

RISK FINANCING

Understanding the Impact of Medical Bill Review Pricing on Loss Projection and Collateral Requirements for Workers Compensation Programs

by Marcia Linton

The largest component and first step in determining collateral requirements that support deductible or fronted programs is the *ultimate loss projection*. This article will discuss how medical bill review pricing impacts the loss projection and collateral calculation.

Medical bill review is an important component in managing total workers compensation costs. The cost of medical bill review servicing by claim administrators and managed care vendors

is often embedded in the individual claim file as an *allocated loss adjustment expense*.

Since ALAEs are a part of the total incurred costs of a claim, they will also be included in any loss projection calculations, which ultimately impact premium pricing and collateral requirements. In addition, it can be difficult to identify how much an insured is spending for medical bill review servicing, as the total fees are often delivered in a hard-to-decipher annual managed care report generated at the request of the insured.

Ultimate loss projection—The final, total incurred loss (paid losses plus reserves) expected for a selected line of coverage and for a selected coverage period(s).

Allocated loss adjustment expense (ALAE)—A claims handling charge that can be assigned to one particular claim. ALAEs typically include defense costs, the cost of expert witnesses or special investigators, or other charges that are specific to the administration of a single claim.

A loss projection calculation is based on current valued loss data, loss development factors, inflation factors, and exposure data. Two of the biggest drivers of the loss projection are the incurred losses and loss development factors, both of which include ALAEs. Since most medical bill review charges are embedded within the ALAEs, it is important to understand both how to manage these costs and how any changes to the medical bill review pricing structure can impact a loss projection.

SAMPLE MEDICAL BILL REVIEW (MBR) REPORT

Provider Name	Billed Charges	Total MBR Savings	Amount Paid	MBR Fees	Network Fees	Total Fees	Net Savings
Surgical Center	\$115,890	\$97,925	\$17,965	\$23,250	\$0	\$23,250	\$74,675
Surgical Center	\$94,400	\$91,650	\$2,750	\$21,760	\$0	\$21,760	\$69,890
Hospital	\$67,900	\$64,625	\$3,275	\$15,344	\$0	\$15,344	\$49,281
Hospital	\$7,275	\$7,175	\$100	\$1,704	\$250	\$1,954	\$5,221
Hospital	\$15,975	\$14,450	\$1,525	\$3,431	\$0	\$3,431	\$11,019
Ambulatory	\$26,500	\$13,275	\$13,225	\$3,152	\$198	\$3,350	\$9,925
Orthopedics	\$9,100	\$6,325	\$2,775	\$1,502	\$0	\$1,502	\$4,823
Hospital	\$3,850	\$1,575	\$2,275	\$374	\$308	\$682	\$893
Hospital	\$7,400	\$5,050	\$2,350	\$1,199	\$0	\$1,199	\$3,851
Surgical Diagnostics	\$6,300	\$2,500	\$3,800	\$594	\$95	\$689	\$1,811
Totals	\$354,590	\$304,550	\$50,040	\$72,310	\$851	\$73,161	\$231,389

Breaking Down Medical Bill Review Charges

Medical bill review savings is broken out in the following categories.

- **Fee schedule/usual and customary.** This is typically an automated process where a bill is reduced to state-mandated fee schedules. For example, a hospital bill charges \$200,000 for a surgery. The fee schedule shows that the surgery should only cost \$125,000 (savings of \$75,000). These savings are solely due to the mandated fee schedule of the procedure.
- **Preferred provider organization (PPO) savings.** These are savings generated through negotiated discounts with doctors

and facilities that are in the claim administrator's or managed care company's network of medical providers. An example would be the original \$200,000 bill, initially reduced to a fee schedule of \$125,000, further reduced to in-network pricing of \$75,000 (an additional savings of \$50,000 from the fee scheduled cost of \$125,000).

- **Duplicate savings.** Savings generated from auditing bills for duplicate billing. Duplicate billings should be removed from savings calculations, although some administrators include and add to the bill review savings calculation. Clients could be charged for duplicate savings if they are utilizing a percent of the overall savings pricing structure.

- **Enhanced savings.** Represents audit savings, including system coding edits, technical bill reviews (unbundling or upcoding), clinical large bill audits, etc.

Pricing Scenarios

Medical bill review is typically charged as a percentage of savings or a per bill/per line fee. Following is an example of three different billing scenarios (where the costs would be contained within the ALAEs of the individual claim files).

- Option 1: 25 percent overall savings
- Option 2: \$8.50 per bill and 30 percent of PPO savings
- Option 3: \$1.35 per line and 30 percent PPO savings

If the insured switches from Option 1 to Option 2 medical bill review pricing structure, they are looking at an annual savings of approximately \$127,000 (prior to applying loss development factors). This reduction should be factored into the new loss projection and collateral calculation.

In some cases, medical bill review pricing can be charged entirely outside the ALAEs. A third-party administrator could offer a flat fee that is charged along with the rest of the claims handling fees, or the insured could use an outside vendor for medical bill review services. In either of these cases, the medical bill review fees would no longer be included within the losses in the loss run, which ultimately flows through to the loss projection and collateral calculation.

BASIS OF ANNUAL CHARGES	
# Bills reviewed	3,350
# Lines reviewed	25,600
Total review savings	\$765,000
Total PPO savings	\$120,000

TOTAL CHARGES CALCULATION			
Pricing Option	Option I	Option II	Option III
Percent of overall savings	$\$765,000 \times .25 =$ $\$191,250$		
Per bill/percent PPO savings		$3,350 \times \$8.50 =$ $\$28,475$ $\$120,000 \times .30 =$ $\$36,000$	
Per line/percent PPO savings			$25,600 \times \$1.35 =$ $\$34,560$ $\$120,000 \times .30 =$ $\$36,000$
Total Medical Bill Review Cost	\$191,250	\$64,475	\$70,560

In summary, medical bill review pricing structure should be evaluated, and the underlying fees should be factored into a firm's total cost of risk or loss projection. Any changes should be reflected in the go-forward loss projection and collateral calculations.

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