

WCRI'S ANALYSIS OF THE ILLINOIS MEDICAL FEE SCHEDULE

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The Workers Compensation Research Institute (WCRI)¹ prepared a revealing and fascinating analysis of the Illinois Medical Fee Schedule, which was added to the Illinois Workers' Compensation Act July 20, 2005, became effective February 1, 2006, and applies to all covered medical services rendered on and after that date regardless of the date of injury. The schedule for both 2006 and 2007 fees, together with detailed instructions and guidelines for its use, may be accessed at <http://iwcc.ingenixonline.com/IWCC.asp>, or at <http://www.iwcc.il.gov>, the web site of the Illinois Workers' Compensation Commission (IWCC). The 2006 fee schedule amounts were increased by 3.8% for 2007, which is the percentage increase in the U.S. Consumer Price Index (CPI) to which annual increases are tied by statute². Commission Rule 7110.90³ interprets and governs the applicability of the fee schedule and may be accessed at the IWCC web site. If an employer, its carrier or TPA has a contract for medical services, the contract prevails over the fee schedule.

The WCRI publication, entitled "Analysis of the Workers' Compensation Medical Fee Schedules in Illinois", concludes:

- the Illinois medical fee schedule is one of the highest in the nation;
- the schedule averaged 167% above the Illinois Medicare rates for 2006;
- the schedule preserves the historic incentives for invasive and specialty care;
- the 2006 schedule amounts exceed the pre-fee schedule average price paid in Illinois for certain services;
- the schedule sets different rates for the same services for each of 29 different areas of the state, whereas only three other states that have a medical fee schedule have different rates for different parts of the state; and
- indexing the fee schedule to the CPI may reduce the rate of growth for covered services but not for those services paid at 76% of actual charges.

¹ WCRI is a nonpartisan, not-for-profit membership organization conducting public policy research on workers compensation, healthcare and disability issues. Its members include employers, insurers, insurance regulators and state regulatory agencies in the U.S., Canada, Australia, and New Zealand, as well as several state labor organizations. Its offices are located in Cambridge, MA. Its publications may be obtained by visiting its web site at www.wcrinet.org.

² 820 ILCS 305/8.2(a)

³ 50 Ill. Admn. Code § 7110.90

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“SUMMARY OF MAJOR FINDINGS

- The Illinois fee schedule is one of the highest in the nation in 2006. The fee schedules in most states in December 2005 were 25-85 percent above the Medicare rates in the state. The Illinois fee schedule averaged 167 percent above the Illinois Medicare rates for 2006.
 - Even the lowest of the 29 area fee schedules in Illinois (622-East St. Louis) was one of the highest in the nation-115 percent above the Medicare rates in the area. The highest of the 29 areas (618-Champaign) was 219 percent above that area’s Medicare rates.
- The Illinois fee schedule preserves the historic incentives for invasive and specialty care that the Medicare program has significantly reduced. The fee schedule for Illinois for surgery was 418 percent above the Illinois Medicare rates for surgery. The fee schedule for radiology was 175 percent above the Medicare rates. By contrast, the Illinois fee schedule for evaluation and management services (largely office visits) was 52 percent above the Medicare rates. The relatively higher rates for surgery versus office visits reward specialty and invasive care far more than primary care.
- The Illinois fee schedule was higher than the average prices paid⁴ in Illinois for many services, especially for surgery and radiology. For example, the fee schedule amounts for some of the common major surgeries were generally 25-50 percent higher than the average prices paid for these surgeries in workers’ compensation. However, the fee schedule amounts were similar to or lower than prices that were commonly paid for other services. Even though most common major radiology and surgical services were paid below the new fee schedule levels, the fee schedule might produce some savings for some payors, since a small to moderate proportion of the bills were paid above the new fee schedule. For some other common services, nearly one-half of bills were paid above the new fee schedule. We would expect to see greater savings for these services. The savings potential for payors that are covered by networks and have relatively high network penetration might be much less than that for non-network payors, assuming networks already pay at substantial discounts from charges.

