

**STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS
DIVISION OF WORKERS' COMPENSATION**

INITIAL STATEMENT OF REASONS

**Subject Matter of Regulations:
Workers' Compensation Information System**

**TITLE 8, CALIFORNIA CODE OF REGULATIONS
SECTIONS 9701 and 9702**

Amended section 9701	Definitions
Amended section 9702	Electronic Data Reporting

BACKGROUND TO REGULATORY PROCEEDING

Labor Code section 138.6 requires the Administrative Director of the Division of Workers' Compensation (DWC) to develop a cost-efficient workers' compensation information system (WCIS) to accomplish four objectives:

1. Assist the Department of Industrial Relations to manage the workers' compensation system in an efficient and effective manner.
2. Facilitate the evaluation of the efficiency and effectiveness of the benefit delivery system.
3. Assist in measuring how adequately the system indemnifies injured workers and their dependents.
4. Provide statistical data for research into specific aspects of the workers' compensation system.

The statute requires that the data collected electronically by the WCIS be compatible with the Electronic Data Interchange (EDI) system of the International Association of Industrial Accident Boards and Commissions (IAIABC). The statute further directs the Administrative Director to adopt regulations specifying the data elements to be collected by electronic data interchange.

The initial regulations implementing Labor Code section 138.6 (California Code of Regulations, title 8, sections 9700 – 9704) became operative November 5, 1999. The regulations were amended in April 2006, primarily to require the electronic reporting of medical bill payment data. Currently, workers' compensation claims administrators adjusting approximately 95% of all workers' compensation claims in the State are electronically reporting claim data information to WCIS.

The proposed regulations seek to refine WCIS reporting by eliminating unnecessary data elements, adding relevant data elements, correcting errors in the text of the regulations,

and updating the California EDI Implementation Guide for First and Subsequent Reports of Injury, to Version 3.1, and the California Electronic Data Interchange (EDI) Implementation Guide for Medical Bill Payment Records, to Version 2.0. These Guides, in conjunction with the more comprehensive guides issued by the IAIABC, explain how data transmission is accomplished, explain data transaction edits, provide the required codes for transmitting data, and set forth applicable system specifications.

These proposed regulations implement, interpret, and make specific Labor Code section 138.6, which mandates the development of the WCIS, requires data to be collected electronically to be compatible with the IAIABC EDI system, and requires data elements to be collected through EDI to be set forth in regulations.

TECHNICAL, THEORETICAL, OR EMPIRICAL STUDIES, REPORTS, OR DOCUMENTS

The Division relied upon:

(1) IAIABC EDI Implementation Guide, Release 1. EDI Implementation Guide for First, Subsequent, Acknowledgment Detail, Header & Trailer Records, Release 1, issued February 15, 2002, by the International Association of Industrial Accident Boards and Commissions.

(2) IAIABC Workers' Compensation Medical Bill Reporting Implementation Guide, Release 2.0, February 1, 2015 Publication, by the International Association of Industrial Accident Boards and Commissions.

SPECIFIC TECHNOLOGIES OR EQUIPMENT

As Labor Code section 138.6 mandates that the data submitted electronically to the WCIS to be compatible with the EDI system of the IAIABC, the use of computer technology is necessary. As set forth in the proposed regulations, claim information data must be transmitted by a claims administrator to WCIS through SFTP (SSH (Secure Shell) File Transfer Protocol).

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATIONS AND REASONS FOR REJECTING THOSE ALTERNATIVES

The Administrative Director has not identified any effective alternative, or any equally effective and less burdensome alternative to the proposed regulations at this time. The public is invited to submit such alternatives during the public comment process.

DUPLICATION OR CONFLICTS WITH FEDERAL REGULATIONS

The proposed regulations do not duplicate or conflict with any federal regulations.

SUMMARY OF PROPOSED CHANGES

Section 9701 – Definitions

Specific Purpose of Section:

Section 9701 lists and defines the terms used in the WCIS regulations (sections 9700 – 9704). The purpose of the definitions is to implement, interpret, and make specific Labor Code section 138.6 and to ensure that the meanings of the terms are clearly understood by the workers' compensation community.

Necessity:

It is necessary to define each of the key terms used in the WCIS regulations to ensure that the content and meaning of the regulations are clearly understood by the workers' compensation community.

