

Research and Analysis

# Impact of Medical Fraud Enforcement on California Workers' Compensation



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## Acknowledgments

The author would like to thank a number of employees at the WCIRB for their valuable contributions to this report, including Julia Zhang, David Bellusci, Ward Brooks, Susan Hensley and Bill Mudge. This study also benefited from helpful input from Mi Kim, John Gordon, and others from the California Department of Industrial Relations (DIR). The author also wants to thank members of WCIRB's Medical Analytics Working Group, Claims Working Group and Actuarial Committee for their helpful comments.

## Executive Summary

Over the last several years, declining medical costs in the California workers' compensation system have driven a series of advisory pure premium rate decreases, totaling approximately 40% with the WCIRB's January 1, 2019 Pure Premium Rate Filing.<sup>1</sup> Much of this reduction in medical costs has been driven by provisions of Senate Bill No. 863, including independent medical review, as well as subsequent legislation related to lien filing and other system components.<sup>2</sup> Another significant factor is believed to be efforts by the California Department of Insurance (CDI), the California Department of Industrial Relations (DIR), local district attorneys and insurer special investigative units to identify and prosecute provider fraud.

As of April 7, 2018 (the time of this analysis), more than 450 medical providers have been indicted and/or suspended by the DIR from practicing in the California's workers' compensation system. Many of these providers previously billed and were paid significant amounts for workers' compensation-related services. While many of the procedures billed by these providers may have been for legitimate services, the suspension of their practices in California's workers' compensation is likely a significant driver of reduced medical costs.

To help evaluate the impact of these anti-fraud efforts on medical costs, the WCIRB assessed the volume and type of services rendered by providers who were subsequently indicted and/or suspended by the DIR. Specifically, the WCIRB analyzed:

- What shares of transactions and payments in the California workers' compensation system were made to indicted and/or suspended providers ("Indicted Providers")? Did these shares change over time?
- What types of medical services did these Indicted Providers perform? Did the composition of these services change over time?
- Were there differences in payment lags and levels of activity among Indicted Providers compared to other, non-indicted providers ("Other Providers")?

The WCIRB found:

- Within the California workers' compensation system, the share of medical payments to Indicted Providers declined from 7.2% in the second half of 2012 to 1.9% in the second half of 2017. The share of paid transactions by Indicted Providers also fell from 4.4% to 1.4% over the same time period.
- The payments to Indicted Providers for different medical services varied over time. For example, for the second half of 2012, Indicted Providers accounted for 5% of payments for Physician Fee Schedule Services, while by the second half of 2017, Indicted Providers accounted for 1.2% for Physician Fee Schedule Services.
- The proportion of payments to Indicted Providers for Medical Liens showed a steady increase, from 18% for the second half of 2012 to 45% for the second half of 2017.
- The time between when the service was provided and when the payment was made was noticeably longer for Indicted Providers than for Other Providers, with the exception of medical lien payments.

The WCIRB plans to monitor the transactions and payments to Indicted Providers and update this report in the future.

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<sup>1</sup> *January 1, 2019 Pure Premium Rate Filing*. WCIRB, August 20, 2018.

<sup>2</sup> *Senate Bill No. 863 WCIRB Cost Monitoring Report – 2016 Retrospective Evaluation*. WCIRB, November 17, 2016.

## Background and Study Objectives

Efforts by the CDI, the DIR, local district attorneys and insurer special investigative units to identify and prosecute provider fraud are believed to have contributed to the reduction in medical costs in California's workers' compensation system. As part of this effort, the DIR has, as of April 7, 2018, indicted and/or suspended more than 450 medical providers ("Indicted Providers") from practicing in the California's workers' compensation system. Many of these providers billed and were paid significant amounts for workers' compensation-related services. While some of these services may have been for legitimate services, the suspension of their practices in the workers' compensation is likely a significant driver of reduced medical costs.

This study investigated the shares of transactions and payments by transactional period, focusing on the types of services and composition of services rendered by Indicted Providers, as well as the time between their services and payments. The study also examined differences in the characteristics of the paid medical services of these providers compared to other, non-indicted providers ("Other Providers"). Specifically, the WCIRB analyzed:

- What shares of transactions and payments in the California workers' compensation system were made to Indicted Providers? Did these shares change over time?
- What types of medical services did these Indicted Providers perform? Did the composition of these services change over time?
- Were there differences in payment lags and levels of activity among Indicted Providers compared to Other Providers?

## Study Approach

Using the information published (as of April 7, 2018) on the DIR's website, the WCIRB developed a list of indicted<sup>3</sup> and/or suspended<sup>4</sup> providers. In addition, the WCIRB added to the list providers indicted prior to the availability of the DIR's information.

The WCIRB made efforts to identify the National Provider Identifier<sup>5</sup> (NPI) numbers for each indicted and/or suspended provider based on information from the Centers for Medicare and Medicaid Services<sup>6</sup>, using a variety of processes, typically matching on first and last names, city of address, and provider type. After identifying the NPIs, the WCIRB linked these providers to its medical transaction database for specific medical services and payments to them. For providers that do not have NPIs in the WCIRB's medical database, Tax IDs were used to help identify their services and payments in the medical data.

The WCIRB's medical transaction data consists of medical transactions submitted by over 45 insurer groups representing over 90% of California workers' compensation premiums. This database includes over 160 million medical transactions from the second half of 2012 through the second half of 2017, representing over \$13 billion in workers' compensation medical payments.

For the scope of this study, the WCIRB analyzed medical transactions with indicated effective service dates from January 1, 2000 through December 31, 2017 with payment dates from July 1, 2012 to December 31, 2017. The data in the study was generally analyzed using six-month intervals based on the date of the payment.

