MEDICARE REIMBURSEMENT

Take four steps to prepare now for DRA reimbursement cuts

Before 2008 arrives, bringing with it a new ASC payment system and expanded procedures list, you need to first make it through 2007. Although the reimbursement changes proposed for next year aren't as dramatic as those scheduled for 2008, ASCs will see several payment cuts beginning January 1.

In 2007, all procedures on the Medicare-approved ASC list that CMS currently reimburses at a higher rate than the same procedures performed in hospital outpatient departments (HOPD) will have their rates reduced to the lower HOPD level, as mandated by the Deficit Reduction Act of 2005 (DRA).

If CMS adopts the proposed hospital Outpatient Prospective Payment System (OPPS) rule—which outlines the proposed 2007 rates for procedures performed in HOPDs—without any amendments, the reductions would affect 274 procedures.

The percentage of reduction varies among the procedures, but in all likelihood, some of them are performed in your ASC. Our experts recommend that you take the following four steps to ensure that the reductions have a minimal effect on your center's bottom line in 2007:

1. **Establish which of your procedures will be affected.** First, determine which of the procedures that you perform will see a reduction in January. The proposed rule provides the current list of Medicare-approved procedures and indicates those that would be affected by the DRA adjustments in a column labeled "DRA cap."

   Go through this list and highlight the procedures with a "Y" in the DRA cap column that you performed in your facility in 2006.

   Establishing which procedures will be affected and estimating the revenue effect of these proposed changes is critical to the planning process, says **Marc Jang,** president and CEO of Titan Health Corp. in Sacramento, CA.

   Note: This list is also available to **ASCRI** subscribers as an online-only e-tool. See p. 7 for a reminder on how to access your e-tools.

2. **Determine whether these procedures are still worth performing.** If some of your procedures will see a drastic rate reduction, it may become economically unfeasible to continue performing them in the new year. Examine your payer contracts and case volume to assess the feasibility of performing these procedures.

   The potential effect of the proposed rule extends beyond the Medicare patient population. "If you're currently doing only marginal volume in a given specialty, you may find that what was once a profitable service is now losing money," Jang says. "The fact of the matter is that regardless of cost-savings opportunities, the decreases now make some procedures economically unfeasible to do in a surgery center setting."

   For example, procedures such as "Laryngoscopy, indirect; diagnostic (separate procedure) . . . with removal of foreign body" (current procedural terminology [CPT] code 31511) and " . . . with vocal cord injection" (CPT code 31513) would both see nearly an 81% reduction from $446 to $84.41, and you may

Proposed rule resources

There are several resources that you can use to learn about the Outpatient Prospective Payment System (OPPS) proposed rule and stay up-to-date on all of its developments, including the following:

- **AAASC**—The AAASC has devoted an entire Web page to the proposed OPPS rule at *http://aaasc.org/advocacy/MedicarePaymentProposedRule.html.* The page includes extensive analysis of the proposed rule and a report from Mike Romansky titled "ASC payment rule: Strategic and tactical plan for the marathon ahead."
- **FASA**—Check out FASA's site devoted to the proposed rule at *http://fasa.org/proposed.* It offers valuable tools, including a worksheet that will allow you to determine your local payment rates for the 274 procedures that CMS proposes to cut in 2007 due to the Deficit Reduction Act of 2005.
- ***Ambulatory Surgery Regulatory Update* (*ASRU*)**—*ASRU* is a free weekly e-zine that provides coverage of the proposed rule and all other significant regulatory news that affects ASCs. You can sign-up for *ASRU* by visiting *www.hcmarketplace.com/free/emailns.*

To view the entire OPPS proposed rule, visit *www.cms.hhs.gov/HospitalOutpatientPPS/Downloads/CMS1506P.pdf.*

find that it is too expensive to continue performing them at the new rate. Some procedures will see less reduction than others, and you may still be able to profit from performing these procedures.

Explore opportunities to increase case volume to make up for the decreased profit margin. If that isn't an option, consider cost-cutting areas.

3. **Involve physicians and vendors in making up losses.** A smaller profit margin should motivate you to look for areas in which you can reduce your costs.

"It's a good time to look across the board at all of your costs," says **Marie Edler,** director of reimbursement policy for FASA. "Everything from gloves and gowns to case-specific items that you can maybe tighten the belt on to make up for some of the reimbursement that's lost. This may help with small losses, but if you're facing a more significant impact, focus on the affected procedures and work with your physicians to make sure that they know what's happening, why it's happening, and why you're having to review the feasibility of continuing these procedures. "Involving physicians from the beginning of the process will not only serve to educate them on the proposed changes but will also alleviate any confusion or dissention later in the process."

Once you have explained the situation facing your ASC, you can elicit their assistance in cutting costs. Present them with ways that they can reduce expenses (e.g., using less expensive supplies or moving to standard packs). Also get them involved in negotiating costs with vendors.

If you stop performing a procedure, the vendors that supply you will lose your business. Explain your situation to these vendors. If you purchase large amounts of supplies, the prospect of losing your business may motivate the vendors to negotiate lower rates with you. If you can, show the necessity for cheaper implants or other supplies to make up for lost reimbursement, Edler says.

4. **Fight to keep your profitable contracts.** Examine your payer contracts, paying particularly close attention to those that have their reimbursement formula tied to Medicare. Depending on the specialty, the proposed changes can have either a favorable or adverse effect on some of these contracts. It's important to determine this now, says Jang. Unless your contracts include this language tying your rates directly to Medicare, you should fight any attempts by a payer to reduce your rates, Edler says. "Be prepared for [payers] to come and say, 'We're at least going to bring these procedures down to a lower level from where they are currently grouped,' " she says. "But if there's not a clause in your contract that allows them to do that, certainly don't allow them to do that without a fight. The main thing is that the private payers don't have the right to automatically reduce your rates, just because Medicare did, unless your contract rates specifically are tied to Medicare."

If the payer insists on making the change, provide detailed data showing how the reduction will affect your ability to perform the procedure. The only way that you should accept the payer reducing rates is if you can receive higher reimbursement for other procedures to supplement the losses you will suffer. ■

Insider *sources*

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Go to *www.fasa.org* to learn more about how to purchase the data on the entire proposed rule, which includes DRA cuts.

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