

Medicare – Physician’s Fee Schedule

$[(\text{Work RVU} \times \text{Work GPCI}) + (\text{Practice Expense RVU} \times \text{Practice Expense GPCI}^*) + (\text{Malpractice RVU} \times \text{Malpractice GPCI})] \times \text{Conversion Factor (CF)}$

*Geographic Price Cost Index

Example CPT 29881 – Arthroscopy of Knee

Using CMS conversion factor of \$34.0230 (CY2013) \$25.7109 (projected CY2014)

$[(7.03 \times 1.5) + (7.81 \times 1.067) + (1.37 \times .661)] \times 34.0230 =$
 $(10.545 + 8.333 + .905) \times 34.0230 =$
 $19.783 \times 34.0230 =$
\$673.098

Medicare – Outpatient Prospective Payment System (OPPS)

$\text{APC}^* \times \text{CF} = \text{NAP}$ (non-adjusted payment)

$[(\text{NAP} \times 60\%) \times \text{HWI} (\text{hospital wage index})] + (\text{NAP} \times 40\%) = \text{GAP}$ (geographically adjusted payment)

*Ambulatory Payment Classification

Other CMS OPPS adjustments:

- Pass through payments for specific drugs, biologicals, and dme.
- Outlier payments (for services that substantially exceed the normal APC)
- Certain cancer and children’s hospitals
- Rural adjustment

Example CPT 29881 – Arthroscopy of Knee

Using CMS conversion factor of \$71.313 (CY2013) \$72.728 (Projected CY2014)

$29.6106 (\text{APC } 0041) \times 71.313 = \$2,111.62$
 $(\$1,266.972 \times 1.2727) + \$844.648 =$
 $\$1,612.475 + \$844.648 = \$2,457.12$

Medicare – Inpatient Prospective Payment System (IPPS)

IPPS payment = Operating Base Payment Rate + Capital Base Payment Rate

Operating Base Rate (OBR)

$(\text{labor share } (\text{OBR} \times 68.8\%) \times \text{hospital wage index}) + (\text{nonlabor share} \times \text{COLA}) = \text{adjusted OBR}$

$\text{adjusted OBR} \times \text{MSDRG}^* \text{ relative weight} = \text{DRG payment}$

*medical severity diagnostic related group

Capital Base Rate (CBR)

$(\text{CBR} \times \text{hospital wage index}) \times \text{capital COLA} = \text{adjusted CBR}$

$\text{adjusted CBR} \times \text{MSDRG}^* \text{ relative weight} = \text{DRG payment}$

*medical severity diagnostic related group

Other CMS IPPS adjustments:

- Allowance for teaching hospitals
- Allowance for disproportionate share of low income patients (disproportionate share hospitals)
- Allowance for sole community hospitals
- Allowance for Medicare dependent hospitals
- Allowance for low volume hospitals
- Allowance for cases involving approved new technologies
- Allowance for high cost outlier cases
- Rural adjustment

Example DRG 460 – Spinal Fusion without complications or comorbidities

Using CMS OBR of \$5,348.76 (CY2013) and CBR of \$425.49 (CY2013) and COLA of 1.23 (CY2013)

Operating Payment

$$(\$3,679.95 \times 1.2727) + (\$1,668.81 \times 1.23) = \$6,736.11$$

$$\$6,736.11 \times 3.8783 = \$26,124.65$$

Capital Payment

$$(\$425.49 \times 1.2727) \times 1.23 = \$666.07$$

$$\$666.07 \times 3.8783 = \$2,583.22$$

$$\text{Total (Operating + Capital)} = \$28,707.87$$