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<sup>3</sup> Criminally Charged Providers Whose Liens Are Stayed: [https://www.dir.ca.gov/Fraud\\_Prevention/List-of-Criminally-Charged-Providers.pdf](https://www.dir.ca.gov/Fraud_Prevention/List-of-Criminally-Charged-Providers.pdf)

<sup>4</sup> Providers Suspended Under Labor Code §139.2: [https://www.dir.ca.gov/Fraud\\_Prevention/Suspension-List.htm](https://www.dir.ca.gov/Fraud_Prevention/Suspension-List.htm)

<sup>5</sup> NPI Files – Full Replacement Monthly NPI File: [http://download.cms.gov/nppes/NPI\\_Files.html](http://download.cms.gov/nppes/NPI_Files.html)

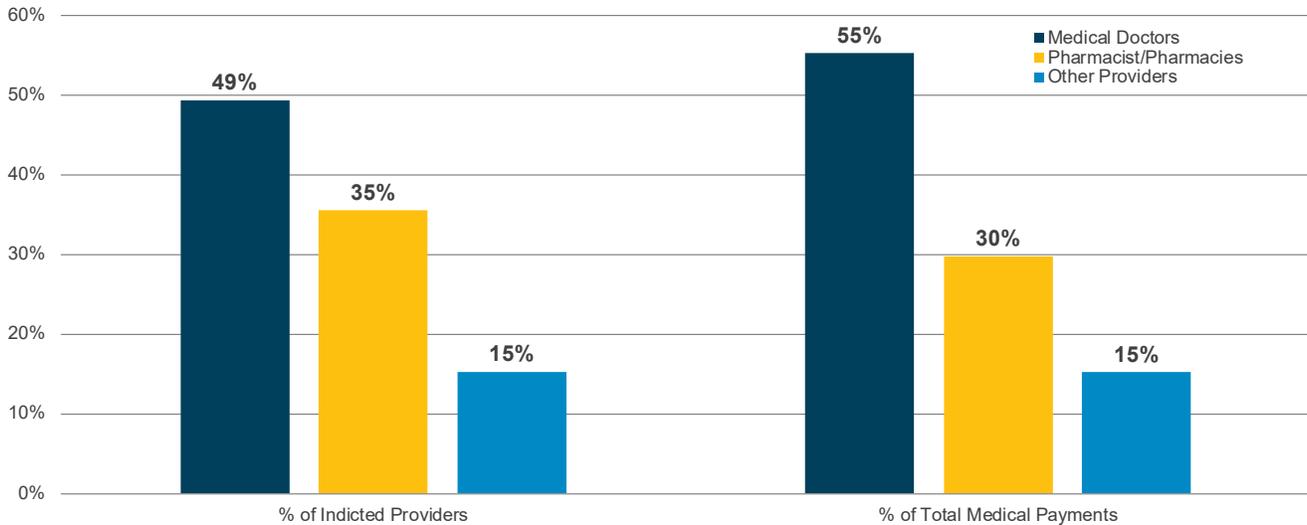
<sup>6</sup> From Centers for Medicare and Medicaid Services' National Plan and Provider Enumeration System (NPPES).

## Findings

### Shares of Medical Transactions and Payments to Indicted Providers

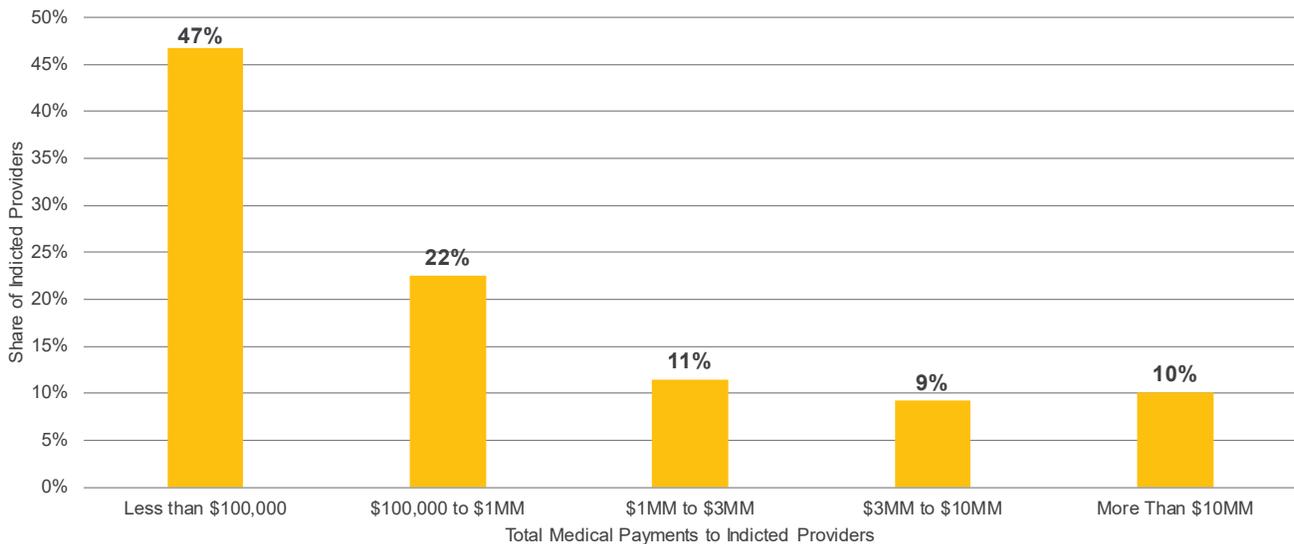
The Indicted Providers identified in the WCIRB's medical transaction data included medical doctors, pharmacists/ pharmacies and other providers and entities such as chiropractors, suppliers of durable medical equipment and hospitals. As shown in [Chart 1](#), approximately half of the Indicted Providers were medical doctors and about one third were pharmacists or pharmacies. Medical doctors accounted for 55% of total medical payments to Indicted Providers, while pharmacists or pharmacies totaled approximately 30% of the payments.

