

**Kansas Health Policy Authority
2010 Program Review
State Self Insurance Fund**

Description

The State Self Insurance Fund (SSIF) was established by the Kansas legislature July 1, 1974 to administer workers compensation claims on behalf of State of Kansas employees. It is to provide compensation to State employees for injuries arising “out of” and “in the course of employment.” Employees who sustain compensable work related injuries or occupational disease may be entitled to payment of medical expense that is reasonable and necessary to treat the work related injury or illness, compensation to replace part of the lost wages due to a work related injury or illness and survivors benefits if death results.

In an effort to be more cost efficient, SSIF management chose to look at the possibility of using a Third Party Administrator (TPA) to contract out the current internal operations. This included a review of the continued use of internal staff with process improvements to gain cost efficiencies. Following the review, a decision would be made as to which method would generate the most savings.

Claim Notification and Process

When an employee has an accident that arises out of and during the course of their employment the state agencies human resource staff or the employee’s supervisor completes an Employer’s Report of Accident Form (1101a). The 1101a contains pertinent information about how the employee was injured while at work and all of the contact information. The report is delivered to the SSIF either by email, fax or mail. The reports are initially reviewed by the SSIF administrative staff for duplicates and then scanned into the ImageNow imaging system. The documents identifying information is entered in ImageNow and forwarded to the supervisor for assignment. The supervisor reviews each accident report to determine if the claim is an “accident only” (AO) – (employee requires no medical treatment), “medical only” (MO) - (employee requires only medical treatment), “loss of time” (LOT) - (employee is missing work), or a “death” claim. The supervisor then assigns the claim to one of the three levels of adjusters, “Claims Advisor” (AO and MO claims), “Claims Specialist I” (MO, LOT and death claims), or “Claims Specialist II” (MO, LOT and death claims exceeding \$35,000). The supervisor sends the claim to the 1101a queue in ImageNow for entry into the claims database by the administrative staff. The image of the 1101a is linked to the corresponding claim in the claims database and sent to the appropriate adjuster for investigation and compensability determination. The administrative staff mails an informational letter the injured employee detailing the claims process and which adjuster will be working with them on their claim. The final process is to upload the claim to the Corvel database.

Other Incoming Mail and Faxes

In addition to receiving and entering the 1101a in the claims notification process the administrative staff also opens and codes all other incoming mail with the adjuster’s number and legal code. They then scan the documents into the ImageNow system. The electronic

document is then sent to the adjuster or third party vendor. All incoming mail is kept for 30 days then shred. Faxes are received directly into the ImageNow Fax Agent for viewing on the claims management system. Administrative staff links faxes to the corresponding claim in RiskMaster and then assigns keywords to it. Unmatched documents are sent to the pending unmatched mail queue.

Investigation

All claims received by the SSIF are reviewed and investigated by the adjuster staff. The adjusters make investigative phone calls to the injured employee, supervisor, human resource professional, treating physician, and anyone who witnessed the accident. These phone calls collect the facts related to each claim. Each investigation normally takes 30 to 45 minutes depending on the complexity of the claim and the content of the detailed information required. The investigative notes are documented in the claims database.

Compensability

The adjuster applies the facts that were gathered during the investigative process to the Workers Compensation laws and regulations to determine compensability. If the adjuster has questions regarding the compensability of a claim they consult with a supervisor or staff attorney. The adjuster then informs the injured worker by letter and phone of the compensability decision. This is determination is documented in the claims database. A copy of the written correspondence is sent to the employees human resource office and treating physician if medical treatment has been initiated. The Electronic Data Interchange (EDI) fields required by the Kansas Division of Workers Compensation are then completed in the claims database. Claims are categorized as AO, MO, LOT, death, or denied. The compensability of a claim can change during the claims process as medical information is received or during the litigation process.

Directing Medical Care

SSIF provides injured state employees with medical treatment through a Preferred Provider Organization (PPO) network. Corvel Incorporated currently provides this service. Adjustors locate doctors close to specific agency locations by utilizing Corvel's web-based physician look-up on the internet. This web-based look-up tool is also available on the State Employee Benefits Plan / SSIF web site for agency management to use when injuries occur at their locations after hours, weekends, or on holidays.

