

## **Medicare 2009 OPSS Proposed Rule Claims Accounting**

Calculating hospital Outpatient Prospective Payment System (OPSS) payment rates consists of calculating relative resource cost and calculating budget neutrality adjustments, which are applied to estimates of resource cost and the conversion factor to create a budget neutral prospective payment system. The purpose of the following discussion is to provide a detailed overview of CMS manipulation of the 2007 claims data to produce the proposed prospective CY 2009 payment rates. The following information supports an already detailed discussion of data manipulation in the proposed rule. This discussion is divided into two parts, the traditional accounting of claims behind median cost calculations and an accounting of claims behind the budget neutrality, outlier, and impact calculations.

### **PART 1 - MEDIAN COST CALCULATIONS**

CMS used information from 89.4 million single procedure, generated single procedure, and generated single “session” composite claim records to set the proposed Ambulatory Payment Classification Group (APC) rates to be paid under Medicare OPSS for CY 2009.<sup>1</sup> This is fewer single bills than were used for the 2008 final rule due to the proposal to create the imaging composite APCs under OPSS for CY 2009 and because the proposed rule claim set contains claims processed through the Common Working File (CWF) as of December 31 of the applicable data year, while the final rule claims set contains claims processed through the CWF as of June 30, of the applicable data year. Identifying single session claims for the proposed multiple imaging composites was the most significant change to the OPSS rate setting logic for the CY 2009 proposed rule.

For this proposed rule with comment period, we propose to add several codes to the bypass list based on the recommendations of our clinicians, notwithstanding that single bills for them did not meet our empirical criteria for inclusion on the bypass list. We did this because our clinicians believe that the services would rarely have packaging and that any packaging associated with the services would be very limited due to the clinical nature of the service. We provide significant detail about how we handled interaction between imaging codes that are both bypass codes and including in the multiple imaging composites in the proposed rule. Due in part to the proposal to create imaging composite APCs the proportion of single bills that are pseudo singles rose from 66 percent in the CY 2008 OPSS final rule data to 67 percent in the data used for this proposed rule with comment period.

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<sup>1</sup> Proposed CY 2009 rates are based on 2007 calendar year outpatient claims data, specifically final action claims processed through the common working file as of December 31, 2007. Proposed CY 2009 rates were based on one year (January 1- December 31) of 2007 outpatient claims data.

Attached is a narrative description of the accounting of claims used in the setting of payment rates for Medicare's 2009 OPSS. Payment rates under OPSS are based on the median cost of all services (i.e. HCPCS codes) in an APC. As described in detail in the material that follows, median costs were calculated from claims for services paid under the Medicare OPSS and cost report data for the hospitals whose claims were used. The medians were converted to payment weights by dividing the median for each APC (a group of HCPCS codes) by the median cost for APC 606, the mid-level outpatient visit APC in CY 2009. As discussed in Part 2 below, the resulting unscaled weights were scaled for budget neutrality to ensure that the effect of the proposed recalibration of APC weights for CY 2009 was removed. The scaled weights were multiplied by the proposed CY 2009 conversion factor to determine the proposed national unadjusted payment rate for the APCs for CY 2009. Calculation of payment rates for drugs and biologicals are an exception, as their payment rates are a percentage of average sales price and are not scaled.

The purpose of this part of the claims accounting is to help the public understand the order in which CMS processed claims to produce the proposed CY 2009 OPSS APC median costs, the proportion of claims that CMS used to set the proposed CY 2009 OPSS payment rates, and the reason that not all claims could be used.

#### General Information:

In order to calculate the median APC costs that form the basis of OPSS payment rates, CMS must isolate the specific resources associated with a single unique payable procedure (which has a HCPCS code) in each APC. Much of the following description, Pre-stage 1 through Stage 3, covers the activity by which CMS 1) extracts the direct charge (i.e. a charge on a line with a separately paid HCPCS code) and the supporting charge(s) (i.e. a charge on a line with a packaged HCPCS or packaged revenue code) for a single, major payable procedure for one unit of the procedure and 2) packages the supporting charges with the charges for the single unit of the major procedure to acquire a full charge for the single unit of the major procedure. In order to calculate the median costs for composite APCs, CMS must isolate the specific resources associated with a single "session" of the composite service. Although these single session claims have more than one payable service, the direct charge for these services would be combined with supporting packaged charges to identify a full charge for the composite session.