**Chart 1: Types of Indicted Providers in the California Workers' Compensation System**



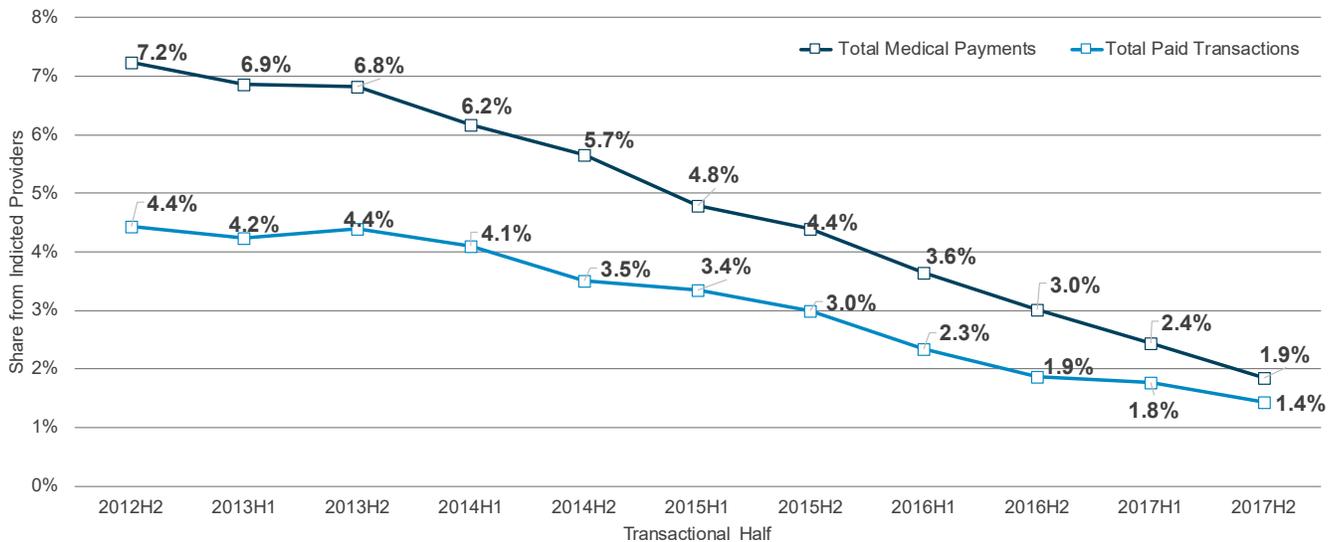
[Chart 2](#) shows the distribution of Indicted Providers by the amount of medical paid to them from the second half of 2012 through 2017. Almost half of the providers received less than \$100,000 in payments for medical services in the California workers' compensation system, and about 10% received more than \$10 million in medical payments.

**Chart 2: Distribution of Indicted Providers by Size of the Medical Payments to Indicted Providers**



**Chart 3** summarizes the shares of all paid medical transactions and payments made to Indicted Providers. In 2012 and 2013, about 7% of the total medical payments were made to Indicted Providers. The chart indicates that the share began to drop sharply after the second half of 2013, resulting in a decline of nearly 75% between the second half of 2012 and the second half of 2017. Over the same time frame, the percentage of paid transactions declined by nearly 70%, from 4.4% in the second half of 2012 to 1.4% in the second half of 2017. The data in **Chart 3** reflects the Indicted Providers at the time of this study, so the share of medical payments to Indicted Providers shown will likely increase with additional indictments.

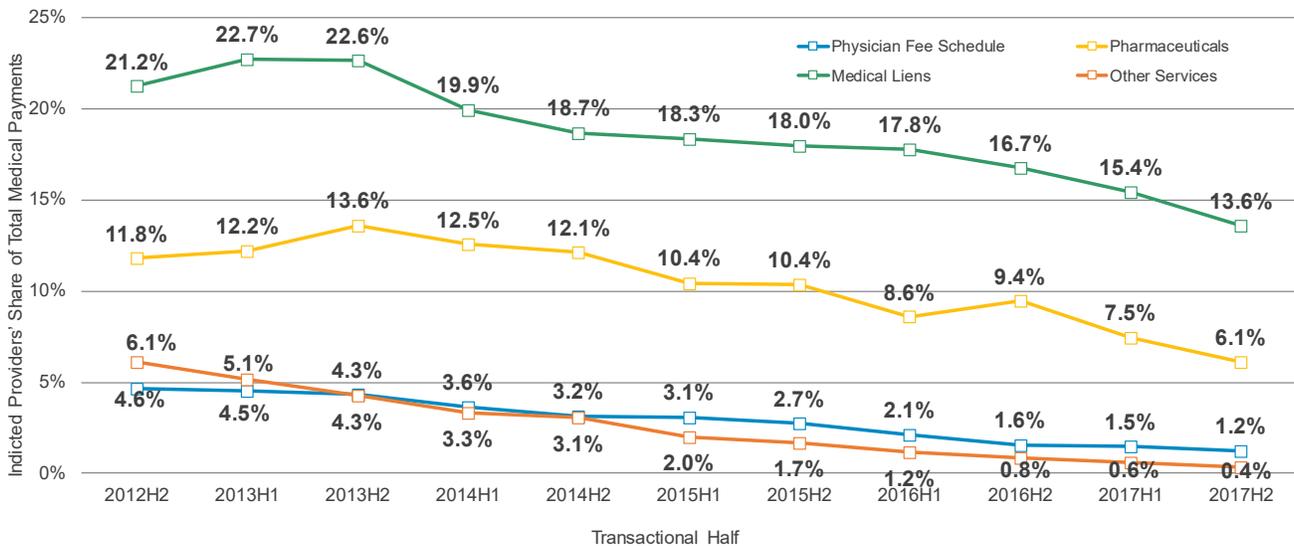
**Chart 3: Shares of Total Medical Payments and Paid Transactions to Indicted Providers**



