

INGENIX[®]

Commercial Ambulatory Payment Classifications

Ambulatory Payment Classifications can help commercial payers control outpatient costs by reducing administrative burdens, streamlining contracts, and taking advantage of an established framework while still allowing for customization.

The information in this document is subject to change without notice.

This documentation contains proprietary information, which is protected by U.S. and international copyright. All rights are reserved. No part of this document may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, without the express written permission of Ingenix, Inc. Copyright 2007 Ingenix, Inc.



Mounting Outpatient Costs Challenge Commercial Payers

Outpatient services represent the fastest growing segment in healthcare expenses today, increasing more than 11.4 percent in 2004. As a result, executives and operational managers are seeking new ways to manage these expenditures.

In the past, payers have had to rely on fee schedule and percent-of-charge models for reimbursement. These models are ineffective at controlling costs and encourage inefficiency. In addition, these models do not offer the tools needed to tame chargemaster inflation or promote coding efficacy.

CHARGEMASTER INFLATION: HOSPITAL RATIOS OF COSTS TO CHARGES	
Average	244%
For-Profit	353%
Non-Profit & Government	220%
New Jersey (most expensive)	447%
Maryland (least expensive)	124%
Source: Based on INSP December 2005 report.	
The hospital ratio of costs-to-charges averages 244 percent nationally, and chargemaster inflation is increasing twice as fast as APC inflation. As a result, reimbursement strategies built on discounts or percent of charges are ineffective at controlling these increases and do little to align incentives.	

Controlling Outpatient Costs with APCs for Commercial Reimbursement

In response to these challenges, many payers are leveraging the established framework of Ambulatory Payment Classifications (APCs) to help curb costs. For years, health care providers have been effectively using APCs to bill Medicare beneficiaries. And recently, many commercial payers have recognized APCs as a viable alternative for managing costs while promoting accurate coding and billing practices.

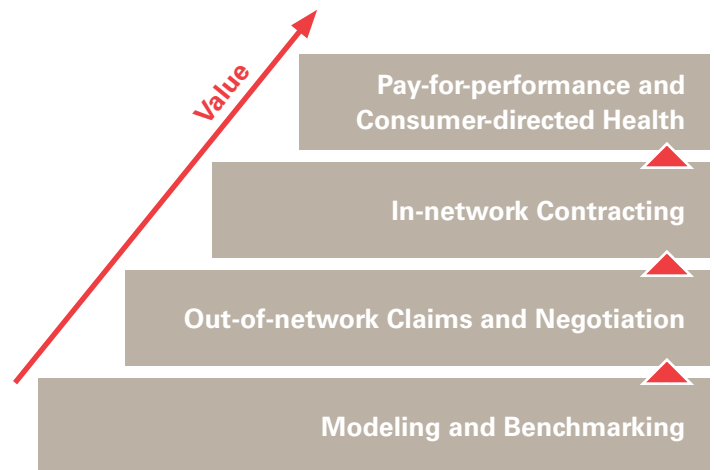
Industry trends indicate that using APCs for commercial contracting is becoming the preferred method to control outpatient cost increases. Several large commercial payers are actively implementing APCs that are adapted for commercial contracting.

APCs provide payers with an established structure to contain costs, but it should be noted that they also require a significant effort to adapt for use in commercial reimbursement. However daunting APC implementations

may seem initially, the benefits of leveraging APCs for commercial populations far outweigh the effort, including:

- Greater control over escalating costs.
- Administrative efficiencies through a standard contracting model.
- The alignment of provider and payer incentives.
- Improvements in coding practices that support better data quality and analytics.
- Enhanced network provider relations.

Using APCs for commercial reimbursement is a key step for payers to leverage the Prospective Payment System (PPS) in the transition to streamline administrative processes and reduce costs. This step, along with others, provides payers with the foundation for leveraging PPS in other future initiatives, such as pay-for-performance and consumer-directed health care.



Critical considerations

Successful commercial APC adoption depends on addressing several variables, including frequent regulatory updates, system adaptability, pricing controls, and effective evaluation tools.

REGULATORY, FINANCIAL, AND CODING UPDATES

The biggest hurdle for commercial APC adoption is the frequency of regulatory changes. Undoubtedly, commercial payers will struggle to stay current with the Outpatient Prospective Payment System (OPPS) updates on a quarterly cycle. Add to that the fact that many contracts have

multi-year terms, which requires providers and payers to continually re-work their financial models. Additionally, Healthcare Common Procedure Coding System (HCPCS) codes are often assigned to new APCs as much as 10 percent each year, according to some estimates. This presents further challenges, since an APC that was once payable may now be considered a packaged service with zero reimbursement.

VERSION CONTROL

Payers need the ability to customize the classification process by being able to “lock down” on a single APC version, and adapt new changes as they occur. Take, for example, when a payer writes an APC contract with a facility based on APC version 5.0. As subsequent releases become available with new APCs and HCPCS, payers need to determine how to apply them without arbitrarily overriding all of the previously implemented rules. Managing this process requires a software solution that can direct APC assignment, including mapping between HCPCS and APCs—and payment status indicators—to further drive pricing and editing rules. To maximize efficiency, the solution should allow payers to apply commercial classification rules where they make the most sense, either as global settings or configured to individual contracts for specific effective dates.