CMS estimates resource costs from the billed charges by applying a cost-to-charge ratio (CCR) to adjust the charges to cost. CMS uses the most recent CCRs in the CMS Hospital Cost Report Information System (HCRIS) file in the calculation of the payment weights. Wherever possible, department CCRs rather than each hospital's overall CCR are applied to charges with related revenue codes (e.g. pharmacy CCR applied to charges with a pharmacy revenue code). The order of matching department CCRs to revenue codes is laid out in the OPSS revenue code-to-cost center crosswalk ([http://www.cms.hhs.gov/HospitalOutpatientPPS/03\\_crosswalk.asp#TopOfPage](http://www.cms.hhs.gov/HospitalOutpatientPPS/03_crosswalk.asp#TopOfPage)). In general, CMS carries the following data elements from the claim through the weight

setting process: revenue code, date of service, HCPCS code, charges (for all lines with a HCPCS code or if there is no HCPCS code, with an allowed revenue code), and units. Some specific median calculations may require more data elements.

Definitions of terms used:

“Excluded” means the claims were eliminated from further use.

“Removed to another file” means that we removed them from the general process but put them on another file to be used in a different process; they did not remain in the main run but were not eliminated because the claims were used to set specific medians.

“Copy to another file” means that we copied information off the claims but did not eliminate any of the copied information.

“STAGE” means a set of activities that are done in the same run or a series of related runs; the STAGE numbers follow the stages identified in a spreadsheet that accounts for the claims.

“\*” Indicates a component of the limited data set (LDS) and identifiable data set (IDS) (the public use files available for purchase from CMS).

Pre-STAGE 1: Identified gross outpatient claim population used for OPPS payment and applied the hospital CCRs.

Pulled claims for calendar year 2007 from the national claims history, n= 131,054,382 records with a total claim count of 130,054,228. This is not the population of claims paid under OPPS, but all outpatient claims processed by fiscal intermediaries.

Excluded claims with condition code 04, 20, 21, 77 (n=416,438). These are claims that providers submitted to Medicare knowing that no payment will be made. For example, providers submit claims with a condition code 21 to elicit an official denial notice from Medicare and document that a service is not covered.

Excluded claims with more than 300 lines (n=1,163)

Excluded claims for services furnished in Maryland, Guam, US Virgin Islands, American Samoa and the Northern Marianas. (n= 1,751,639).

Balance = 127,884,988

Divided claims into three groups:

- 1) Claims that were not bill type 12X, 13X (hospital bill types) or 76X (CMHC bill types). Other outpatient bill types, such as ASCs, are not paid under OPSS and, therefore, these claims were not used to set OPSS payment. (n=27,993,660)
- 2) Bill types 12X or 13X (hospital bill types). These claims are hospital outpatient claims. (n=99,626,897)
- 3) Bill type 76X (CMHC) (These claims are later combined with any claims in 2 above with a condition code 41 to set the per diem partial hospitalization rate through a separate process.) (n=264,431)

Balance for Bill Types 12X and 13X= 99,626,897

Applied hospital CCRs to claims and flagged hospitals with CCRs that will be excluded in Stage 1 below. We used the most recent CCRs that were available in the CMS HCRIS system.

STAGE 1: Further refined the population of claims to those with a valid CCR and removed claims for those procedures with unique packaging and median calculation processes to separate files.

Began with the set of claims with bill types 12X or 13X, without Maryland, Guam or USVI, and with flags for invalid CCRs set (n=99,626,897).

