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**Post-Reform Economic Impacts of MPNs and CCOs on California's
Workers Compensation Market**

Initial Analysis and Findings

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I. Overview

The Workers Compensation (Workers Comp) reforms of 2003 and 2004 highlighted the potential role that networks of physicians, hospitals and other providers could play under certain circumstances in containing medical claims costs of injured workers in California and insurance carrier premiums. These networks, designated Medical Provider Networks (MPNs) in one of the reform statutes (SB 899), were to be chosen by carriers, including self-insured employers—the payers. The goal was to have networks of providers that would provide access, quality and choice on a cost effective basis to insureds and employers. MPNs are quite similar to Preferred Provider Organizations (PPOs), entities that are usually unregulated in the marketplace. PPOs have played a key role in the California Workers Comp marketplace since the early and middle 1990s and have played a major transitional role in the general healthcare marketplace since the early 1980s. The apparent intent of the reform legislation was that MPNs--consisting of restricted and specified numbers of qualified physicians, clinics and hospitals--could help reduce the medical portion of Workers Comp claims cost through fee discounts, facilitating Utilization Review and Management (UR/UM), primary provider and referral channeling and shifting the balance of medical control toward carriers, employers and their designees.

During 2005, there was a rush in MPN applications to the Division of Workers Compensation (DWC) of the California Department of Industrial Relations (DIR). At least 973 applications were approved by mid-October 2005. Some additional ones have been approved during November and December 2005. A significant number of additional applications are expected in 2006. Much of the Workers Comp employer marketplace has already been covered by MPNs. According to some experts that Bickmore Risk Services (BRS) surveyed, probably over 70% of California's workers are employed by firms linked to MPNs. Some additional workers are in PPOs that have not been qualified as MPNs or in Health Care Organizations (HCOs) that have not as yet converted to MPN status. During much of 2005, there were numerous indications that Workers Comp premiums and medical claims costs were declining precipitously. Did MPNs play a role in those declines? To what extent are MPNs parts of, or linked to, other multi-product organizations? How many MPNs are there in the Workers Comp market? What is the MPN "market share". Have physicians accepted MPNs and how oriented are they to the MPN provisions in the reforms?

Due to time constraints and the relative "earliness" of the regulatory implementation phase that California is in, the BRS Study Team cannot fully address these (and related) questions at this time. However, we did decide to approach these issues in a preliminary fashion by conduct of a modest survey of some of the key participants in the MPN development and implementation process, including senior PPO and MPN executives and PPO/MPN consultants and experts (the BRS PPO/MPN Experts Survey). We asked several PPO/MPN-related questions in the BRS Employer Survey. We also interviewed some respondents in greater depth, in order to enhance our early sense of the macro-impact of the reforms on the PPO/MPN side of the Workers Comp marketplace.

II. Organizational Types and Regulatory Authority

Medical Provider Networks (MPNs) as defined in SB 899, are intended to be vital components of the overall Workers Compensation reform package. Their apparent

goal is to enhance the cost effectiveness of medical services within the Workers Comp system and to do so while facilitating utilization management and quality of those services. MPNs are linked in the legislation to strengthened Utilization Review/Utilization Management (UR/UM) and associated “evidence-based” clinical guidelines, in part through the mandating of the American College of Emergency Medicine (ACOEM) and related guidelines.

From economic and organizational perspectives, MPNs are not significantly different from PPOs, as commonly defined for either the general health care or Workers Comp marketplace. PPOs and MPNs are networks of doctors, hospitals, clinics and other medical providers where access for payers and their insureds to those providers is guaranteed by contract, typically at established fee schedules and/or established fee discounts. There are some permutations of that basic model having to do with how tightly knit the providers are to the PPOs and how the fee schedules and discounts are determined.

In California, on the health care side, PPOs as entities usually are not directly subject to regulations, except insofar as they are parts of existing insurance products and thus indirectly regulated by the California Department of Insurance (CDI). Some health plans (HMOs) permit some of their PPO-like product lines to be directly regulated by the California Department of Managed Health Care (DMHC). In neither case however are PPOs regulated as separate, specific health care entities. Under the Workers Comp reforms, MPNs in effect are “re-labeled” PPOs for the Workers Comp marketplace, specifically subject to DWC regulations under SB 899 in terms of initial qualification of the networks and maintenance of certain minimum provider standards. PPOs of course have been active in Workers Comp for some time, in particular since the early to mid-90s.