SSIF adjusters assist the injured employee by paying medical bills, wage replacement, scheduling appointments with doctors, physical therapy needs, medical case management, change of physicians, prior authorizations and calculating their settlement. The adjuster informs the injured employee by phone of the date, time and place of their medical appointment and follows up with a letter. Attorneys are contacted by phone regarding appointments if litigation is involved. All correspondence is documented in the SSIF claims management system.

Reviewing Medical Records

With the assistance of Corvel, the adjuster reviews all of the injured employee's medical records to verify that the body part and associated treatments are authorized and appropriate in the workers compensation claim. Changes in physician often require the adjuster to review the case

and send the new physician all the medical records. If the injured employee is taken off work or given restrictions by the physician that the agency cannot accommodate, disability payments are initiated by the adjustor.

All along the way, the steps in directing and authorizing medical treatment are documented in the workers compensation system. The entire process involves anywhere from 30 minutes to an hour of the adjustor's time for each event.

Referring to Nurse Case Management

Nurse Case Management (NCM) is another service provided by Corvel as part of their contract with SSIF. Currently, Corvel has twenty-two (22) nurse case managers across Kansas who assists the SSIF adjustors in managing workers compensation cases.

NCM is applied to just the cases involving severe injuries requiring more than just the basic doctor visit with one or two follow-up appointments. Adjustors follow an established protocol when making a decision to refer a case to NCM. The protocol includes determination of injury severity as a part of the treatment analysis.

NCM services include:

- Going with the employee to the medical appointment when appropriate
- Answering questions regarding their treatment
- Providing updates to the adjustor
- Relaying information between all of the parties involved as to the treatment of the case

Agency issues with accommodations and doctor restrictions are often resolved by the NCM. All of the NCM services are conducted one-on-one with the injured employee either in person or over the phone and the adjustor directs how the service will be provided.

Establishing a new case with NCM usually takes the adjustor 15-20 minutes. Ongoing NCM calls and emails to update the adjuster take from 5-15 minutes each depending on the details. Adjustors receive NCM emails updating every appointment with the diagnosis, the treatment plan, the follow-up appointment date and time and any other information the adjuster needs. Medical documentation provided at the appointment, such as work status, is included in the e-mail.

Disability, Reimbursement and Miscellaneous Payments

On a daily basis the SSIF produces disability, reimbursement and miscellaneous payments. Administrative staff matches the check with the appropriate voucher detailing what the payment represents. Disability checks are mailed on the same payroll cycle as the State of Kansas.

Medical Bill Review and Processing Payments

Each adjustor reviews all the medical records related to their claims to determine if the treatment is related to the ongoing care of the injured employee. Based upon this review the medical bill is either approved or denied.

As part of the contract with SSIF, Corvel processes all of medical bills related to the workers compensation claims. This process includes medical bill review for the appropriateness of the

treatment and detecting fraudulent unbundling of services by providers, appropriate coding per the Kansas Workers Compensation Medical Fee Schedule, and overutilization.

Corvel submits bills electronically to the SSIF adjuster for review and approval. The approved payments are sent back to Corvel electronically so checks can be issued for those services. If a medical bill is denied the adjuster includes the reason for the denial and returns the bill to Corvel. Corvel sends the vendor an explanation of benefits statement indicating the reason for the denial. The file of medical payments is uploaded to Accounts and Reports as this process passes the financial information back into the workers compensation database. Information for disability checks for injured employees who are unable to work are sent to Accounts and Reports which produces time and leave information in the SHARP payroll system.

Reimbursements

Any reimbursement requires a vendor number in SMART, the state's accounting system, so the payment will process. The administrative staff checks to see if the injured employee or injured employee's attorney has been assigned a vendor number. If a vendor number is not located in the SMART system a number is assigned so the payment can be issued.

