



# INDUSTRY INSIGHT

Industry Insight No. 12

May 1998

## AMBULATORY PAYMENT CLASSIFICATIONS (APCs): A HISTORICAL PERSPECTIVE

The Omnibus Reconciliation Act (OBRA) of 1986 directed HCFA to develop a prospective payment system for hospital outpatient care. Ambulatory Payment Groups (APGs) were developed in response to this directive. The Balanced Budget Act of 1997 (BBA) requires HCFA to implement this outpatient prospective payment system (OPPS) by January 1, 1999. It is anticipated that most hospital outpatient services will be included in the new OPPS, as well as free-standing Ambulatory Surgery Centers.

The HCFA OPPS will not utilize APGs to classify patient visits. Instead, HCFA is developing a new outpatient visit classification system called the Ambulatory Payment Classifications or APCs. The planned implementation date for APCs is January 1, 1999. Proposed rules and regulations describing this classification methodology will be available in the spring of 1998. Final rules are expected to be published in the *Federal Register* no later than October 1, 1998. HCFA has indicated that the APC classification system will be similar to APGs, but with significant modifications. Below is a brief summary of both APGs and APCs.

### Ambulatory Payment Groups

The Ambulatory Patient Groups or APGs are a patient classification system designed to explain the amount and types of resources consumed in an ambulatory visit. There are 290 APGs in the current version (Version 2.0) and they encompass the full range of services delivered in the ambulatory setting, including same day surgery units, hospital emergency rooms and outpatient clinics. A breakdown of APGs by type follows:

Significant Procedures and Therapies	139
Medical APGs	83
Ancillary Services	60
Error APGs	8
Total	290

APGs are assigned using ICD-9-CM diagnoses and HCPCS procedure codes (specifically, CPT and Level II HCPCS). APGs use procedure (not diagnosis) as the initial classification variable. All patients with a significant procedure or therapy are assigned to a procedure-related APG. A significant procedure or therapy is a procedure that is normally scheduled, constitutes the main reason for the visit and dominates the majority of resources consumed during the visit. Patients with no significant ambulatory procedures who received medical services are assigned to a medical APG. To be assigned to a medical APG, an "Evaluation and Management" procedure code must be present for the visit. Patients with no significant procedures *and* no "Evaluation and Management" code are classified as receiving "ancillary services only". The category "ancillary services" includes tests ordered by the primary physician to assist in patient diagnosis and treatment, as well as procedures that increase the time and resources used during a visit, but do not dominate the visit.

Each patient is eligible for assignment to a series of APGs, each corresponding to a service received. Multiple APGs are assigned to reflect the diversity of services rendered to the typical outpatient. For

example, a patient receiving “ancillary services only” may be assigned to multiple ancillary service APGs. Similarly, a surgical patient may be assigned to multiple significant procedure APGs **and** multiple ancillary service APGs. A medical patient is assigned to just one medical APG, but is also eligible for assignment to multiple ancillary APGs. Combined significant procedure and medical visits do not exist in the APG system. Therefore, a patient can not be assigned to both a significant procedure APG and a medical APG.

Associated with the Version 2.0 APG Grouper are two “cost savings” strategies that are applied to cases assigned to multiple APGs -- significant procedure consolidation and ancillary packaging. Significant procedure consolidation is used to determine whether separate payments are appropriate when the patient is assigned to multiple significant procedure APGs. Ancillary procedure packaging is a process by which payment for certain ancillary services is included with or packaged into the payment for other medical visit or significant procedure APGs.

Version 2.0 is the most current APG Grouper. It was developed using 1995 ICD-9-CM diagnosis codes and 1995 HCPCS Level I and II codes. The Version 2.0 APG Grouper is the foundation of most public and private outpatient prospective payment systems currently in operation or being developed. This includes Medicaid programs in Iowa, Massachusetts and Washington, as well as Blue Cross/Blue Shield plans in California, Ohio, Utah and Washington/Alaska.

### **Ambulatory Payment Classifications**

HCFA's Ambulatory Payment Classifications or APCs are based upon the Version 2.0 APG Grouper, but with significant modifications. The number of final APCs is expected to be around 300, with separate APCs for significant procedures, medical visits and ancillary services. The Grouper is also being updated to reflect current ICD-9-CM and CPT coding conventions.

Payment for multiple APCs will be possible, but cases assigned to more than one surgical APC will be discounted. HCFA will not adopt significant procedure consolidation, but instead will implement up-front edits to prevent the fragmentation or unbundling of services. There will also be some minimal bundling or packaging of ancillary services.

It is anticipated that most hospital-based outpatient services, including outpatient psychiatric services, will be included in the new OPSS. There will be no OPSS-exempt hospitals.

### **What is HSS Doing to Help You Prepare for APCs?**

HSS will continue to keep our clients informed of issues related to APCs. We will send additional information as proposed and final regulations are published. In addition, HSS is offering training and educational sessions on APCs to help you prepare for this major change.

HSS currently offers the APG Version 2 Grouper and several state-specific and generalized APG Pricers. We will offer an APC Grouper and Pricer pending the availability of proposed and final rules. Product releases will be available to clients well in advance of January 1, 1999. Early release will give clients time for training and implementation.

### **Questions:**

If you have questions or suggestions regarding APCs and how they will be supported in our products, please contact our Client Services Department at 1-800-999-DRGS (3747) or via the Internet at [\*\*support@hss-info.com\*\*](mailto:support@hss-info.com).