The State of the Alaska Workers’ Compensation System

October 10, 2013

Prepared by the Department of Labor and Workforce Development
The Good News....

Prepared by the Alaska Department of Labor and Workforce Development
Alaska Injury Frequency

2012 Workers’ Compensation Annual Report

Prepared by the Alaska Department of Labor and Workforce Development
The Bad News....

Prepared by the Alaska Department of Labor and Workforce Development
Total Compensation Payments

2012 Workers’ Compensation Annual Report

Prepared by the Alaska Department of Labor and Workforce Development
How do Alaska’s Premium Rates Compare?

<table>
<thead>
<tr>
<th>2012 Ranking</th>
<th>2010 Ranking</th>
<th>State</th>
<th>Index Rate</th>
<th>Percent of study median</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>Alaska</td>
<td>3.01</td>
<td>160%</td>
</tr>
<tr>
<td>2</td>
<td>6</td>
<td>Connecticut</td>
<td>2.99</td>
<td>159%</td>
</tr>
<tr>
<td>3</td>
<td>5</td>
<td>California</td>
<td>2.92</td>
<td>155%</td>
</tr>
<tr>
<td>4</td>
<td>3</td>
<td>Illinois</td>
<td>2.83</td>
<td>151%</td>
</tr>
<tr>
<td>5</td>
<td>13</td>
<td>New York</td>
<td>2.82</td>
<td>150%</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>Oklahoma</td>
<td>2.77</td>
<td>147%</td>
</tr>
<tr>
<td>7</td>
<td>7</td>
<td>New Jersey</td>
<td>2.74</td>
<td>146%</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
<td>Montana</td>
<td>2.50</td>
<td>133%</td>
</tr>
<tr>
<td>9</td>
<td>10</td>
<td>New Hampshire</td>
<td>2.40</td>
<td>128%</td>
</tr>
<tr>
<td>10</td>
<td>8</td>
<td>Maine</td>
<td>2.24</td>
<td>119%</td>
</tr>
</tbody>
</table>

Source: 2012 Premium Rate Ranking, State of Oregon, Department of Consumer and Business Services,
• Calendar Year 2000 – 28th in the nation…
• Calendar Year 2002 – 15th in the nation…
• Calendar Year 2004 – 2nd in the nation…
• Calendar Year 2006 – 1st in the nation…
• Calendar Year 2008 – 1st in the nation…
• Calendar Year 2010 – 2nd in the nation…
• Calendar Year 2012 – 1st in the nation…

What’s Driving Premium Costs?

Prepared by the Department of Labor and Workforce Development
Cost Drivers

- Medical Costs
- Indemnity Costs
- Legal Costs
- Reemployment Costs

Prepared by the Department of Labor and Workforce Development
Source: Division of Workers’ Compensation 2011 Annual Report

Prepared by the Department of Labor and Workforce Development
Loss Cost Distribution

25.56%

74.44%

Source: Division of Workers’ Compensation 2011 Annual Report

Prepared by the Department of Labor and Workforce Development
Medical Benefits Constitute the Majority of Total Benefit Costs in Alaska

Regional states are AZ, MT, NM, and OR
Based on NCCI’s Statistical Plan data

Source: NCCI 2012 State Advisory Forum

Prepared by the Department of Labor and Workforce Development
Medical Cost Components

- Fees for Services
- Utilization
- Prescription Drug Use
  - Use of opioid narcotics
  - Physician Dispensing

Prepared by the Department of Labor and Workforce Development
Medical Costs

- Fees for Services
Medical Payments

Source: Alaska Workers’ Compensation Division 2012 Annual Report

Prepared by the Department of Labor and Workforce Development
Medical Cost Changes

Source: Alaska Workers’ Compensation Division 2012 Annual Report

Prepared by the Department of Labor and Workforce Development
Alaska vs. Countrywide
Average Medical Claim Severity

Source: NCCI 2012 State Advisory Forum
Alaska Medical Cost Per Case
(Based on an Average of Paid and Paid + Case)

Source: NCCI 2014 Rate Filing

Prepared by the Department of Labor and Workforce Development
Figure 1  Workers’ Compensation Premium over Medicare, July 2011