Excluded claims with CCRs that were flagged as invalid in Pre -Stage 1. These included claims for hospitals without a CCR, for hospitals paid an all inclusive rate, for critical access hospitals, for hospitals with obviously erroneous CCRs (greater than 90 or less than .0001), and for hospitals with CCRs that were identified as outliers (3 standard deviations from the geometric mean after removing error CCRs) (n=3,438,410).

\*Identified claims with condition code 41 and removed to another file, (n= 34,558). These claims were combined with the 264,431 bill type 76X claims identified in Pre-Stage 1 to calculate the partial hospitalization per diem rate.

Excluded claims without a HCPCS code (n=22,245).

Removed to another file claims that contain nothing but flu and PPV vaccine (n=383,029).

Balance = 95,748,655

Copied line items for drugs, radiopharmaceuticals, blood, and brachytherapy sources (the lines stay on the claim but are copied off onto another file) to a separate file. No claims

were deleted. Lines copied, (n=251,731,524). We use these line-items to calculate a per unit median and mean, and a per day median and mean for drugs (including therapeutic radiopharmaceuticals) and blood. We trimmed units at +/- 3 standard deviations from the geometric mean unit, and then +/- 3 standard deviations from the geometric mean unit cost, before calculating the median and mean costs per unit and per day. For drugs and biologicals, we used the April, 2008 ASP plus 4 percent and multiplied that amount by the average number of units per day for each drug or biological to arrive at its per day cost. For items that did not have an ASP, we used CY 2007 hospital claims data to determine their per day cost. We use per day cost to determine whether a drug or biological is packaged. For specified covered outpatient drugs and biologicals, we set the combined drug and overhead payment of ASP+4 percent by determining the amount by which aggregate estimated cost exceeds aggregate ASP.

The payment rates for blood and blood products were based on simulated median costs under a different methodology that is explained in the CY 2009 proposed rule.

STAGE 2: Excluded claims with codes not payable under OPPS, conducted initial split of claims into single and multiple bills, and prepared claims for generating pseudo single claims.

Divided claims into 5 groups using the indicators (major, minor or bypass) that are assigned to each HCPCS code. Major procedures are defined as procedure codes with status indicator (SI) S, T, V, or X. Minor procedures are defined as procedures that have status indicator F, G, H, K, L, N, R, or U.

Prior to splitting the claims, we identified which status indicator “Q2” codes (“T-packaged”) would be paid when appearing with an S, V, or X service. If a Q2 code appeared with a separately paid procedure with a status indicator of T on the same date of service, we identified the code as packaged. If the Q2 code appeared with a separately procedure(s) with a status indicator of S, V, or X and no other Q2 codes were on the same date of service we forced the units to 1 and changed the major-minor designation to major, identifying the Q2 code as separately paid. Finally, if more than one Q2 code appeared on a claim with a separately paid procedure(s) with a status indicator of S, V, or X we would rank the Q2 codes using their final rule 2008 APC designations and associated scaled weight. We would change the major-minor designation of the Q2 code with the highest weight to major status and force the units to 1. We designated the other Q2s on the claim packaged, status indicator of N and left their status as minor.

1)\*Single Major File: Claims with a single unit of one separately payable procedure (SI= S, T, V or X, which are called “major” procedures, including codes with status indicator “Q3”), all of which will be used in median setting; claims with only one unit of a status indicator “Q1” code that was an “STVX-packaged” code where there was no other code on the claim with status indicator “S, “T”, “V”, or “X,” on the same claim on the same date; or claims

where there was a status indicator “Q2” (“T-packaged”) code with one unit where there was no code with a status indicator “S”, “T”, “V”, or “X” on the same claim on the same date , (n=30,063,178).

2)\*Multiple Major File: Claims with more than one separately payable procedure and/or multiple units of “major” procedures, including codes with status indicator “Q3”; claims with code that has a status indicator “Q2” that has been designated as major and separately paid (no procedure with a status indicator “T” on the same date of service and no higher weighted Q2 code on the same date of service) and another major procedure; claims that contain conditional and independent bilateral codes when the bilateral modifier is attached to the code, (n=23,977,727). Multiple major claims are examined carefully in stage 3 for dates of service and content to see if they can be divided into simulated or “pseudo” single claims.

