



May 11, 2017

VIA EMAIL TO: mro@azica.gov

Industrial Commission of Arizona
800 West Washington Street
Phoenix, AZ 85007

RE: 2017/2018 Arizona Physicians' and Pharmaceutical Fee Schedule

Dear Chairman Schultz:

This letter serves as follow-up to my public comments provided on behalf of the American Association of Payers Administrators and Networks ("AAPAN") at the hearing on April 27, 2017 concerning the proposed 2017/2018 Arizona Physicians' and Pharmaceutical Fee Schedule ("fee schedule"). As referenced in my testimony, AAPAN is the leading national association of preferred provider organizations ("PPOs") and workers' compensation organizations. Through our members, we work on behalf of thousands of injured workers throughout the country, including in Arizona.

AAPAN appreciates the concerns brought forth by the Industrial Commission of Arizona ("Commission"), and recognizes the significant amount of work that has been invested in this proposal. We support many of the recommendations, and are hopeful that we can work with the Commission to resolve the issues identified by staff and expressed in testimony during the hearing.

However, at a time when Arizona is working to reduce red tape and improve the regulatory environment for businesses and citizens, we are concerned that components of the proposed fee schedule may push the workers' compensation system in the opposite direction. A proposal to implement artificial and arbitrary price controls for providers will have numerous unintended consequences—the costs and administrative burdens for employers will significantly increase, injured workers will face unnecessary and preventable obstacles to care, and providers will see increased burden and delays.

AAPAN objects to Section A(5) of the proposed fee schedule concerning "payment to treating providers who participate in healthcare, preferred provider organization, outcome based network, or specialty networks."

We believe that Section A(5) offers no improvement to care for injured workers, while serving to eliminate the value offered by provider networks and pharmacy benefit managers ("PBMs") to employers and employees alike. In sum, this proposal will interfere with the management of care for injured workers, increase the administrative burden on providers, increase workers' compensation costs for employers, and limit innovation to control medical costs. Furthermore,

AAPAN has concerns surrounding the Commission's statutory authority to create rules addressing contracting between networks and providers.

Our specific concerns are outlined in further detail below.

I. Section A(5) Will Diminish the Value of Networks and Unnecessarily Raise Costs for Employers and Carriers

Section A(5) limits network costs to 10% of the amount paid for provided medical treatment and services. We need to better understand how this percentage was selected. We cannot identify any other jurisdiction that currently sets such a limit, or a rationale for the limit in the recommendation. This piece of the proposal is of significant concern, as network costs to contract, credential, schedule, bill, and to provide the oversight necessary to maintain a high-quality network run significantly higher than those allowed under this section. These value-added services enable networks to achieve significant savings for Arizona businesses and carriers while ensuring injured workers have timely access to high-quality care.

Accordingly, a number of services provided by our members will be shifted to other parties that may not have the capacity to efficiently manage claims, including payers and providers. The specific functions currently performed by networks include, but are not limited to:

- credentialing and clinical oversight of providers;
- efficient scheduling and tracking of patient visits; and
- oversight of pharmacy dispensing and payments.

While we appreciate that the Commission has oversight in these areas, we believe that networks significantly reduce the administrative burdens that would otherwise be borne by the Commission.

Furthermore, as other parties are forced to take on these services, efficiencies provided by networks will be severely diminished. This will likely result in the following negative impacts on the workers' compensation market in Arizona:

- 1. Delayed Patient Care:** Care treatment for injured workers will be delayed as the payers will be responsible for coordinating visits and revisits.
- 2. Increased Fraudulent Claims:** Fraud detection will now be the exclusive responsibility of the payer as there will be no entities assisting the Commission in oversight of the overall provider base.
- 3. Increased Billing Costs:** Billing complexity and costs will increase as there will be significantly less standardization and oversight on the billing process. Additionally, efficiencies from electronic billing through networks will be lost as individual providers will most likely generate paper bills.
- 4. Increased Reporting Costs:** Medical report and process notes will be collected by the payer adjuster from the individual providers instead of being sent efficiently through

network systems. There will be no cost-saving or spending reports sent to the payers; instead, these parties will have to coordinate their spending using internal claims data.