Source: WCRI – Designing Workers’ Compensation Medical Fee Schedules – June 2012
Impact of Fee Schedule Adopted October 5, 2011

CHANGE FROM 2004 Fee Schedule

<table>
<thead>
<tr>
<th>Service</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EVALUATION &amp; MANAGEMENT</td>
<td>16.81%</td>
</tr>
<tr>
<td>SURGERY</td>
<td>19.08%</td>
</tr>
<tr>
<td>RADIOLOGY</td>
<td>47.06%</td>
</tr>
<tr>
<td>PATHOLOGY</td>
<td>5.83%</td>
</tr>
<tr>
<td>DME</td>
<td>24.86%</td>
</tr>
<tr>
<td>ANESTHESIOLOGY</td>
<td>13.15%</td>
</tr>
<tr>
<td>OUTPATIENT</td>
<td>56.43%</td>
</tr>
<tr>
<td>INPATIENT</td>
<td>120.74%</td>
</tr>
<tr>
<td>INPATIENT ICU</td>
<td>99.99%</td>
</tr>
</tbody>
</table>

Prepared by the Department of Labor and Workforce Development
Figure 1.1 Workers’ Compensation and Group Health Median Prices Paid for a Common Knee Arthroscopy, 2009

Source: WCRI: A New Benchmark for Workers’ Compensation Fee Schedules: Prices Paid by Commercial Insurers
June 2013

Prepared by the Department of Labor and Workforce Development
Figure 1a  Comparing Workers’ Compensation and Group Health Hospital Outpatient Payments for Shoulder Surgical Episodes, 2008

Source: WCRI: Comparing Workers’ Compensation and Group Health Hospital Outpatient Payments  
June 2013