3)\*Single Minor File: Claims with a single unit of a single HCPCS to which we assigned the status indicator of N (packaged item or service), F, G, H, K, L, R, or U (n=89,194). We retain this file as insurance against last minute changes in packaging decisions.

4)\*Multiple Minor File: Claims with multiple HCPCS, multiple services on the same date of service, and/or that have multiple units of one or more procedure codes with status indicator of “F”, “G”, “H”, “K”, “L”, “N”, “R”, or “U”; claims containing status indicator “Q1” (“STVX-packaged”) or status indicator “Q2” (“T-packaged”) codes with more than one unit of the code or more than one line of these codes on the same date of service and no other separately paid procedures. (n = 90,603)

5) Non-OPSS claims: These claims have no services payable under OPSS on the claim and are excluded, (n=41,527,953). These claims have codes paid under other fee schedules such as the DMEPOS fee schedule, clinical laboratory fee schedule, physician fee schedule. These claims have no major or minor procedures on them. The only procedure codes on these claims have a status indicator other than S, T, X, V, N, F, G, H, K, L, R, or U.

To create the LDS (Limited Data Set) and IDS (Identifiable Data Set) we compiled claims in files 1, 2, 3 and 4 above into a single file. The total frequencies we show in the files by HCPCS codes and by APC are taken from the claims used to create the IDS and LDS.

STAGE 3: Generated additional single claims or “pseudo singles” from multiple claims files

From the 23,977,927 multiple major claims, we were able to use some portion of 21,078,085 claims to create 60,631,612 pseudo single claims. As noted above, the multiple major claims already contained the final payment disposition of codes

with status indicator Q2 (T-packaged codes) when they appeared with S, T, V, or X services, making these services part of the pseudo single process. We also created single “session” imaging composite claims through this process. In this final rule data set, pseudo single bills were created in several different ways.

We begin by removing all line-items for separately payable procedures that are thought to contain limited packaging (bypass codes) from the multiple major claims as pseudo single claims. Because bypass codes are thought to have limited packaging, we also used the line-item for the bypass code as a pseudo single by estimating a unit cost and weighted any descriptive statistics.

Because some of the services on the bypass list also are including in the proposed multiple imaging composites, we suppressed these “overlap bypass codes,” in order to retain all pertinent imaging HCPCS to identified a single session composite claim. Overlap codes are HCPCS codes that are both on the bypass list and are members of the multiple imaging composite APCs.

We then broke claims by dates of service and reassessed each new claim for its eligibility as a single major claim, or in the case of the multiple imaging composites, a single session claim. To improve the quality of the extended assessment and management composites, we added logic to ensure that any pseudo singles for visits with G0378, observation services, billed on the same date of service, did not have a T status procedure on the day before that would preclude eligibility for the composite payment.

We created one set of pseudo singles by taking dates of service that now had only one separately paid service.

We created another set of pseudo single bills breaking dates of service that contain multiple major procedures and no additional packaging on the date of service and identifying any with unit=1 as a pseudo single.

We created single session claims for estimating the multiple imaging composites by identifying dates of service that contain more than one unit of a code in the same imaging family and no other separately payable codes. We later classified the dates of service for CT and CTA family and MRI and MRA family into those with and without contrast to create single session claims for the final APC median cost calculation.

Having identified all pseudo singles and single session claims, we concluded our logic by reassessing the line-items for the overlap bypass codes to derive pseudo single bills. Where there was one unit of one overlap bypass code on the bypass list on a date of service, we created a pseudo single from the line item cost for the bypass overlap code but did not use the costs of any remaining code or codes and the remaining packaging.