**Types and Composition of Medical Services Rendered by Indicted Providers**

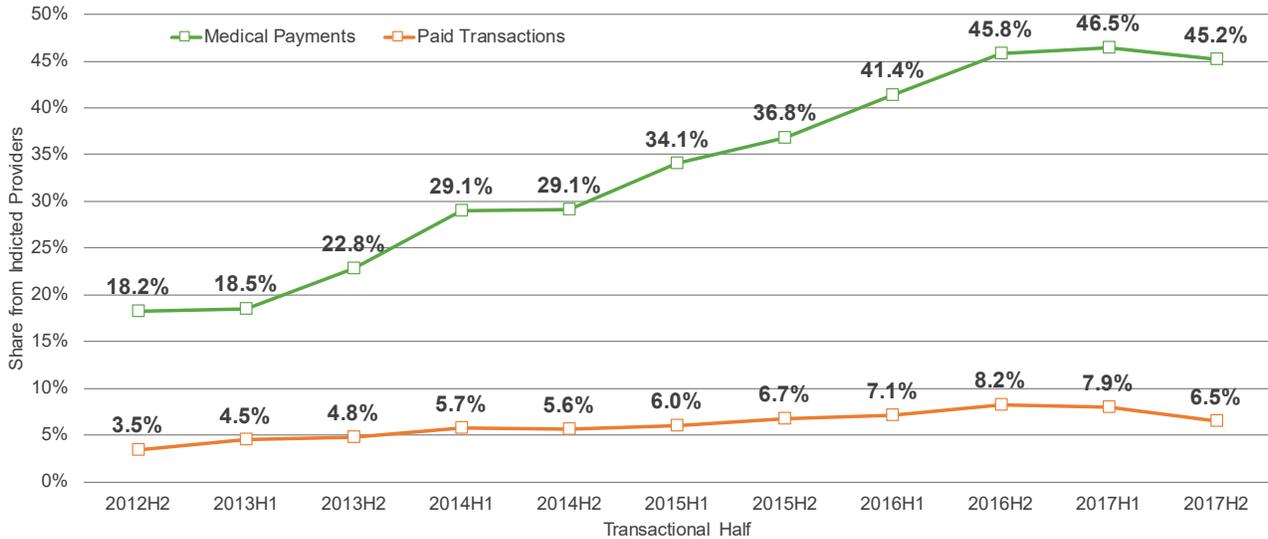
**Chart 4** compares the shares of all medical payments to Indicted Providers by type of services. The total medical payments to these providers leveled off in 2013, when 23% of medical lien payments, 14% of pharmaceutical payments and 4% of payments for other medical services were made to Indicted Providers. Since then, the share of total payments to Indicted Providers declined across all types. Pharmaceuticals and Other Services<sup>7</sup> experienced the greatest declines, while Medical Lien payments, which are generally made long after the service was provided, witnessed a smaller decline. This led to significant growth over time in the proportion of payments for liens to Indicted Providers (**Chart 5**).

**Chart 4: Shares of Total Medical Payments to Indicted Providers by Procedural Type**



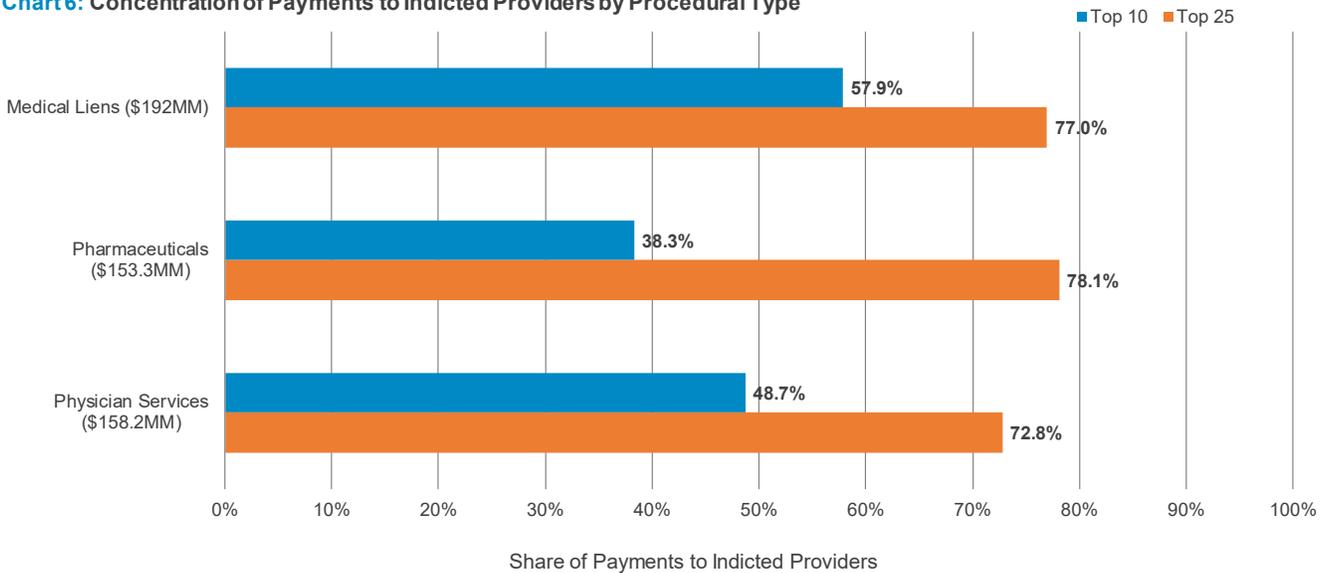
<sup>7</sup> Other Services includes Medical Legal, Inpatient, Outpatient, Copying, and Healthcare Common Procedure Coding System (HCPCS) Service Types.