Prepared by the Department of Labor and Workforce Development
<table>
<thead>
<tr>
<th>Rank</th>
<th>Procedure Code</th>
<th>Description</th>
<th>AK WC Fee Schedule</th>
<th>Medicare Fee</th>
<th>Washington WC Fee</th>
<th>AK Average Healthcare</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>29881</td>
<td>Arthroscopy Knee w/ Meniscus Repair</td>
<td>$5,158.02</td>
<td>$673.11</td>
<td>$912.56</td>
<td>$2,531.85</td>
</tr>
<tr>
<td>2</td>
<td>23412</td>
<td>Repair of Rotator Cuff</td>
<td>$7,725.78</td>
<td>$1,063.39</td>
<td>$1,421.68</td>
<td>$3,980.57</td>
</tr>
<tr>
<td>3</td>
<td>29826</td>
<td>Arthroscopy shoulder surgical w/decomp.</td>
<td>$5,436.83</td>
<td>$224.46</td>
<td>$288.87</td>
<td>$853.41</td>
</tr>
<tr>
<td>4</td>
<td>63030</td>
<td>Laminotomy w/ decompression</td>
<td>$10,391.15</td>
<td>$1,186.95</td>
<td>$1,605.97</td>
<td>$4,450.70</td>
</tr>
<tr>
<td>5</td>
<td>29807</td>
<td>Arthroscopy shoulder surgical; labral tear</td>
<td>$6,621.79</td>
<td>$1,292.78</td>
<td>$1,724.95</td>
<td>$4,833.41</td>
</tr>
<tr>
<td>6</td>
<td>29888</td>
<td>Arthroscopic ligament repair</td>
<td>$8,782.58</td>
<td>$1,239.28</td>
<td>$1,648.03</td>
<td>$4,637.14</td>
</tr>
<tr>
<td>7</td>
<td>64483</td>
<td>Injection anesthetic agent/steroid epidural</td>
<td>$2,364.74</td>
<td>$274.82</td>
<td>$392.91</td>
<td>$1,070.73</td>
</tr>
<tr>
<td>8</td>
<td>29880</td>
<td>Arthroscopy knee surgical; with meniscectomy</td>
<td>$5,576.24</td>
<td>$700.17</td>
<td>$947.42</td>
<td>$2,642.16</td>
</tr>
<tr>
<td>9</td>
<td>22551</td>
<td>Arthrodesis anterior interbody; cervical</td>
<td>$13,973.36</td>
<td>$2,113.35</td>
<td>$2,827.87</td>
<td>$7,981.69</td>
</tr>
<tr>
<td>10</td>
<td>23430</td>
<td>Tenodesis of tendon</td>
<td>$5,837.26</td>
<td>$931.43</td>
<td>$1,252.34</td>
<td>$3,463.72</td>
</tr>
<tr>
<td>11</td>
<td>62311</td>
<td>Injection of diagnostic/therapeutic substance</td>
<td>$1,295.28</td>
<td>$248.65</td>
<td>$371.33</td>
<td>$920.00</td>
</tr>
<tr>
<td>12</td>
<td>23120</td>
<td>Claviculectomy; partial</td>
<td>$2,704.02</td>
<td>$722.91</td>
<td>$983.95</td>
<td>$2,679.98</td>
</tr>
<tr>
<td>13</td>
<td>22612</td>
<td>Arthrodesis posterior; lumbar</td>
<td>$12,952.83</td>
<td>$1,979.87</td>
<td>$2,635.84</td>
<td>$7,437.21</td>
</tr>
<tr>
<td>14</td>
<td>29827</td>
<td>Arthroscopy shoulder surgical w/cuff repair</td>
<td>$7,318.82</td>
<td>$1,346.27</td>
<td>$1,789.14</td>
<td>$5,050.22</td>
</tr>
<tr>
<td>15</td>
<td>29877</td>
<td>Arthroscopy w/debridement</td>
<td>$4,879.21</td>
<td>$774.76</td>
<td>$1,045.37</td>
<td>$2,881.03</td>
</tr>
<tr>
<td>16</td>
<td>29806</td>
<td>Arthroscopy shoulder surgical; capsulorrhaph</td>
<td>$6,970.30</td>
<td>$1,326.86</td>
<td>$1,768.67</td>
<td>$4,964.70</td>
</tr>
<tr>
<td>17</td>
<td>49505</td>
<td>Repair initial inguinal hernia</td>
<td>$3,461.14</td>
<td>$655.21</td>
<td>$863.30</td>
<td>$2,430.13</td>
</tr>
<tr>
<td>18</td>
<td>64415</td>
<td>Injection anesthetic agent; brachial plexus</td>
<td>$1,182.37</td>
<td>$149.52</td>
<td>$202.54</td>
<td>$576.26</td>
</tr>
<tr>
<td>19</td>
<td>64721</td>
<td>Neuroplasty and/or transposition</td>
<td>$5,187.82</td>
<td>$525.08</td>
<td>$724.40</td>
<td>$1,946.17</td>
</tr>
<tr>
<td>20</td>
<td>29822</td>
<td>Arthroscopy shoulder surgical; debridement</td>
<td>$4,739.80</td>
<td>$714.19</td>
<td>$965.13</td>
<td>$2,660.81</td>
</tr>
<tr>
<td>21</td>
<td>20610</td>
<td>Arthrocentesis aspiration and/or injection</td>
<td>$382.66</td>
<td>$74.60</td>
<td>$100.72</td>
<td>$318.33</td>
</tr>
<tr>
<td>22</td>
<td>23420</td>
<td>Reconstruction of complete shoulder</td>
<td>$9,871.83</td>
<td>$1,208.38</td>
<td>$1,616.48</td>
<td>$4,516.47</td>
</tr>
<tr>
<td>23</td>
<td>63650</td>
<td>Percutaneous implantation of neurostimulator</td>
<td>$6,791.60</td>
<td>$564.80</td>
<td>n/a</td>
<td>$2,082.27</td>
</tr>
<tr>
<td>24</td>
<td>12001</td>
<td>Simple repair of superficial wounds</td>
<td>$489.30</td>
<td>$109.18</td>
<td>$154.95</td>
<td>$415.91</td>
</tr>
<tr>
<td>25</td>
<td>63042</td>
<td>Laminotomy with decompression</td>
<td>$11,681.55</td>
<td>$1,609.81</td>
<td>$2,154.94</td>
<td>$6,040.11</td>
</tr>
</tbody>
</table>
Surgery

Multi-State Distribution of Reimbursements for Surgery

- One-third of WC payments for Surgery are at the MAR
- WC often pays more than GH for comparable surgical services
  - 70% of GH payments for Surgery are below the MAR
  - 25% of surgical services in GH are paid at 55% or more below the MAR

