



**ANALYSIS OF PROPOSED CHANGES TO THE NEVADA MEDICAL FEE SCHEDULE  
PROPOSED TO BE EFFECTIVE FEBRUARY 1, 2016 THROUGH JANUARY 31, 2017**

NCCI estimates that the November 23, 2015 proposed changes to the Nevada Medical Fee Schedule, proposed to be effective February 1, 2016 through January 31, 2017, would result in an estimated impact of +0.4% (+\$1.4M<sup>1</sup>) on Nevada workers compensation system costs.

This analysis does not reflect other changes that may become effective February 1, 2016 such as an updated publication of St. Anthony’s Relative Values for Physicians or Relative Value Guide of the American Society of Anesthesiologists.

**Summary of Proposed Medical Fee Schedule Changes**

The current Nevada medical fee schedule is effective February 1, 2015 through January 31, 2016. The Nevada Division of Industrial Relations (DIR) has proposed changes to the Nevada medical fee schedule, to be effective February 1, 2016 through January 31, 2017. The key proposed changes are summarized below.

• **Nevada Specific Code Reimbursements**

- The table below lists the current and proposed maximum allowable reimbursement (MAR) for Nevada Specific Codes that are changing

<b>Code</b>	<b>Current MAR</b>	<b>Proposed MAR</b>
NV00100	\$164.11	\$246.09
NV00101	\$82.08	\$123.08
NV00200	\$3,238.27	\$4,857.41
NV00500	\$1,969.35	\$2,954.03
NV00900	\$2,973.06	\$4,857.41

- In addition, new codes are proposed to be established with respective MARs

• **Ambulatory Surgical Center (ASC) Reimbursements**

- ASC services are reimbursed according to a set of nine groups of Current Procedural Terminology (CPT) codes, as published by the Nevada DIR. The proposal would increase the maximum reimbursement for each group
- The table below lists current and proposed MARs for the nine groups of CPT services

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<sup>1</sup> Overall system costs are based on NAIC Annual Statement data. The estimated dollar impact is the percentage impact(s) displayed multiplied by 2014 written premium of \$344M from NAIC Annual Statement data for Nevada. 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 +\$2.0M, where data on self-insurance is approximated using the National Academy of Social Insurance’s August 2015 publication “Workers’ Compensation: Benefits, Coverages, and Costs, 2013.”



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Group	Current MAR	Proposed MAR
1	\$789.78	\$918.48
2	\$1,012.51	\$1,230.16
3	\$1,223.51	\$1,406.68
4	\$1,513.62	\$1,737.67
5	\$1,610.35	\$1,977.63
6	\$1,899.00	\$2,278.28
7	\$1,969.35	\$2,683.73
8	\$1,969.35	\$2,744.41
9	\$1,969.35	\$2,954.03

- CPT codes not classified in any of the nine groups would be reimbursed at the Group 8 reimbursement rate, billed charges, or usual and customary reimbursement in Nevada for similar procedure codes, whichever is less

### • **Dental Reimbursements**

- Currently, there is no dental fee schedule in Nevada. The Nevada DIR proposes to implement a MAR for approximately thirty Codes on Dental Procedures and Nomenclature (CDTs)
- All other dental services may be reimbursed at the provider's usual and customary price

### **Actuarial Analysis**

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

1. Calculate the percentage change in maximum reimbursements
  - a. Compare the current and proposed maximum reimbursements by procedure code and determine the percentage change by procedure code.
  - b. 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
  - a. 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.
    - i. In response to a fee schedule decrease, NCCI's research indicates that payments decline by approximately 50% of the fee schedule change.
    - ii. In response to a fee schedule increase, NCCI's research indicates that payments increase by approximately 80% of the fee schedule change



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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  $80\% \times (1.10 + 1.20 \times (\text{price departure}))$ .

3. Determine the share of costs that are subject to the fee schedule
  - a. 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 Nevada for Service Year 2014.
- The share of benefit costs attributed to medical benefits is based on NCCI's Financial Call data for Nevada from the latest two policy years projected to the effective date of the benefit changes.

### Nevada Specific Code Reimbursements

In Nevada, payments for services subject to the aforementioned Nevada specific codes represent 3.1% of total medical payments. To calculate the percentage change in maximum reimbursements for Nevada specific code services, NCCI calculates the percentage change in MAR for each procedure code listed on the fee schedule as published by the DIR. The overall change in MARs for such services is a weighted average of the percentage change in MAR (proposed MAR / current MAR) by procedure code weighted by the observed payments by procedure code. The overall weighted average percentage change in MAR is +23.9%.

Since the overall average maximum reimbursement for services subject to the Nevada specific codes increased, the price realization factor is estimated according to the formula  $80\% \times (1.10 + 1.20 \times (\text{price departure}))$ . However, since a reliable price departure could not be calculated, the price realization factor was estimated to be 80%. The estimated impact on Nevada specific code reimbursements due to the proposed fee schedule change is +19.1% ( $= +23.9\% \times 0.80$ ).

The above impact of +19.1% is then multiplied by the Nevada percentage of medical costs attributed to the Nevada specific codes (3.1%) to arrive at the estimated impact on medical costs of +0.6%. The resulting impact on medical costs is then multiplied by the percentage of Nevada benefit costs attributed to medical benefits (54.8%) to arrive at the estimated impact on Nevada overall workers compensation costs of +0.3% (+\$1.0M).

