



Adopting Ambulatory Payment Classifications (APCs) for Commercial Populations

Only Ingenix has the experience with successfully implementing commercial APC contracts and the software that can make this contracting strategy beneficial for both payer and provider.

Components of a Commercial APC Contracting Strategy

The components required for successfully implementing commercial APCs include:

- 1) Thorough understanding of the Medicare APC methodology
- 2) Established financial goals for commercial APC contracts
- 3) Identification of commercial outpatient encounters not covered by Medicare
- 4) Development of appropriate payment methods (i.e Fee Schedules) for non-Medicare covered services
- 5) Software that supports changes to the APC methodology at the HCPCS code level

Executive Summary

Outpatient services continue to represent a large percentage of payers' overall payments to hospital providers, driving payer executives and operational managers to seek new ways to manage these expenditures. In response to these challenges, many payers are leveraging the established framework of Medicare's Ambulatory Payment Classifications (APCs) to help curb costs. For ten years, healthcare providers have been effectively using APCs to bill Medicare. Now, commercial payers are recognizing the benefits of the well established methodology as a viable alternative for managing costs while promoting accurate coding and billing practices.

Because Medicare's APC methodology is the dominant reimbursement methodology, it offers payers and providers a high level of familiarity. Using Medicare APCs, as opposed to proprietary methodologies, supports quality comparisons between Medicare and commercial populations and places no burden on providers to purchase a proprietary system.

Adopting APCs to Commercial Populations

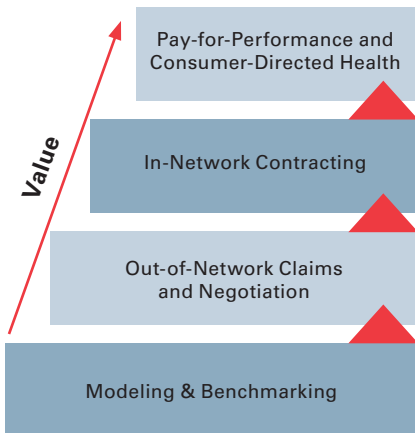
The Medicare APC methodology provides a widely utilized framework for categorizing and paying for outpatient services but must be modified to meet the needs of a non Medicare population. Encounters such as obstetrics, pediatrics and immunizations are not covered under the Medicare APC methodology, but are likely to occur in a commercial population. Payers must understand the Medicare APC methodology, identify the encounters likely in their own commercial population, and make the appropriate modifications to assure the methodology meets their business needs. This requires a thorough understanding of the APC methodology and a software tool that supports the customizations required.

Long Term Benefits

APCs provide payers with an established structure to manage provider reimbursement, collect claim-level clinical data and contain costs, based on the industry standard Medicare APC methodology. The long term benefits of leveraging APCs for commercial populations far outweigh the short-term effort, including:

- Greater control over escalating costs
- Administrative efficiencies through a standard contracting model
- Alignment of provider and payer incentives
- Consistent ICD-9/HCPCS code-based framework supports analytics and quality comparisons

Gradual APC Phase In



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

- Detailed case-level data to make long-term medical coverage and business decisions
- Enhanced network provider relations
- Standard code submissions enhance claims editing and fraud/abuse detection.

Solutions and Practical Approaches

Rather than dive into APC adoption for all commercial contracts, payers can gradually phase in APC contracting to fine tune programs. Contract modeling can be used to determine the financial implications of APC adoption under specific scenarios. A multi-phased approach allows payers to properly position the program to maximize its acceptance by the broader provider community.

The many benefits of using APCs for commercial reimbursement are likely to entice numerous payers to consider adapting the methodology. However, there are some complexities in evaluating current infrastructures and making the transition, so payers should consider seeking the expertise of a knowledgeable consulting resource to assist with the effort.

Why Ingenix

Ingenix is the only organization that offers significant experience with successfully implementing commercial APC contracting strategies. Our suite of software products coupled with our allied support services provide our clients with a complete PPS Solution that includes an assessment of the current environment, PPS education and training, PPS methodology design, implementation support and on-going maintenance. The Ingenix Prospective Payment Systems (PPS) and Payment Analytics Divisions are staffed by healthcare reimbursement experts with an average of more than 20 years in healthcare payment policy and reimbursement methodology. Individually, and as a team, this group of PPS experts have conducted more than 200 separate engagements where the project goals centered on the evaluation, design, and implementation of PPS payment methodologies by commercial payers.

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.

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