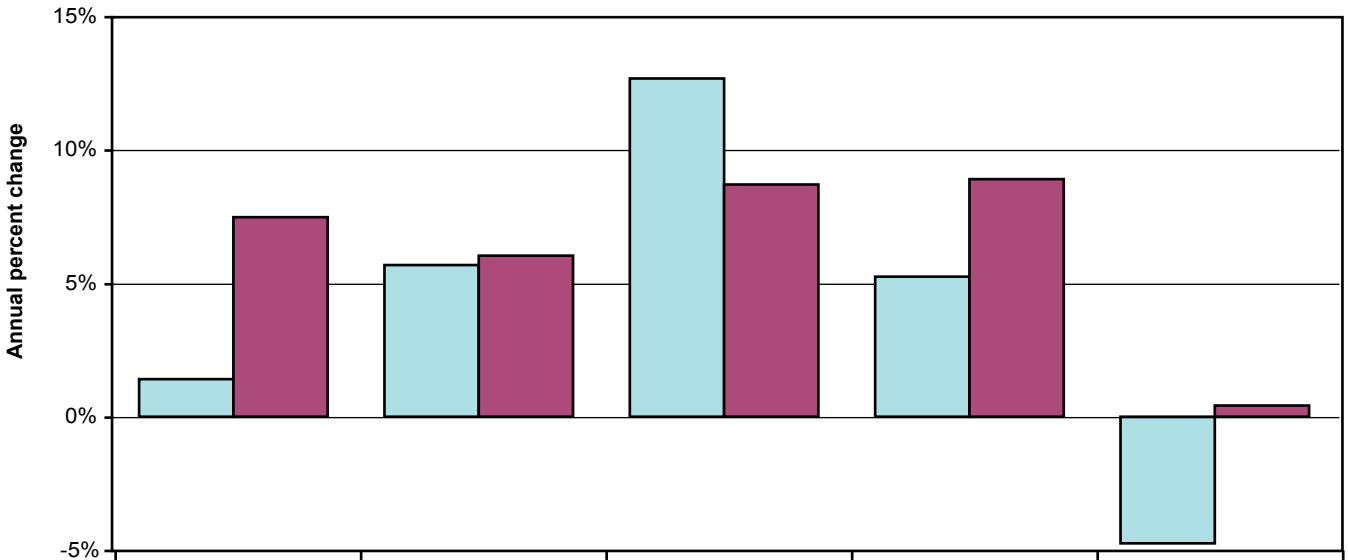
In 2007, physician services represented 60.9 percent of total medical payments, 1.9 percent less than 2000. Hospital services accounted for 21.7 percent of total payments, 5.4 percent more than in 2000. Pharmaceuticals accounted for 6.4 percent of medical payments in 2007, 2.2 percentage points higher than in 2000. The share of DME and medical supplies' payments were 1.9 percent in 2007, 0.5 percent higher than in 2000. Other services accounted for 9.1 percent of total medical payments in 2007, 6.3 percent less than in 2000 (see Figure 6).

Figure 6. Medical payments by service category, 2000 and 2007



Growth rates for payments by service category show a trend similar to growth rates by provider type. All service categories except pharmaceuticals grew more quickly from 2004-2007 than in earlier years (Figure 7). Although the growth rate for pharmaceuticals is lower in the second half of the analysis period, it still shows the highest growth rate among the service categories over the eight-year period.[8]

Figure 7. Annual percentage change in medical payments by service category



	Physician services	Hospital services	Pharmaceuticals	DME and supplies	Other services
2001-2003	1.4%	5.7%	12.7%	5.2%	-4.8%
2004-2007	7.5%	6.0%	8.7%	8.9%	0.4%

Service category

[8]Payments under the Pharmaceuticals service category are not the same as payments to Pharmacies as a provider type in Table 1. Not all pharmaceuticals are dispensed by pharmacists nor are all services provided by pharmacists for dispensations of prescription drugs. For example, pharmaceuticals dispensed to hospital inpatients are classified under hospital services.

Payments for other services have generally declined over the period for a total decrease of 17.7 percent over this eight-year time frame. This decrease was caused by a shift in insurer coding practices, not by a decrease in the cost of services. Over time, use of insurer-specific codes, classified as other services, has declined and been replaced by use of standardized codes that allow the services to be identified with a fee schedule. For procedures specifically excluded from the fee schedule, the other component of the other services category, the annual growth rate was 9.6 percent for 2000-2003 and 0.8 percent for 2004-2007.