Section 9701(b): The amendment of the definition of "California EDI Implementation Guide for First and Subsequent Reports of Injury," now at subdivision (b), is necessary to reflect revisions to the current version, Version 3.0 (dated November 2011). The new version of the implementation guide, Version 3.1, must be used for reporting six months following the effective date of the regulation. Both versions of the implementation guide for first and subsequent reports of injury, which are incorporated by reference into the regulation, can be found at the Division's web site at <http://www.dir.ca.gov/dwc/WCIS.htm>. Revisions to the implementation guide are necessary to: (1) reflect amendments to the WCIS regulations; (2) correct previous errors; and (3) reflect technical modifications to the WCIS system to allow for more efficient, accurate reporting by claims administrators.

Section 9701(b)(3): This subdivision is amended to state that, for reporting on or after the effective date of the California EDI Implementation Guide for First and Subsequent Reports of Injury, Version 3.1 (dated six months after the date of approval by OAL), which is incorporated into the regulation by reference, to implement the new reporting standard being adopted pursuant to these regulations.

Section 9701(n) and (n)(2): Both subdivisions are amended to refer to and incorporate by reference the IAIABC Workers' Compensation Medical Bill Reporting Implementation Guide, Release 2.0, February 1, 2015 Publication, rather than the IAIABC Workers' Compensation Medical Bill Data Reporting Implementation Guide, Release 2.0 February 1, 2014, as the 2015 is an updated national protocol, with which California's EDI Guide for medical bill reporting must become compliant.

Section 9702 – Electronic Data Reporting

Specific Purpose of Section:

Section 9702 sets forth the list of data elements required to be electronically transmitted to the WCIS, the timing of the submission of these data elements, and the claims on which these data elements are to be submitted. The required data elements, compatible with the EDI system of the IAIABC, are essentially divided into three categories: the first report of injury (subdivision (b)), subsequent reports of benefit payments (subdivision (d)), and medical bill payment data (subdivision (e)).

Necessity:

Section 9702(b): This subdivision, is amended to change the name of and alphabetical position of DN 8 (“Third Party Administrator FEIN”) to (“Claim Administrator FEIN”), and DN 9 (“Third Party Administrator Name”) to (“Claim Administrator Name”). The Research Unit of DWC has determined that the changing of the names of these data elements, already collected in WCIS, can help prevent confusion when non-third party claims administrators attempt to submit data to WCIS. Third Party Administrators are defined as Claims Administrators pursuant to Labor Code section 9701, subdivision (f).

Section 9702(c): Subdivision (c), which provides linkage data for submissions under subdivisions (b), (d), (e), (f), or (g), is amended to include DN 52 (“Employee Date of Birth”), DN 44 (“Employee First Name”), DN 16 (“Employer FEIN”), and DN 32 (“Time of Injury”). Subdivision (c) is also amended to exclude DN 42 (“Social Security Number”). These changes are made to improve WCIS to ensure better linkage between WCIS submissions and existing records. Footnote 3 is amended to reflect the implementation guide requirements for DN 5 (“Agency/Jurisdiction Claim Number”). Footnote 4 is amended to reflect the implementation guide requirements for DN 6 (“Insurer FEIN”). Footnotes 5, 6, 7, 8, and 9 are added to reflect the guide requirements for DN 31 (“Date of Injury”), DN 52 (“Date of Birth”), DN 16 (“Employer FEIN”), DN 8 (“Claim Administrator FEIN”), and DN 32 (“Time of Injury”).

Section 9702(d): This section is amended to omit the phrase “or reopened” because it is redundant with “restarted.”

Section 9702(e): Subdivision (e), which sets forth data elements to be used for medical bill payment data reporting, is amended to delete data element DN0586 (“Rendering Line Provider FEIN”) as this data element is no longer needed under most recent IAIABC reporting standards. DN0048 (“Employee Mailing City”) and DN0050 (“Employee Mailing Postal Code”) are added to the table to improve the quality of the data received by WCIS.

Section 9702(e)(3): Subdivision (e)(3) is amended to refer to the IAIABC Workers’ Compensation Medical Bill Reporting Implementation Guide, Release 2.0, February 1,

2015 Publication, rather than the IAIABC Workers' Compensation Medical Bill Data Reporting Implementation Guide, Release 2.0 February 1, 2014 Publication, as the 2015 version is an updated national protocol, with which California's EDI Guide for medical bill reporting must become compliant.

Section 9702(g): Payment/Adjustment Days Paid (DN91), Payment/Adjustment Weekly Amount (DN87), and Payment/Adjustment Weeks Paid (DN90) are added to the table.

Section 9702(h): Added the requirement to include where no benefits are paid to comply with updated IAIABC reporting requirements, and clarified the submission of Claims Status (DN73).

California EDI Implementation Guide for First and Subsequent Reports of Injury (FROI/SROI)

In the introduction, the date was updated and the name of the Administrative Director was changed from Carrie Nevans to Destie Overpeck, who is the current Administrative Director.

