



## ANALYSIS OF ARIZONA MEDICAL FEE SCHEDULE CHANGES PROPOSED TO BE EFFECTIVE OCTOBER 1, 2018

**NCCI estimates that the changes to the medical fee schedule in Arizona, proposed effective October 1, 2018, would result in an estimated impact of +0.1% (+0.9M<sup>1</sup>) on overall workers compensation system costs in Arizona.**

### Summary of Proposed Changes

The current Arizona Medical Fee Schedule, based on published values from the Arizona Industrial Commission (ICA), was adopted by the ICA effective October 1, 2017. The 2018 Arizona Medical Fee Schedule, proposed to be effective October 1, 2018, updates the Resource- Based Relative Value Units (RBRVUs) and Physician Fee Schedule maximum allowable reimbursement (MAR) amounts.

### Actuarial Analysis

NCCI's methodology to evaluate the impact of proposed medical fee schedule changes includes three major steps:

1. Calculate the percentage change in maximum reimbursements
  - Compare the current and proposed maximum reimbursements by procedure code and determine the percentage change by procedure code.
  - Calculate the weighted-average percentage change in maximum reimbursements for the fee schedule using observed payments by procedure code as weights.
2. Estimate the price level change as a result of the proposed fee schedule
  - NCCI research by Frank Schmid and Nathan Lord (2013), "The Impact of Physician Fee Schedule Changes in Workers Compensation: Evidence from 31 States", suggests that a portion of a change in maximum reimbursements is realized on payments impacted by the change.
    - In response to a fee schedule decrease, NCCI research indicates that payments decline by approximately 50% of the fee schedule change.
    - In response to a fee schedule increase, NCCI research indicates that payments increase by approximately 80% of the fee schedule change and the magnitude of the response depends on the relative difference between actual payments and fee schedule maximums (i.e. the price departure).
    - The formula used to determine the percent realized for fee schedule increases is  $80\% \times (1.10 + 1.20 \times (\text{price departure}))$ .

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<sup>1</sup> The estimated dollar impact is the percentage impact(s) displayed multiplied by 2016 written premium of \$859M from NAIC Annual Statement data for Arizona. This figure does not include self-insurance, the policyholder retained portion of deductible policies, or adjustments for subsequent changes in premium levels. The use of premium as the basis for the dollar impact assumes that expenses and other premium adjustments will be affected proportionally to the change in benefit costs. The dollar impact on overall system costs inclusive of self-insurance is estimated to be \$1.1M, where data on self-insurance is approximated using the National Academy of Social Insurance's October 2017 publication "Workers' Compensation: Benefits, Coverages, and Costs, 2015."



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3. Determine the share of costs that are subject to the fee schedule

- The share is based on a combination of fields, such as procedure code, provider type, and place of service, as reported on the NCCI Medical Data Call, to categorize payments that are subject to the fee schedule.

In this analysis, NCCI relies primarily on two data sources:

- Detailed medical data underlying the calculations in this analysis are based on NCCI’s Medical Data Call for Arizona for Service Year 2016.
- The share of benefit costs attributed to medical benefits is based on NCCI’s Financial Call data for Arizona from the latest two policy years projected to the effective date of the benefit changes.

Physician Fee Schedule

In Arizona, payments for physician services represent 33.5% of total medical costs. The overall change in maximums for physician services is a weighted average of the percentage change in maximum allowable reimbursement (MAR) by procedure code (Proposed MAR/Current MAR). The weights are based on Service Year 2016 observed payments by procedure code for Arizona, as reported on NCCI’s Medical Data Call. The overall weighted-average percentage change in maximums for physician services is estimated to be +0.6%. The estimated impact by category is shown in the following table.

<b>Physician Practice Category</b>	<b>Share of Physician Costs</b>	<b>Percentage Change in MAR</b>
Anesthesia	3.2%	0.0%
Surgery	19.6%	+0.3%
Radiology	8.7%	-0.1%
Pathology & Laboratory	1.7%	-1.0%
Medicine	2.7%	-0.8%
Physical Medicine	27.9%	-2.0%
Special Services	0.1%	-0.2%
Evaluation & Management	27.3%	+4.3%
Physician Payments with no specific MAR	8.8%	-
<b>Total Physician Costs</b>	<b>100.0%</b>	<b>+0.6%</b>

Since the overall average maximum reimbursement for physician services increased, the percent expected to be realized from the fee schedule increase is estimated according to the formula  $80\% \times (1.10 + 1.20 \times (\text{price departure}))$ . The observed Arizona price departure for physician payments is  $-18\%^2$ . The percentage change to be realized is estimated to be  $71\% (= 80\% \times (1.10 + 1.20 \times (-0.18)))$ . Therefore,

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<sup>2</sup> A departure of  $-18.0\%$  implies that the ratio of actual payments to the fee schedule maximums is 0.82



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the estimated impact on physician payments due to the proposed physician fee schedule revision is +0.4% (= +0.6% x 0.71).

The above impact of +0.4% is then multiplied by the percentage of medical costs attributed to physician payments in Arizona (33.5%) to arrive at an estimated impact of +0.1% on medical costs. This is then multiplied by the percentage of benefit costs attributed to medical benefits in Arizona (74.5%) to arrive at an estimated impact of +0.1% on overall workers compensation costs in Arizona.

The estimated impact from the proposed updates to the Arizona Medical Fee Schedule in Arizona, proposed to be effective October 1, 2018, are summarized in the following table:

	<b>(A)</b>	<b>(B)</b>	<b>(C) = (A) x (B)</b>	<b>(D)</b>	<b>(E) = (C) x (D)</b>
<b>Type of Service</b>	<b>Estimated Impact on Type of Service</b>	<b>Share of Medical Costs</b>	<b>Impact on Medical Costs</b>	<b>Medical Costs as a Share of Overall Costs</b>	<b>Impact on Overall Costs</b>
Physician Services	+0.4%	33.5%	+0.1%	74.5%	+0.1%