**Chart 5: Shares of Payments and Transactions to Indicted Providers for Medical Liens**



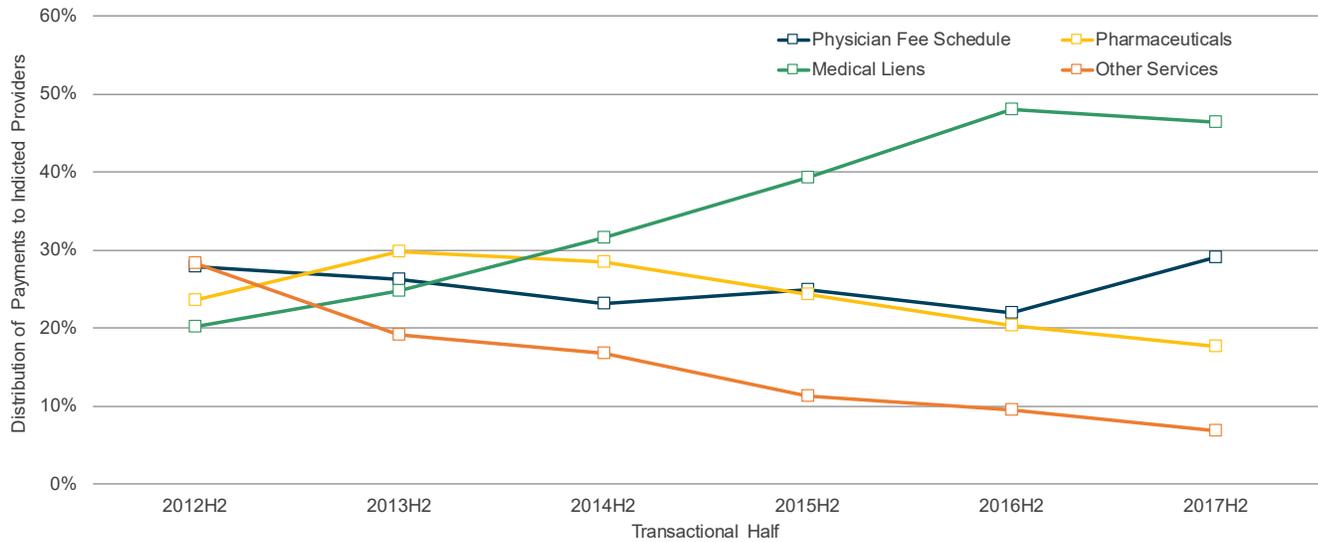
At the time of this analysis, more than 450 medical providers were indicted and/or suspended by the DIR from practicing in the California workers' compensation system. A number of these providers billed and were paid significant amounts for workers' compensation-related services. The WCIRB ranked the Indicted Providers by the total amount of payments made to them over the study period. [Chart 6](#) shows that the top 10 providers accounted for nearly 60% of the lien payments made to all Indicted Providers and nearly half of the physician services payments. The top 25 received nearly 80% of both lien and pharmaceutical payments made to all Indicted Providers.

**Chart 6: Concentration of Payments to Indicted Providers by Procedural Type**



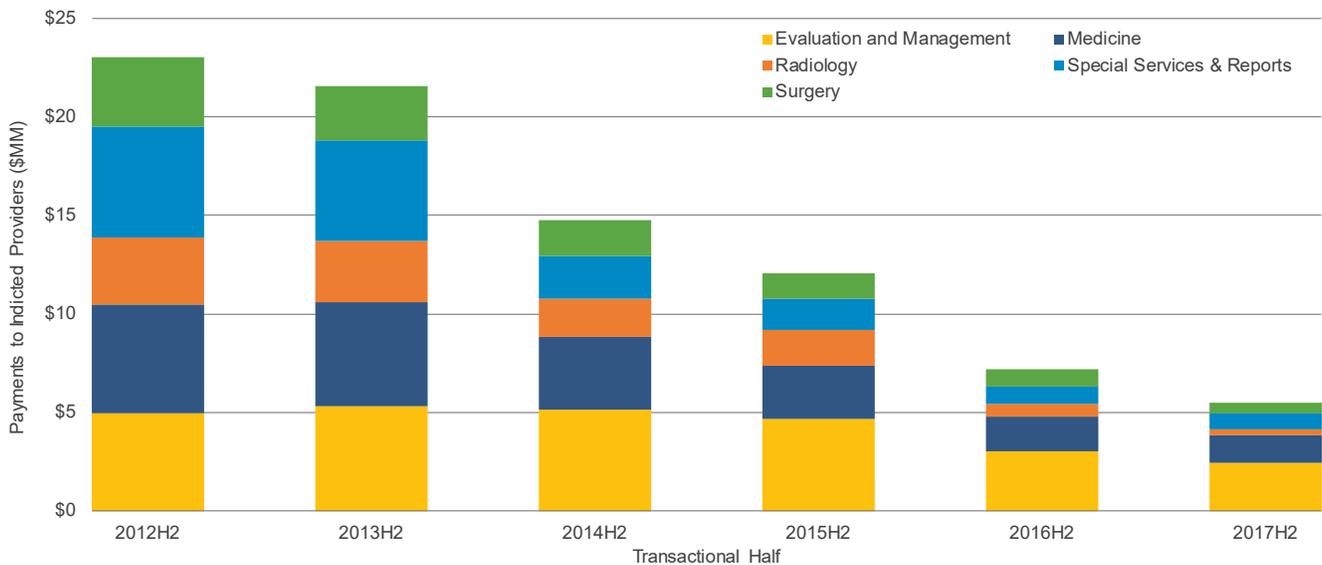
The WCIRB also analyzed the payments made to Indicted Providers by type of procedure (Chart 7). While the share of medical payments made to Indicted Providers for Physician Services was relatively stable, the share of payments for Pharmaceuticals showed a steady decline from 2013 to 2017. The share of payments for Medical Liens increased, reflecting a greater lag in payments for these services.