In Section A, a line erroneously referring to Section E was deleted and the definition of "Annual Summary Reports" was updated to clarify the deadline for reporting FROI/SROI data using Secure File Transmission Protocol (SFTP), a more secure method of transmitting data than was used previously.

In Section B, the DWC's telephone contact information was updated to a correct telephone number, and to delete a fax number. Current information for subscribing to E-news and language regarding WCIS Training Bulletins language was also added. Also, information about the SFTP data transmission standard was added for clarity.

In Section D, reference was added to the current version of Labor Code section 138.7, in place of a prior, outdated version.

In Section E, language referencing penalties for WCIS reporting violations that will be going into effect by way of anticipated regulations was added for consistency with the penalty regulations when they are adopted.

In Section F, the language regarding WCIS using the Trading Partner FEIN as a substitution for the Claim Administrator FEIN has been deleted. WCIS has also deleted the substitution of the Insurer FEIN (DN 6) for a missing Third Party Administrator FEIN (DN 8). The link for Claim Administrator identification list was corrected. A section providing instructions for filling out a WCIS Reports Contact has been added. Reference to different trading partners transmitting data on certain days of the week was deleted. Trading partner data transmission information was updated to reflect a more secure file transfer protocol (SSH versus SSL). The fax number was deleted from Receiver Information. Finally, on the trading partner profile form, "master sender" was changed to simply "sender," and the WCIS Reports contact information fields were added to provide

up to three contacts per trading partner. These changes were made to increase the accuracy of the information reported.

In Section G, reference to a parallel phase of EDI reporting was removed as it is no longer applicable. Step one of the testing process was clarified. The link to the Trading Partner Profile was corrected. Step two of the testing process was clarified. Error Code 42 was added to the Structural Edits and Data Edits. The processing time for acknowledgments was changed from 48 hours to 3 business days. The timeframe for sending a file and inquiring about an acknowledgment was increased from 48 hours to 5 business days. These changes were made in response to feedback from trading partners, in order to make compliance with reporting requirements easier. Clarification of what actions to take if trading partners receive Acknowledgment Transaction Set ID (DN110) = HD1 was added. Step three was updated to include more current reporting information regarding data completeness, accuracy and timelines to correspond to anticipated penalty regulations. Step four was clarified and updated to correspond to anticipated penalty regulations.

In Section I, the language regarding file transfer protocol was updated to reflect the move to a more secure version of file transfer protocol known as SFTP (SSH(Secure Shell) File Transfer Protocol). The file naming convention has been updated to provide better consistency amongst trading partners and the two WCIS databases.

In Section J, the language was clarified to match the language in amended WCIS regulations and anticipated penalty regulations, as follows: The language regarding when a Change (02) Report on an incomplete first report is due was changed from 60 to 30 calendar days. The language regarding when a Correction (CO) Report is due has been deleted and replaced with "Within 30 calendar days of original TE acknowledgment." Language regarding the reporting of claims identified as having no coverage has been added. Language regarding the reporting of Final Reports (FNs) and Annual Reports (ANs) has also been clarified. These changes, including those to the time periods in question, are to make FROI/SROI reporting requirements consistent with changes that have been made to the implementing regulations since the last time the FROI/SROI Implementation Guide was updated and to be consistent with penalty regulations expected to be enacted in the next year or so.

In Section K, the requirements for Agency Claim Number (DN 5), Claim Administrator FEIN (DN 8), Claim Administrator Name (DN 9), Claim Administrator Claim Number (DN 15), Industry Code (DN 25), Policy Number (DN28), Policy Effective Date (DN29), Policy Expiration Date (DN30), Date of Injury (DN 31), Time of Injury (DN 32), Nature of Injury Code (DN 35), Part of Body Injured Code (DN 36), Employee Date of Birth (DN 52), Class Code (DN 59), Employee Date of Death (DN 57), Wage (DN 62), Wage Period (DN 63), Claim Status (DN 73), Claim Type (DN 74), Permanent Impairment Body Part Code (DN 83), Payment/Adjustment Code (DN 85), and Payment/Adjustment Paid to Date (DN 86) were updated to increase efficiencies in reporting FROI/SROI data, based on feedback from trading partners. Updated conditional rules and implementation notes for Agency Claim Number (DN 5), Claim