Claim type

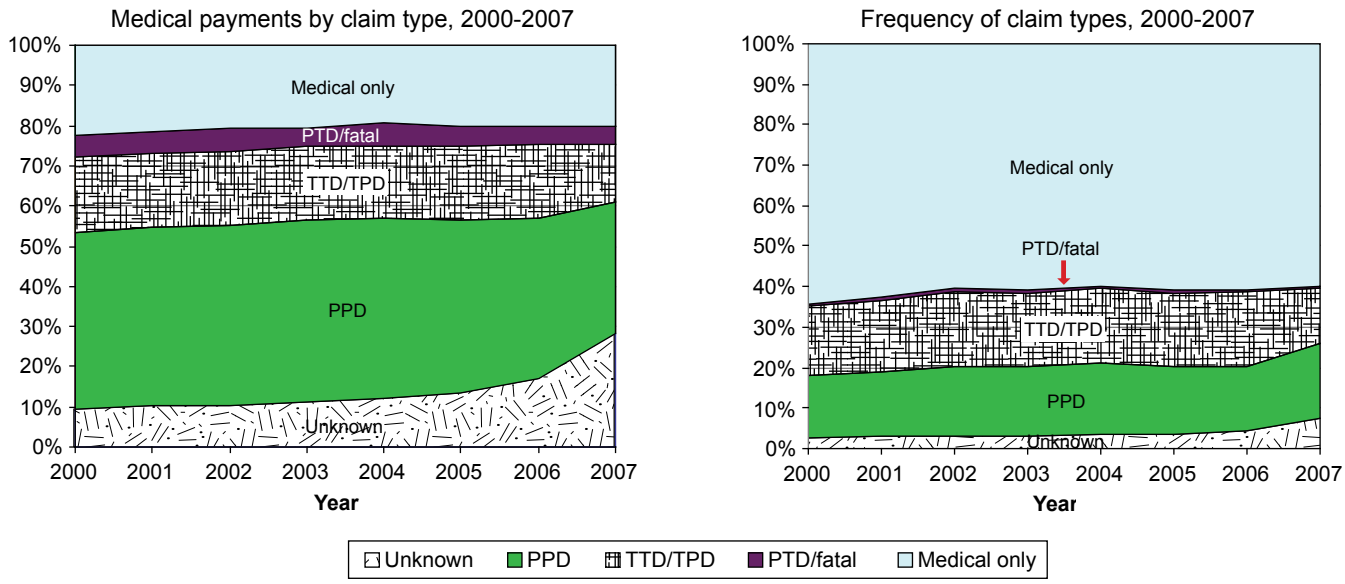
Accepted claims in the workers' compensation system can be categorized according to the duration and severity of the disability suffered by the worker. A worker who is treated and returns to work before the end of the three-working-day waiting period has a nondisabling claim. Payments on these claims are made for medical treatment only. A worker who requires time off work to recuperate beyond the three-working-day waiting period and receives indemnity benefits has a disabling claim.

Disabling claims are further classified as temporary or permanent in duration and as total or partial in extent. The combination of these classes creates four categories of claims: permanent total disability (PTD), permanent partial disability (PPD), temporary total disability (TTD), and temporary partial disability (TPD).

For the purposes of this analysis, on-the-job fatalities are classified with PTD claims, although the distribution of payments between claims of this type can be quite different. Temporary disability claims are also classified together whether total or partial. Finally, claims that cannot be otherwise classified because decisions are pending or because they ended in a settlement or agreement between the worker and insurer are classified as "unknown."

Figure 8 shows the proportion of medical payments and proportion of claims by claim type for the years 2000-2007.