5. **Reduced Coordination and Innovation:** Individual payer medical staff will be required to collaborate directly with providers and there will be no coordination of trends among providers unless the individual payers coordinate with each other. As a result, quality standards for providers will not be achieved to ensure that workers are getting access to high-quality providers.
6. **Increased Direct Contracting:** Without networks, payers will pay full fee schedule rates if they do not have individual contracts with providers. This will significantly increase service costs for pharmacy and all purchased ancillary services.

These elements, combined, will have the unintended consequence of diminishing care of injured workers for Arizonans while raising costs for Arizona businesses.

II. Industry Statistics and National Studies Show the Value of Networks

At the hearing on April 27, 2017, the Chairman and Commissioners requested any information that AAPAN could provide to assist in their consideration of this policy. In an effort to do so, we have obtained claims information that shows the financial value of networks to payers, as well as the results of a national study that demonstrates specific value to the injured worker.

1. **Financial Benefits to Payer:** To illustrate the value of network discounts, AAPAN member Mitchell provided the information presented in a study conducted for Arizona payers, which, we believe, is representative of the entire payer population. In that study of 133,000 bills, Mitchell determined that 76% included network discounts totaling a 29.8% reduction in cost from the billed amount. This represents a nearly 30% medical cost savings from fee schedule to the payer. Under the proposed regulations, Arizona will no longer be a viable operating environment for networks, and the payer community will lose the savings currently being provided by the network contracts. The net effect would be an increase in payer costs of nearly 30% across respective books of business.
2. **Network Timing Benefits to Injured Workers**
Additionally, in our comments provided at the hearing, we referenced national studies presented at the International Association of Industrial Accident Boards and Commissions (“IAIABC”) Convention that demonstrated timely access to treatment through networks. The National Council on Compensation Insurance (“NCCI”) presented a 2016 study (available online [here](#)) indicating that networks allow timely access to providers—on par or faster than when effectively all claims are paid out-of-network, and invariably faster than in instances where claims may or may not be paid in-network. Specifically, Chart 11h on page 34 of the report shows that the median time to see a therapist (occupational or physical) is **9 days shorter** in-network than out-of-network in Arizona.

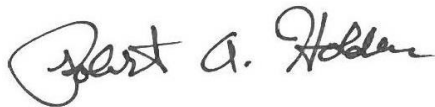
III. Provider Contracting and Our Continued Engagement with the Commission

AAPAN has worked with national policy groups to develop policy around improper access to contractual discounts, or “silent PPOs.” We were particularly instrumental in developing [guidelines](#) at the National Conference of Insurance Legislators (“NCOIL”) to address this very issue. While the NCOIL guidelines specifically excluded the workers’ compensation market, we believe this experience and our subsequent work in these states can be useful in working with the Commission to resolve issues related to contracting.

We also stand available as a resource for assistance in working with our membership to address industry practices that may be of concern to the Commission. Committed to the highest possible standards, AAPAN is prepared to internally monitor and, if necessary, directly resolve issues concerning our individual members.

In closing, we strongly encourage the Commission to reject Section A(5) of the proposal. AAPAN is pleased to work with all stakeholders and regulators to address any questions or concerns regarding network processes and practices, in Arizona or nationally. We share the common goal of providing quality care to injured workers so they can be cared for and return to the workforce quickly. Please do not hesitate to contact me.

Sincerely,



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cc: Commissioner Joseph Hennelly, ICA
cc: Commissioner Scott LeMarr, ICA
cc: Commissioner Robin Orchard, ICA
cc: Commissioner Steven Krenzel, ICA
cc: Director James Ashley, ICA
cc: Jacqueline Kurth, ICA Medical Resource Office
cc: Christina Corieri, Senior Health Policy Advisor to Governor Ducey