The establishment of new Nevada specific codes, as is being proposed, may also impact costs. Any resulting impact due to the proposed establishment of new codes would be realized in future experience and reflected in subsequent NCCI loss cost filings in Nevada.

### ASC Reimbursements



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In Nevada, payments for ASC services represent 3.0% of total medical payments. To calculate the percentage change in maximum reimbursements for ASC services, NCCI calculates the percentage change in MAR for each procedure code listed in one of the nine groups of the fee schedule which is published by the Nevada DIR. This approach excludes unlisted CPT codes since such services may be reimbursed at Group 8 reimbursement, billed charges, or usual and customary reimbursements. The overall change in MARs for ASC services is a weighted average of the percentage change in MAR (proposed MAR / current MAR) by procedure code weighted by the observed payments by procedure code. The overall weighted average percentage change in MAR is estimated to be +13.2%.

Since the overall average maximum reimbursement for Nevada ASC services increased, the price realization factor is estimated according to the formula  $80\% \times (1.10 + 1.20 \times (\text{price departure}))$ . However, since a reliable price departure could not be calculated, the price realization factor was estimated to be 80%. The estimated impact on ASC costs due to the proposed fee schedule change is +10.6% ( $= +13.2\% \times 0.80$ ).

The above impact of +10.6% is then multiplied by the Nevada percentage of medical costs attributed to ASC services (3.0%) to arrive at the estimated impact on medical costs of +0.3%. The resulting impact on medical costs is then multiplied by the percentage of Nevada benefit costs attributed to medical benefits (54.8%) to arrive at the estimated impact on Nevada overall workers compensation costs of +0.2% (+\$0.7M).

### Dental Reimbursements

In Nevada, payments for dental services represent 0.5% of total medical payments. To calculate the percentage change in reimbursements for dental services, NCCI calculates the percentage change in current reimbursement to proposed reimbursement for each code. The overall change in reimbursements for dental services is a weighted average of the percentage change in reimbursements by code weighted by the observed payments by code as reported on NCCI's Medical Data Call, for Nevada for Service Year 2014. The current and proposed reimbursements are calculated as follows:

### Current Reimbursement

For each relevant procedure code,

Current Reimbursement = Current Payments x Trend Factor

The current payments are obtained from NCCI's Medical Data Call for Nevada for Service Year 2014. These payments are adjusted to reflect changes from past price levels to the price levels projected to be in effect on the effective date of the dental fee schedule (February 1, 2016). The trend factor is based on the most recent available U.S Professional Services component of the medical consumer price index (MCPI) as shown below:



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Service Year	Professional Services Component MCPI Change from July of previous year*
2012	1.9%
2013	2.2%
2014	1.6%

\*Source: Bureau of Labor Statistics

A trend factor is applied to dental payments for Service Year 2014 to determine the projected payments at the February 1, 2016 price level. The annual trend factor is based on the three-year average of the observed MCPI for 2012-2014 which is equal to 1.9% (= [1.9% + 2.2% + 1.6%] / 3). The trend period from the mid-point of 2014 to the effective date of the fee schedule (February 1, 2016) is 1.58 years, resulting in a trend factor of 1.03 (=1.019<sup>1.58</sup>).

**Proposed Reimbursement**

Proposed Reimbursement = MAR x (1 + Price Departure)

Where MAR by code is published by the Nevada DIR  
Price Departure for dental services is estimated to be -0.10<sup>2</sup>

The estimated overall weighted average percentage change in reimbursement for dental services is -32.3%.

Since the overall average maximum reimbursement for dental services decreased, NCCI expects that 50% of the decrease will be realized on dental price levels. The estimated impact on dental reimbursements due to the dental fee schedule change is -16.2% (= -32.3% x 0.50).

The above impact of -16.2% for dental services is then multiplied by the Nevada percentage of medical costs attributed to dental payments (0.5%) to arrive at the estimated impact on medical costs of -0.1%. The resulting impact on medical costs is then multiplied by the percentage of Nevada benefit costs attributed to medical benefits (54.8%) to arrive at the estimated impact on Nevada overall workers compensation costs of -0.1% (-\$0.1M).

**Other Changes**

The proposal includes changes to reimbursement of supplies and pharmaceuticals provided by a hospital emergency department.

Any resulting impact due to these proposed changes would be realized in future experience and reflected in subsequent NCCI loss cost filings in Nevada.

<sup>2</sup> This analysis assumes that the prices paid would be 10% less than the maximum fee schedule amount due to negotiated contractual agreements.



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**Summary of Impacts**

The estimated impacts from the proposed changes to the Nevada Medical Fee Schedule, proposed to be effective February 1, 2016 through January 31, 2017 are summarized below:

	(A) Estimated Impact on Type of Service	(B) Medical Cost Distribution	(C) Estimated Impact On Medical Costs  (A) x (B)	(D) Estimated Impact on Overall Costs  (C) x (2)
<b>Nevada Specific Codes</b>	+19.1%	3.1%	+0.6%	+0.3%
<b>ASC</b>	+10.6%	3.0%	+0.3%	+0.2%
<b>Dental</b>	-16.2%	0.5%	-0.1%	-0.1%
<b>(1) Total Impact on Nevada Medical Costs</b>			<b>+0.8%</b>	
<b>(2) Medical Costs as a Percentage of Overall Workers Compensation Benefit Costs in Nevada</b>				<b>54.8%</b>
<b>(3) Total Estimated Impact on Overall Workers Compensation System Costs in Nevada = (1) x (2)</b>				<b>+0.4%</b>