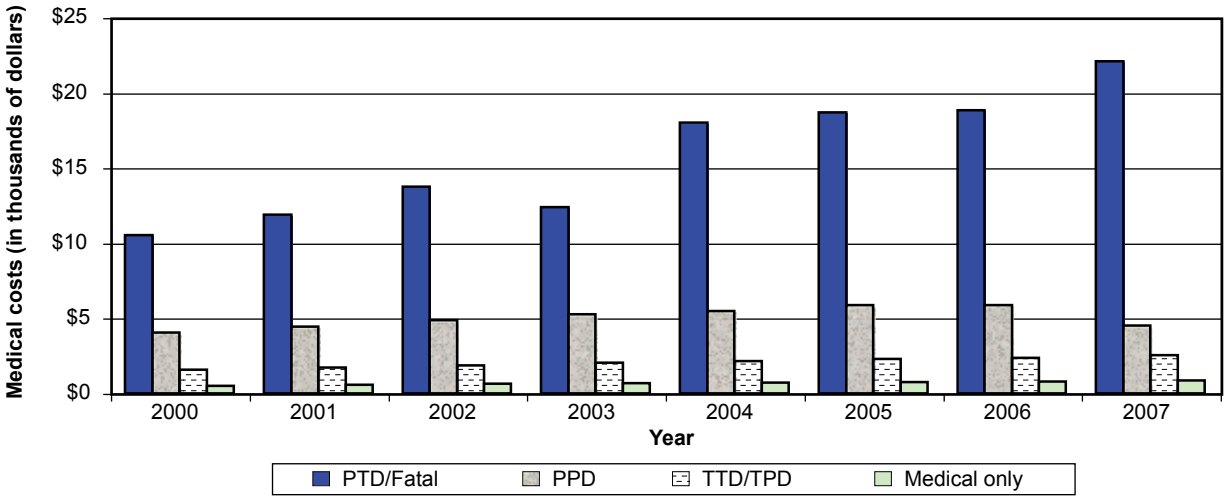
Figure 8. Medical payments and frequency of claims by claim type, 2000-2007



For both medical payments and frequency, the proportions show little change over the period. The size of the "unknown" category is greater in more recent years because relatively fewer new claims have been resolved. In each year approximately 60 percent of claims receive medical payments, but no indemnity payments. These nondisabling, or medical-only, claims account for 20 percent of all medical payments. In contrast, PPD claims comprise less than 17 percent of claims but 40 percent to 45 percent of payments over this period. The relatively larger amount of medical payments for PPD claims may be due to the longer duration and more intensive medical treatment for these injuries.

Figure 9 shows average medical payments per claim for the period 2000-2007. Average yearly medical costs for PTD and fatality claims are 2.5 to 5 times the average costs of PPD claims. Average yearly costs for PPD claims are higher than those for TTD/TPD claims by a similar factor, and TTD/TPD claims are 2.5 to 3 times higher than medical-only claims.

Figure 9. Yearly cost per claim, 2000-2007



Conclusions

Workers' compensation medical payments in Oregon have increased at an annual rate of 4.7 percent over the period 2000-2007.

SAIF's share of the medical payments has generally increased over the period, whereas that of private insurers has generally decreased. Payments made by self-insured employers and the NCE fund have remained relatively unchanged.

Annual percent change in payments to medical doctors, hospital inpatient and hospital outpatient services, physical therapists, and chiropractors increased substantially in the period 2004-2007. Annual percent change in payments to pharmacies continued to increase over the period, but not as rapidly as during 2000-2003.

Similarly, among the various service categories, more rapid increases are apparent in recent years for physician services, hospital services, durable medical equipment and supplies, and other services, but not for pharmaceuticals.

Data sources and methodology

This report was produced primarily from workers' compensation insurer medical payment data reported to the department under Bulletin 220. To better represent total workers' compensation medical payments, insurer-reported medical payments are adjusted to account for the following two factors:

- *Unreported pharmacy payments.* Reimbursements to workers who paid cash for covered prescriptions often go unreported under Bulletin 220. To make up for this underreporting, DCBS annually surveys SAIF and several other large insurers from the private and self-insured categories for their total workers' compensation pharmacy payments, including reimbursements for cash payments. The results of the survey are used to estimate unreported pharmacy payments, which are then added to the total reported Bulletin 220 medical payments.
- *Nonreporting insurer payments.* Only insurers who experience 100 or more accepted disabling claims in a calendar year are required to report to WCD under the terms of Bulletin 220. DCBS estimates additional medical payments using historical data and data from other sources. These data are used to inflate Bulletin 220 medical payments as well.

Claims data come from the Oregon Department of Consumer and Business Services' Claims Data System, which is populated from various sources as prescribed under several divisions of Oregon Administrative Rules Chapter 436.

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