

**SCR 54**

**SD1**

**REQUESTING THE  
AUDITOR TO CONDUCT A  
STUDY TO ASSESS THE  
IMPACT OF MEDICAL BILL  
REVIEW COSTS ON THE  
STATE'S WORKERS'  
COMPENSATION SYSTEM.**

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# SENATE CONCURRENT RESOLUTION

REQUESTING THE AUDITOR TO CONDUCT A STUDY TO ASSESS THE IMPACT  
OF MEDICAL BILL REVIEW COSTS ON THE STATE'S WORKERS'  
COMPENSATION SYSTEM.

1           WHEREAS, although workers' compensation premiums in Hawaii  
2 have dropped significantly since the reforms in the mid-1990s,  
3 it is important to understand the impact of medical bill review  
4 costs, which include pharmacy benefit manager and third party  
5 administrator costs, on the State's workers' compensation  
6 system; and  
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8           WHEREAS, much effort has been devoted to studying the  
9 impact of many other costs involved in the State's workers'  
10 compensation system, little has been done to review the impact  
11 of medical bill review costs; and  
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13           WHEREAS, spending too much money on medical bill review  
14 costs ultimately takes money away from injured workers; and  
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16           WHEREAS, claims administrators should be transparent with  
17 their medical bill review fees and should disclose any fees  
18 charged to the claim file for their medical bill audit process;  
19 and  
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21           WHEREAS, medical bill review service fees are typically  
22 charged outside of the contracted fixed claim administration  
23 fees, and, according to a July 2015 article by the Risk Advisory  
24 Practice of Wells Fargo Insurance, the fees may represent up to  
25 fifty percent of the total per claim handling fees, depending on  
26 the pricing structure that the claim service provider uses; and  
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28           WHEREAS, unfortunately, because medical bill review fees  
29 are applied as allocated expenses against the claim files, they  
30 are often not considered when comparing total provider service  
31 costs; and



1  
2 WHEREAS, the manner in which the claim service provider  
3 structures these fees can result in a considerable fee  
4 differential and cost to the State; and  
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6 WHEREAS, it is crucial that the State understand the fine  
7 print of the various fee structures and the implications on  
8 their total medical bill review costs; and  
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10 WHEREAS, studying the pricing of medical bill review will  
11 help control the cost of the State's workers' compensation  
12 system; and  
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14 WHEREAS, it is important that the State look at ways to  
15 prevent medical bill review costs from becoming an unreasonable  
16 cost driver of health care in workers' compensation claims,  
17 while ensuring the same standard of service and care intended  
18 for injured employees under the workers' compensation law; now,  
19 therefore,  
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21 BE IT RESOLVED by the Senate of the Twenty-ninth  
22 Legislature of the State of Hawaii, Regular Session of 2018, the  
23 House of Representatives concurring, that the Auditor is  
24 requested to study and assess the impact of medical bill review  
25 costs on the State's workers' compensation system; and  
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27 BE IT FURTHER RESOLVED that the Auditor is requested to  
28 submit a preliminary report on the progress of the study and its  
29 findings to the Legislature by January 1, 2019; and  
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31 BE IT FURTHER RESOLVED that the State Health Planning and  
32 Development Agency is requested to make the all-payer claims  
33 database available to assist the Auditor in compiling data on  
34 medical bill review costs; and  
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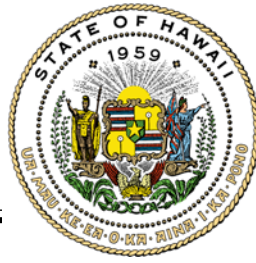
36 BE IT FURTHER RESOLVED that certified copies of this  
37 Concurrent Resolution be transmitted to the Auditor, Director of  
38 Labor and Industrial Relations, Director of Human Resources  
39 Development, and Administrator of the State Health Planning and  
40 Development Agency.



SCR 54

SD1

TESTIMONY



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HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT  
The Honorable Aaron Ling Johanson, Chair  
The Honorable Daniel Holt, Vice Chair

**S.C.R. NO. 54, S.D. 1 REQUESTING THE AUDITOR TO CONDUCT A  
STUDY TO ASSESS THE IMPACT OF MEDICAL BILL REVIEW COSTS  
ON THE STATE'S WORKERS' COMPENSATION SYSTEM**

Hearing: Friday, April 13, 2018, 4:00 p.m.

