



The Intelligent Insurance Solution

Labor and Public Employees Committee March 14, 2013

Testimony

Raised SB# 1074 – AN ACT CONCERNING WORKERS’ COMPENSATION AND LIABILITY FOR HOSPITAL SERVICES

Good Afternoon Senator Osten, Representative Tercyak and members of the Labor and Public Employees Committee. I am Diane Ritucci, President & Chief Executive Officer, Workers’ Compensation Trust, Wallingford, CT.

The Trust is an employer mutual association which for the past 32 years, provides workers’ compensation insurance coverage to over 400 healthcare and human service organizations throughout the State. The vast majority of our members receive significant funding from the Departments of Children & Families, Mental Health & Addiction and Developmental Services. They have withstood multi-year budget cuts and reductions in funding for the past several years and yet continue to provide necessary services.

I myself have been in the workers’ compensation business for over 32 years and I have never seen such havoc as we have today as it relates to the payment of hospital bills. All of us who work in this industry rely heavily upon the Bulletins issued by the State of Connecticut Workers’ Compensation Commission as our “bible” to help us determine the appropriate handling of cases. These bulletins contain all the workers’ compensation statutes and related statutes that are needed to adjudicate claims.

It is important to note that, Bulletin No. 34 issued in 1979 and Bulletin No. 49 issued in 2011, contain the exact same language as to the payment of hospitals. Section 31-294d(d) states that “the liability of the employer for hospital service shall be the amount it actually costs the hospital to render the service”. Another important note is that between these two publishing dates, the workers’ compensation system went through at least 3 major reforms—1991, 1993 and 1995. Every statute was reviewed and overhauled during those years and still that language survived. That was not an accident. There was a reason that that language held up for over 30 years and the reason is because that is what was intended.

Our experience is that hospitals certainly understood the statute existed and accepted the payment accordingly. Our reconsideration request rate is almost negligible and is never because hospitals are questioning the payment based on cost, but rather that we were missing information and that information was now available.

Workers’ Compensation Trust

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But, one attorney started seeing dollars signs. So, last March this attorney brought 4 cases before a single workers compensation commissioner in the Norwich district to challenge the "actual cost" language. And, that commissioner made a very bad decision that has sent employers in this state reeling ever since. Commissioner Schoolcraft's decision said that Section 31-294d(d) is no longer applicable and the employers must either negotiate lower rates with hospitals or they must pay published charges.

So, now what are hospitals doing? They are saying that due to the Schoolcraft decision, we will not negotiate with you; we want billed charges. Hospitals have never gotten billed charges from any payor system. The median cost mark up for hospitals is 143%. While we believe the Schoolcraft decision will one day be reversed upon appeal, we have real issues in the meantime.

SB1074 has been proposed to fix this problem. Although it still requires further work in terms of specific language, the intent of the bill is to once again clarify a strong, objective way in which hospitals will be paid under the workers' compensation system in CT.

Before we do that however, we need to bear in mind the following important information:

- 1) According to Health Strategy Associates, workers' compensation medical expenses account for less than one-fiftieth of total US health care costs, yet workers' compensation generates almost one-sixth of hospital profits.
- 2) The latest information from the Workers' Compensation Research Institute (WCRI) indicates that inpatient hospital payments were up 35% on average for the 5 years between 2005-2010, while the average payment per claim for hospital outpatient treatment/operating room /recovery room services increased by 62 percent.
- 3) A key metric of the workers' compensation industry is the combined ratio. This ratio measures the profitability of the industry. The calendar year combined loss ratio for CT in 2010 was 134, 11 points higher than the prior year. This ratio means that for every \$1 in premium collected, \$1.34 is paid out in losses. This is the 2nd highest combined loss ratio in the nation. Investment income helps, but with investment yields the way they are today, the math doesn't work. Insurance companies are losing money and the only recourse is to raise premium and increase cost for employers.
- 4) And, as a very specific local example, a knee procedure was conducted in a one-day surgery center at a large teaching hospital recently. The total bill for the use of the operating room and recovery room for this 5 hour stay was \$26,000. This amount does not include the surgeons fee or the anesthesiologist. Just the facility charge. If the bill was paid by Anthem as the group health carrier, the hospital would have been paid \$3800 or 15% of billed charges. But, because it was a workers' compensation claim, and using the present "cost" statute that is on the books, the payment was \$5900, still a 55% increase over group health payments.

Few dispute that employers should adequately reimburse hospitals for their services. It is equally indisputable that under the current statute, employers are adequately reimbursing hospitals by paying more than their fair share. We fully understand that reimbursements from Medicaid and Medicare, and the general care of the uninsured, creates a financial burden for hospitals. But the already overburdened workers' compensation system should not be the source of this shortfall.

If we cannot maintain the existing statute language, we need a fair, objective method of payment that recognizes the need for the Hospitals to be paid appropriately, but also a method that does not unfairly burden the employer.

The rising cost of medical care has substantially impacted the cost of the workers' compensation system and is a key cost driver for increased premium. Even though we return all profits to our members, the members I serve cannot afford any more increase to their workers' compensation costs. These organizations have already experienced longstanding funding and budget cuts from the State and are still expected to do their best to provide much needed services to the mentally, physically, and emotionally challenged.

I implore you to help employers by holding down hospital charges by working with us on language that maintains the "cost" statute or as close to "cost" as possible. Any further deterioration in our payer system will have dramatic effects on the cost of Workers' compensation for all employers for many years to come. This is one area where CT does not want to be number 1.

I thank you for your time and attention. Should you need any further information, please feel free to contact me.

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