Administrator FEIN (DN 8), Claim Administrator Name (DN 9), Claim Administrator Claim Number (DN 15), Employer FEIN (DN 16), Policy Number (DN 28), Policy Effective Date (DN 29), Policy Expiration Date (DN 30), Nature of Injury Code (DN 35), Part of Body Injured Code (DN 36), Employee Date of Birth (DN 52), Date Disability Began (DN 56), Employee Date of Death (DN 57), Wage Period (DN 63), Date of Maximum Medical Improvement (DN 70), Claim Status (DN 73), Claim Type (DN 74), Number of Permanent Impairments (DN 78), Permanent Impairment Body Part Code (DN 83), Payment/Adjustment Code (DN 85), Payment/Adjustment Paid to Date (DN 86), Payment/Adjustment Weekly Amount (DN 87), Payment/Adjustment Start Date (DN 88), Payment/Adjustment End Date (DN 89), Payment/Adjustment Weeks Paid (DN 90), Payment/Adjustment Days Paid (DN 91), Paid to Date/Reduced Earnings/Recoveries Code (DN 95) and Paid to Date/Reduced Earnings/Recoveries Amount (DN 96) were updated to increase efficiencies in reporting FROI/SROI data, based on feedback from trading partners. In addition, data requirements, conditional rules, and implementation notes for Time of Injury (DN 32) and Initial Treatment (DN39) were added, along with definitions for FROI and SROI Date Disability Began (DN56), for the same reasons.

In Section L, the language in the first paragraph was made more concise. The name of one element was changed from Third Party FEIN to Claim Administrator FEIN and two elements were removed to be consistent with the current versions of the implementing regulations (8 C.C.R. §§ 9701-9702). In the FROI table, a requirement was added that the Industry Code must be North American Industry Classification System (NAICS) language. In addition, in the FROI table, the “na” and “unk” options for employee first and last names were removed. In the SROI table, the sequencing edit for Date of Return/Release to Work was removed because this option was preventing the reporting of valid claims. In the SROI table, Claim Status-specific edits were added for final claims. These changes were made to increase efficiencies in reporting FROI/SROI data, based on feedback from trading partners. In the California-adopted IAIABC Data Element table FROI Data Elements, Sorted by Data Element Number, the data element name Third Party Administrator FEIN was changed to Claim Administrator FEIN and the data element name Third Party Administrator Name was changed to Claim Administrator Name. In the California-adopted IAIABC Data Element table FROI Data Elements, Sorted Alphabetically, the data elements Claim Administrator FEIN and Claim Administrator Name were added. Data elements Third Party Administrator FEIN and Third Party Administrator Name were deleted. In the California-adopted IAIABC Data Element table SROI Data Elements, Sorted by Data Element Number the data element name Third Party Administrator FEIN was changed to Claim Administrator FEIN. In the California-adopted IAIABC Data Element table SROI Data Elements, Sorted Alphabetically, data element Claim Administrator FEIN was added. Data element Third Party Administrator FEIN was deleted.

In Section M, processes for the submission and matching of all FROI and SROI transactions were updated as follows: The language regarding the Agency Claim Number/Jurisdiction Claim Number (JCN) (DN 5) has been clarified and made current. The language regarding Changed and Corrected Data has been changed to correspond to anticipated penalty regulations. Language regarding the sequencing of first report

transactions has been added for clarification. Language regarding the reporting of open benefits was clarified. Language regarding the reporting of advances and settlements was clarified as follows: a (PY) should now be sent to report an advance or settlement that is the first indemnity payment. Previously reported SROI benefits are now required on SROI Change in Benefit (CB), SROI Partial Suspensions (Px), and Suspensions (Sx). The requirement that the SROI Change and Correction (MTC=02 and CO) transactions must have at least one previous benefit event has been removed for SROI 02 and CO transactions where the Claim Status (DN 73) or Date of Representation (DN 76) is present. The language for reporting stipulated settlements has been clarified. The matching rules and processes were deleted and updated to include new matching rules for processing all transmissions. These updates were made to control the assignment of the JCN and the data matching that occurs in WCIS once data is received from trading partners.

In Section N, web links were updated and Standard Industrial Classification (SIC) codes were removed as acceptable codes for the Industry Code (DN25). Tables for Nature of Injury (DN 35), Part of Body (DN 36 and 83), and Cause of Injury (DN 37) were removed. These changes were made to increase efficiencies in reporting FROI/SROI data, based on feedback from trading partners.

In Section O, the EDI terminology table and glossary were updated to increase efficiencies in reporting FROI/SROI data, based on feedback from trading partners.

Appendix A summarizes the changes between versions 3.0 and 3.1 by section, as set forth in more detail in the accompanying Notice of Proposed Rulemaking.