Some PPOs active in the Workers Comp market, and hence MPNs, are linked to, or parts of health plans (HMOs) that are partially regulated by DMHC. In addition, many MPNs are parts of, or closely linked to, management companies directly linked

to and/or parts of Cost Containment Organizations (CCOs), management firms or brokerage firms with multiple cost containment product lines such as Bill Review (BR), Utilization Review and Utilization Management (UR/UM), Case Management (CM), Disability Management (DM) product lines. Such firms also often have Third Party Administration (TPA) product lines. Typically these CCOs are not directly regulated by state or federal agencies. In California's Workers Comp marketplace, CCOs are usually only regulated for their MPN and/or their HealthCare Organization (HCO) product lines.

HCOs are entities also regulated by DWC. They are well-integrated entities similar to HMOs on the general healthcare side, with extensive control over enrollees-insureds, direct responsibility for cost containment services and considerable consumer and fiscal reporting requirement. HCOs were originally enabled during the mid-90s but have not successfully captured the market on the Workers Comp side, perhaps due to issues of complexity in terms of regulatory requirements and compliance and cost of development and operations.

III. Some Recent PPO/MPN Market and Regulatory Developments

During early and middle 2005, from the news media as well as comments from consultants and experts in the Workers Comp marketplace in California, the BRS Study Team gained preliminary insights into some possibly key developments related to PPOs and MPNs in California. There was considerable "background noise" during this period suggesting that Workers Comp medical claims costs and associated premiums were declining significantly. Some suggested that MPNs had played a role in that decline, even though regulatory implementation was just starting up. But there was little indication of how that role may be playing out, and how the multi-product nature of CCOs impacted that role. There were also indications that the new MPNs were in many instances repackaged versions of the old PPOs and/or HCOs. Some observers of the Workers Comp marketplace and those familiar with aspects of the reform legislation suggested that a rather large number of MPNs were

going through the qualification process at DWC and obtaining approvals rather expeditiously, partly because of that repackaging. Some mentioned that well-established HCOs and large California-wide and nationwide PPOs and associated CCOs were quickly responding to the opportunities offered by SB 899 and setting up numerous MPNs jointly with Workers Comp carriers and self-insured employers. A significant number of these MPNs were parts of much larger entities, cost containment organizations (CCOs) or HMOs, firms with multiple cost containment products and services. There were indications that the new MPNs were, at least potentially, in their relations to payers, to some extent “bundled” with some other cost containment services.

During much of 2005, in the wake of passage of the Workers Compensation Reform legislation in 2003 and 2004, there was a dramatic rush of applications for MPN status to the Division of Workers Compensation (DWC) of the California Department of Industrial Relations (DIR). This has slowed down some in the fall of 2005 but may be picking up again in early 2006. These applications came from payers, that is, Workers Comp insurers (carriers) typically acting jointly with insured and self-insured employers. And both types of applicants specified in their applications the names of the Medical Provider Networks (MPNs). In most applications the names of related owning or linking organizations, Cost Containment Organizations (CCOs), are also listed. The latter have at least one of the following product or service lines: health insurance brokerage, Preferred Provider Organization (PPO), HMO, Utilization Review/Utilization Management (UR/UM), Case Management (CM), Disability Management (DM), Bill Review (BR) and/or Third Party Administration (TPA).

According to some PPO/MPN experts, there are approximately 5,000 employers in California, fully and self-insured, who are “eligible” either directly or indirectly to receive MPN services if so qualified by DWC. About 40% of these employers are covered by the State Compensation Insurance Fund (SCIF). About 1,000 of them are self-insured employers, a significant portion of them public agencies. According to

DWC, as of mid-October 2005, 973 MPN applications have been received, reviewed and approved by DWC. Most, about 62%, applications have come from Workers Comp insurers and 38% from private and public self-insured employers. An estimated 60 additional applications have apparently been approved by DWC through December 2005. An estimated 200 applications have apparently been received by DWC but have not as yet completed the application process, of which about 30 are from self-insured employers. Approximately 300 to 400 material modification applications are likely to be received during the next six months or so, depending in large part on how many payers decide to shift from one MPN to another, how many payers decide to make changes in their network composition and proceed down the road to customization and how many new payers decide to initiate the process. An estimated 200 to 300 “new” self-insured employers and fully insured employers-carriers may decide to go through the application process during the current calendar year.

