

# ISSUE PAPER — APC SYSTEM UPDATES

## State of Connecticut Hospital Payment Modernization

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|----------------|----------------------------|
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### Overview

The proposed State of Connecticut (State) Outpatient Prospective Payment System encompasses various underlying payment methodologies. Some services will be paid based on Medicare's Ambulatory Payment Classification (APC) system while others will be paid based on other Connecticut payment policies. The APC system requires the following items to calculate a payment:

- APC grouper software, including the outpatient code editor (OCE), which assigns the appropriate status indicator and APC.
- APC information (APC values, procedure code APC assignment, status indicator values, and APC relative weights).
- Outlier fixed-dollar amount and multiplier.
- Provider wage index.
- APC conversion factor.
- Hospital-specific cost to charge ratio (CCR).

Mercer recommends that policies for updating these items be implemented.

### Discussion

One of the underlying principles of the Connecticut Medicaid APC project is to follow Medicare payment policy when reasonable. This includes developing a process for implementing system updates in a timely manner.

### APC Grouper Software

Medicare evaluates and updates the Outpatient Prospective Payment System (OPPS), including the APC payment methodologies and OCE, on an annual basis to reflect the addition of new procedure codes and deletion of outdated codes. In addition, Medicare may also decide to change the coverage of procedure codes within the APC payment methodology. For example, a significant payment policy change implemented by Medicare in 2014 was bundled payments for certain laboratory codes. Major Medicare policy and system changes are effective every January 1. In addition to the annual update, the APC grouper software is updated quarterly for minor changes. The changes are not identified as a new APC grouper version but labeled as V17.1, V17.2, etc.

The Connecticut Department of Social Services (DSS) will follow Medicare's schedule and update the MMIS with the new version of the APC grouper software annually and the minor updates each quarter. Prior to completing the annual update, DSS must review the proposed and final OPSS rules to determine what impact the changes may have on Connecticut policy since the APC grouper logic is built around Medicare payment policy. DSS will also review the quarterly updates prior to applying any applicable updates to the MMIS. While it is DSS' goal to complete these updates as close to the start of each quarter as possible, it is anticipated that the majority of updates will be retroactive based on the time needed to process the CMS information. A mass adjustment will be scheduled for the annual update and the quarterly updates will be reviewed by DSS to determine if reprocessing is necessary. Those will be scheduled on a case by case basis.

### **APC Information (APC values, APC assignment, status indicators and relative weights)**

APC changes are incorporated into the updated grouper software and they are also provided independently by the Centers for Medicare & Medicaid Services (CMS). Annually, CMS publishes both a proposed and final OPSS rule in the Federal Register that outlines the Medicare policy changes and APC weight updates. This is followed by an updated CMS Addendum A and B. The APC values, status indicators and relative weights are published in Addendum A. Addendum B provides a list of procedure codes cross-referenced to APC assignment, and other APC information such as status indicator, APC relative weight and payment rate. The changes in coverage reflected in Addendum B will be reviewed and evaluated by DSS staff as part of the annual and quarterly update process. The approved updates will be published for the providers and incorporated into the MMIS. This process will happen in conjunction with the APC grouper software update.

### **Outlier Fixed-Dollar Amount and Multiplier Information**

The APC payment methodology includes a provision for outlier payments for unusually expensive procedures. The outlier fixed-dollar amount and multiplier are part of the outlier payment calculation. CMS calculates the outlier fixed-dollar amount and multiplier annually for the following calendar year and these values are included in the OPSS final rule. The outlier fixed-dollar amount at implementation is \$2,900. This is the CMS 2014 outlier fixed-dollar amount and was used in order to maintain consistency with the data modeling. This value will be updated effective January 2017 to match the CMS 2017 outlier fixed-dollar amount. The multiplier is 1.75 and typically does not change. DSS plans to keep Medicaid values in sync with Medicare values for these parameters. These updates will be included with the other annual calendar year updates. Please refer to the Outpatient Outlier Methodology issue paper for additional information.

