HEALTH CARE REFORM VIGNETTE

Hospital Outpatient Prospective Payment System

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SUMMARY: A brief review of the Hospital Outpatient Prospective Payment System (HOPPS) is presented highlighting the program's legislative history, outpatient service classifications and payment plan. Specifically, HOPPS measures applicable to imaging practices are discussed. Resources are also provided for further information on the program requirements and the ambulatory payment classifications (APC) system.

ABBREVIATIONS: APC = Ambulatory Payment Classifications; CF = conversion factor; CMS = Centers for Medicare and Medicaid Services; DRG = Diagnosis Related Groups; HOPPS = Hospital Outpatient Prospective Payment System

What Is the HOPPS?

HOPPS stands for the Hospital Outpatient Prospective Payment System. This payment system, established in August 2000 by government legislation,[1,2] replaced the existing fee-for-service system and is used currently by the CMS to reimburse for hospital outpatient services. Hospitals will receive a 2% reduction in their annual payment update under the HOPPS for not successfully meeting the requirements of the Hospital Outpatient Quality Data Reporting Program, a financial incentive program for hospitals to meet certain quality-control criteria in the outpatient setting.

What is the Background of the HOPPS Program?

Beginning in 1965, the Medicare program retrospectively reimbursed medical services on the basis of hospital-specific reasonable costs. As a result of this system and a Medicare-driven increase in demand for medical services, health care costs rose significantly. The federal government responded in 1983 by creating a hospital inpatient prospective payment system, better known as the DRG system. The DRG system established a fixed prospectively determined payment structure based on patient diagnosis that reimbursed all products and services used to treat a given diagnosis with a single payment. The DRG system also shifted inpatient costs in excess of the fixed payment to the hospital itself rather than to Medicare. This change placed the financial risk associated with extended patient stays on hospitals to provide efficient and less costly care. Outpatient services, which were not part of the DRG system, continued to be reimbursed with cost taken into account. This ultimately led to higher billing charges, and eventually CMS established the current HOPPS program. Thus, similar to the DRG system for inpatient usage, HOPPS is another program intended to control health care costs through a prospective bundled payment system. This program is complex and represents a challenge for the radiology community to understand and use.

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How Are Payments Distributed through the HOPPS?

APC is the grouping system developed for facility reimbursement for hospital outpatient services. All covered outpatient services are assigned to an APC group. Each group of procedure codes within an APC is supposed to be clinically similar with regard to resource consumption. There are 5 composite APCs for imaging services, including sonography, CT and CTA without contrast, CT and CTA with contrast, MR imaging and MRA without contrast, and MR imaging and MRA with contrast. For example, in the APC 8007 group (MR imaging and MRA without contrast), there are 26 coded procedures, including MR imaging and MRA without contrast of all body parts, such as brain, chest, and extremities. The payment rate and copayment calculated for an APC apply to each service within the APC. While each outpatient procedure group has a single APC rate, this does not translate to equal reimbursement for identical services. Surgical rates are subject to discounting when multiple procedures are performed contemporaneously, with the most expensive APC group paid in full and all other groups paid at half of their APC rate. However, at this time, radiology procedures are not yet subject to this provision.

How Are Payment Rates Set?

The payment rate for most medical and surgical services is found by multiplying the prospectively established scaled relative weight for the clinical APC of the service by a CF to determine the national unadjusted payment rate for the APC. The scaled relative weight for an APC measures the resource requirements of the service and is based on the median cost of services in that APC group. The CF translates the scaled relative weights into dollar payment rates. To account for geographic differences in input prices, the labor portion of the national unadjusted payment rate (60%) is further adjusted by multiplying by the hospital wage index for the area in which the hospital is located. The remaining 40% is not adjusted.

A number of factors were considered in the establishment of APC reimbursement rates. Initially, CMS used fiscal-year 1996 outpatient claims cost data for specific procedures as a basis for reimbursement, with data to be updated annually. Also considered are other expenses incurred in furnishing the service, such as anesthesia and anesthesia recovery costs, supplies, capital expenses, and costs to procure donor tissue. The cost of drugs and biologics is packaged into the APC as well, though some new drugs may be eligible for special treatment through transitional pass-through payments. There are also specific exceptions for

such diverse items as corneal tissue acquisition, blood and blood products, casting and splints, immunosuppressive drugs for organ transplantation, and other similarly and infrequently used drugs.

What Are Some Additional Sources of Reimbursement in the HOPPS?

Congress has allowed some additional sources of reimbursement through the Balanced Budget Refinement Act.[3] Initially, the act provides pass-through payments for new drugs, devices, and biologics during the first 2–3 years that the product is on the market. In addition, transitional-corridor payments were added to compensate for patients with unusual expenses or for hospital costs that exceeded the APC rate. Finally, CMS created a special group of new-technology APCs for new services or procedures.

Where Can I Find More Information?

For more information about the HOPPS, please refer to the CMS Web site: www.cms.gov.

Disclosures: Pina C. Sanelli—*UNRELATED: Consultancy:* Maquet Cardiovascular LLC.

References

1. Social Security Act, Pub L No. 74-271 Title 18, Sec. 1833
2. Balanced Budget Act, Pub L. No. 74-271, H.R. 2015, Title IV
3. Balanced Budget Refinement Act, H.R. 3194, Public Law No. 106-113, Title II, Subtitle A