Whether employers and carriers choose to go the MPN route as one element of a strategy to contain medical claims costs is discretionary according to SB 899. Clearly benefit-cost factors play a critical role. One key advantage of the MPN option to Workers Comp payers is that the length of time of employer control to employers is increased from 30 to 60 days. Another advantage is that it affords employers an additional opportunity to obtain fee discounts from physicians and other providers for provision of medical services to Workers Comp insureds. Within the framework of the reform legislation, DWC is the regulator of MPNs. It directly regulates the payers of Workers Comp insurance coverage and services, that is, carriers and self-insured employers. Hence, it regulates MPNs through its authority over payers, not directly. MPNs are primarily regulated through the application approval authority which extends as well to major changes in applications, also known as material modifications.

So far, it appears that fully insured Workers Comp carriers have covered a relatively larger portion of their insured population with MPNs than have self-insured

employers. So far the majority of self-insured employers, in particular in Southern California, have eschewed exercising the (discretionary) MPN option. Apparently they have done so because these employers are relatively satisfied with their current sets of providers. And/or it may be an additional excessive financial burden to set up an MPN and get it qualified. Many of their provider networks are in currently unregulated but formal PPOs or informal networks explicitly customized to individual employers. The physicians and clinics therein may not be otherwise willing to accept additional discounts (or withholds) and the employers may not be interested in additionally antagonizing their providers. So far then some insured and most self-insured employers have decided to remain with their current providers and have elected not to take advantage of additional employer control and/or the further provider discount opportunities.

Have MPNs affected HCOs? Workers Compensation Health Care Organizations (WCHCOs, HCOs) were modest but key players in the managed care component of California's Workers Comp marketplace before 2004, besides unregulated PPOs. HCOs are heavily regulated by DWC, and are in effect integrated "HMO-like entities" targeted to Workers Comp payers; they include a full range of internalized utilization review and management, disability and case management, bill review, return to work, financial and consumer control and other health plan-like features. They are "fully bundled" service organizations, though they typically retain fee-for-service payment methodologies. They have the capacity to do capitation payment, but in recent years have avoided doing so. All of the major PPOs and some of the CCOs have licensed HCOs as parts of their product lines.

It appears that most HCOs in California over the past year have been turned into MPNs. In effect, their owning CCOs have exchanged expensive, heavily regulated product lines for less expensive, less regulated product lines that nonetheless have greater potential medical control over Workers Comp cases. With the passage of SB 899, the State gave employers, in effect, an approach to increasing employer control over Workers Comp cases by substituting relatively unregulated and "looser" MPNs

for heavily regulated and fully bundled and integrated HCOs. MPNs are relatively less expensive to develop or lease as well. In addition, since most of the MPNs so far certified by DWC are parts of CCOs and HMOs with more or less full arrays of cost containment product lines, the opportunity to increase revenue through increased UR and UM arose. This latter is the case even if adoption of the Ordinary Medical Fee Schedule (OMFS) and the chance to include fee discounts did not lead to price savings.

The role(s) of physicians and allied health professionals in MPNs and PPOs are critical to the success of SB 899. In this chapter, the BRS Study Team did not have the time and resources to adequately address their role from clinical, actuarial and/or economic perspectives. There are indications that physicians and clinics reportedly are not satisfied with the newly adopted and enforced Workers Comp provider rates. They believe that Bill Review charges for discounts that are not specifically included in their contracts. A considerable number of physicians apparently are not aware that they are in specific MPNs, or that they have agreed to specific discounts. Physicians complain about additional paperwork requirements and apparent considerable delays in payment. Many apparently have not been made aware of their full responsibilities under the reform legislation. Many have not been trained in the ACOEM and related UR/UM guidelines. It is possible that many providers included in PPO/MPN listings provided to DWC have not been specifically trained in Workers Comp regulations, guidelines and other requirements and are not clear about their MPN responsibilities.

