Advising the Congress on Medicare issues

Aligning fee-for-service payment rates across ambulatory settings

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Differences in fee-for-service payment rates among ambulatory settings

- Distinct payment systems for three ambulatory settings, physician offices, hospital outpatient departments (HOPDs), and ambulatory surgical centers (ASCs)
- Payment rates often differ for the same service among ambulatory settings
  - Outpatient prospective payment system (OPPS) has higher payment rates than the physician fee schedule (PFS) and the ASC payment system for most services
- The same service can often be provided safely in more than one setting, so why does Medicare have these different payment rates?

Different rates across settings can increase Medicare spending and beneficiary cost sharing

- Payment differences can result in higher-cost providers acquiring lower-cost providers
  - Hospitals can acquire physician practices and bill at higher OPPS payment rates with little or no change in the site of care
- Share of services for office visits, echocardiography, cardiac imaging, and chemotherapy administration has substantially increased in HOPDs and decreased in offices
- Balanced Budget Act of 2015 aligned OPPS payment rates with PFS payment rates in some instances, but the effect of this policy has been limited

Acquisition of physician practices has shifted services from offices to HOPDs

Service	Share in HOPDs, 2012	Share in HOPDs, 2019
Office visits	9.6%	13.1%
Chemotherapy administration	35.2	50.9

Note: HOPD (hospital outpatient department).

Data preliminary and subject to change

Payment rates are usually higher in HOPDs than in offices: Level 2 nerve injection

	Service in office	Service in HOPD	Service in HOPD with rates aligned
PFS payments			
Work	$64.87	$64.87	$64.87
PE	185.64	31.71	31.71
PLI	5.77	5.77	5.77
OPPS payment	0.00	598.81	153.93
Total payment	$256.28	$701.16	$256.28

Note: HOPD (hospital outpatient department), PLI (professional liability insurance), PE (practice expense).

Data preliminary and subject to change

Issues to address when aligning payment rates across ambulatory settings

- Some services cannot be provided in offices or ASCs; must be provided in HOPDs (ED visits, critical care, trauma care)
- OPPS and ASC system have different payment units than PFS
  - More packaging of ancillary items in OPPS and ASC system relative to PFS
- Align payments only if it is reasonable to provide service in lower-cost settings for most beneficiaries

Identifying candidate services for aligned payment rates

- Collected services into ambulatory payment classifications (APCs), the payment classification system in the OPPS
- For each APC, determined the volume in each ambulatory setting
  - If offices had the largest volume, aligned OPPS and ASC rates with PFS rates using difference between nonfacility and facility PE, plus addition for packaging
  - If ASCs had the largest volume, aligned OPPS rates with ASC rates; kept PFS rates the same
  - If HOPDs had the largest volume, no alignment; payment rates were unchanged in each setting

Overview of results of aligning payment rates

- 162 APCs for services in OPPS
  - We aligned OPPS and ASC rates with PFS rates for 57 APCs
    - Constitute 22 percent of total spending under OPPS
    - Constitute 12 percent of total spending under ASC system
  - We aligned OPPS rates with ASC rates for 11 APCs
    - Constitute 4 percent of spending under OPPS
  - We did not align payment rates for the remaining 94 APCs

Data preliminary and subject to change

Aligning payment rates across three ambulatory settings for 57 APCs

- Most are low-complexity services
- Aligning payment rates would reduce beneficiary cost sharing and program outlays under OPPS and ASC system
  - Cost sharing would decrease by $1.6 billion and program outlays by $6.4 billion under OPPS (12 percent decrease)
  - Cost sharing would decrease by $70 million and program outlays by $270 million under ASC system (6 percent decrease)

Data preliminary and subject to change

Aligning OPPS payment rates with ASC payment rates for 11 APCs

- 11 APCs are for surgical procedures (ophthalmologic, GI, and musculoskeletal)
- Aligning payment rates would reduce cost sharing by $260 million and program outlays by $1.1 billion under OPPS (2 percent decrease)
- Rural areas and some states have few ASCs; concern that this policy could create access problems in these areas

Data preliminary and subject to change

Aligning payment rates could affect hospitals that serve vulnerable populations

- Overall Medicare revenue for hospitals that serve vulnerable populations would decrease
- Commission is evaluating policies that would ensure access for vulnerable populations
- For this study, we used DSH percentage to identify hospitals that serve vulnerable populations
  - For policy with 57 APCs: Limit hospital's reduction in total Medicare revenue to 3.3% if DSH percentage is above median (28.1%)
  - For policy with 11 APCs: Limit hospital's reduction in total Medicare revenue to 0.7% if DSH percentage is above median

Data preliminary and subject to change

Mitigating effects of aligning payment rates on hospitals with large shares of low-income patients

Hospital category	Percent decrease, total Medicare revenue		Percent decrease, outpatient cost sharing
	Without stop-loss	With stop-loss	
All hospitals	4.5%	3.8%	14.9%
Urban	4.3	3.6	14.5
Rural (no CAHs)	7.6	5.8	17.8
Nonprofit	4.7	3.9	14.9
For-profit	3.4	3.2	13.3
Government	5.3	3.9	16.6

Data preliminary and subject to change

Potential impacts of aligning payment rates are substantial

- Purposes for doing this analysis:
  - Address the principle that Medicare and beneficiaries should not pay more than necessary for ambulatory services
  - Reduce incentives for providers to consolidate
- The pool of money from aligning payment rates does not have to be used to reduce program spending; alternatives include:
  - Increase OPPS rates for the 94 APCs for which we would not align payments (ED visits, complex surgical procedures)
  - Fund policies to support safety-net providers

Discussion

- Should Medicare align payment rates across ambulatory settings?
- How should the savings be allocated?