



Texas Department of Insurance

Workers' Compensation Research and Evaluation Group

Workers' Compensation Health Care Networks

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3. Workers' Compensation Health Care Networks

An important component of evaluating the impact of the HB 7 reforms on the Texas workers' compensation system is the implementation of the cornerstone of these reforms - workers' compensation health care networks. In the years prior to the adoption of these reforms, rising average medical costs per claim, poor return-to-work outcomes, and high workers' compensation premiums resulted in an increase in the percentage of Texas employers that chose to leave the workers' compensation system (see section 8 of this report for a discussion about employer participation trends in the Texas workers' compensation system).

Research studies published by the former Research and Oversight Council on Workers' Compensation, TDI, and the Workers' Compensation Research Institute (WCRI) highlighted that Texas' high medical costs were being driven primarily by the amount of medical care provided to injured employees (often referred to as "the utilization of medical care"). Despite high medical costs, Texas injured employees were not more satisfied with their medical care compared to employees in other states.¹

In response to these trends and stakeholders' (e.g., insurance carriers, employers, injured employees, health care providers etc.) concerns, the 79th Legislature introduced a new workers' compensation health care delivery model, which allows insurance carriers to establish or contract with managed care networks that are certified by TDI using a method similar to the certification of health maintenance organizations (HMOs).

Overview of the Network Provisions in HB 7

Under HB 7, workers' compensation insurance carriers (including insurance companies, certified self-insured employers, group self-insured employers, and governmental entities) may elect to contract with or establish workers' compensation health care networks (networks), as long as those networks are certified by TDI. TDI's certification process includes a financial review, validation that the network meets the health care provider credentialing and contracting requirements established in TDI's rules, and a detailed analysis of the adequacy of health care providers available to treat injured

¹ See Research and Oversight Council on Workers' Compensation, *Striking the Balance: An Analysis of the Cost and Quality of Medical Care in the Texas Workers' Compensation System: A Report to the 77th Legislature*, 2001; Research and Oversight Council on Workers' Compensation, *Returning to Work: An Examination of Existing Disability Duration Guidelines and Their Application to the Texas Workers' Compensation System: A Report to the 77th Legislature*, 2001; Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, *Medical Cost and Quality of Care Trends in the Texas Workers' Compensation System*, 2004; and Workers' Compensation Research Institute, *CompScope Benchmarks for Texas*, 6th Edition, 2006.

employees in each proposed network's service area. If an employer chooses to participate in the insurance carrier's workers' compensation network, the employer's injured employees are required to obtain medical care through the network, provided that the injured employee lives in the network's service area and receives notice of the network's requirements from the employer (including a network provider directory).²

Employees receiving network notices are asked to sign an acknowledgment form that indicates which certified network the employer is participating in, and acknowledges that the employee understands how to choose a treating doctor, seek medical care within the network or from a network-approved referral provider (with the exception of emergency care), and file a complaint with the network or with TDI.

Health care providers and workers' compensation networks negotiate fees under this new network model rather than utilize TDI-DWC's adopted fee guidelines. Additionally, workers' compensation networks may operate under their own treatment guidelines, return-to-work guidelines and preauthorization requirements, although these treatment and return-to-work guidelines must meet minimum statutory criteria.³ Under this new model, workers' compensation networks are required to have case management and return-to-work coordination services, as well as provide annual quality assurance and financial reports to TDI to ensure that these networks continue to provide high quality medical care to injured employees. Additionally, HB 7 requires TDI to publish and disseminate an annual workers' compensation network report card that evaluates certified networks on measures including medical costs and utilization, return-to-work outcomes, and injured employee satisfaction with and access to medical care.⁴

Growth in Workers' Compensation Networks

TDI began accepting applications for the certification of workers' compensation health care networks on January 2, 2006. As of February 1, 2012, there were 30 TDI-certified networks, 27 of which have treated 327,373 injured employees since the first network was certified in May 2006.

² By statute, pharmacy services are exempted from workers' compensation networks. Injured employees will continue to obtain pharmaceuticals from any pharmacist willing to accept workers' compensation patients, regardless of whether or not the worker is participating in a workers' compensation network (see § 1305.101(c), Insurance Code).

³ Treatment and return-to-work guidelines utilized by certified workers' compensation networks must be "scientifically valid, evidence-based, and outcome-focused" (see §1305.304, Insurance Code).

⁴ In accordance with Section 1305.502, Insurance Code, TDI is required to produce annual workers' compensation network report cards on key cost, utilization, and outcome measures. The sixth report card was published in September 2012 (see www.tdi.texas.gov/reports/wcreg/documents/2012_report_card.pdf to view these report cards).

