MEDPAC Medicare Payment Advisory Commission

MEETING BRIEF

October 9-10, 2003

Assessing the outlier policy under the outpatient PPS

ISSUE: Outlier payments provide additional funds to compensate hospitals when the services they furnish to beneficiaries are unusually costly compared with Medicare's payments. In a payment system built on averages, an outlier policy helps to protect hospitals from excessive financial risks associated with treating expensive cases. As a result, hospitals are less likely to avoid treating those beneficiaries. However, recent experience in the inpatient PPS has shown that hospitals can manipulate the system to receive excessive outlier payments.

The outpatient PPS currently has an outlier payment policy that applies to almost all services. Does the outpatient PPS need an outlier policy? If it does, should the current policy be refined in any way? This briefing paper describes the outlier policy and provides preliminary analysis of the distribution of outlier payments in 2001.

KEY POINTS:

- The outpatient PPS is the only ambulatory payment system to have an outlier policy.
- The services provided under the outpatient PPS are generally narrowly defined (e.g., a diagnostic test or a clinic visit) and low cost. However, some sophisticated procedures that are more costly are currently performed in the outpatient setting, and trends suggest that more high-cost procedures will be performed in this setting in the future.
- Urban hospitals received a disproportionately greater share of outlier payments than their rural counterparts.
- Additional analyses are planned to look at the distribution of outlier payments by type of service, and to incorporate data from 2002.

ACTION: Commissioners should provide feedback on the policy questions asked and the analyses presented. We plan to address this issue in the March 2004 report.

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