

This law-only rate change, to be effective August 1, 2012, takes into account the effect of the changes to the medical fee schedule and rules from January and June of 2012.

The NCCI estimates that the changes to the medical fee schedule that became effective January 1, 2012, had an impact on loss costs of -1.5%. All of the January changes are the result of annual updates to the Medicare provisions that automatically impact workers compensation reimbursement rates. The NCCI's methodology for calculating the effect of the changes is unchanged: NCCI assumes that everything gets reimbursed at the maximum allowable rate, so the effect on benefits for any particular procedure is the number of procedures times the change in the maximum reimbursement for the procedure. There's a long-standing assumption (backed up by a Medicare study) that, if reimbursement rates go down, providers will find another way to recoup part of the decrease through different procedure coding or more procedures. With the exception of surgeries (hard to do more of those), NCCI tempers decreases by 40% to reflect expected utilization changes. This adjustment has been applied for this filing. The overall effect on medical costs is -2.3%, and since medical costs make up about 2/3 of the comp benefits in TN, the overall effect is -1.5%.

My only concern with the January 1, 2012, law change is that the NCCI waited until now to implement it. Yes, it's relatively small, but the 3/1/12 experience filing was for a small increase that could (should?) have been offset by this change in the reimbursement rates. I suppose one could argue that they were so slow with the cumulative increases that were covered in the 11/1/11 filing that insurers are hardly getting a windfall here.

The changes effective June 10, 2012, are a bit more substantial. This law change is TN specific: changes in the rules for the application of the TN medical fee schedules. A significant part of this change is a change in the conversion factor from the 2008 Medicare factor (38.087) to the 2011 factor of 33.9764. (For comparison, the CY 2012 Medicare conversion factor is 34.0376 – so we are already behind Medicare). The change in the conversion factor alone results in a decrease of almost 11%, which the NCCI has then tempered by 40% for non-surgical procedures to reflect expected utilization increases. There are also adjustments to the methodology used to set maximum reimbursements in several areas, generally resulting in additional decreases, so that the overall effect on physician costs is -9.5%.

There is a reduction of about 27% in the costs for repackaged prescription drugs (no change to the costs for non-repackaged drugs), resulting in an overall 4.6% decrease in pharmacy costs. NCCI has not tempered the effect of this reduction. Ambulance costs are switched to a percentage of Medicare, resulting in an estimated decrease of almost a third. This change is tempered by the 40% adjustment. I've asked for clarification from the NCCI.

The other changes (drug testing and cost containment procedures) are not expected to have a material effect on cost levels.

The overall effect of the June law changes is -3.7% (assuming that they justify the tempering adjustments on drugs and ambulances), so that the combined effect of the two changes is -5.1%. This will nearly offset the 11/1/11 law only increase.

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