Currently, certified networks cover 250 Texas counties, up from 234 counties in 2008. Most Texas counties support multiple networks, allowing insurance carriers and their policyholders various options for network coverage. Larger metropolitan areas such as Houston, Dallas-Ft. Worth and Austin-San Antonio support more than 21 certified networks.

A complete list of TDI- certified networks, along with a map of the network's respective coverage areas can be found on the TDI website at:

www.tdi.state.tx.us/wc/wcnet/wcnetworks.html.

Public Entities and Political Subdivisions

In addition to TDI-certified health care networks, certain public entities and political subdivisions (such as counties, municipalities, school districts, junior college districts, housing authorities, and community centers for mental health and mental retardation services) have the option to: 1) use a workers' compensation health care network certified by TDI under Chapter 1305, Texas Insurance Code; 2) continue to allow their injured employees to seek health care as non-network claims; or 3) contract directly with health care providers if the use of a certified network is not "available or practical," essentially forming their own health care network.

To date, TDI is aware of three political subdivisions/groups of political subdivisions that have utilized this direct contracting option – the Alliance (a joint contracting partnership of five political subdivision pools), the Trinity Occupational Program (i.e., Ft. Worth ISD) and Dallas County Schools/Dallas ISD/DART

This report includes Alliance, a joint contracting partnership of five political subdivisions (authorized under Chapter 504, Texas Labor Code) that chose to directly contract with health care providers. The report also combines two smaller Chapter 504 entities under the name 504 Others. While not required to be certified by TDI under Chapter 1305, Texas Insurance Code, these networks must still meet TDI's workers' compensation data reporting requirements and are still subject to the annual workers' compensation network report card. New rules adopted by TDI-DWC in 2012 require political subdivisions to report the method by which they provide medical benefits to their employees under Chapter 504, Texas Labor Code, including directly contracting with health care providers. These rules were adopted to ensure that TDI-DWC is aware of which political subdivisions are utilizing network options.

Network Participation Rates

TDI tracks the participation of both Texas policyholders (employers) and injured employees in workers' compensation health care networks created by HB 7. According to the results of a 2012 data call with twelve of the largest workers' compensation insurance company groups (representing 84.5 percent of the 2011 direct workers' compensation premium written in Texas), 56,344 policyholders have agreed to participate in workers' compensation networks in exchange for premium credits that range up to 15 percent. The maximum premium credit offered in 2010 was 20 percent. The total number of policyholders who agreed to participate in networks has increased approximately 42 percent from 2010 to 2012. As a result, TDI estimates that approximately 16 percent of all Texas employers (24 percent of those with workers' compensation coverage) participate in TDI certified networks, up from 12 percent in 2010.

While all of the top twelve insurance company groups have contracted with or established a certified network for their policyholders, usage of networks among insurance companies varies widely. As of August, 2012 four of the twelve insurance company groups offering a network option reported that more than 25 percent of their policyholders have agreed to participate in their workers' compensation network (with one insurance company reporting a 72 percent agreement rate among its policy holders). While network participation among Texas policyholders has grown considerably since 2006 (from 7,551 policyholders in 2006, to 56,344 in 2012), it remains to be seen how differences in insurance company marketing strategies, the concentration of high deductible policies within a company's book of business, the level of premium credits offered for network participation, employer requirements to provide employee network notices, and the impact of the economy on insurance company profitability and market competition will affect the participation rates for Texas policyholders over the next biennium.

Some insurance companies indicated that some policyholders are interested in the networks, but are concerned about the administrative responsibility associated with providing employees notice of the network requirements and securing a signed acknowledgment form at the time of hire and separately at the time the employee reports the injury. Some policyholders reported to companies that they are reluctant to direct employees to see certain doctors and are waiting to see whether networks will reduce medical and indemnity claim costs before making the decision to enter into a managed care arrangement.

Insurance companies also reported that some large deductible policyholders (i.e., large employers who have a workers' compensation insurance policy with a large, negotiated

deductible on a per accident basis in exchange for a large premium credit) are reluctant to participate in networks because these policyholders often have multi-state operations, with minimal exposure in Texas. Additionally, since these policies already have significant premium credits applied to them in exchange for the large deductible, some insurance companies are not offering additional premium credits for network participation. For these policyholders as well as for certified self-insured employers, premium credits are not the enticement needed to participate in networks. Rather, if networks can reduce medical and/or indemnity costs and improve return-to-work outcomes, these larger policyholders may increase their participation in networks.

All of the insurance companies with a certified workers' compensation network reported that they were offering their workers' compensation network to both new and existing policyholders and the vast majority of these companies reported that they were offering network participation during the middle of the policy period for policies that have not yet expired or been renewed. This is an area that TDI intends to monitor further since workers' compensation policies are typically renewed annually, and any reluctance on behalf of an insurance company to initially offer its network plan to policyholders during the middle of the policy period will delay the implementation of networks.