**Chart 7: Distribution of Payments to Indicted Providers by Procedural Type**



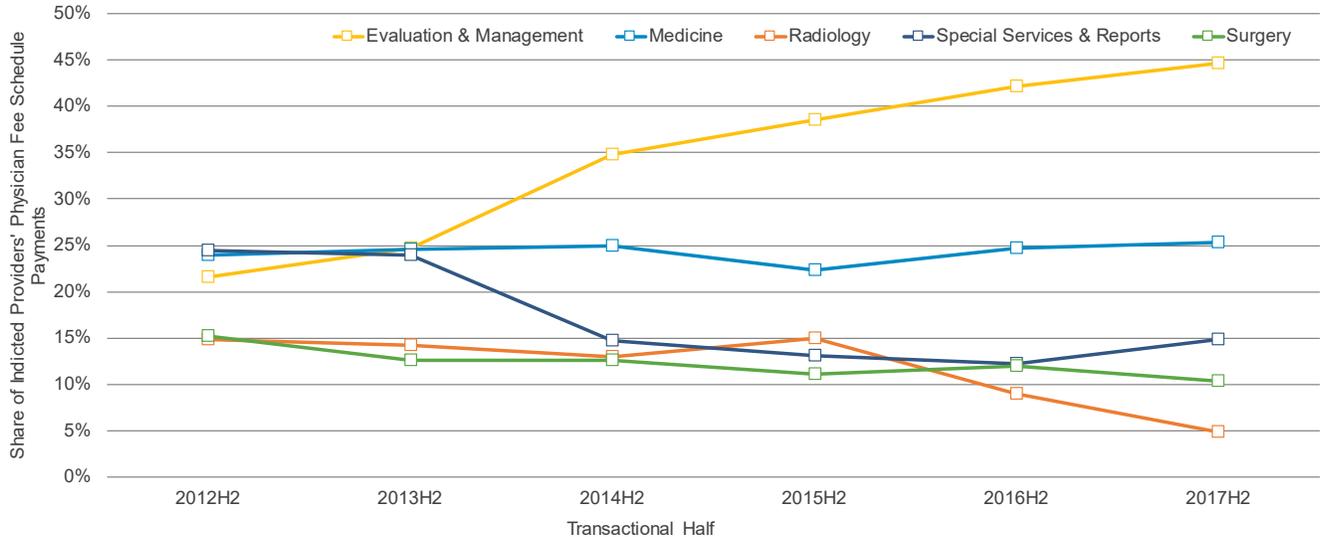
Charts 8 and 9 summarize the distribution of medical payments for Physician Services to Indicted Providers by Physician Fee Schedule component. Chart 8 shows the amount of the payments over time within each fee schedule component. While all components experienced a significant decrease in payments to Indicted Providers, Radiology showed the greatest percentage decrease (92%), yet Evaluation and Management had the smallest decrease (50%). Other Providers experienced a 36% increase in medical payments for Evaluation and Management and a 32% decrease in Radiology payments.

**Chart 8: Medical Payments (in \$MM) to Indicted Providers by Physician Fee Schedule Component**



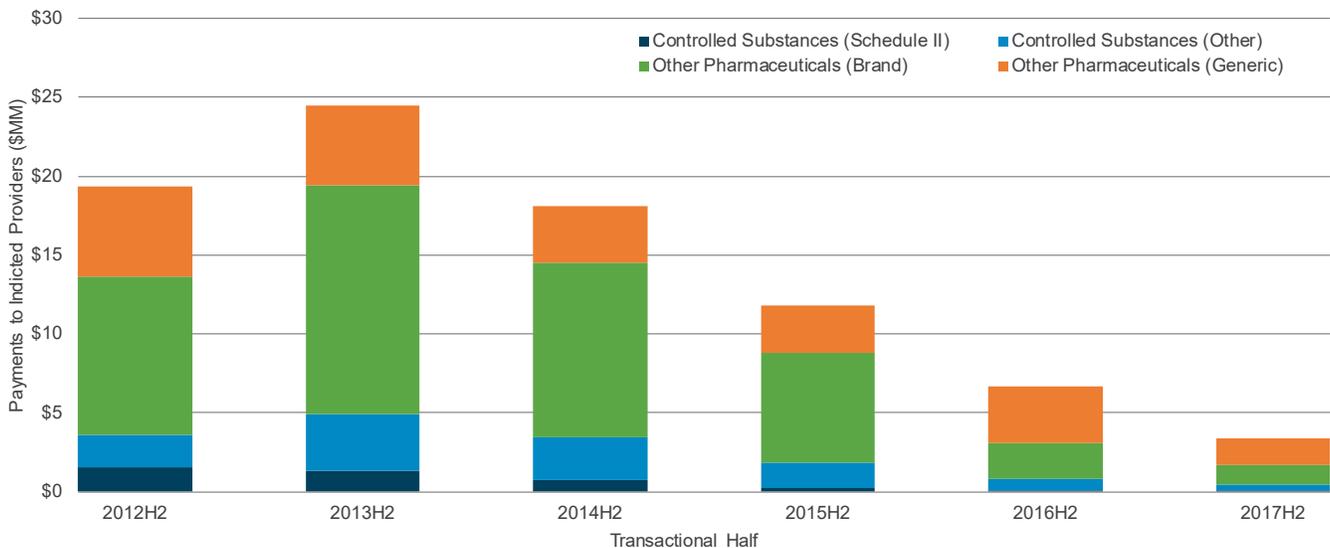
As shown in [Chart 9](#), the share of Physician Services Payments to Indicted Providers for Evaluation and Management services increased significantly over time, while the share of payments for Radiology, Special Services and Reports, and Surgery declined.