We were not able to use 2,491,086 claims because these claims continued to contain multiple separately payable procedures with significant packaging and could not be split (n=2,407,872) or because the claims contained services with SI=N and no separately payable procedures on the claim (n=83,214). We also were not able to use claims with the following characteristics: major procedure with a zero cost (n=39,668), major procedure with charges less than \$1.01 (n=25,948); packaging flag of 3 (n=426,138).

We also created additional single bills from the multiple minor file. We broke status indicator “Q1” (“STVX-packaged”) and status indicator “Q2” (“T-packaged”) codes by date, packaged all packaged costs, including other Q1 and Q2 costs, into the code with the highest CY 2008 payment weight based on Cy 2008 APC assignment, forced the units to one to match our policy of paying only one unit of a code with status indicator of “Q1” or “Q2”, and treated these claims as pseudo single claims. We created 14,253 pseudo singles from the multiple minor claims. We were not able to use 83,214 multiple minor claims because these claims contained minor codes that could not be elevated to major status when billed alone: largely drugs or packaged HCPCS procedures.

We were not able to use any of the 89,194 single minor claims because minor claims, by definition, contain only minor codes: drugs or packaged HCPCS procedures (i.e. status indicator of N). Claims with a single Q1 or Q2 code with a single unit would have been classified as a single major in the initial split.

Balance = 90,709,043 (the sum of single majors =30,063,178, and pseudo singles from multiple majors and multiple minors = 60,645,865).

#### STAGE 4: Packaged costs into the payable HCPCS code

Began with, n=90,709,043 single procedure claim records that still had costs at the line-item level. We summed the costs on the claim to complete packaging and we standardized 60 percent of the total cost using each hospital’s IPPS pre-reclassification wage index.

We left stage 4 with n= 90,709,043 single procedure claim records containing summarized costs for the payable HCPCS and all packaged codes and revenue centers on the claim.

Balance=90,709,043

#### STAGE 5: Calculated HCPCS and APC medians

Began with n=90,709,043 single procedure claim records with summarized costs.

We excluded 716,978 claim records that had zero costs after summing all costs on the claim in Stage 4.

We excluded no claim records because CMS lacked an appropriate wage index.

We excluded 625,612 claim records that were outside +/- 3 standard deviations from the geometric mean cost for each HCPCS code.

We excluded 1,186 claims records that contained more than 50 units of the code on the claim.

Balance = 89,365,267

We used the balance of 89,365,267 single procedure claims records to calculate HCPCS median costs for the “2 times” examination and APC medians. (Section 1833(t)(2)) of the Act provides that, subject to certain exceptions, the items and services within an APC group cannot be considered comparable with respect to the use of resources if the highest median (or mean cost, if elected by the Secretary) for an item or service in the group is more than 2 times greater than the lowest median cost for an item or service within the same group (referred to as the “2 times rule”).

We added additional medians calculated outside this process. We added a median per diem cost for proposed APC 0173 Level II Partial Hospitalization payment (4 or more services) and proposed APC 0172 Level I Partial Hospitalization payment rate (3 services). The per diem cost was calculated from the bill type 13X claims with condition code 41 written off in Stage 1 and the 264,431 bill type 76X claims written off in Pre-Stage 1.

We added blood medians that were calculated with the use of a simulated departmental CCR for blood for hospitals that do not have cost centers for blood and for blood processing. We added APC medians for final composite APCs, as well as other customized or “offline” medians discussed in the final rule, such as the extended assessment and management composites, nuclear medicine APCs and echocardiography with and without contrast. The unique assumptions behind each composite are discussed in greater detail in the CY 2009 proposed rule.

## **PART 2 – BUDGET NEUTRALITY, OUTLIER THRESHOLD, AND IMPACT CALCULATIONS**

After converting medians into unscaled weights by dividing the median for each APC by the median cost for APC 606, the proposed mid-level outpatient visit APC in CY 2009, we begin the process of calculating budget neutrality adjustments and the outlier threshold to determine final payment. The result of all prospective payment policies are presented in the impact table in Section XXI Regulatory Impact Analysis of the proposed rule with comment period. The following discussion provides greater detail about our

manipulation of the claims to calculate budget neutrality adjustments, to estimate outlier thresholds, and to create the impact table and overall beneficiary copayment percentage. The discussion below supplements discussion already provided in the proposed rule about calculation of the weight scaler, the conversion factor, the hospital and CMHC outlier thresholds, and the impact table columns.