Additionally, all of the insurance companies with a certified workers' compensation health care network reported that they were offering this option to all workers' compensation policyholders with employees who live in their network's service area, regardless of premium size, employee classifications, and experience modifier.

As Table 3.1 indicates, the number of Texas policyholders participating in networks has increased significantly since 2006. Fifty-three percent of policyholders participating in networks have an annual premium of less than \$5,000 and 84 percent have an annual premium of less than \$25,000, indicating that the policyholders participating in networks are mostly small to mid-sized employers.

While the number of policyholders participating in workers' compensation networks has increased by 42 percent in the past two years, the top 12 insurance company groups estimated slower growth in the number of policyholders participating in networks over the next couple of years (5 percent estimated growth in the number of policyholders from 2012 to 2013 and an additional 5 percent growth from 2013 to 2014) (see Table 3.2).

Although insurance companies do not anticipate a significant increase in the number of policyholders that will participate in workers' compensation networks over the next couple of years, they estimate that the number of workers' compensation claims treated in networks will increase 50 percent from 2012 to 2014 (see Table 3.3).

Table 3.1: Total Number of Policyholders Participating in Workers' Compensation Networks over time for the Top 13 Insurance Carrier Groups

Network Participation Measures	As of Fall 2006	As of Fall 2007	As of Fall 2008	As of Fall 2009	As of Fall 2010	As of Fall 2012
Total Number of Policyholders Participating	7,551	29,146	34,040	36,806	39,643	56,344
By Premium Size (Texas only premium) Less than \$5,000 in premium	3,473 (46%)	13,689 (47%)	15,937 (47%)	17,486 (48%)	19,896 (50%)	30,016 (53%)
\$5,000-\$24,999 in premium	2,522 (33%)	9,869 (35%)	11,659 (34%)	12,795 (35%)	13,389 (34%)	17,596 (31%)
\$25,000-\$100,000 in premium	1,158 (15%)	4,302 (14%)	4,940 (15%)	5,254 (14%)	5,006 (13%)	6,602 (12%)
More than \$100,000 in premium	398 (5%)	1,275 (3%)	1,509 (4%)	1,264 (3%)	1,344 (3%)	2,104 (4%)

Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2012.

Table 3.2: Number of Policyholders to Participate In Workers' Compensation Networks, Estimated by the Top 13 Insurance Carrier Groups

Network Participation Measures	Estimate at End of CY 2013	Estimate at End of CY 2014
Overall Estimate	59,029	62,204

Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2012.

Table 3.3: Number of Claims to be Treated In Workers' Compensation Networks, Estimated by the Top 13 Insurance Carrier Groups

Network Participation Measures	Estimate at End of CY 2012	Estimate at End of CY 2013	Estimate at End of CY 2014
Overall Estimate	229,241	293,810	342,772

Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2012.

Premium Credits for Policyholders

Before an insurance company begins using a certified network, TDI requires that the insurance company provide notification of the level of premium credits that will be granted for employer network participation. The premium credits on file with TDI currently range up to 20 percent with some insurance companies offering a standard credit to all policyholders who participate in the network, and other companies varying the credit depending on the percentage of the policyholders' employees that live within the network's service area. Table 3.4 summarizes the amount or ranges of premium credits that have been filed with TDI as of October 1, 2012. Section 2 of this report examines data regarding the impact of network participation on company loss ratios and

estimates the average premium savings per workers' compensation insurance policy for network participation.

Table 3.4: Insurance Companies' Filed Network Premium Credits (as of October 1, 2012)

Group Name	Credit
American Compensation Insurance Company	10%
Allianz Grp	10-15%
American Interstate Ins Co	8-12%
Amerisure Grp	0-12%
Arch Ins Co	0-12%
Atlantic American Companies	0-12%
Berkshire Hathaway Grp	5-15%
Chartis Ins Grp	0-5%
Chubb Ins Grp	5%
CNA Ins Group	12%
Columbia Ins Grp	0-12%
EMC Ins Grp	12%
Employers Holdings Grp	15%
Everest National Ins Co	5%
Farmers Ins Group	10%
Florist Mutual Ins Co	10%
Great America Group	0-10%
Guard Insurance Group	10%
Hallmark Financial Services Grp	5-20%
Hartford Ins Group	15%
Imperium Ins Co	10%
Liberty Mutual Group	0-12%
Lincoln General Insurance Company	10%
Lumbermens Underwriting Alliance	10%
Meadowbrook Ins Group	10%
Millea Holdings Inc	10%
National American Ins Co	1%
Old Republic Grp	10%
Republic Indemnity Companies	10%
SeaBright Ins Co	10%
Sentry Ins Group	0-12%
Service Lloyds Group	12%
Sirius Grp	10%
State Auto Mut Grp	5-10%
Texas Alliance of Energy Producers	5-20%
Texas Mutual Ins Co	12%
Travelers Grp	12%
Union Standard Ins Group	12%
Unitrin Prop & Cas Ins Group	8.50%
Utica Natl Ins Group	10%
Westmont Associates, Inc	10%
Zenith Ins Group	5%
Zurich Ins Co Group	0-8%

Source: Texas Department of Insurance Rate Filings, 2012.

