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ISSUE PAPER — OUTPATIENT OUTLIER METHODOLOGY

State of Connecticut Hospital Payment Modernization

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Overview

The proposed outpatient prospective payment system based on Medicare ambulatory payment classifications (APCs) will include a provision for outlier payments for unusually expensive procedures.

Discussion

As part of the Hospital Payment Modernization Program the project team is charged with developing modernized "methods of payment". To that end the project team believes that an outlier policy is integral to a modernized outpatient prospective payment system to protect the hospitals fiscal integrity.

The guiding principles for the project include the following:

- Maintain long-term commitment to goals of improved accuracy, predictability, equity, timeliness, and transparency of hospital payments for all Medicaid beneficiaries in the State of Connecticut, while expediting a short-term focus on technology and mechanics of payment.
- Focus on **method** of payment, not **level** of payment.
- Overarching policy direction of consistency with industry standard payment practices and specifically Medicare payment policy.
- Develop the most robust and comprehensive system possible while allowing flexibility to handle exceptions in an equitable and efficient manner.

These guiding principles support the inclusion of an outlier policy, such as the one described below.

Medicare Outpatient Outlier Methodology

In order for an outpatient claim to qualify for outlier payments, two thresholds must both be met:

1. Multiple Threshold — The multiple threshold is met when the cost of furnishing an APC service or procedure exceeds the APC payment amount based on a defined multiplier.
2. Fixed-Dollar — The fixed-dollar threshold is met when the cost of furnishing an APC service or procedure exceeds the APC payment amount plus a fixed amount.

If both the multiple threshold and the fixed-dollar threshold are met, the outlier payment is calculated as 50% of the amount, by which the hospital's cost of furnishing the APC service or procedure exceeds the multiple threshold. The cost of furnishing the APC service or procedure is calculated using a single overall hospital-specific outpatient cost-to-charge ratio.

For the purposes of the outlier calculation, costs appearing on a claim that are attributable to packaged APC services, for which no separate payment is made, are allocated to all non-packaged services that appear on that claim. The amount allocated to each non-packaged APC service is based on the proportion the APC payment rate for that APC service bears to the total APC rate for all non-packaged APC services on the claim.

For implementation of the APC methodology, the multiplier factor and fixed dollar threshold will be based on the Centers for Medicare & Medicaid Services values that align with the timeframe of the analytical dataset, resulting in a multiplier of 1.75 and threshold of $2,900. The APC System Updates Issue Paper describes how these parameters will be updated after implementation.

Conclusion

The project team recommends that Connecticut Medicaid follow the Medicare outpatient outlier methodology including the determination of outlier thresholds. Further evaluation after the fiscal impact model is developed, as well as discussions between the Connecticut Department of Social Services, hospitals and the Connecticut Hospital Association may result in slight modifications to the outlier policy and parameters while remaining true to payment modernization and providing meaningful financial protection from unpredictably high-cost procedures.

At APC implementation, a multiplier of 1.75 and $2,900 threshold will be used, resulting in the following formula for calculating outlier payments:

Outlier Payment = [(Covered Charges x Cost-to-Charge Ratio) – (1.75 x APC Payment)] x 50%

Included as Attachment A is a hypothetical payment example that demonstrates the determination of line item costs and the allocation of the cost of bundled items to the APC paid lines, as well as the outlier threshold for each procedure code.

APC Payment Example (Including Outliers)

Provider Number	A1
Hospital	A
Total Charges	$24,174.15
Sample Conversion Factor	$72.67
Hospital CCR	0.3640
Rate for procedure code C9399	$50.51
Outlier multiplier	1.75
Outlier threshold	$ 2,900.00

Data Sources:
- Claims Data
- Hospital Rate Table
- APC Grouper
- APC Weight Table
- Calculated

Claim Line Items:

APC Description	APC	HCPCS Code	Revenue Code	Units	Status Indicator	Status Indicator Description	Discounting Factor	Discounting Percentage[1]	Payment for Not APC Payable Services	APC Weight	Base Payment	Charges	Line Cost	APC Eligible Cost[3]	Packaged Cost[4]	APC Paid Allocation Prct	Total Line Cost Including Packaged Cost[5]	Outlier Fixed-Dollar Threshold	Outlier Multiple Threshold	Does Line Qualify for Outlier	Outlier Payment	Line Payment
a	*b*	*c*	*d*	*e*	*f*	*g*	*h*	*i*	*j = m * rate*	*k*	*l=conversion factor*(e * i * k)*	*m*	*n=m*(Hospital CCR)*	*o*	*p*	*q=l/(Total APC base payments)*	*r=(q*Total packaged cost)+APC Eligible Cost*	*s=l+2,900*	*t=1.75*l*	*u=if(r>s and r>t,Y,N)*	*v=if(u="Y", 0.5*(r-t),0)*	*w=j or (l+v)*
Incidental Services, packaged into APC rate	19900		270	3	N	Packaged into APC Rates	1	1		0.0000	0.00	261.54	95.20	95.20	95.20	0.00%	0.00					0.00
Incidental Services, packaged into APC rate	19900		272	27	N	Packaged into APC Rates	1	1		0.0000	0.00	6,557.45	2,386.91	2,386.91	2,386.91	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	84520	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	25.83	9.40	9.40	9.40	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	85025	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	35.70	12.99	12.99	12.99	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	81025	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	22.05	8.03	8.03	8.03	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	82565	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	22.05	8.03	8.03	8.03	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	85610	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	22.05	8.03	8.03	8.03	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	80051	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	40.95	14.91	14.91	14.91	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	85730	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	27.15	9.88	9.88	9.88	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	81003	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	6.24	2.27	2.27	2.27	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	36415	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	19.84	7.22	7.22	7.22	0.00%	0.00					0.00
Level I Transfusion Laboratory Procedures	345	86850	300	1	X	Ancillary Service	1	1		0.1668	12.12	54.60	19.87	19.87	0.00	0.32%	31.81	2,912.12	21.21	N	0.00	12.12
Level I Transfusion Laboratory Procedures	345	86901	300	1	X	Ancillary Service	1	1		0.1668	12.12	33.60	12.23	12.23	0.00	0.32%	24.16	2,912.12	21.21	N	0.00	12.12
Level I Transfusion Laboratory Procedures	345	86900	300	1	X	Ancillary Service	1	1		0.1668	12.12	31.50	11.47	11.47	0.00	0.32%	23.40	2,912.12	21.21	N	0.00	12.12
Packaged Clinical Lab Service	19949	85027	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	31.50	11.47	11.47	11.47	0.00%	0.00					0.00
Packaged Clinical Lab Service	19949	36415	300	1	N	Packaged into APC Rates	1	1		0.0000	0.00	19.84	7.22	7.22	7.22	0.00%	0.00					0.00
Level III Pathology	343	88307	310	1	X	Ancillary Service	1	1		0.8458	61.46	236.25	86.00	86.00	0.00	1.63%	146.50	2,961.46	107.56	N	0.00	61.46
Level II Laparoscopy	131	58571	360	1	T	Significant Procedure subject to discounting	2	1		50.2049	3,648.39	13,200.20	4,804.87	4,804.87	0.00	96.69%	8,396.31	6,548.39	6,384.68	Y	1,005.81	4,654.20
Incidental Services, packaged into APC rate	19900		370	99	N	Packaged into APC Rates	1	1		0.0000	0.00	1,205.10	438.66	438.66	438.66	0.00%	0.00					0.00
	0	C9399	636	1	E	Non-Allowed Item or Service	1	1	50.51		0.00	167.81	61.08	0.00	0.00	0.00%	0.00					50.51
Incidental Services, packaged into APC rate	19900		710	99	N	Packaged into APC Rates	1	1		0.0000	0.00	1,907.20	694.22	694.22	694.22	0.00%	0.00					0.00
Electrocardiograms/Cardiography	99	93005	730	1	S	Significant Procedure not subject to discounting	1	1		0.3732	27.12	245.70	89.43	89.43	0.00	0.72%	116.13	2,927.12	47.46	N	0.00	27.12
									50.51		3,773.34	24,174.15		8,738.31	3,714.43		8,738.31				1,005.81	4,829.66

APC Base Payments	$3,773.34
APC Outlier Payments	$1,005.81
Fee Schedule Payments	$50.51
Total Claim Payments	**$4,829.66**

Outlier Pmt. Calc. (Line APC 0131):

APC Paym.	3,648.39
Paym*1.75	6,384.68
Paym +2,900	6,548.39
Does Line Qualify	Y
Allocated Cost	8,396.31
Cost Over Thr.	2,011.63
Outl Pmt Perc.	50%
Outlier Payment	**1,005.81**

1 - Formula driven
2 - If Not APC payable service payment is determined from fee schedules.
3 - Included if APC payable service
4 - Included if line item is packaged service
5 - Only line items that are assigned an APC weight will have an allocated packaged cost