IV. Some Issues and Questions

As implementation of the MPN reforms proceeded, the BRS Study Team identified a number of questions:

- How and in what circumstances did so many MPN applications come in? What are the characteristics of these applications?
- How much of the employer market do they cover?
- How customized to payer requirements are MPNs?

- How many employees are covered by MPNs? What market share has been attained by MPNs?
- How are MPNs linked to PPOs? To Health Care Organizations (HCOs)?
- Are MPNs (and their predecessor organizations PPOs and/or HCOs) parts of, or linked to multi-product organizations--Cost Containment Organizations (CCOs)--with UR/UM, Case and Disability Management (CM, DM), Bill Review (BR) and/or Third Party Administration (TPA) product lines? How “bundled” are these offerings?
- How familiar are MPN providers with the various reform-linked UR/UM, CM, DM guidelines and standards?
- How concentrated is the MPN portion of the Workers Comp market?
- To what extent have MPNs and/or CCOs already “taken over” employer-carrier medical control over Workers Comp cases.
- Have MPNs contributed to the considerable reduction in premiums and economic cost of Workers Comp? If so, how much?

Linked to the last previous question, we also sought to address several related questions, in terms of the rank and relative impact of the following factors on reducing economic cost of medical claims and premiums:

- Adoption of ACOEM and other UR/UM guidelines
- Implementation of tighter UR/UM implementation policies
- Dramatic reductions in PT and chiropractic visits
- Stricter disability definitions and policies
- Adoption of mandatory fee schedules and reductions in provider rates
- Roles of anticipated premium cuts and public jawboning
- Changes in the role of attorneys
- Changes in the volume and rate of Workers Comp cases

While BRS can only partially address these questions at this time, given how early California is in the MPN implementation process, and given the relative paucity of data available from public sources, we did begin to address these and related questions on a preliminary basis. We did so based on the following:

- Partial review of publicly available MPN filing information from DWC
- Development and conduct of a survey with a selected group of twenty (20) PPO/MPN executives and PPO/MPN consultants (BRS Survey of PPO/MPN Experts)
- Selected PPO/MPN questions in the BRS Employment Survey
- In-depth review of marketplace developments with a subset of PPO/MPN Expert Survey respondents

We conducted an extensive though partial review of MPN information available from DWC, including summary listings and a few full MPN filings. The most recent information available from DWC was dated October 18, 2005. There have been changes since that date but these were not readily available. We decided that for the purposes of the current BRS analysis, it would be appropriate to conduct a telephone survey using a more or less standard questionnaire format. The proposed (and resulting) sample size was 20 respondents, representing or associated with MPNs, whose business locations were more or less spread evenly among the Bay, LA, San Diego and Sacramento areas. Eleven (11) are executives with PPO-MPN organizations; nine (9) are PPO/MPN experts/consultants and/or executives with associated CCOs with PPO, MPN and/or HCO product lines. Most respondents were interviewed once; seven (7) were interviewed at least twice and four (4) of those were also interviewed at some additional depth concerning all aspects of Workers Comp and PPO/MPN marketplace developments.

A copy of the PPO/MPN Expert Survey Questionnaire is attached as APPENDIX B. A virtually complete record of the interviews is presented in Attachment C.

For the purposes of the PPO/MPN analysis, we also added several questions to the BRS Employment Survey, focusing on types of network choices available to employees and

employers (PPO, MPN, HCO) by type of payer. From the more in-depth discussions with some expert respondents, we obtained extensive qualitative insights into some MPN market share developments, information on some other MPN-PPO-CCO linkages, magnitudes of employer impacts, and some related matters. In particular, we focused on rough estimates of the actual size of the MPN sub sector of the Workers Compensation marketplace and the comprehensive impacts of multi-service CCOs and MPNs on costs and premiums.