#### STAGE 6: Created Summary Service Utilization Files for Current and Prospective OPSS Year by Provider

We began the budget neutrality calculations by making the services, utilization, and APC assignment on the 2007 claims look like they would if they were paid under the current OPSS, CY 2008, and the prospective year, CY 2009. We create a summary utilization file of services for each provider in the 2007 claims database that would be paid under the prospective payment system and a summary utilization file of services that would be paid under the current system for the same set of providers. In essence, this step runs the claims with payable OPSS services through a mock Integrated Outpatient Code Editor (IOCE) and Pricer for the current and prospective year and then summarizes utilization by provider, APC, HCPCS, and status indicator. Updated July 2008 IOCE specifications (v9.2) are available at: [http://www.cms.hhs.gov/OutpatientCodeEdit/02\\_OCEQtrReleaseSpecs.asp](http://www.cms.hhs.gov/OutpatientCodeEdit/02_OCEQtrReleaseSpecs.asp). For example, the utilization file for the CY 2009 OPSS collapses imaging codes on claims to reflect the proposed multiple imaging composite APCs and reassesses eligibility of mental health services for APC 0034 in light of the proposed reduction to the partial hospitalization per diem.

We constructed a summary utilization file for the proposed CY 2009 OPSS using single and multiple bills from STAGE 2 of this document (n=54,220,702), the partial hospitalization claims (n=34,558) from STAGE 1, and those from CMHCs (n=264,431) from Pre-STAGE 1. In this summary process we identified line-items that were not payable under OPSS, including units on drugs and biologicals greater than the upper trim level identified during the units trim discussed in STAGE 1, units greater than 100 for procedure codes, a status indicator that is not payable under OPSS (SI=A, B, E, C, D, F, L, M), and 0 units on a claim line without an associated charge. We specifically included the 14,253 pseudo singles for claims with a separately paid Q2 or Q1 code created from the multiple minor claims. We removed 1,862 claims with no line-items relevant to OPSS. After changes in utilization and the addition of proposed CY 2009 payment policies, we summarized these files to a single CY 2009 summary file of 2,705,303 services by 3,965 hospitals (including cancer and children's hospitals) and 218 CMHCs, which only provide one service, partial hospitalization. We used this summary file as the basis for modeling the proposed CY 2009 weight in the weight scaler calculation and estimated payment in CY 2009 for the impact table.

We also constructed a baseline summary utilization file to reflect the existing CY 2008 OPSS. For the CY 2008 OPSS baseline file, we began with the single and

multiple bills from STAGE 2, the pseudo single claims for codes with status indicator Q1 and Q2 created from the multiple minor claims, and the same CMHC claims listed above. We removed 4,166 claims with no line-items relevant to 2008 OPSS. We summarized this second set of files to a single file of 2,709,180 services by hospital and CMHC. We used this summary file as the basis for modeling the current CY 2008 weight in the weight scaler calculation and estimated payment in CY 2008 for the impact table.

Utilization in both of these files includes changes for “discounting,” which is any change in payment, applied to the line-item units for a specific service on a claim, resulting from application of the multiple procedure discounting to services with status indicator “T” or the presence of a modifier indicating that the procedure was terminated. For 2009, we used unscaled weights, the APC median cost divided by the median for APC 606, to rank order services on each claim for application of multiple procedure discounting because scaled weights are not yet available. For 2008, we relied on final rule 2008 scaled weights.

