

Expanding the unit of payment in the outpatient PPS

ISSUE: One of the major design features of any prospective payment system (PPS) is the extent to which related services are combined into a single payment. In most cases, the outpatient PPS in Medicare pays separately for each discrete service provided by a hospital outpatient department. Paying separately for drugs and ancillary services may create an incentive to use more of these services, and thus may contribute to high spending growth in the outpatient PPS.

KEY POINTS: Under the outpatient PPS, most ancillary services, such as diagnostic tests, receive separate payments. Separate payments are also made for many drugs, biologicals, and radiopharmaceuticals. One indicator of the fragmentation of the payment system is the high number of APC codes for drugs that receive separate payment: nearly 40 percent of the 838 APCs in 2006 were for separately-paid or pass-through drugs. Spending for these products has grown rapidly between 2001 and 2004.

At this meeting, we will outline the issues involved in expanding the unit of payment to include more drugs and ancillaries. We will present criteria for determining when a drug or ancillary should be packaged with procedures and medical visits. We will also present data on the cost of drugs and ancillaries relative to the cost of their associated procedures and visits.

ACTION: Staff seeks Commissioners' feedback on our methods and results.

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