V. Some Initial MPN Findings

BRS prepared a set of initial findings based on the information gathering identified in the previous section. They are initial in the sense that considerable additional research and surveys would need to be conducted after somewhat more time has passed before the resulting findings can be regarded as definitive. Further, the PPO/MPN Experts Survey and the associated in-depth interviews are in effect addressed to very small “focus groups,” which may or may not be representative of the PPO/MPN industry. Hence there may be some reporting bias in that Survey. The initial findings are as follows:

- Out of approximately 14.2 million Californians currently covered by Workers Comp insurance, about 40% are covered by private commercial Workers Comp carriers; about 40% are covered by SCIF; and about 20% are covered by employer self-insurance plans, a significant portion of them (Commission on Health Safety and Workers Compensation, 2005; In-Depth Interviews).
- 30% of employers are with SCIF, 53% are with commercial Workers Comp carriers and the remainder, 17% are self-insured private firms or public agencies. It is possible that smaller firms were less likely to respond to the Survey, and hence, the percentages may be somewhat biased (BRS Employer Survey; Table 1)
- BRS estimates that currently about 75% of all covered workers are covered by carriers and employers who have already selected MPNs and/or whose applications are in process at DWC. Some remaining workers are with employers who already access a PPO for Worker Comp services and/or in HCOs that have

not yet gone through the certification process. Some employers still identify their qualified network as a “PPO” not an “MPN” (In-Depth Interviews).

- MPNs have rapidly penetrated the Workers Comp market. Roughly about 25% to 30% of self-insured employers have designated qualified MPNs. It is estimated that about 80% to 85% or more of fully insured employers make qualified MPNs available to their employees. The latter employers have made greater use of the discretionary MPN option than have self-insured employers. These percentages are not exact, partly because DWC does not as yet have specific data reports linking MPN application information to enrollment information by employer and carrier. (In-Depth Interviews).
- 82.5% of California employers have selected either an MPN or PPO or HCO. It is likely that the HCOs mentioned in this Survey have already transitioned to MPN status. It is also possible that respondents did not make clear distinctions between the previously unregulated PPOs and MPNs. Relatively larger firms are more likely to have already submitted applications to DWC, so there may be a small bias at work here (BRS Employer Survey; Table 2).
- Out of 973 applications, 35% or 341 applications, came from the top 20 private carriers and self-insured employers. From the perspective of employers in dealing with insurers, the “application” market does not appear to be excessively concentrated. This may also be an indication of increased competition related to market entry into the Workers Comp carrier market (California MPN Listing; Table 4).
- SCIF, the largest Workers Comp carrier, had submitted only seven (7) MPN applications to the Division of Workers Compensation (DWC). A significant proportion of SCIF’s employer clients--about 80%--are in situations where SCIF has made available to them an MPN. Evidently, SCIF groups its employers into “pools” to whom the same MPNs are offered. SCIF developed its own MPNs--recently placed into legal question--but primarily uses MPNs from Kaiser—Kaiser On-the-Job—and the Blue Cross Prudent Buyer PPO. In terms of covered employees in California, this combination of networks probably constitutes the largest “MPN” in the state. (California MPN Listing; Table 4; BRS Employer Survey; Table 2)
- The set of MPN applications to DWC is concentrated among a relatively small number of PPOs and CCOs. The top fourteen (14) MPNs submitted 815 or 83.8% of 973 MPN applications. We have excluded from this count are organizations that are invariably and exclusively linked to one of the other MPNs, and/or lease networks from other MPNs, PPOs, or CCOs. These latter include brokers such as Frank Gates or Gallagher-Bassett or insurers such as ACE and Discover Re. Any remaining joint ventures such as Kaiser with Prudent Buyer and InterPlan are weighted appropriately in the summations (California MPN Listing; Table 5).