If the injured employee submits a form for reimbursement of the cost to travel to pick up prescription medicines or attend medical appointments, the adjuster for the claim has to verify the request is for a reasonable amount of mileage. Adjusters may use MapQuest or another similar website to determine appropriate mileage. They also verify the trip was for an approved medical visit by a quick review of the medical records. The adjuster calculates the amount of reimbursement to be paid, stamps the request approved, and enters the amount of reimbursement owed and gives it to administrative staff for entering. If the injured employee has an attorney, the attorney's tax identification number is entered on the form by administrative staff and paid to the attorney and the injured employee and is sent to the attorney's office.

Injured employees may also request reimbursement for miscellaneous out of pocket expenses for prescription drugs they have purchased, or for travel and hotel expenses. When needed medical care is not available in the area where the injured employee lives they can request reimbursement for expenses in accordance with the workers compensation laws and regulations.

Other miscellaneous payments may be made to providers of service for prepayment of Independent Medical Evaluations (IME), disability ratings, and the cost for of hearings including the Administrative Law Judge's fee and the transcriptionist fee to the court recorder. Again the adjuster must mark the request with the appropriate stamps and highlight that the payment is payable.

Subrogation

Under the Kansas Workers Compensation Laws and Regulations the self insured may reserve the "right of subrogation" in the event of a claim. This means that the self insured may choose to take action to recover the expense of a claim if the loss was caused by a third party's negligence. SSIF claims involving possible subrogation actions require the adjuster to obtain any motor vehicle accident reports, ownership of biting dog, etc. necessary to subrogate against the third party. The subrogation information is then entered into the claims database and an e-

mail sent to the legal department advising of the possible subrogation with supporting information. Legal then forwards a letter to the third party's insurance company advising of the intent to subrogate.

Loss of Time (LOT) Claims

According to the Kansas Division of Workers Compensation Rules and Regulations, LOT claims occur when "the accidents are sufficient to wholly or partially to incapacitate the person injured from labor or service for more than the remainder of the day, shift or turn on which such injuries were sustained". If the treating physician gives an injured employee work restrictions that keep them from working, the claim is classified as LOT. When a workers compensation claim changes from a MO claim to a LOT claim, it is transferred from the Claims Advisor to a Claims Specialist. Claims that exceed \$35,000 total paid are transferred to a Claims Specialist II. These are considered the more complex claims and usually have attorneys involved. When the restrictions provided by the authorized treating physician cannot be accommodated by the employer, temporary total disability (TTD) is paid to an injured employee after a seven day waiting period. Verification must be made with the injured employee's agency whether the restrictions are being accommodated. If accommodation is not available, the adjuster notifies administrative staff that they are going to be making TTD payments on the claim. The adjuster produces a wage summary from SHARP and calculates the gross average weekly wage and TTD rate.

A LOT log sheet is completed and recorded in RiskMaster. Payment is entered every two weeks (the same as the State payroll cycle) until the employee is returned to work in an accommodated position or released by the authorized treating physician at maximum medical improvement (MMI). If it is known that an injured employee will not be returning to work prior to the end of the next payroll period the adjuster can enter information for an automatic check to be processed and update the log at that time. Otherwise, the adjuster needs to verify with the employer, at the end of the next time period, whether the injured employee has returned to work before the next payment is issued. Notes in RiskMaster are updated to reflect the conversation with the agency regarding any accommodations the agency has made to return the employee to work.

Temporary partial disability (TPD) is paid to an injured employee when the injury is a whole body injury and restrictions will only allow the injured employee to work part of the normal shift, or the employer can only accommodate restrictions provided for a portion of the employee's normal hours. The adjuster requests a copy of the timesheet and hourly wage from the employer to calculate the TPD.

Permanent partial disability (PPD) is paid when a workers compensation claim settles. There are claims where a portion of the settlement amount is due immediately and the remaining portion is to be paid out every two weeks. PPD is paid until the total amount of settlement is paid to a maximum of \$100,000. Permanent total disability (PTD) is also paid similar to PPD, except to the maximum of \$125,000. Work related death claims are payable to the surviving spouse or children in a lump sum of \$40,000 after obtaining a copy of the death certificate. A burial expense not to exceed \$5,000 is payable to the funeral director towards the funeral expenses. The adjuster will follow the Kansas Compensation laws and regulations for paying the remainder of the death benefit to the spouse or children up to a maximum of \$250,000.