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The Office of the Auditor **has no position** regarding S.C.R. No. 54, S.D. 1, which requests the auditor to “study and assess the impact of medical bill review costs on the State’s workers’ compensation system.” **However, we have concerns about our ability to do the requested work.**

We typically perform financial and performance audits, which evaluate the financial or managerial operations of specific agencies or programs. This resolution asks us to assess the impact of a particular cost item on the entire workers’ compensation system, which involves a wide range of variables and outcomes; this could make an assessment of impact very difficult. We also have concerns as to whether the Department tracks and captures the data on medical review costs necessary to conduct such a review.

Additionally, we do not have the substantive and technical knowledge relating to the standard of service and care for injured employees under the workers’ compensation law called for under the resolutions. We may need to retain the services of a subject matter consultant to assist us on the substantive issues should these resolutions move forward.

Thank you for considering our testimony regarding S.C.R. No. 54, S.D. 1.

DAVID Y. IGE  
GOVERNOR

DOUGLAS S. CHIN  
LIEUTENANT GOVERNOR



LEONARD HOSHIJO  
DIRECTOR

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DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

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April 13, 2018

To: The Honorable Aaron Ling Johanson, Chair,  
The Honorable Daniel Holt, Vice Chair, and  
Members of the House Committee on Labor and Public Employment

Date: Friday, April 13, 2018

Time: 4:00 p.m.

Place: Conference Room 312, State Capitol

From: Leonard Hoshijo, Director  
Department of Labor and Industrial Relations (DLIR)

**Re: S.C.R. No. 54 SD1 REQUESTING THE AUDITOR TO CONDUCT A STUDY TO  
ASSESS THE IMPACT OF MEDICAL BILL REVIEW COST ON THE STATE'S  
WORKERS' COMPENSATION SYSTEM**

**I. OVERVIEW OF PROPOSED SENATE CONCURRENT RESOLUTION**

SCR54 SD1 requests the State Auditor to study and assess the impact of medical bill review costs on the State's workers' compensation system. The Auditor shall submit a preliminary report to the Legislature by January 1, 2019 and request the State Health Planning & Development Agency make their database of all-payer claims available to the Auditor for the study.

**II. CURRENT LAW**

Many employers and workers' compensation insurance carriers use medical bill review services to analyze and adjust workers' compensation charges by providers of health care services. Independent bill reviewers are licensed by the Insurance Division of the Department of Commerce and Consumer Affairs (DCCA) under §431-9.

**III. COMMENTS ON THE SENATE CONCURRENT RESOLUTION**

The Department supports efforts to address cost containment in workers' compensation. DLIR is not aware of any cost impacts from the medical bill review

process. it is generally found that they produce a cost savings because of the detailed examination of each charge.



To: Rep. Aaron Ling Johanson, Chair  
Rep. Daniel Holt, Vice Chair  
Members of the Committee on Labor & Public Employment

Date: Friday, April 13, 2018

Time: 4:00 p.m.

Place: State Capitol, Conference Room 312

### STRONG SUPPORT FOR SCR54 SD1

As President of Work Injury Medical Association of Hawaii representing the providers treating injured workers in our state, we strongly support SCR54 SD1.

As stated in the Resolution, although workers' compensation premiums in Hawaii have dropped significantly since the reforms in the mid-1990s, it is important to understand the impact of medical bill review costs, which include pharmacy benefit manager and third-party administrator costs, on the State's workers' compensation system. There are a couple of measures still alive that appear to be aimed at bringing greater transparency to contractual relationships with third-party administrators and pharmacy benefit managers, including SB2773 and SB3104. It is apparent that others have recognized the need to shed more light upon the financial impact of medical bill review costs.

Bill review is very profitable. As the Resolution states, bill review costs may represent up to fifty percent of the total per claim handling fees. Sadly, that profit comes at the expense of other stakeholders in workers' comp.

In a recent article<sup>1</sup>, industry researcher Peter Rousmaniere documents some of the more egregious ways in which pharmacy benefit management companies (PBMs), provider networks, and bill review services have "played the spread" between their costs and what they charge

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<sup>1</sup> Peter Rousmaniere, "2018: The Year to Reform Vendor Contracting," January 3, 2018, <https://www.workerscompensation.com/>.



claims payers. Noting that recent rate filings by the National Council on Compensation Insurance have lowered insurers' costs by 10 percent annually, Rousmaniere estimates that the overhead cost to employers for managing claims has grown at a rate of 9 percent a year since the 1990s.