- The MPN applications “market” is highly concentrated. The top six (6) MPNs submitted 721 or 74.1% of all applications. They include in rank order of number of applications submitted: First Health (292, or 30%), Prudent Buyer of Blue Cross of California (Wellpoint) (117 or 12.4%), Concentra (111), CorVel (79), Crawford (64) and Sedgwick (43). ACE and Discover Re’s applications can be included in this total, as their MPNs are distributed among First Health, Concentra and CorVel. This level of concentration, though not weighted by employees-insureds, might be an indication of oligopoly (California MPN Listing; Table 5).
- All of these MPNs were also previously relatively unregulated PPOs, all are multi-product CCOs, all have to one degree or other, UR/UM, CM, DM, BR and TPA capabilities, for either the general health care and/or Workers Comp markets and all have HCO licenses. In effect, then, MPNs can serve as “loss-leaders” for related, or joint (bundled) services (PPO/MPN experts Survey).
- The remaining eight (8) MPNs among the top 14 submitted 117 applications or 10.6% of the total. They include, in order of applications submitted: Liberty Mutual, WellComp, MedEx, IntraCorp, InterPlan, Kaiser, State Fund and SafeCo (MPN Listing; Table 5).
- Out of those eight (8) MPNs, Liberty Mutual, State Fund and SafeCo are primarily carriers; Kaiser is an HMO; WellComp and MedEx are California-based MPNs and CCOs; and Liberty Mutual, SafeCo, IntraCorp and InterPlan are organizations based outside California. WellComp, MedEx, Kaiser, IntraCorp and InterPlan have HCO licenses (PPO/MPN Experts Survey). All of the entities with HCO licenses can usefully be regarded as multi-product CCOs with respect to the Workers Comp market (PPO/MPN Experts Survey; In-Depth interviews, Internet).
- One way of characterizing PPO/MPNs is by the reported numbers of providers listed nationally and statewide. Some estimates including both physicians and certain allied health professionals for eight (8) of the top fourteen (14) MPNs are:
 1. First Health (CompAmerica): 462,000 providers nationwide, 70,000 in California
 2. Prudent Buyer: 200,000 nationwide, 43,000 in California
 3. Concentra (FOCUS, Beech St): 450,000 nationwide, 42,000 in California
 4. CorVel: 50,000 nationwide, 6,000 in California
 5. Sedgwick: 20,000 in California
 6. WellComp: 3,700 in Southern California
 7. MedEx: 3,000 in Southern California
 8. InterPlan: 15,000 in California

There may be some duplication of provider names within these MPNs, especially with First Health, Concentra and Sedgwick. There is of course very substantial duplication of the various networks operated by First Health, Prudent Buyer, Concentra, Sedgwick and, presumably, Crawford (In-Depth Interviews, Internet).

- The larger MPNs in terms of applications submitted and network size--First Health, Prudent Buyer, Concentra, Sedgwick and InterPlan-- blanket California with their networks. Some experts indicate that only about 5,000 to 7,000 providers, appropriately allocated among specialties, are needed to cover California. Apparently most PPOs/MPNs are not specifically customized to individual carrier and employer requirements. “Geomapping” and constrained web selection are sometimes offered as customization options to carriers and employers, whereby the latter in effect get to create their own “real” provider networks. It is not clear how such huge networks enhance provider quality (In-Depth Interviews, BRS PPO/MPN Experts Survey; Table 6).
- Although almost all MPNs are parts of larger CCOs with multiple product lines, only 55% of PPO/MPN experts indicated that MPNs are parts of more or less fully bundled packages directly linking networks to UR/UM, CM, DM, BR and/or TPA services. Most respondents, 75%, indicated that MPNs and/or affiliated CCOs had adopted ACOEM and related UR/UM guidelines and mandatory provider schedules and maxima (BRS PPO/MPN Experts Survey; Table 6).
- Most respondents (60%) noted that affiliated CCOs have de facto medical control over injured workers. The implication in practical terms is that the UR/UM product lines of CCOs are in most instances effecting “most” medical control over injured workers. (BRS PPO/MPN Experts Survey; Table 6)
- Most respondents (65%) believe the DWC review process has not been difficult to navigate. Some believe that the process has focused perhaps too much on certain paperwork requirements and not enough on “network viability” and provider quality. They also believe that there should be some regulatory oversight of linked CCOs. Some maintain that DWC for this review activity is perhaps understaffed (In-Depth Interviews; BRS PPO/MPN Experts Survey; Table 6).
- Most respondents believe that insufficient attention has been paid to Workers Comp qualifications of MDs in the MPN networks. They recognize that the legislation permitted grandfathering of HCO networks and provider qualifications. Almost all respondents hold that MPN providers have not as yet been adequately trained to meet the new ACOEM and other UR/UM guidelines (80%) and/or the Disability and Apportionment requirements and standards (90%) (BRS PPO/MPN Experts Survey; Table 6)
- Some respondents maintain that HCO requirements and regulatory processes are more cost-effective and viable in long run than MPN requirements. They also maintain that they are more equitable, are more transparent, allow for more

customization of networks to payer and employee requirements. Some respondents believe that MPNs may become more like HCOs in the near future (In-Depth Interviews, BRS PPO/MPN Experts Survey).