⁴ Prices paid are derived from actual payments from WCRI’s database containing line item billing and payment information from a representative group of payors in the state. The prices paid could differ from actual prices paid across the state if our data sources represent a higher proportion of network discounts than is found in the state. Forty-one percent of the payments in our database are made for network services (see “Methods and Data” section for more detail).

- The Illinois workers' compensation fee schedule is unique in its design – setting different maximum reimbursement rates for the same services for each of 29 different areas of the state. Areas were defined according to the first three digits of the zip code where the service was delivered – including nine different fee schedules in the greater Chicago metropolitan area. Only three other states (Florida, New York, and Pennsylvania) had different workers' compensation medical fee schedules for different parts of the state, and of those, the maximum number of areas was four. The Illinois Medicare fee schedule sets different rates for only four different geographic regions within Illinois. The Medicare differentials are based on research studies that measure the costs to the providers of delivering services – including differences from area to area in office practice expenses and medical malpractice insurance premiums. The difference between the lowest and highest of the Medicare area is 17 percentage points. By contrast, the 29 fee schedules in Illinois ranged from a low of 115 percent above Medicare (622-East St. Louis) to a high of 219 percent above Medicare (618-Champaign) – a difference of 104 percentage points. Unlike Medicare, the differences in the Illinois fee schedule reflect differences in provider charges, which did not appear to be consistently related to differences among areas in the actual costs incurred by providers. It should be noted that the five largest fee schedule areas in Illinois represent nearly two-thirds of the employment in the state.
- The use of 29 different area fee schedules sometimes leads to odd results, due, in part, to (1) the inconsistent relationship between provider charges and the actual costs incurred by providers to deliver the service, and (2) the relatively small numbers of procedures that were necessarily used to estimate average charges for many procedures, given the relatively small areas that result when a state is divided into 29 regions. These small numbers – as small as 9 procedures – inevitably introduce significant random variation to some of the estimates that underlie the fee schedule. These oddities may create unintended incentives for providers to increase revenues by moving the site of service or otherwise “zip-gaming” the system. While these instances are not pervasive, they occur with sufficient frequency that one might question the wisdom of having so many different reimbursement rates, especially within the Chicago metropolitan area.
- Prices paid are generally determined by local market conditions, including the supply of and demand for different providers' services, the rates paid by group health payors, and negotiated workers' compensation prices between payors and workers' compensation networks. If areas with higher (lower) prices actually paid had higher (lower) fee schedule amounts, we would say that the fee schedule was “rationally related” to the local market conditions. For most common services in Illinois, we found that the areas with the highest fee schedules were not the areas where market conditions led to the highest prices having been paid. For some common services, we observed little rational relationship between the fee schedule and prices actually paid for some services, for others the relationship was weak and for still others the relationship was stronger. But across most common services analyzed, the higher fee schedule areas were frequently not the areas with

proportionately higher prices actually paid. With a fee schedule based on charges (like Illinois), this could occur if charges are not well-reflective of true market conditions. This situation is similar to the sticker price on an automobile, where the true price is closer to the sticker price for cars where demand exceeds supply, but not for slower sellers.

- The annual increases in the fee schedule amounts are tied to the change in the CPI. Workers' compensation medical prices actually paid in Illinois have historically grown by 3 to 4 percentage points per year faster than the CPI. Where the fee schedule levels are binding on the actual prices paid, and unless offset by changes in billing and treatment practices by providers, we would expect this approach to dampen the increase in prices paid compared to what the increase in prices would have been without the fee schedule. However, this is true only for the services covered by the fee schedule and does not apply to services or providers not covered by Illinois' fee schedules or for those services set at a moving 76 percent of charges. WCRI has found that charges have historically increased at an average annual rate of between 7 and 8 percent per year."

A complete copy of this most interesting publication may be ordered at WCRI's web site, www.wcrinet.org, or by sending a written request by telefax to (617) 661-9284.