Legal Representation

An injured worker may decide to hire an attorney to represent them for their workers compensation claim. When this occurs, the adjuster notifies the SSIF legal staff. The SSIF attorney will review the case and determine if the case will be handled in-house or referred to outside counsel. The attorney selected will prepare a notice of appearance on the claim that is submitted to the Division of Workers Compensation to update their records.

Once an attorney is hired, any workers compensation payments issued to the employee must be made payable to the employee and their attorney. Any discussions or correspondence regarding care are between the attorney of record and SSIF.

To assist in the case review, the adjuster prepares a summary of the case, provides the attorney with copies of the injured worker's wage history and their workers compensation average weekly wage calculation for disability payments. The claim summary provides a detailed account of all that has transpired on the claim and any information about the injured employee's medical care or history that is relevant to the case. The adjuster provides a medical timeline of the care authorized and any unauthorized medical care that has been provide along with any other pertinent information regarding the claim. The adjuster is responsible for keeping SSIF attorney up-to-date on the status of claim. Therefore, the attorney is also included in all correspondence with the NCM if one has been assigned to the claim.

Settlements

When a treating physician determines that the injured employee has reached maximum medical improvement (MMI), the adjuster requests an impairment rating based on the American Medical Association Guides to Physical Impairment, Fourth Edition. The rating is often obtained from the treating physician. Another specialist may also be consulted. The rating and physician's examination are documented in the workers compensation system notes. There are several steps in the settlement process including: running a wage summary, computing the wage calculation, and obtaining payment detail from Accounts and Reports. The settlement is calculated using wage information, the impairment rating and weeks of disability. The Division of Worker's Compensation calculation worksheets are utilized for these numbers.

If there is no attorney involvement, the adjuster obtains settlement authorization from the appropriate supervisor and then negotiates settlement with the injured employee. The adjuster sends a letter to the injured employee detailing the agreed settlement negotiation and scans the letter into the claims management system. Upon acceptance of the offer, the adjuster completes a Settlement Checklist and forwards the settlement packet to the SSIF attorney for a settlement hearing. If the injured employee makes a counter offer, the adjuster may need to request additional authorization from management.

If the injured employee has an attorney, the SSIF attorney negotiates settlement one-on-one with the injured employee attorney. This may involve an IME for rating. During this process, the adjuster usually receives two ratings: one from the injured employee's attorney and the one from the treating physician. Calculations for settlement are then based on an average of the ratings. The SSIF attorney may need to return to the adjuster for additional settlement authority to be able to settle the claim. All settlement calculation worksheets are scanned into the claims management system. All SSIF attorney correspondence is also scanned into the claims

management system. When a settlement agreement has been reached, a settlement hearing is scheduled to finalize the process.

The hearing expense, the costs for copies of transcripts and court reporter charges are all paid by the SSIF as part of the claim expense. After these bills have been paid, the claim may be closed unless otherwise outlined in the settlement terms. The terms of the settlement are documented in the workers' compensation system.

If the injured employee does not have a rating, the claim may close at a future date without settlement according to the time limits in the Kansas Workers Compensation Laws and Regulations. Upon closing a claim, the adjuster sends a de-authorization letter to the injured employee and treating physician explaining that no further treatment is authorized. This is all documented in the workers' compensation system.

State Safety and Health Program

In order to prevent workplace injuries, the SSIF is charged under KSA 44-575(f) for the state workplace health and safety program for state agencies. SSIF has entered into a Memorandum of Understanding with the Kansas Department of Labor to provide the following required services:

- Workplace health and safety hazard surveys in all state agencies, including onsite interviews with employees
- Workplace health and safety hazard prevention services, including inspection and consultation services
- Procedures for identifying and controlling workplace hazards
- Development and dissemination of health and safety informational materials, plans, rules and work procedures
- Training for supervisors and employees in healthful and safe work practices

Outsourcing

If the SSIF were to outsource the administration for the SSIF to a TPA, the number of state employees needed to operate the program would be reduced significantly. SSIF would be able to eliminate all of the adjuster and supervisory staff currently employed and the number of administrative staff needed would be reduced to one position. The support person position will depend upon whether or not SSIF is making payments on the claims through SMART or just reimbursing the TPA for the total claims and administration expenses. Expenses associated with the purchase and upkeep of the current workers compensation claim system could be eliminated as the TPA would administer the processing of claims.