While industry lobbyists continue to attempt to sell state legislators on closed formularies and other initiatives designed to reduce workers' compensation benefits even further, insurance industry umbrella companies have been using practices such as these to rake in record profits:

- Provider networks. According to settlement documents in a lawsuit filed by the Independent Physical Therapists of California, Rousmaniere writes, provider network One Call “overrode the expressed wishes of patients and their doctors from higher to lower cost physical therapists” and “added charges for physical therapy for which the therapists themselves did not bill.”
- Pharmacy benefit management companies. PBMs have employed a similar tactic, playing the spread between their cost for prescription drugs and what they charge employers for the same medication. By charging employers a percentage of an artificial benchmark called “average wholesale price,” while buying drugs at a much lower cost, PBMs have made huge profits.
- Bill review vendors. Rousmaniere cites the example of a bill review vendor that made a profit of more than half a million dollars from a single employer for performing a routine computer task to adjust several thousand invoices to the state fee schedule. “Why did the insurer allow its bill review firm to price gouge?” Rousmaniere asks. “Did it receive an undisclosed part of the windfall?”

Mahalo for your consideration,

Scott Miscovich, MD

President, WIMAH - Work Injury Medical Association of Hawaii

**To: Rep. Aaron Ling Johanson, Chair  
Rep. Daniel Holt, Vice-Chair  
Members of the Committee on Labor & Public Employment**

**Date: Friday, April 13, 2018  
Time: 4:00 p.m.  
Place: Conference Room 312**

**Testimony in Support of SCR54 SD1**

As a physician who treats workers comp patients, I have seen first-hand the struggles of injured workers. The workers' compensation system was designed to be more informal and outside the normal legal process, but unfortunately it has developed into a formal, adversarial legal process. Hawaii's existing workers' compensation system has been plagued by delays and denials, and in many of those cases, bill reviewers seem to automatically deny the claim pending investigation. These investigations may include reviewing reports from independent medical examiners, interviewing other employees, looking at videotapes, or combing through old medical records for evidence as to whether the workplace injury was related to a preexisting condition. While bill reviewers consider, sometimes for months, how to proceed on claims, patients are at times unable to receive compensation.

While I support the State's legitimate efforts to use bill reviewers to save money, it's crucial that the costs and benefits of doing so are open and transparent. For example, a legitimate bill reviewer should not be advising the State to simply stop paying for bona fide medical costs and services as part of a misguided process to save money, and certainly should not be profiting off the backs of our injured workers and medical providers.

I strongly support SCR 54 SD1.

Thank you for your consideration.

Scott McCaffrey, MD

**To: Rep. Aaron Ling Johanson, Chair, Rep. Daniel Holt, Vice-Chair and  
Members of the Committee on Labor & Public Employment**

**Date: Friday, April 13, 2018**

**Time: 4:00 p.m.**

**Place: Conference Room 312**

**Testimony in Support of SCR 54**

My name is Cathy Wilson and I am an advocate for injured workers and the providers that take care of them. I would like to submit the following testimony in support of SCR 54.

SCR 54 would be a good first step to bringing transparency to medical bill review fees and would help the State better understand the various fee structures and impact on the total bill review costs.

As SCR 54 states, although much effort has been devoted to studying the impact of many other costs involved in the State's workers' compensation system, little has been done to review the impact of medical bill review costs. Medical bill review service fees are typically charged outside of the contracted fixed claim administration fees, and, according to a July 2015 article by the Risk Advisory Practice of Wells Fargo Insurance, the fees may represent up to fifty percent of the total per claim handling fees, depending on the pricing structure that the claim service provider uses. It is crucial that the State understand the fine print of the various fee structures and the implications on their total medical bill review costs, and it is important that the State look at ways to prevent medical bill review costs from becoming an unreasonable cost driver of health care in workers' compensation claims, while ensuring the same standard of service and care intended for injured employees under the workers' compensation law.

Thank you for your consideration.

*Cathy Wilson*

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TESTIMONY