



## Medicare “Site Neutral” Proposals

### Background

Hospitals have been the target of proposals cutting payments under the Medicare program. The Wisconsin Hospital Association (WHA) opposes cuts due to the impact they could have on our hospitals, local communities and patients, ***especially when Wisconsin hospitals and health systems have been on the leading edge of providing quality care more efficiently for years.*** One policy proposal that has arisen, often referred to as “site neutral” payments, is to reduce Medicare reimbursements for hospitals to the rate paid for a similar service provided in a different setting, say a physician office or ambulatory surgery center (ASCs).

While on its face this sounds logical, WHA continues to oppose such “site neutral” proposals for a variety of reasons, including:

- Hospitals bear much higher capacity costs, such as furnishing services 24 hours a day, 7 days a week,
- Hospitals furnish services to patients who are sicker (ie: have a higher acuity),
- Hospitals must comply with licensing, accreditation, legal requirements (ex: EMTALA) not applicable in other settings,
- Hospitals must meet Medicare conditions of participation for coverage,
- Medicare’s payment systems for physicians, ASCs and hospitals are complex and fundamentally different.

The Centers for Medicare & Medicaid Services (CMS) itself acknowledged the differences in terms of payments:

*“When services are furnished in the facility setting, such as a hospital outpatient department (OPD) or an ambulatory surgical center (ASC), the total Medicare payment (made to the facility and the professional combined) typically exceeds the Medicare payment made for the same service when furnished in the physician office or other nonfacility setting. We believe that this payment difference generally reflects the greater costs that facilities incur than those incurred by practitioners furnishing services in offices and other non-facility settings. For example, hospitals incur higher overhead costs because they maintain the capability to furnish services 24 hours a day and 7 days per week, furnish services to higher acuity patients than those who receive services in physician offices, and have additional legal obligations such as complying with the Emergency Medical Treatment and Active Labor Act (EMTALA). Additionally, hospitals and ASCs must meet Medicare conditions of participation and conditions for coverage, respectively.”<sup>1</sup>*

### Site Neutral Payment: Evaluation & Management Services (E/M)

One proposal would “equalize” payments between hospital outpatient departments (HOPDs) and physician offices for non-emergency department evaluation and management (E/M) services. Under this proposal, hospital payments would be reduced between 65 percent and 80 percent for 10 of the most common outpatient hospital services. If the E/M proposal were truly equalizing payments delivered in *similar* settings under *similar* requirements, WHA could understand why such a policy should be considered. However, the two systems are not equivalent and costs borne by the hospital part of the system should not be disadvantaged

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<sup>1</sup> CMS-1600-P, Medicare Program; Revisions to Payment Policies under the Physician Fee Schedule, Clinical Laboratory Fee Schedule & Other Revisions to Part B for CY 2014; Proposed Rule (Vol. 78, No. 139), July 19, 2013, p. 43296.

when another part of the system does not bear the same requirements. In addition, since the site neutral proposal was originally discussed, the Centers for Medicare & Medicaid Services has since collapsed 10 different E/M codes into one single level of payment for outpatient clinic visits. This single level code is not based on acuity.

**Site Neutral Payment: 66 APCs at PFS Rate, Additional 12 APCs at ASC Rate**

Another proposal would be to reduce payments to hospitals by extending this “site neutral” concept onto additional HOPD services. The services that have been proposed include a series of 66 APCs (Ambulatory Payment Classifications) which are routine hospital outpatient services.

And yet another proposal being discussed would pay hospitals at the rate paid to Ambulatory Surgery Centers (ASCs) for 12 APCs that are commonly performed at ASCs. Currently, Medicare pays for covered surgical services in ASCs at approximately 60 percent of the rate that it pays for similar services in the HOPD. However, ASCs are not hospitals. Hospitals serve critical roles in their communities, they provide a wide range of acute-care and diagnostic services, support larger community health needs in addition to the many other stand-by capacity costs.

District	10 Year Impact (E/M & APCs)
Paul Ryan	\$187.2 million
Mark Pocan	\$272.7 million
Ron Kind	\$138.2 million
Gwen Moore	\$229.4 million
Jim Sensenbrenner	\$100.5 million
Glenn Grothman	\$92.1 million
Sean Duffy	\$60.8 million
Reid Ribble	\$60.1 million
<b>Statewide</b>	<b>\$1.14 Billion</b>

**Reasons to Oppose “Site Neutral” Payment Proposals**

- Studies show hospitals treat higher risk patients. Patients treated at HOPDs are often undergoing more complex procedures and have more comorbidities and complications. Hospitals also serve a higher percentage of disabled, dual-eligibles and non-white patients than physician offices or ASCs.
- Additional cuts to HOPDs could threaten beneficiary access and choice for services.
- HOPDs have more comprehensive licensing, accreditation and regulatory requirements than other settings.
- Medicare payment systems for physicians, ASCs and HOPDs are complex and fundamentally different. Therefore, application of site neutral policies will result an in inherently unstable system.
- HOPD payment rates are based on hospital cost reports and claims data. Physician payment schedules (and specifically the practice expense component) is based on responses to physician survey data.

**Reasons to Oppose Continued Medicare Cuts To Wisconsin Hospitals**

- Wisconsin hospitals provide some of the highest “value” in care nationally. Wisconsin continues to rank among the leaders nationally on health care *value*—high quality, cost-efficient care.
- Wisconsin hospitals are already seeing close to \$4 billion in Medicare cuts (10 yr impact) from other enacted laws.

**WHA Position**

The fact remains the Medicare payment systems for physicians, ASCs and HOPDs are complex and fundamentally different. To our knowledge the “site neutral” proposals do nothing to address the underlying structural differences in each settings’ unique reimbursement methodologies; rather, the proposals only adjust the end payment rate. In our view, this makes site neutral proposals simply hospital payment ratcheting by another name. They do nothing to reform the Medicare payment system, which is something WHA has been a national leader in advocating for—that Medicare *should* reform and reimburse on value (quality, efficiency). We see site neutral proposals do nothing to move our system in this direction.