The program would need to have a contract manager to oversee the operations of the TPA, the handling of settlements and claims involving attorneys and to handle any problems associated with the contract. Depending upon the contract that is negotiated with the TPA, it is possible that one additional state employee may be needed to handle some of these duties and to review inquiries and issues on behalf of injured workers and the state agencies and to provide accident data analysis and loss control to the program and insured state agencies.

Currently SSIF has one in-house full-time attorney and access to other KHPA attorneys as needed. Depending upon the contract negotiated with the TPA, the full time position could be eliminated in favor of using either the TPA's attorneys or by hiring outside counsel on a case-by-

case basis. The SSIF would need to develop a list of qualified attorneys and negotiate legal fees for the handling of claims on behalf of SSIF.

Table 1 shows the Fiscal Year 2010 costs for the SSIF program and administrative expenses would still remain even if the program was outsourced.

Table 1: Comparison of In-House and Outsourced SSIF Costs

FY10 Budgeted SSIF Administrative Expenses	
Salaries and Attorney Administration	\$795,602.00
KHPA Misc Admin	\$881,056.00
Contracts	\$1,635,000.00
Legal Fees	\$400,000.00
Total	\$3,711,658.00
Estimated Administrative Savings (if outsourced)	
Salaries Less Senior Manager and one staff	\$533,677.23
Contract Fee savings include RiskMaster, Temp Staff and Perceptive Software	\$295,000.00
Total Admin Savings	\$828,677.23
Remaining Expense even after outsourcing (see Table 2)	\$2,882,980.77
Remaining administrative costs include Senior Manager salary, a staff member, travel expenses, 5-way funding split, legal fees, assessments, actuary services and KDOL contract.	

The TPA would take over responsibility for customer service, evaluating claims, approving medical care and paying claims to injured state workers. Control of the claims process would be outsourced to the TPA and SSIF would be overseeing their operation but not be involved in the day to day handling of injured workers claims. Decisions on medical care would be made by the TPA and paid for by SSIF. There are a number of vendors in the market that can provide the TPA services necessary for this to occur. The exact nature of how this outsourcing will function is something that would be negotiated prior to the SSIF entering into a contract for TPA services.

To get an understanding of the vendor options in the market, on December 17, 2009 a Request for Information (RFI) was created regarding the use of a Third Party Administer (TPA) to handle the workers compensation claims. RFI Number 017766 entitled "Third Party Admin, Worker's Comp." was posted by the Kansas Department of Administration, Division of Purchases until January 29, 2010. Eleven vendors provided some type of response to the request for information however only two vendors submitted any type of cost projections. Vendor meetings were held with these two TPA's to get a better understanding of the cost projections submitted. As this was a request for information and not an actual request for proposal the pricing information is representative of their standard fees but may not be specific to the actual cost they would charge to administering the SSIF program.

The TPA's indicated that they charge a flat fee for each claim handled. Worker Compensation claims are typically broken down by the type of services provided to the injured worker. Finally, there are the cases where the injured worker has an attorney (i.e. legal cases). The fees quoted to us by the TPA's were for the cost to administer the various types of claims. AO files require less work and are the least expensive to administer while MO and legal files are the most expensive. Medical claim cost would be in addition to per claim fee paid to administer the program.

Another option would be to pay one fee regardless of the type of claim so that the vendor compensation is not contingent upon the amount of work the TPA is required to do. They make more on AO's and MO's to offset the additional admin cost to work a LOT or Legal file. The two vendors we interviewed were not in favor of this type of administrative fee payment.

We did not obtain a quote for the cost to the TPA including hiring attorneys on our behalf to handle the cost associated with litigated claims. This cost would be in addition to the administrative fees quoted and used in the calculations below.