The following is our Firm's own assessment of the fee schedule: We found it particularly remarkable that the Illinois fee schedule has different rates for 29 different areas in the state, whereas all but three other states that have adopted a medical fee schedule (rather than setting professional fees at a "usual and customary" rate) have the same rates for the entire state. In those three other states the maximum number of geographical areas is four. The Illinois Medicare fee schedule has different rates in only four separate regions. There are actually nine separate "geo-zips" (the first three digits of the zip code where the medical service is provided) in the Chicago metropolitan area alone! WCRI cautioned the rate variations using 29 different area fee schedules "may create unintended incentives for providers to increase revenues by moving the site of service or otherwise 'zip-gaming' the system". WCRI's researchers noted this practice was not pervasive but it occurs "with sufficient frequency that one might question the wisdom of having so many different reimbursement rates, especially within the Chicago metropolitan area." We agree and also advise that fees should be paid according to the schedule for the geozip where the service is actually performed rather than for the geozip where the provider's billing office is located.

To illustrate the rate disparity we obtained data from the 2007 medical fee schedule for several surgical procedures which are frequently seen in workers' compensation claims and compared the fees allowed in each of the nine geozips in the Chicago metropolitan area. Specifically we accessed the Current Procedural Terminology (CPT) codes for a carpal tunnel release (CTR), an ulnar nerve transposition (UNT), an arthroscopic medial meniscectomy (AMM), and a single level lumbar laminectomy (SLL), in the following geozips (with a representative city to designate the area): 600 (Des Plaines), 601 (Elgin), 602 (Evanston), 603 (Oak Park), 604 (Bolingbrook), 605 (Downers Grove), 606 (Chicago), 607 (Niles), and 608 (Cicero). Here are the results:

GEOZIP	CTR CPT 64721	UNT CPT 64718	AMM CPT 29881	SLL CPT 63030
600	\$2,304.26	\$3,235.77	\$3,563.27	\$7,916.85
601	2,320.93	3,726.04	4,860.52	7,844.29
602	1,544.35	3,235.77	3,189.68	5,883.22
603	1,715.94	3,726.04	3,276.96	7,844.29
604	2,265.04	3,186.74	4,314.36	7,635.43
605	2,279.75	3,349.51	3,940.78	7,590.33
606	2,316.03	3,431.88	3,922.15	7,275.58
607	2,255.23	3,431.88	4,146.69	8,824.83
608	2,255.23	3,431.88	3,618.18	8,824.83

We next compared the 2007 fee schedule rates for the same surgical procedures in Rockford (611), Peoria (616), East St. Louis (622) and Springfield (627):

GEOZIP	CTR CPT 64721	UNT CPT 64718	AMM CPT 29881	SLL CPT 63030
611	\$1,957.15	\$2,872.98	\$3,622.10	\$4,240.82
616	1,600.23	2,260.14	3,166.15	5,649.85
622	1,488.45	2,117.96	3,039.66	5,098.79
627	1,935.58	2,735.70	3,431.88	6,564.69

If, hypothetically, cost were the only consideration, an employer, insurance carrier or TPA should send an employee requiring a one level lumbar laminectomy to the Evanston geozip area, where the schedule limits the physician's fee to \$5,883.22 (almost 20% less than the next lowest rate and 33½% less than the highest rate in the Chicago metropolitan area). Or, better yet, the employee should be referred to one of the fine orthopedic surgeons or neurosurgeons we have here in Rockford, where the rate allowed by the schedule is 28% less than the lowest and 52% less than the highest rates in the Chicago metropolitan area!

The rationale for establishing so many different fees for the same surgical procedure in most of the 29 separate geographical regions in Illinois is difficult to grasp. The schedule is definitely unique in its design. WCRI's research and conclusions, as summarized in this article, lead us to question whether the medical cost savings Illinois employers may realize from the adoption of this fee schedule will truly offset the substantial increase in benefit levels and remedies granted to injured employees by the 7/20/05 amendments to our Workers' Compensation Act. We invite your questions and comments.