

INGENIX®

Controlling Outpatient Costs with APCs for Commercial Reimbursement

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Payers Seek Ways to Manage Outpatient Costs

Outpatient services continue to represent a larger percentage of payers' overall payments to providers, driving payer executives and operational managers to seek 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 because the risk resides largely with the payer. In addition, these models do not offer the tools needed to tame chagemaster 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.

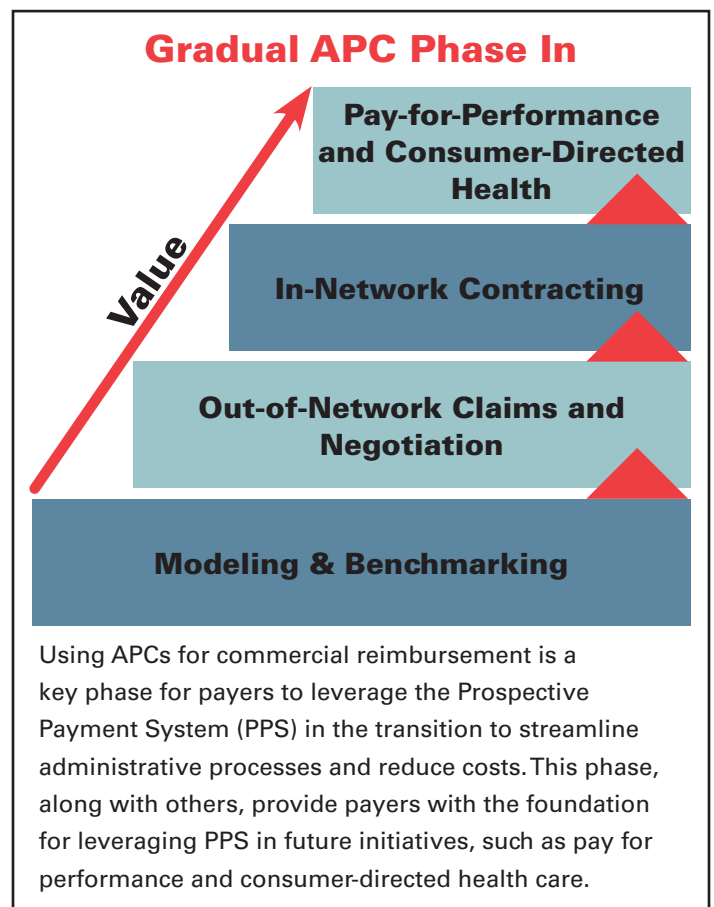
The hospital ratio of costs-to-charges averages 244 percent nationally, and chagemaster inflation is increasing twice as fast as APC inflation. As a result, reimbursement strategies built on discounts or percent of charges are ineffective at controlling these increases and do little to align incentives.

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. Recently, many commercial payers have recognized the benefits of 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, adapted for commercial contracting.

APCs provide payers with an established structure to manage care, collect claim-level clinical data and contain costs, but require a structured and coordinated effort to adapt for use in commercial reimbursement. However daunting APC implementations may seem initially, 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
- The alignment of provider and payer incentives
- Improvements in coding practices supporting improved data quality and analytics
- More detailed case-level data to make long-term medical coverage and business decisions
- Enhanced network provider relations



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 facilities, thus allowing 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 broader 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 & Education

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

2. Solution Design

- Designing policies
- Business processes
- Technology
- Contracting strategy

3. Implementation

- Technology & methodology
- Administration processes
- Training operations

4. Post Implementation Analysis & Review

- Technology & methodology
- Administration processes
- Training operations

Benefits

One of the primary benefits of using APCs is the methodology's established framework and its ongoing updates and 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 payment policies and business processes.

The predictive capabilities of APCs allow for accurate comparisons by provider or patient diagnosis, enabling payers to determine where financial improvements can be facilitated 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.

Using APCs also helps create an opportunity for standardized provider contracts that reduce 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 eliminate traditional payment policies and others that reimburse based on utilization. Additionally, payers can better manage yearly increases without being subjected to excessive chagemaster inflation.

Considerations

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 making the transition, and payers should consider seeking the expertise of a knowledgeable

consulting resource to assist with the effort. Also, payers will need to evaluate their technology infrastructure to determine if modifications to existing systems are necessary, or if new solutions will need to be purchased and implemented. When evaluating potential consulting and technology partners, consider the following:

Regulatory Updates – The biggest hurdle for commercial APC adoption is the frequency of regulatory changes, such as the Outpatient Prospective Payment System (OPPS) that updates on a quarterly cycle. Payers will need to determine if they have the resources internally to handle these updates, or if they need a solution that automatically downloads and installs the regulatory updates.

Version Control and Managing Updates – Payers need the ability to customize the classification process by being able to “lock down” on a single APC version, and customize new changes as they occur. Managing this process requires a software solution that can manage 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.

Applying APCs to a Non-Medicare Population – CMS rules do not address APCs in commercial settings, so payers will need to make decisions on how to handle various scenarios, such as when to reimburse for outpatient procedures that Medicare would only cover in an inpatient setting.

Adjusting OCE Rules – 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.

Pricing Controls – An additional consideration is pricing controls, including outlier policies for sharing the risk of high-cost cases, any modifying the conversion factor and pricing for non-covered OPPS items. Payers require several modifications to traditional Medicare pricing in support of commercial adoption.

References and Resources – Throughout the 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

Putting it All Together

Although adapting APCs for use in commercial contracting requires a dedicated effort, 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.



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