Conclusion

RFI Number 017766 (Third Party Admin, Worker's Comp) was posted January 29, 2010. Eleven vendors responded and two vendors submitting cost projections. Multiple pricing options were presented by both of the vendors depending upon the level of services provided. Table 2 shows the analysis of the two vendors' cost projections versus the current cost of the SSIF operations.

CCMSI provided only one option that matched the current functions of the SSIF operations. Therefore, only one of CCMSI's options is shown in Table 2. Based on CCMSI's projections the cost of outsourcing the SSIF's functions would increase the by \$621,000 over the current operations.

Avizent provided five options based various functions. The first option is based on Avizent utilizing the same number of staff to administer the SSIF as it is currently operated. Option 2 indicates the Avizent would charge an additional 10 percent for each additional Avizent staff member needed to administer the SSIF program. Options 3, 4 and 5 are all based on a cost per claim expense depending on the number of years required to handle the case. Avizent cost projections indicate that the cost of administering the SSIF would increase by at least \$1,077,000 over current operations.

Table 2: Preliminary RFI Cost Analysis

Vendor	Proposed Cost	Unavoidable Cost (see Note listed below)	Total (Proposed Cost + Unavoidable cost)	Current Cost	Additional Cost
Avizent					
Option 1 - 2.05 times the Avizent salaries. This was in their final proposal.	\$1,833,333.33	\$2,882,980.77	\$4,716,314.10	\$3,711,658.00	\$1,004,656.10
Option 2 – is based upon 2.05 times Avizent salary plus 10% for additional staff needed based upon the number of KS claims.	\$2,200,000.00	\$2,882,980.77	\$5,082,980.77	\$3,711,658.00	\$1,371,322.77
Option 3- this is based upon a price per each claim of \$745 that if the claim during a 12 month period. If the claim takes longer than a year the \$745 would need to be paid for year 2	\$5,656,785.00	\$2,882,980.77	\$8,539,765.77	\$3,711,658.00	\$4,828,107.77
Option 4- Per Claim Pricing for the life of contract of \$1,000. If the contract was renewed each year for a 3 year period.	\$7,593,000.00	\$2,882,980.77	\$10,475,980.77	\$3,711,658.00	\$6,764,322.77
Option 5- Per Claim Pricing for the life of the claim which cost \$1,300 per claim.	\$9,870,900.00	\$2,882,980.77	\$12,753,880.77	\$3,711,658.00	\$9,042,222.77
CCMSI					
Option - This was put in writing by the company which includes bill review.	\$1,449,806.06	\$2,882,980.77	\$4,332,786.83	\$3,711,658.00	\$621,128.83
See Table 1 for Unavoidable Cost detail					

Based on the above projections, KHPA decided not to contract out the SSIF operations to a Third Party Administrator but instead to pursue making the current operation more efficient through process improvements.

Recommendations

As part of the RFI process, staff reviewed internal operations and made recommendations of process improvements for cost savings:

1. Continue to improve the processes related to the 12 industry standard best practices that were implemented after the FY 2008 external audit of the SSIF program.
2. Complete a second external audit of the SSIF program during FY 2012 to determine the status of the 12 industry standard best practices and evaluate any new recommendations from the external audit vendor.
3. Require individual agencies to enter their injured employees' claims directly into the database system. Doing so would eliminate duplication of entry and reduce errors.
4. Obtain certification training for adjustors to help them better understand the workers compensation process, how to read and understand medical records, understand medical terminology, and to communicate appropriately with the medical community.
5. Insert Official Disability Guidelines (ODG's) pop-up boxes in the workers compensation system. This would allow the adjuster to better plan the employee's return to work and set reserves.
6. Request that Corvel notify the adjuster when prescription drugs are used over a long period of time, indicating possible misuse of the drug.
7. Enable the claims management system to be accessed over the internet by SSIF attorneys and nurse case managers. This would allow them to review case files and medical records online. Cost savings would result from time savings, less paper use and fewer postal fees.
8. Establish a Return-to-Work Program across all state agencies. Few state employees return to work after suffering a severe work related injury. This results in increased settlement costs that could be avoided or reduced by employing them in a job that accommodates their restrictions.