In Appendix B, numerous technical changes were made to increase efficiencies in reporting, in response to feedback from trading partners, and to improve the quality and usefulness of the data being reported, as set forth in detail in the accompanying Notice of Proposed Rulemaking.

California Electronic Data Interchange (EDI) Implementation Guide for Medical Bill Payment Records, Version 2.0

Throughout the Guide, all references to “IAIABC EDI Implementation Guide for Medical Bill Payment Records, Release 2.1, dated February 1, 2014,” have been replaced with references to “IAIABC Workers’ Compensation Medical Bill Reporting Implementation Guide, Release 2.0, February 1, 2015 Publication,” as the 2015 version is an updated national protocol, with which California’s EDI Guide for medical bill reporting must become compliant. In addition, references to “Acting Administrative Director Destie Overpeck” are changed to “Administrative Director Destie Overpeck” because Ms. Overpeck has been appointed to the Administrative Director position since the previous publication of the Guide.

In addition, several minor and technical corrections and clarifications are made to the Guide, as described in detail in the accompanying Notice of Proposed Rulemaking.

These changes are made to improve the quality of the data received by WCIS and to reflect new reporting requirements set forth in the IAIABC Workers' Compensation Medical Bill Reporting Implementation Guide, Release 2.0, February 1, 2015 Publication, in particular with respect to reporting compound and repackaged drugs. Making these changes will allow WCIS to collect accurate data regarding compound and repackaged drugs, which would not be possible in the absence of these revisions.

ECONOMIC IMPACT ANALYSIS

Evidence Supporting Finding of No Significant Statewide Adverse Impact Directly Affecting Business

The proposed regulations will not have a significant adverse economic impact on representative private persons or directly affected businesses. It is estimated that 1,400 claims administrators and self-insured employers will be impacted by these changes, with associated computer programming costs of approximately \$3,500 - \$4,000 per entity, for a total estimated impact of approximately \$5,600,000.00; as indicated on the Form 399, for approximately 200 entities there will be additional one-time costs between \$25,000 and \$35,000 per entity, for a total potential economic impact of \$12,600,000.00. The costs are higher for this group of 200 claims administrators because it involves changes to FROI/SROI reporting, the requirements for which have not been updated since 2009. For the larger group, Medical Bill Payment reporting requirements were updated last year, and the further updates being made in this rulemaking are smaller in scope.

The Administrative Director has determined that the proposed regulations will not have a significant adverse impact on business. The cost of the proposed regulations, including the revisions to the California EDI Guides, will primarily be limited to the cost of upgrading computer programming.

Creation or Elimination of Jobs within the State of California

None. The Administrative Director has determined that the proposed regulations will not create or eliminate any jobs within the State of California. As noted above, the proposed regulatory changes will impose minor costs on less than 2,000 large business entities. Therefore, it would be inaccurate to conclude that adoption of the proposed regulations would create or eliminate jobs within the State of California.

Creation of New or Elimination of Existing Businesses within the State of California

None. The Administrative Director has determined that the proposed regulations will not create or eliminate any existing businesses within the State of California. As noted above, the proposed regulatory changes will impose minor costs on less than 2,000 large business entities. Therefore, it would be inaccurate to conclude that adoption of the

proposed regulations would create new businesses or eliminate existing businesses within the State of California.

Expansion of Businesses Currently Doing Business within the State of California

None. The Administrative Director has determined that the proposed regulations will not cause the expansion or elimination of any existing businesses within the State of California. As noted above, the proposed regulatory changes will impose minor costs on less than 2,000 large business entities. Therefore, it would be inaccurate to conclude that adoption of the proposed regulations would cause an expansion of businesses currently doing business within the State of California.

Benefits of the Regulations to the Health and Welfare of California Residents, Worker Safety, and the State's Environment

The objective of these amendments to the regulations is to increase efficiencies in reporting FROI/SROI data, based on feedback from trading partners, which necessitates updates to the California EDI Implementation Guide for First and Subsequent Reports of Injury to Version 3.1. In addition, the California EDI Implementation Guide for Medical Bill Payment Records, Version 2.0 was updated to correspond to changes made in the IAIABC Workers' Compensation Medical Bill Reporting Implementation Guide, Release 2.0, February 1, 2015 Publication. The proposed changes to 8 C.C.R. sections 9701 and 9702 correspond to and implement the changes in the two California EDI Guides. Making these updates will make the data received more useful to WCIS for research and analysis purposes. In addition, making these changes will make EDI reporting requirements for reporting entities performing WCIS reporting, e-billing and other related functions, more consistent, for reporting to DWC and other entities that require the submission of EDI, thereby making reporting requirements more streamlined and efficient for reporting entities.