- Most MPNs and their affiliated CCOs --that is their Bill Review (BR) entities-- have explicitly included the current state fee schedules in their Provider Agreements and procedures (75%). Most MPN provider agreements have incorporated these fee schedules by reference. However, some respondents mentioned that it is not clear that individual providers are fully aware of the new fee schedules and discounts (In-Depth Interviews, BRS PPO/MPN Experts Survey; Table 6).
- The percentage of bills up for repricing in the BR process has stayed the same or declined a relatively small amount over the past 6 months (about 5%). This suggests that implementation of strengthened UR/UM guidelines may be having some impacts. It is also consistent with a possible reduction in the number of Workers Comp cases per thousand dollars of payroll is declining. Several respondents indeed indicated that Workers Comp cases per thousand employees have declined during the past 6 months by about 5%. (In-Depth Interviews; BRS PPO/MPN Experts Survey)
- Most respondents (60%) believe that medical control of injured workers, de facto, has fallen or will fall mostly to the UR/UM entities within CCOs, and/or trained MPN providers. Some 40% believe that claims adjusters at carriers and/or self-insured employers will retain the upper hand in terms of medical control (BRS PPO/MPN Experts Survey; Table 6).
- Most respondents (80%) maintain that the activities of MPNs and individual providers, by themselves, have, so far, resulted in modest reductions in cost per Workers Comp cost per medical claim, in the neighborhood of the higher end of the 0% to 5% range. Several respondents (20%) held that the impact was about 6 to 10%. Cost reductions exclusively due to MPNs are expected to increase in the near future as MPNs become more customized and providers trained. The key factor will probably be increased coordination between network providers and the UR/UM function (BRS PPO/MPN Experts Survey; Table 7).
- Overall medical costs per Workers Comp claim have declined, on the average, about 11% to 20% the last 6 months, due to the implementation of all the Workers Comp reforms taken together. Cost reductions are expected to increase in near future ((BRS PPO/MPN Experts Survey; Table 7).
- Premiums at California Workers Comp carriers have declined about 21% to 30% on the average the last 6 months, due to the impact of all the Workers Comp reforms. Some observers noted that the “trend” was toward the upper end of the range. Premium reductions are expected to accelerate in the near future, as

implementation proceeds and the market adjusts (BRS PPO/MPN Experts Survey; Table 7).

- That premium declines appear to be larger than declines in medical claims costs may possibly be accounted for by reductions in carrier reserves, and/or increased effectiveness of cost containment measures on “old” open claims (In-Depth Interviews).
- Out of 100%, the principal factors in the reductions in cost per claim and premiums are roughly estimated to be due to:
 1. UR/UM: ACOEM and other guidelines, tightened referrals and volume caps ca. 30%-35%
 2. Fee schedules: adoption and implementation ca. 25%-30%
 3. Disability standards and apportionment: adoption and implementation ca. 10%-15%
 4. MPN exclusive role: implementation and use of specific providers ca. 6% to 10%
 5. Public jawboning: hortatory public statements by senior State officials ca. 0% to 5%
 6. Other factors are estimated to have had no impact: “Changed” role of attorneys and anticipation of future fee cuts

A number of respondents also mentioned another key factor: increased competition among carriers, through market entry and more competitive pricing. (BRS PPO/MPN Experts Survey; Table 8).

Tables 1-8:

Table 1: Workers Compensation Insurance by Type of Insurer and Employer, California 2006

Table 2: Workers Compensation Network Offerings by Type of Employer and Payer, California 2006

Table 3: DWC Applicants by Payer Type

Table 4: Top 20 Private Workers Comp Insurer-MPN Applicants, California, October 2005

Table 5: Top 16 MPNs, California, October 2005

Table 6: PPO/MPN Experts: Selected Survey Questions, October 2005-January 2006

Table 7: Reforms' Impacts on Claims Cost and Premiums, California 2005

Table 8: Estimates of Relative Cost Reduction Factors, California 2005

APPENDIXES

A: SUGGESTED MPN-RELATED RECOMMENDATIONS

B: BRS PPO/MPN EXPERTS SURVEY QUESTIONNAIRE

C: SURVEY NOTES ON CONFIDENTIAL INTERVIEWS