



Minnesota Hospital Association

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**TO: Chief Executive Officers, Chief Financial Officers and
Directors of Reimbursement**

FROM: Gregg Redfield, Vice President, Finance

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SUBJECT: Proposed 2007 Outpatient PPS Rule

The Centers for Medicare & Medicaid Services (CMS) on August 8, released its 2007 Outpatient Prospective Payment System (OPPS) proposed rule, which would set payment rates for calendar year 2007 and would, for the first time, link a hospital's receipt of a full outpatient marketbasket update to the reporting of inpatient quality measures. This year's rule also incorporates a major revision of ambulatory surgical centers (ASCs) payment methodology, expanded inpatient hospital quality reporting requirements for fiscal year (FY) 2008 and other important changes.

One of the most significant proposals in the Outpatient Prospective Payment System (OPPS) section of the rule would tie the OPPS update to the quality measures that are reported for the inpatient PPS. Under the proposal, CMS would reduce the Calendar Year (CY) 2007 outpatient PPS update by 2.0 percentage points for any hospital that is required to report quality data under the inpatient PPS, and that fails to meet the requirements for receiving the full inpatient PPS update in Federal Fiscal Year (FFY) 2007. Eventually, CMS intends to develop performance measures that are specific to the outpatient setting.

The inpatient PPS section of the rule proposes additional measures for hospital reporting of quality data for the FY 2008 inpatient PPS. The proposed expansion includes the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS®) patient perspective survey, which incorporates questions measuring patients' perspectives on their hospital experiences; three additional Surgical Care Improvement Project (SCIP) measures related to the processes of surgical care; and three risk-adjusted assessments of mortality within 30 days of hospital admission for acute myocardial infarction, heart failure, and pneumonia. CMS intends to require that hospitals report the quality measures to receive the full update for both the FY 2008 inpatient PPS and the CY 2008 outpatient PPS.

The ambulatory surgical center (ASC) section of the proposed rule would add 14 procedures to the list of surgeries that could be performed in a freestanding ASC in CY 2007. In 2008, CMS would substantially expand the list of allowable ASC procedures by including all surgical procedures except those that are determined to pose a significant safety risk or that generally require an overnight stay. In addition, CMS is proposing to replace the ASC payment system in CY 2008 with a methodology based on the ambulatory payment classifications (APCs) used to group procedures under the OPPS. Distinct ASC rates would be established based on the lower costs incurred in the ASC setting. CMS estimates that the ASC rates would be 62% of the corresponding outpatient PPS rates in CY 2008.

Other significant provisions of the proposal include:

- **Marketbasket Update:** A 3.4% marketbasket update; however, when combined with other factors, outpatient payments will increase by about 3%.
- **Hold-Harmless Payments:** CMS also reduces “hold-harmless” payments for small rural hospitals from 95% to 90%, as required by the Deficit Reduction Act.
- **Separately Payable Drugs:** CMS also proposes to reduce payment for most separately payable drugs from average sales price (ASP) plus 6% to ASP plus 5% in 2007.
- **Outlier Threshold:** CMS proposes to increase the outlier fixed dollar threshold from the current \$1,250 to \$1,825 in 2007 and is changing the methodology for calculating the hospital-wide cost to charge ratio.
- **Payment to Outpatient Clinics and Emergency Departments (ED):** The rule would establish new codes for ED and clinic services; and increase the number of APCs for ED services from three to five and the number of APCs for clinic visits from three to five.
- **Outlier Payments:** The proposal would increase the outlier threshold by \$575. CMS is proposing that the outlier payments would be provided when the cost of furnishing a service exceeds 1.75 times the APC payment amount and exceeds the APC payment rate plus a \$1,825 fixed-dollar threshold.
- **Ambulatory Payment Classification (APC) Changes:** The proposed rule addresses various APC changes resulting from the reclassification of procedure codes among APC groups and the recalibration of APC weights based on CY 2005 hospital claims data.
- **Implants:** CMS proposes to reduce the payment rate for APCs with significant costs for implanted devices when a device is replaced without cost under warranty or recall.

The proposed rule is scheduled to be published in the August 23, *Federal Register*. Comments will be accepted until Tuesday, October 10. A display copy of the proposed rule and other information regarding OPSS is available on the CMS Web site at <http://www.cms.hhs.gov/providers/hopps/default.asp>.

The Minnesota Hospital Association will provide members with a detailed summary of the proposed rule. If you have any questions, contact Joe Schindler, (651) 659-1415, jschindler@mnhospitals.org, or Gregg Redfield, (651) 603-3536, gredfield@mnhospitals.org.