Source: NCCI: Price Impact of Workers Compensation Physician Fee Schedules: Preliminary Results
Annual Issues Symposium - May 2013

Prepared by the Department of Labor and Workforce Development
Medical Costs

- Utilization
Utilization Continues to Be a Major Cost Driver

Source: NCCI 2011 State Advisory Forum

Prepared by the Department of Labor and Workforce Development
Lumbar MRI Used Twice As Often In Higher Group Of States Than Lower Group

Median State: 35%

% Of Claims With Lumbar MRI (CPT 72248)

2010/11 Claims With > 7 Days Of Lost Time And Back Sprains, Strains And Non-Specific Pain, Adjusted For Injury/Industry Mix

Interstate Variations in Utilization of Workers’ Compensation Medical Care
Workers’ Compensation Research Institute – February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Surgery Rate in Disc Cases: Higher Group of States 20 Points More Than Lower Group

% of Low Back Cases With Disc Conditions Received Surgery

2009/11 Claims With > 7 Days Of Lost Time, Adjusted For Injury/Industry Mix

Interstate Variations in Utilization of Workers’ Compensation Medical Care
Workers’ Compensation Research Institute – February 2013

Prepared by the Alaska Department of Labor and Workforce Development
WA State MC Pilot: Differences in Medical and Disability Costs (n=2,217)

Cost per claim

<table>
<thead>
<tr>
<th>Medical Cost</th>
<th>Disability Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>$587</td>
<td>$342</td>
</tr>
<tr>
<td>$748</td>
<td>$625</td>
</tr>
</tbody>
</table>

Fewer workers went on disability (19% vs 14%) and cost per disabled worker was less.

Data based on 9-month follow up.


Impact of Medical Treatment Guidelines
Dr. Thomas Wickizer, College of Public Health, Ohio State University
February 2013
### Adoption of Best Practices

Patients treated by COHE physicians who adopted best practices, based on guidelines, achieved better outcomes compared to patients treated by COHE physicians who adopted best practices less often.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Baseline Year</th>
<th>Outcome Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>(COHE Patients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>n = 33,787)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disability Days</td>
<td>19.2</td>
<td>12.3*</td>
</tr>
<tr>
<td>Disability Costs</td>
<td>$1,030</td>
<td>$646*</td>
</tr>
<tr>
<td>Medical Costs</td>
<td>$2,218</td>
<td>$1,846</td>
</tr>
</tbody>
</table>

*P < .01

Wickizer et al. Medical Care, 2011.
Medical Costs

- Prescription Drug Use
  - Use of opioid narcotics
  - Physician Dispensing

Prepared by the Alaska Department of Labor and Workforce Development
The Indicated Rx Share of Total Medical Is Slightly Elevated From the Last Study

Source: NCCI 2011 State Advisory Forum

Prepared by the Department of Labor and Workforce Development
Opioids: The Problem and the Urgency
Dr. Karin Mack, Centers for Disease Control
February 2013

Prepared by the Alaska Department of Labor and Workforce Development
Unintentional Overdose Deaths Involving Opioid Analgesics Parallel Opioid Sales United States, 1997–2007

- **Distribution by drug companies**
  - 96 mg/person in 1997
  - 698 mg/person in 2007
    - Enough for every American to take 5 mg Vicodin every 4 hours for 3 weeks

- **Overdose deaths**
  - 2,901 in 1999
  - 11,499 in 2007

NCCI Report on Opioid Use
November 2011

Prepared by the Alaska Department of Labor and Workforce Development
Most Injured Workers With Pain Medications Received Opioids

Nonsurgical Claims With > 7 Days Of Lost Time, Injuries From October 2008 To September 2009, Prescriptions Filled Through March 2011

* Texas Closed Formulary Went Into Effect On September 1, 2011, Which Is Expected To Reduce Use And Longer-Term Use Of Opioids

Opioids in Workers’ Compensation
Workers’ Compensation Research Institute – February 2013

Prepared by the Alaska Department of Labor and Workforce Development
## Top 10 Drugs Are Pain Medications

