



Advising the Congress on Medicare issues

Payment adequacy in ambulatory surgical centers (ASCs)

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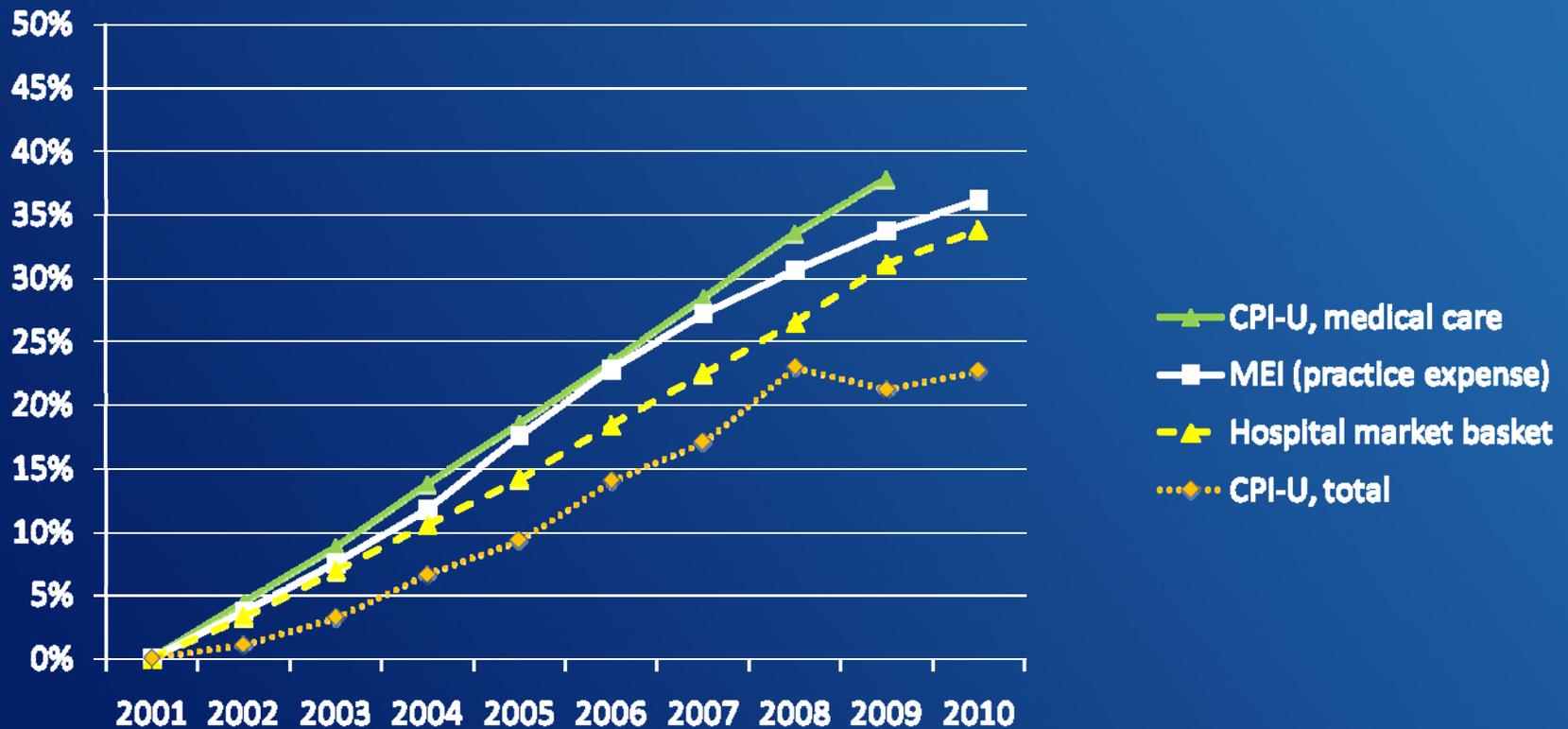
Overview of analysis

- ASC market basket
- ASC payment adequacy

ASC market basket

- Projected change in providers' input prices is important part of update process
- CMS uses CPI-U to update ASC payments
- CPI-U includes broad mix of goods and services; may not be good proxy for ASC input costs
- Examine 2 alternatives: Hospital market basket and practice expense portion of Medicare Economic Index

Cumulative growth of CPI-U for medical care, hospital market basket, and practice expense portion of MEI is higher than total CPI-U, 2001-2010



Note: CPI-U (consumer price index for all urban consumers), MEI (Medicare Economic Index). MEI growth excludes CMS's productivity adjustment.