We took a few additional steps to prepare both files for budget neutrality calculations. We adjusted units to accommodate changes in HCPCS descriptions between 2007 and 2009. The final summary utilization file for the prospective 2009 OPSS contains 2,762,809 observations for 4,178 providers, and the final summary utilization file for the current 2008 OPSS contains 767,335 observations for 4,181 providers. There are three low-volume providers, two CMHCs and one psychiatric hospital that lost all modeled payment under the proposed CY 2009 OPSS.

Balance prospective CY 2009=2,762,809 HCPCS, by SI, by APC, by Provider  
 Balance baseline CY 2008=2,767,355 HCPCS, by SI, by APC, by Provider

STAGE 7: Calculated the Weight Scaler

The weight scaler is the budget neutrality adjustment for annual APC recalibration and its calculation is discussed in section II.A. of the proposed rule. The weight scaler compares total unscaled weight under the current OPSS for 4,181 providers to total scaled weight under the prospective OPSS for the same providers, holding wage adjustment and rural adjustment constant to the current year’s adjustments. We estimated wage adjusted weight for each provider using the formula provided in section II.G. of this proposed rule with comment period without multiplying by the conversion factor, which is held constant. For example, for a procedure with status indicator of S provided by an urban hospital, the total weight for a service would be calculated:

$$(\text{UNSCALED\_2009\_WEIGHT} * .4 + \text{UNSCALED\_2009\_WEIGHT} * .6 * \text{CY2008\_WAGE\_INDEX}) * \text{TOTAL\_DISCOUNTED\_UNITS}$$

For a procedure with status indicator of S provided by a rural sole community hospital, the total weight for a service would be calculated:

$$(\text{UNSCALED\_2009\_WEIGHT} * .4 + \text{UNSCALED\_2009\_WEIGHT} * .6$$

$$*CY2008\_WAGE\_INDEX) *TOTAL\_DISCOUNTED\_UNITS *1.071$$

For a specified covered outpatient drug with SI=K provided by any hospital, the total weight for a service would be calculated:

$$UNSCALED\_2009\_WEIGHT * TOTAL\_DISCOUNTED\_UNITS$$

Scaling does not apply to OPSS services that have a predetermined payment amount, especially separately paid specified covered outpatient drugs and new technology APCs. Items with a predetermined payment amount were included in the budget neutrality comparison of total weight across years by using a weight equal to the payment rate divided by the proposed conversion factor. However, scaling of the relative payment weights only applies to those items that do not have a predetermined payment amount. Specifically, we remove the total amount of weight for items with predetermined payment amount in the prospective year from both the prospective and current year and calculate the weight scaler from the difference. In doing this, those services without a predetermined payment amount would be scaled by the proportional amount not applied to the services with a predetermined payment amount. We do not make any behavioral predictions about changes in utilization, case mix, or beneficiary enrollment when calculating the weight scaler.

Balance CY 2008= 4,181 providers

Balance baseline CY 2009=4,178 providers

CY 2009 weight scaler = 1.3354

#### STAGE 8: Calculated the Wage Adjustment

We used the same providers to estimate the budget neutrality adjustment for adopting the proposed IPSS FY 2009 post reclassification wage index for CY 2009 OPSS, discussed in section II.C. of this proposed rule with comment period. Using the same wage-adjusted weight formulas presented above, the wage adjustment compares differences in total scaled, prospective CY 2009 weight for providers varying only the wage index, CY 2008 and proposed CY 2009, and using the 2008 rural adjustment. We did not change our rural adjustment policy this year. Therefore the budget neutrality adjustment is 1.0000.