NEW TERRITORY IN COMMERCIAL SETTINGS

Another possible deterrent for implementing commercial APC contracts is that CMS rules do not address APCs in commercial settings. Payers are left in the dark on how to deal with issues such as:

- Whether and how to reimburse for services that Medicare feels should only be reimbursed in an inpatient setting while new technology has enabled hospitals to perform in outpatient settings.
- Managing the pricing rules to support commercial contracting, including different conversion factors, outliers, disproportionate share, and carveouts.
- Implementing the components of the outpatient code editor (OCE) that are necessary for commercial contracting.

OCE RULE ADJUSTMENTS

The OCE, an integral component of a successful APC implementation, was designed predominantly for Medicare processing. Implementing APCs for commercial contracts requires adjustments to the OCE rules to account for commercial policy decisions. To make the necessary modifications to the OCE, payers require specialized software

with the ability to manage and customize edit rules. The solution should supply all available edit content—including the OCE and Correct Coding Initiative (CCI)—so payers can customize rules to match their business requirements and policies.

PRICING CONTROLS

An additional consideration is pricing controls, including outlier policies for sharing the risk of high-cost cases, as well as modifying the conversion factor and pricing for non-covered OPSS items. Payers require several modifications to traditional Medicare pricing in support of commercial adoption. Medicare pricing rules often get a commercial payer 60 percent to 70 percent toward their goal of using APCs for commercial business, but payers will require specialized software to modify the remaining rules. These software applications need to offer payers the flexibility to administer pricing rules for specific contract periods or as a global setting, and should offer the following capabilities:

- Updates to the conversion factors and APC weights.
- Modification or elimination of outlier and hold-harmless rules.
- Updates to discounting and bilateral procedures.
- Custom fee schedule entries.
- Manage non-OPSS items, drugs, and biologics.

REFERENCES AND RESOURCES

And throughout APC implementation process, payers will require references and resources to interpret ongoing Medicare policy changes. Most importantly, payers need a resource to proactively evaluate the financial and operational impact that the changes will have, not only on their operations, but on the providers’ operations as well. These book- and software-based resources should include:

- A complete list of all current and historical APC and HCPCS mappings.
- Full disclosure of OCE and related CCI edit rules.
- A comprehensive knowledge library.
- An export facility for integrating content with claims administrative systems.

Solutions and Practical Approaches

Rather than dive in to APC adoption for all commercial contracts, payers can gradually phase in APC usage to fine-tune programs. In the early stages, contract modeling can be used to determine the profitability of APC adoption under specific scenarios. A next logical step might be for payers to use APCs in out-of-network reimbursement or in pilot



For Information: 800.765.6696 | insight@ingenix.com
 Ingenix, Inc. | 12125 Technology Dr. | Eden Prairie, MN 55344
www.ingenix.com

facilities. These steps allow payers to evaluate results and adjust programs to plan for larger in-network deployment. In addition, a multi-phased approach allows payers to properly position the program to maximize its acceptance by the provider community, which can be enhanced by publishing payment policies and by including providers in decision-making processes when appropriate. A successful APC implementation should include the following four steps:

Getting There...

Steps in successful APC implementations

1. APC Analysis and Educaiton

- Claims analysis
- Understanding provider community bias
- Organization readiness
- Claims assessment

2. Solution Design

- Designing policies
- Technology
- Business Processes
- Contracting strategy

3. Implementation

- Technology & Methodology
- Training operations
- Administration processes

4. Post Implementation Analysis & Review

- Ongoing analysis
- Assess implementation
- Refine processes, as necessary

Maximize existing framework, minimize administrative costs

One of the primary benefits of using APCs is the methodology's established framework and its ongoing maintenance by the Centers for Medicare & Medicaid Services (CMS). This eliminates the need for payers to develop and maintain their own methodologies from scratch. Additionally, payers can select the components of the APC framework that promote profitable contracting, while modifying the components that do not fit within their efforts.

APCs' predictive capabilities allow for accurate comparisons by provider or patient diagnosis, enabling payers to determine where financial improvements can be achieved through contracting or provider selection. Additionally, this data is vital for evaluating care access and patient demand, and for the eventual deployment of pay-for-performance and consumer-directed health plans. The historical information allows health

plans to provide immediate answers to consumers' questions about cost and quality by facility or condition.

APCs help create standardized provider contacts, which reduces administrative burdens and costs. Under traditional contracting methods, payers may have hundreds or thousands of unique provider contracts to administer. By using APCs, payers can rely on a limited number of standardized provider contracts to rapidly expand networks and decrease contract administration costs.

To facilitate cost controls, APCs give payers the tools necessary to create provider contracts that use case-mix adjustment to control charge increases. This allows payers to vary rates by clinical condition to reward high-quality care providers.

Conclusion

Implementing APCs for commercial reimbursement is complex. Payers should consider engaging an experienced consultant to help avoid potential pitfalls. The right consultant can help payers establish the appropriate measures to consider business rules and policies, determine pilot facilities and rollout, as well as the ongoing review and monitoring of the program.

Although adapting APCs for use in commercial contracting requires substantial efforts, the benefits clearly offset the work required to deploy the program. And, in today's marketplace, APCs are one of the few tools that payers can use to reduce outpatient costs.

About the Company

More than 1,200 payers now look to Ingenix for solutions to their complex business challenges. By integrating a diverse suite of products and services, Ingenix helps its clients increase revenue, manage medical costs, and simplify complex administrative and financial processes with powerful data, software, consulting, and outsourcing solutions. Consistent capital investment, stability of resources, and continual innovation have made Ingenix one of the largest and fastest-growing U.S. health care information companies.