### Top Drugs for Service Year 2011
**Rank Based on Total Paid**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Drug Name</th>
<th>Brand Name/Generic</th>
<th>Paid Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>OXYCONTIN</td>
<td>Brand Name</td>
<td>7.4%</td>
</tr>
<tr>
<td>2</td>
<td>LIDODERM</td>
<td>Brand Name</td>
<td>4.9%</td>
</tr>
<tr>
<td>3</td>
<td>LYRICA</td>
<td>Brand Name</td>
<td>4.6%</td>
</tr>
<tr>
<td>4</td>
<td>GABAPENTIN</td>
<td>Generic</td>
<td>4.0%</td>
</tr>
<tr>
<td>5</td>
<td>HYDROCODONE-ACETAMINOPHEN</td>
<td>Generic</td>
<td>3.8%</td>
</tr>
<tr>
<td>6</td>
<td>CYMBALTA</td>
<td>Brand Name</td>
<td>3.4%</td>
</tr>
<tr>
<td>7</td>
<td>CELEBREX</td>
<td>Brand Name</td>
<td>3.2%</td>
</tr>
<tr>
<td>8</td>
<td>MELOXICAM</td>
<td>Generic</td>
<td>2.9%</td>
</tr>
<tr>
<td>9</td>
<td>TRAMADOL HCL</td>
<td>Generic</td>
<td>2.5%</td>
</tr>
<tr>
<td>10</td>
<td>OPANA ER</td>
<td>Brand Name</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

*Workers Compensation Prescription Drug Study*
NCCI 2013 Annual Issues Symposium – May 2013

Prepared by the Alaska Department of Labor and Workforce Development
Physician Dispensing on the Rise in Most States

States With Physician Dispensing in 2009 ≥ 15.5%

Source: NCCI 2011 State Advisory Forum

Prepared by the Department of Labor and Workforce Development
Most Recent Growth in Prescription Costs per Claim Is From Physician Dispensing

Workers Compensation Prescription Drug Study
NCCI 2013 Annual Issues Symposium – May 2013

Prepared by the Alaska Department of Labor and Workforce Development
State Legislatures Consider Drug Issues
National Council on Compensation Insurance – August 2013

Prepared by the Alaska Department of Labor and Workforce Development
Recommendations

- Legislative History

- Best Practice Recommendations

Prepared by the Alaska Department of Labor and Workforce Development
Legislative History

- 2004
  - Medical fees payable at 90 percentile UCR
- 2005 – SB130
  - Froze medical fees at 2004 fee schedule
  - Sunset 2004 fee schedule effective 12/30/10
  - Established Workers’ Compensation Task Force
  - Established Workers’ Compensation Medical Services Review Committee
- 2007 – HB228
  - Increased 2004 fee schedule by 8.4%
- 2009 – HB104
  - Increased 2004 fee schedule by another 8.9%
- 2011 – HB13
  - Establish new medical fee schedule at 90 percentile UCR

Prepared by the Department of Labor and Workforce Development
Workers’ Compensation Task Force Recommendations

- Discontinue medical fee schedule based on UCR.

- The Legislature work with Administration to improve medical cost data collection.

- Adopt legislation restricting the over-use of opioid narcotics.

Prepared by the Department of Labor and Workforce Development
Workers’ Compensation Medical Services Review Committee Recommendations

- Switch from a UCR based fee schedule to a resource based relative value scale (RBRVS) fee schedule for physicians.

- Implement separate conversion factors for medical practice areas.

- Base hospital fees on MS diagnosis related group (DRG) codes.

- Base fees for ambulatory surgical centers on ambulatory payment classification (APC) rates.

Prepared by the Department of Labor and Workforce Development
Workers’ Compensation Medical Services Review Committee Recommendations

- Implement treatment guidelines.

- Improve data collection on medical costs, including collection of group health cost data.

- Contract with an independent research organization to study the effects of recommended changes.

Prepared by the Department of Labor and Workforce Development
Workers’ Compensation Board Recommendations

- Revise fee schedule methodology from UCR to RBRVS for physician, APC for outpatient, and DRG for hospital.
- Revise prescription drug formulary.
- Regulate physician dispensing
- Regulate use of opioid narcotics.

Prepared by the Department of Labor and Workforce Development
Questions?

A copy of this presentation is available online at http://www.labor.state.ak.us/wc/