Aligning fee-for-service payment rates across ambulatory settings

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Presentation overview

- 2012-2014: Commission evaluated effects of aligning payment rates between hospital outpatient departments and physician offices
- November 2021: Presented analysis that built on previous Commission work
- Today: Revisit November 2021 presentation with modifications:
  - Assessment of whether adjustments for patient acuity are needed when aligning payment rates
  - Use volume data from 2016-2019 rather than just 2019 to identify services for which it would be appropriate to align payment rates

Differences in Medicare 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

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 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
- Shift of services increased program outlays and cost sharing
- Bipartisan Budget Act of 2015 aligned OPPS rates with PFS 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).

Source: MedPAC analysis of standard analytic claims file, 2012 and 2019.

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, complex procedures)
- 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

Concern: Relationship between patient severity and costliness

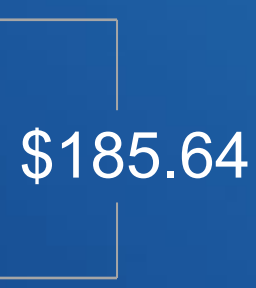
- Regression analysis: Effect of patient health status on HOPD costs for services for which we aligned payment rates
  - Dependent variable: Beneficiary-level charges from claims for service combined with packaged ancillary items (OPPS payment bundles)
  - Explanatory variables: Hospital identifier, full Medicaid benefits, sex, Charlson comorbidity index (CCI, a measure of health status)
- The relationship between the beneficiary CCI and level of charges was weak; among services evaluated, 10% increase in CCI was associated with an increase in charges of less than 1%
- Conclusion: In general, adjustments for patient severity are not needed for effective system of aligning payment rates

Identifying candidate services for aligned payment rates

- Collected services into ambulatory payment classifications (APCs), the payment classification system in the OPPS
- For each APC, used data from 2016-2019 to determine the volume in each ambulatory setting
  - If offices had the highest volume, aligned OPPS and ASC rates with PFS rates using difference between PFS nonfacility and facility practice expenses (PEs), plus addition for packaging
  - If ASCs had the highest volume, aligned OPPS rates with ASC rates; kept PFS rates the same
  - If HOPDs had the highest volume, no alignment; payment rates unchanged in each setting

Aligning OPPS payment rates with PFS payment rates: 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	N/A	598.81	153.93
Total payment	$256.28	$701.16	$256.28



Note: OPPS (outpatient prospective payment system), PFS (physician fee schedule), HOPD (hospital outpatient department), PE (practice expense), PLI (professional liability insurance).

Source: MedPAC analysis of PFS and OPPS payment rates, 2019.

We identified 68 APCs for which to align payment rates

- 169 APCs for services in OPPS; reasonable to align payment rates for 68 APCs
  - We aligned OPPS and ASC rates with PFS rates for 57 APCs
    - Constitute 22 percent of total spending under OPPS
    - Constitute 11 percent of total spending under ASC system
    - Most of these APCs are low-complexity services (office visits)
  - 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 101 APCs

Data preliminary and subject to change

Aligning payment rates across three ambulatory settings for 57 APCs

- Aligning payment rates would reduce beneficiary cost sharing and program outlays under OPPS and ASC system
  - Under OPPS, 2019 cost sharing would decrease by $1.4 billion and program outlays by $5.5 billion (10 percent decrease)
  - Under ASC system, 2019 cost sharing would decrease by $60 million and program outlays by $230 million (6 percent decrease)
- Current law: CMS would increase OPPS payment rates of APCs for which payment rates are not aligned to offset lower spending from payment alignment policies (budget neutrality)
- Alternative: Use the lower spending as savings

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)
- Under OPPS, 2019 cost sharing would decrease by $260 million and program outlays by $1.1 billion (2 percent decrease)
- Current law: Budget neutral adjustment that would fully offset lower spending from payment rate alignment
- Concern: Rural areas and some states have few ASCs; this policy could create access problems in these areas

Data preliminary and subject to change

Effects of payment rate alignment policies coupled with budget neutrality adjustments (68 APCs)

- Percent change, total Medicare revenue for hospital categories

Hospital category	Payment alignment policies with budget neutral adj
All hospitals	0.0%
Urban	0.2
Rural (no CAHs)	-2.3
Nonprofit	0.0
For-profit	0.1
Government	-0.9

Source: MedPAC analysis of hospital cost reports and standard analytic claims files, 2019.

Alternative: Focus savings on hospitals that serve vulnerable populations

- Use at least some of the savings from payment alignment policies on hospitals that serve vulnerable populations
  - Used DSH percentage to identify hospitals that serve vulnerable populations
  - Limit hospital's reduction in total Medicare revenue to 4.1% (median loss) if DSH percentage is above median (28.1%)

Effects of payment alignment policies, with and without temporary stop-loss policy

Hospital category	Percent change, total Medicare revenue	
	Without stop-loss	With stop-loss
All hospitals	-4.1%	-3.6%
Urban	-3.8	-3.4
Rural (no CAHs)	-6.9	-5.5
Nonprofit	-4.1	-3.7
For-profit	-3.3	-3.1
Government	-4.6	-3.8

Source: MedPAC analysis of hospital cost reports and standard analytic claims files, 2019.

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 101 APCs for which we would not align payments (ED visits, complex surgical procedures)
  - Fund temporary policies to support safety-net providers

Discussion

- Analysis will be a chapter in June 2022 Report to the Congress
- What should be done with the savings from aligning payment rates?
  - Budget neutral adjustment to OPPS payment rates (current law)
  - Use all of it as savings
  - Temporarily support safety-net providers