Balance CY 2009 providers = 4,178

Balance baseline CY 2009 providers =4,178

Total wage index adjustment to the conversion factor = 1.0010

#### STAGE 9: Calculated Hospital Outlier Threshold

We started with aggregated claims from the single and multiple bills, pseudo singles from the multiple minor file, and partial hospitalization files to model the

hospital fixed dollar hospital outlier threshold. After removing 1,862 claims with no line-items relevant to OPSS, we used 54,486,931 claims to estimate the outlier threshold as well as anticipated outlier payment by provider. We created a CCR for every hospital in our hospital base file of 3,963 hospitals using the April 2008 update to the Outpatient Provider Specific File, which contains the actual overall CCRs the fiscal intermediaries or Medicare Administrative Contractors (MACs) are using to make outlier payments in 2008. We used internally calculated CCRs to substitute for any missing CCRs on the April OPSF update, and we substituted the statewide CCR for providers with CCRs greater than the 1.3 upper limit. We did not estimate the CMHC threshold this year, continuing our policy of 3.4 times payment for proposed APC 0173 Level II Partial Hospitalization payment (4 or more services) and proposed APC 0172 Level I Partial Hospitalization payment rate (3 services).

As discussed in section II.F. of the proposed rule with comment period, we simulated 2009 costs by applying a charge inflation factor of 1.1204 to charges on the 2007 claims and by applying the CCR adjustment of 0.9920 to the April 2008 OPSF CCRs. We compared estimated cost to wage adjusted payment for each separately paid service on each claim. Holding the multiple threshold constant at 1.75 times the APC payment amount, we iterated total outlier payment calculations, changing the size of the fixed dollar threshold each time, until total outlier payments amount matched our estimate of 1 percent of total payment on all included claims. Using the resulting \$1,800 fixed dollar threshold, we estimated outlier payments for 3,184 hospitals for column 5 of the impact table.

We repeated this exercise for the current year CY 2008 OPSS. After removing claims with no line-items relevant to OPSS, we used 54,258,760 claims to estimate the percentage of total payment attributable to outlier payments in 2008. We inflated charges on the CY 2007 claims by an inflation factor for one year, 1.059, and using the CCRs from the April 2008 update to the Outpatient Provider Specific File, we estimated CY 2008 costs and compared them to wage adjusted CY 2007 payment for each service. Ultimately, we estimated outlier payments for 3,064 hospitals for column 5 of the impact table. We also estimated total outlier payments to be 0.76 percent of total CY 2008 payments.

Balance baseline CY 2008=3,064 hospitals

Balance CY 2009= 3,184 hospitals

#### STAGE 10: Created the Impact Table and Calculated the Beneficiary Impact Percentage

The impact table in section XXI Regulatory Impact Analysis compares OPSS payment for 4,181 providers in the baseline CY 2008 file to the proposed CY 2009 OPSS payment for the same set of hospitals, in aggregate and across classes of hospitals. We began with the summary utilization files created in Stage 6 and recreated each of the above total weight calculations (weight scaler, wage

adjustment, and rural adjustment) as payments by adding in the conversion factor. We compared the difference in payments between those under the CY 2009 rule to the baseline CY 2008 payment and we show this result in column 2. The detailed calculations behind the table columns are discussed in section XXI of the proposed rule with comment period. Proposed payment presented in Column 5 of the impact table compares total estimated payment, including outlier payments, but excluding pass-through payment for current and prospective year.

In order to group types of hospitals, we constructed a file of descriptive information from the cost report and IPPS provider files identifying different classes of hospitals. This file contains the variables we use to model adjustments including the wage index, geographic location, and provider type, as well as other descriptive information, such as bed size. We have complete information for the 4,181 hospitals with any claim used to model the prospective OPPS. We do not have complete descriptive information for 218 CMHCs because their cost report is not included in HCRIS and because they are not hospitals paid under IPPS. We make available an impact file available that contains all descriptive information for the providers that we used in our calculations, as well as estimated CY 2009 payments, including outlier payments, by provider for the subset of 3,902 and 218 CMHCs hospitals for which we present detailed information in the impact table that accompanies this proposed rule with comment period.

Finally, we estimated the overall beneficiary copayment percentage for the current and prospective OPPS years. We applied the calculated, adjusted (wage and rural) copayment to all separately paid HCPCS, and we capped copayment at the inpatient deductible for CY 2008, which is the only inpatient deductible available for proposed rule modeling. We summed total copayments for each year and divided by respective total payment.