**Chart 9: Distribution of Payments to Indicted Providers by Physician Fee Schedule Component**



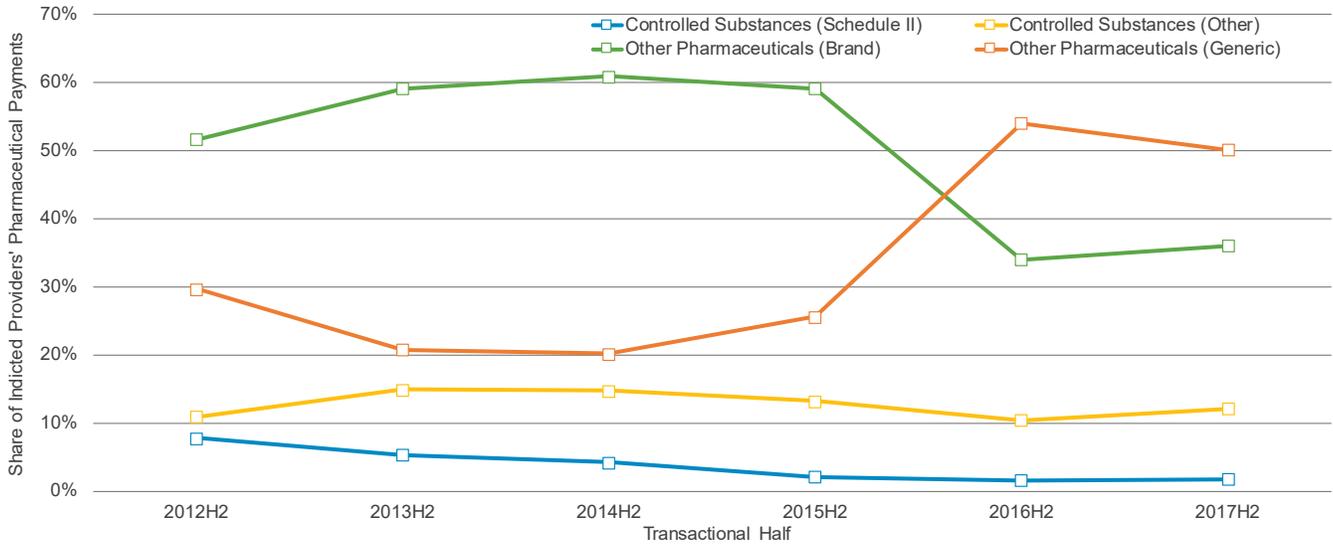
[Charts 10 and 11](#) summarize the patterns of pharmaceutical payments made to Indicted Providers. [Chart 10](#) shows the amount of payments over time within each category of pharmaceuticals. All pharmaceutical components experienced a significant decrease in payments to Indicted Providers, and Schedule II Controlled Substances showed the greatest percentage decrease (96%), while other pharmaceuticals (non-controlled substances) that were generics had the smallest percentage decrease (71%). Other Providers experienced an 84% decrease in payments for Schedule II Controlled Substances, while payments for generic non-controlled substances declined by 47%.

**Chart 10: Payments (in \$MM) to Indicted Providers by Pharmaceutical Component**



Chat 11 shows that about 20% of pharmaceutical payments were made to Indicted Providers for controlled substances, and the share stayed flat over time. On the other hand, the share of pharmaceutical payments for brand name drugs to indicted providers dropped sharply in the second half of 2015 and leveled off in 2016.

**Chart 11: Distribution of Pharmaceutical Payments to Indicted Providers**



**Lags in Medical Payments – Liens and Non-liens**

The WCIRB compared the payment lags (time between the date of service and the date of payment) between Indicted Providers and Other Providers by type of services. Chart 12 shows that for Medical Lien transactions through 2015, there was no discernible difference in the median payment lag between Indicted Providers and Other Providers. For 2016 and 2017, however, Indicted Providers experienced shorter median payment lags than Other Providers. This somewhat counter-intuitive result may have been a result of many of the more complex liens involving Indicted Providers being automatically stayed pursuant to requirements added by Senate Bill No. 1160 and Assembly Bill No. 1244 effective January 1, 2017. Another possible explanation might be the efforts to expedite settlements in liens involving Indicted Providers.

