

MEDICARE SITE NEUTRALITY

PURSUING A MORE RATIONAL PAYMENT SYSTEM

Two people with Medicare go to the doctor for the same issue. They have identical procedures, but one gets a bill for thousands of dollars more than the other. Why would this happen? Location, location, location. One was treated in an independent physician's office, the other in a "hospital outpatient department" or HOPD. Sometimes, it's hard for patients to tell the difference... until they get the bill.

PHYSICIAN FEE SCHEDULE (PFS)

Medicare pays independent providers who see patients with Original Medicare through a compendium of payment rates for various visits, tests, supplies, and procedures. Every year, CMS proposes changes to the PFS, taking into account provider labor and office expenses.



MEDICARE



PROVIDERS

IN-OFFICE VISITS



When providers see patients in freestanding offices, they receive the provider rate plus reimbursement for office expenses.

Provider Labor

+ Office Expenses

In-Office PFS

VISITS IN FACILITIES: PAYING PROVIDERS



When providers see Medicare patients in facilities, Medicare pays for their labor using the PFS, but they do not receive Medicare payment for overhead office costs.

Provider Labor

+ No Office Expenses

Out-of-Office PFS

(Facility Rate)

Wait! If there are no office expenses, how do the facilities get paid?

Provider Labor

+ OPPS Rate

HOPD or ASC Payment

VISITS IN FACILITIES: PAYING HOPD OR ASC

When the setting is a hospital outpatient department (HOPD) or an Ambulatory Surgical Center (ASC), the rest of the rate is controlled by the Outpatient Prospective Payment System or OPPS.



WHAT IS THE OUTPATIENT PROSPECTIVE PAYMENT SYSTEM (OPPS)

The OPPS is the standard for how Medicare pays for services in HOPDs and ASCs. CMS adjusts the OPPS each year to account for changes in expected costs, including overhead, supplies, and equipment. Medicare assumes it is more expensive to perform medical services in hospitals and ASCs than in a freestanding provider's office and sets its rates accordingly. Providers working in HOPDs receive the PFS out-of-office rate, while the facility receives the higher OPPS rate. This results in a higher total payment from Medicare for care in a HOPD compared to care in the same provider's office.

HOPD PAYMENT

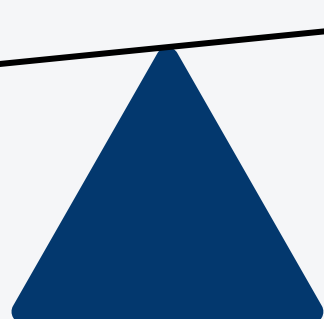
OPPS
HOPD EXPENSES

PFS
PROVIDER LABOR



PROVIDER IN-OFFICE PAYMENT

PFS
PROVIDER LABOR
OFFICE EXPENSES



WHAT IS A HOPD?

A Hospital Outpatient Department (HOPD) offers care without requiring an overnight stay. These services are typically less complex than inpatient care, allowing patients to go home the same day. HOPDs can be "on-campus," near the main hospital, or "off-campus," farther away, often having begun as independent provider offices that were later acquired by the hospital system.

WHAT IS AN ASC?

Ambulatory Surgical Centers (ASCs) provide outpatient surgical care, allowing patients to go home the same day. ASC rates, set by the OPPS, are generally lower than those for HOPDs but higher than in-office rates from the PFS. This affordability enables ASCs to compete with HOPDs for outpatient procedures.

Providers receive the same reimbursement rate from both, so there's no financial incentive to choose one over the other.



KEY TAKEAWAYS

- 1. Rise in HOPD Spending:** From 2012 to 2022, Medicare and beneficiary spending on hospital outpatient departments (HOPDs) increased by 73%, influenced by shifting care settings and vertical integration.
- 2. Growth of Vertical Integration:** Hospitals have increasingly acquired physician practices, leading to more services being performed in HOPDs rather than independent offices or ambulatory surgical centers (ASCs), raising Medicare costs.
- 3. Impact on Medicare Costs:** Shifting procedures and diagnostic tests to hospital settings has significantly increased Medicare spending, with millions of dollars in excess reimbursement attributed to this shift.
- 4. Site-Neutral Payments as a Solution:** Implementing site-neutral payments, where Medicare pays the same rate regardless of the care setting, could reduce inflated costs and save Medicare billions over the next decade.
- 5. Broader Implications for Healthcare Costs:** Medicare's payment policies influence other payers, like commercial insurance. Reforming these policies could help lower overall healthcare expenses beyond just Medicare beneficiaries.

**MEDICARE
RIGHTS** CENTER

For further reading and citations, read the associated brief *Medicare Site Neutrality*, available on medicarerights.org/policy.