Source: CMS, Bureau of Labor Statistics.

Stability of market basket indexes

- Total CPI-U more volatile than alternative indexes (CPI-U for medical care, hospital market basket, MEI)
- Stability helps providers with long-term planning
- But accuracy of index may be higher priority than stability

Analyzing distribution of ASC costs

- Used de-identified 2004 ASC cost data from GAO survey
- We grouped expenses into 4 standardized cost categories
 - Medical supplies and drugs
 - Employee compensation
 - Other professional services
 - All other costs
- Cost data lacked information on several categories, which limited the analysis

Comparing distribution of ASC costs to hospital and physician practice costs

Cost category	Share of total ASC costs	Share of hospital costs	Share of physician practice expenses
Employee compensation	40.0%	55.1%	39.2%
Other professional services	8.0	11.3	13.5
Medical supplies and drugs	25.7	7.5	9.1
All other costs	26.2	26.0	38.1

Note: Share of hospital costs derived from hospital operating market basket and capital input price index. Share of physician practice expenses derived from practice expense portion of Medicare Economic Index, excluding CMS's productivity adjustment.

Source: MedPAC analysis of 2004 ASC cost data from GAO; CMS.

Need new ASC cost data to evaluate market basket

CMS should collect new ASC cost data and use it to examine whether

- An existing price index (e.g., CPI-U for medical care, hospital market basket, MEI) is an appropriate proxy for ASC costs, or
- An ASC-specific index should be developed

Important facts regarding ASCs

- Medicare payments in 2008 = \$3.1 billion
- Beneficiaries served in 2008 = 3.3 million
- 90% have some degree of physician ownership
- Medicare payments are about 20% of total ASC revenue
- ASCs will receive a full payment update of 1.2 percent in 2010

Measures of payment adequacy

- Access and supply
- Access to capital
- Medicare payments
- No cost or quality data

ASC payment system substantially revised in 2008

- 32% increase in number of covered surgical services
- Payment rates based on relative weights from outpatient PPS
- Separate payment for ancillary services that used to be packaged
- This is first year data are available to assess effects of 2008 revisions

Effects of 2008 revisions

- ASC volume per FFS beneficiary
 - Increased 10.5% in 2008
 - Newly covered services accounted for 4.9 percentage points of 2008 increase
- Medicare spending per FFS beneficiary on ASCs
 - Increased 9.7% in 2008
 - Newly covered services accounted for 2.9 percentage points of increase
- Spending per beneficiary increased 8.0 percent per year, 2003-2007

Access to ASC services has been increasing

	Avg increase, 2003-2007	Increase, 2007-2008
Percent increase, FFS beneficiaries served	6.4%	2.8%
Percent increase, volume per beneficiary	10.2%	10.5%
Number of ASCs	286	183
Percent increase, number of ASCs	6.7%	3.7%

Access to capital has been at least adequate

- Capital is required to establish new ASCs
- Number of ASCs grew at an annual rate of 6.7% over 2003-2007
- Growth slowed to 3.7% in 2008
- Downturn in capital markets and economy reduced access to capital
- Downturn unrelated to Medicare payments

Possible benefits of ASC growth, relative to HOPDs

- Surgical services per beneficiary and number of beneficiaries served have grown more quickly in ASCs than in HOPDs
- Suggests migration of surgical services from HOPDs to ASCs
- Possible benefits
 - Efficiencies for patients and physicians
 - Lower program spending and beneficiary cost sharing per service

Concern: ASC growth may increase aggregate spending and cost sharing

- Most ASCs have physician ownership; incentive to perform more procedures?
- Study of Pennsylvania facilities suggests that ASC growth has hurt HOPD profitability
- In response, HOPDs may try to enhance Medicare revenue by providing more services and more complex services
- On net, growth in ASCs can reduce program spending but depends on aggregate volume and payment rates of alternative settings

Cost and quality data not available

- ASCs do not submit cost or quality data to CMS
- These data are important for
 - Determining the adequacy of Medicare payments to ASCs
 - Allowing payments to be based on quality
 - Evaluating ASC market basket

Summary

- Access to ASC services has been increasing
 - Increase in number of beneficiaries served
 - Increase in volume per FFS beneficiary
 - Increase in number of ASCs
- Access to capital has been at least adequate
- Lack cost and quality data