### **Provider Wage Index**

The provider wage index factor is published in the federal register as part of the Inpatient Hospital PPS final rule. CMS publishes updated wage indices by Core Based Statistical Area (CBSA) annually, effective October 1. Included in this information is "Table 3 – Wage Index Table by CBSA", which provides the geographical area, the original CBSA and the reclassified CBSA when applicable.

DSS will review the provider wage index updates annually. The stored CBSA and appropriate effective date will be used to look up the annual updated wage index found in "Table 3 – Wage Index Table by CBSA" published by CMS. The new wage indices prior to reclassification will be

used to update the provider’s wage adjusted conversion factor. Annually, DSS will include this update as part of annual calendar year updates to the MMIS. The providers will receive notification of this change in an annual rate letter.

**APC Conversion Factor and Outpatient Fee Schedules**

The APC conversion factor is used to convert the APC relative weights to a payment amount and can be compared as the outpatient equivalent of inpatient hospital base rates. While we recognize that program appropriations are currently in a zero growth environment, the State may opt to implement a systematic review policy on the adequacy of reimbursement levels for both the APC conversion factor and outpatient fee schedules for services not reimbursed under the APC methodology. Although the APC conversion factor may not be updated annually, the wage adjusted conversion factor will be updated to reflect updates to the provider wage indices.

It is anticipated that the statewide conversion factor will be updated based upon legislative appropriations. Mercer recommends that the State, on an annual basis, prepare an analysis to compare outpatient hospital cost to payments to ensure the conversion factor and fee schedule amounts are providing adequate reimbursement to maintain adequate access to care.

**Cost to Charge Ratio**

The final system parameter that needs to be covered by an update policy is the hospital-specific CCR. The APC payment methodology includes a provision for outlier payments for unusually expensive procedures. To determine if an additional outlier payment should be paid, the cost of providing the service must be determined. This cost estimation requires the utilization of a CCR. The cost of the service is calculated as (Covered Charges)\*(Hospital CCR). See the “Outpatient Outlier Methodology” issue paper for a more detailed discussion on the outlier methodology.

In order to accurately reflect cost within the methodology, the CCR should be updated on a regular basis to mitigate the effects of higher charge inflation over time — especially since charge inflation has historically exceeded actual cost inflation by a wide margin. Without an annual update to the hospital-specific CCRs, outlier payments would be expected to grow at a rate beyond their increased cost and result in increased program expenditures beyond budget projections.

DSS will include an update to the CCR in the annual calendar year updates to the MMIS. The providers will receive notification of this change in an annual rate letter.

**Conclusion**

Whenever possible, DSS will continue to follow Medicare’s schedule of system updates. For administrative simplification, DSS will apply the majority of annual updates simultaneously based on the calendar year in January. Additionally, quarterly updates will be applied to the APC grouper software and the Connecticut Medical Assistance Programs (CMAP) Addendum B. Table 1 lists the various system parameters requiring updates along with the anticipated timeframes.

**Table 1**

| Name | Frequency | Updates | Updates Applied |
|------|-----------|---------|-----------------|
|------|-----------|---------|-----------------|

|   |           | <b>Available</b>     |   |
|---|-----------|----------------------|---|
| <b>APC Grouper Software – New Version</b>         | Annually  | January              | As soon as possible after January 1.            |
| <b>Addendum B – New Version</b>                   | Annually  | January              | As soon as possible after January 1.            |
| <b>APC Grouper Software Updates</b>               | Quarterly | April, July, October | As soon as possible after the start of quarter. |
| <b>Addendum B – Updates</b>                       | Quarterly | April, July, October | As soon as possible after the start of quarter. |
| <b>Outlier Fixed-Dollar Amount and Multiplier</b> | Annually  | January              | January 1                                       |
| <b>Provider Wage Index</b>                        | Annually  | October              | January 1                                       |
| <b>Provider Wage Adjusted Conversion Factor</b>   | Annually  | October              | January 1                                       |
| <b>APC Conversion Factor</b>                      | Annually  | N/A                  | Reviewed annually                               |
| <b>Cost-to-Charge Ratio</b>                       | Annually  | July                 | January 1                                       |