Number of Injured Employees Treated in Networks

In addition to tracking the participation of Texas policyholders in workers' compensation networks, TDI also tracks the number of injured employees who have been treated by networks through separate semi-annual data calls with each certified network. As of February 1, 2012, approximately 327,373 injured employees had been treated by a certified network since the first network was certified (see Table 3.5).

Table 3.5: Total Number of Injured Employees Treated by Workers' Compensation Networks Since the First Network Was Certified

Network Participation Measures	As of February 1, 2010	As of February 1, 2012
Total Number of Employees Treated	142,214	327,373
Total Number of Networks Treating Injured Employees	27	27

Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2012.

The number of injuries being treated by certified networks continues to increase while the number of networks treating injured employees has stabilized in recent years (see Table 3.6). TDI estimates that as of February 1, 2012, roughly 35 percent (78,408) of all new injuries (medical only claims and lost-time claims) and 38 percent of all lost-time claims that occurred between June 1, 2010 and May 31, 2011 were treated by certified networks.

Summary

HB 7 introduced a new workers' compensation health care delivery model which allows insurance carriers to establish or contract with managed care networks that are certified by TDI using a method similar to the certification of HMOs. Under this new system, injured employees whose employers have contracted with a certified network are required to obtain medical care through the network, provided that the injured employee lives in the network's service area and receives notice of the network's requirements from the employer. TDI began accepting applications for the certification of workers' compensation networks on January 2, 2006, and as of February 1, 2012, 30 certified networks cover a total of 250 counties across Texas.

Table 3.6: Distribution of Injured Employees Treated As Of February 1, 2012, By Workers' Compensation Networks

TDI-Certified Network	Total	Percent
Alliance	21,201	26%
Bunch & Associates	44	<1%
Bunch TX HCN-FH	48	<1%
Bunch-Coventry TX	764	1%
Bunch-First Health	110	<1%
Chartis TX HCN	1,379	2%
Coventry Workers' Comp Network	6,182	7%
Dallas County Schools	1,037	1%
Corvel Health Care Corporation	2,557	3%
First Health TX HCN*	1340	2%
First Health/Travelers HCN	6,288	8%
First Health/CSS	266	<1%
Forte, Inc./Compkey Plus	312	<1%
Genex Health Care Network	314	<1%
IC/LMAESN/GENEX Service	447	1%
IMO Med-Select	978	1%
IRA dba IC/GENEX Services	506	1%
Hartford Workers' Compensation Health Care Network	711	1%
Lone Star Network/Corvel	541	1%
Liberty Health Care Network	7,012	8%
Specialty Risk Services Texas Workers' Compensation Health Care Network	498	1%
Sedgwick CMS	328	<1%
Texas Star Network	26,658	32%
Trinity Occupational Program	325	<1%
Zenith Health care Network	745	1%
Zurich Services Corporation	1,984	2%

Note: Totals may not add up to 100 percent due to rounding.

Source: Texas Department of Insurance, Workers' Compensation Research and Evaluation Group, 2012.

According to the information gathered in periodic insurance company and network data calls, the number of Texas policyholders and claims participating in workers' compensation networks has increased significantly since networks first became available in 2006. The majority of these participating policyholders are small employers with annual premium averaging less than \$5,000. One certified network – Texas Star, associated with the largest insurance company in Texas, Texas Mutual Insurance Company, accounts for 67 percent of all policyholders participating in certified networks and 32 percent of all network claims in 2012. Premium credits are being offered to Texas policyholders in exchange for network participation, but it is uncertain, at this point, whether the other large insurance company groups in Texas will increase their policyholder participation in networks significantly over the next couple of years. Insurance companies report that policyholders are somewhat reluctant to participate

because of administrative burdens associated with providing network notices to employees and obtaining signed acknowledgment forms, while others report that policyholders are concerned about directing their employees to selected doctors and are waiting to see if networks can reduce claims costs. Another issue that may be affecting both the marketing of networks and the network participation rates among Texas employers is the decreasing losses experienced by the Texas workers' compensation system over the past few years and resulting decreases in premiums, which may be reducing the perceived need to offer and utilize workers' compensation networks. Other sections of this report will examine the trend of decreasing claims costs, which may have resulted in lower loss ratios for insurance companies and lower premiums for Texas employers.

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