HEALTH CAPITAL Topics
Volume 8
Issue 4
April 2015
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Hospitals Fight Back against Proposed Site Neutral Payment Policy

Medicare pays different rates to providers based upon the medical setting where services are rendered (i.e., inpatient physician services, outpatient physician services, etc.).[1] The Centers for Medicare and Medicaid Services (CMS) and Medicare Payment Advisory Commission (MedPAC) have been exploring options to completely eliminate this payment differential.

In June 2013, MedPAC outlined several recommendations for the Medicare program, including a policy that would "*equalize payments for evaluation and management visits provided inside or outside a hospital to those of free-standing physician offices.*"[2] MedPac suggested the new policy will assist in addressing Medicare's expanded spending growth and wide variance in outpatient spending throughout the nation. It was also estimated in their June 2013 annual report beneficiaries would save an annual $800 million resulting from the policy implementation.[3] One prominent recommendation was unveiled in MedPAC's March 2014 report to Congress; "*Site-Neutral Payment",* which is a reflection of the commission's position that CMS should not pay more for care in one setting than in another if the care can safely and effectively be provided in a lower cost setting.[4]

There is great controversy surrounding site-neutral payments, particularly due to the recent shift of services from physician offices to Hospital Outpatient Departments (HOPD), which offer greater reimbursement rates for the same services.[5] MedPAC has expressed significant concern regarding this development, noting for example that there was a 33% increase in echocardiograms in HOPDs between 2010 and 2012, and a 10% decrease in echocardiograms done in physicians' offices over the same period.[6] Due to the higher payment rates for HOPD services, Medicare is paying a substantially higher reimbursement for services that may have no difference in the experience or care the patient will receive. This also results in higher out-of-pocket costs for the beneficiaries as well, due to the 20% cost sharing associated with Medicare Part B's coverage of outpatient services.[7]

Should this recommendation be implemented by CMS, the American Health Care Association (ACHA) predicts that collaboration and coordination among multiple medical settings will increase, resulting in a net benefit to the patient of improved quality of care and better health outcomes.[8]

MedPAC and CMS have both made recommendations to eliminate differential payments for certain services, though the two have taken divergent approaches addressing this issue.[9] CMS identified a small number of anomalous reimbursement rates that were higher for physician office settings and proposed to cap those rates to the amount paid for the same service when provided in an HOPD, while, conversely, MedPAC has recommended limiting payments to HOPDs.[10] More recently MedPAC has advocated for aligning HOPD payment rates with physician office rates for selected ambulatory services. After evaluating 450 ambulatory payment classifications (APC), MedPAC found 66 APCs that "*[did] not require emergency standby capacity, [did] not have extra costs associated with greater patient complexity in the hospital, and [did] not need the additional overhead that comes with services that must be provided in a hospital setting.*"[11] These APCs were deemed candidates for having their HOPD payment rates adjusted to either (1) align with their physician fee schedule rates or (2) maintain a higher reimbursement rate than the physician fee schedule rates, but reduce the disparity between the two rates from the current level.[12] MedPAC estimated that realigning the HOPD payments of the 66 identified APCs would reduce program spending and beneficiary cost sharing by $1.1 billion in one year.[13] In April 2014, the Health and Human Services Office of Inspector General (OIG) recommended CMS lower the HOPD reimbursement rate for Ambulatory Surgery Center (ASC)-approved procedures to align with the corresponding ASC reimbursement levels for procedures performed on beneficiaries with low-risk and no-risk clinical needs.[14] It was estimated that the measure could save Medicare about $15 billion from 2012-2017 and save beneficiaries between $2 billion and $4 billion in charges over the same period.[15]

Despite the mounting evidence regarding cost savings associated with site-neutral payments, there are still many who disagree with these proposals. Hospital leaders and organizations such as the American Hospital Association (AHA) have criticized the site-neutral proposals as "*threaten[ing] access to care.*"[16] HOPDs, through their hospital affiliations, are furnished with a variety of facilities and equipment, required by regulation, so as to provide 24 hour access to care for all types of patients and handle unanticipated patient-care complications.[17] Moreover, the AHA maintains that

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since hospitals are subject to more comprehensive licensing and accreditation standards, if site neutral payments were implemented, hospitals would be undercompensated due to their additional regulatory, facility, and patient care requirements.[18] Hospitals allege that this reduction in compensation would negatively impact a hospital's ability to provide access to sufficient care.[19] For example, Peter Karl, CEO of Eastern Connecticut Health Network - Manchester, is contemplating removing as many as 70 full-time employees if the site-neutral payment proposal is accomplished.[20]

Although hospital executives are against its implementation, MedPAC is still moving forward with its recommendation to neutralize payment rates. MedPAC unanimously voted to recommend that Congress redefine the differences in what the program pays depending on the location of the service; a change that would mean a 0.6% drop in Medicare revenue for hospitals.[21] Furthermore, the *Protecting Access to Medicare Act of 2014*, which was signed by President Obama into law on April 1, 2014 will present CMS with another opportunity to revisit this issue. Under this law, Congress expanded the type of information that CMS can use to determine costs under the physician fee schedule, allowing necessary action to be taken to alter any potentially misvalued reimbursement codes, including those for which a "*significant difference in payment for the same service between different sites of service*" exists.[22] In a separate, yet, related matter, Congress took action under the *Pathway for SGR Reform Act of 2013*, to ensure that long-term care hospitals be paid at a comparable rate to the inpatient prospective payment system when patients meet certain criteria.[23] With Congress now beginning to weigh in on the matter of site-neutral payments, interested parties on both sides of the debate should take preemptive steps to monitor regulatory actions and prepare for the possibility of reimbursement changes in the future.

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