**Chart 12: Lags in the Payments for Medical Liens by Indictment Status**

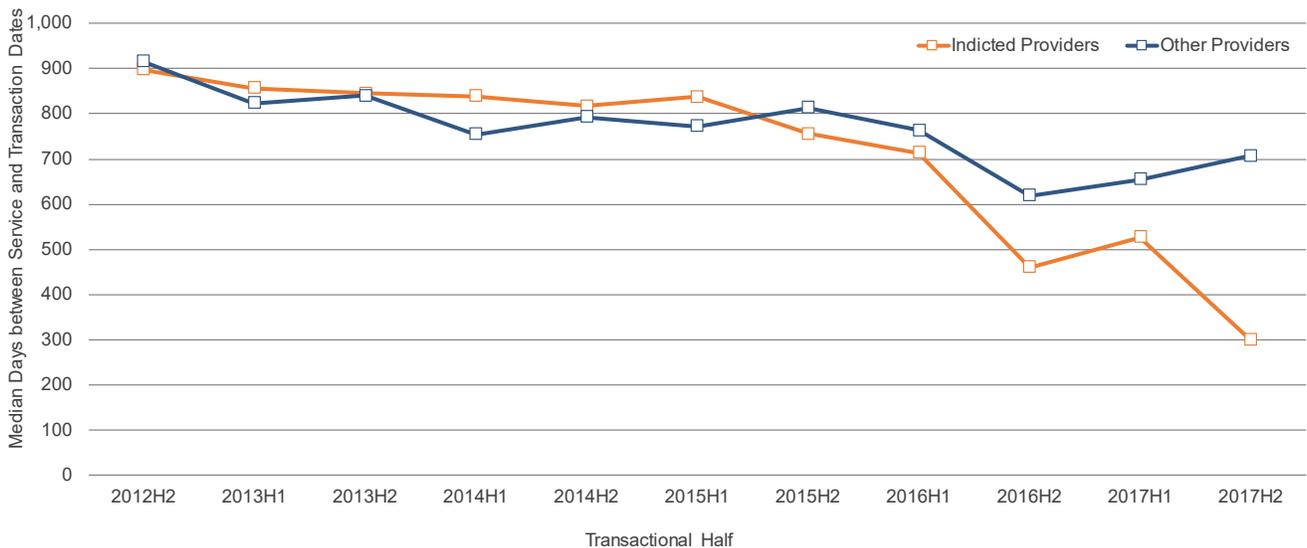
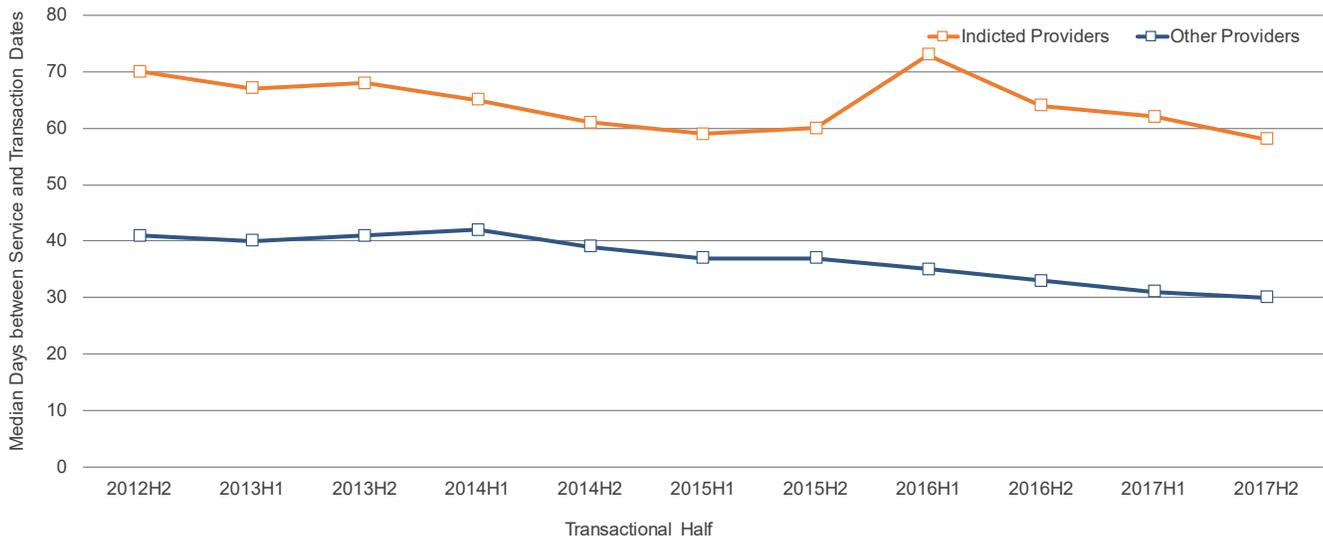


Chart 13 shows that for non-lien transactions, Indicted Providers have consistently experienced longer payment lags than Other Providers. In fact, even in the second half of 2013, prior to most of these providers being indicted or suspended, there was a significant differential of approximately 30 days (or 75%) in the median payment lag between providers who were later indicted and Other Providers. This suggests that, even prior to being indicted, services rendered by these providers may have been receiving a greater level of scrutiny prior to being paid.

**Chart 13: Lags in the Payment for Non-lien Medical Services by Indictment Status**



## Conditions and Limitations

The WCIRB completed this study using medical transaction data with transaction dates from July 1, 2012 through December 31, 2017. Our data reflects approximately 90% of the insured system in California. In reviewing this information, the following should be noted:

1. This report reflects a compilation of individual insurer submissions of medical transaction data to the WCIRB. While the individual insurer data submissions are regularly checked for consistency and comparability with other data submitted by the insurer as well as with data submitted by other insurers, the source information underlying each insurer's data submission is not verified by the WCIRB.
2. The study is based solely on the experience of insured employers. No self-insured employer experience is reflected in the study.
3. This report reflects the data for providers indicted or suspended as of April 7, 2018. As the anti-fraud efforts have continued and actions against providers are taken, future updates of this analysis will include providers indicted after April 7, 2018. In addition, no adjustments were made to account for providers indicted or suspended prior to July 1, 2012.
4. The WCIRB made efforts to match medical providers from several sources of information to its medical transaction data. Matching accuracy is limited to consistent availability of first and last names, location, and provider specialty across these sources.

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