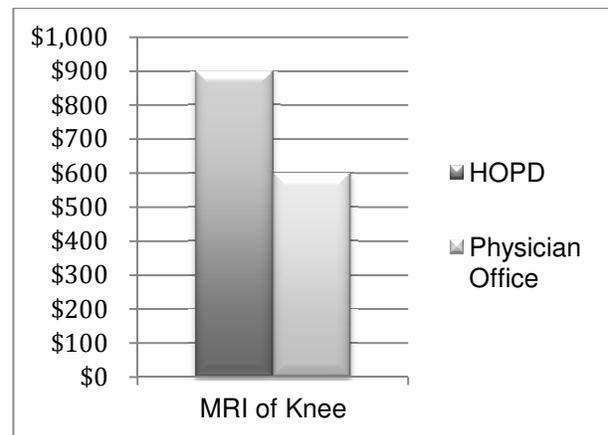
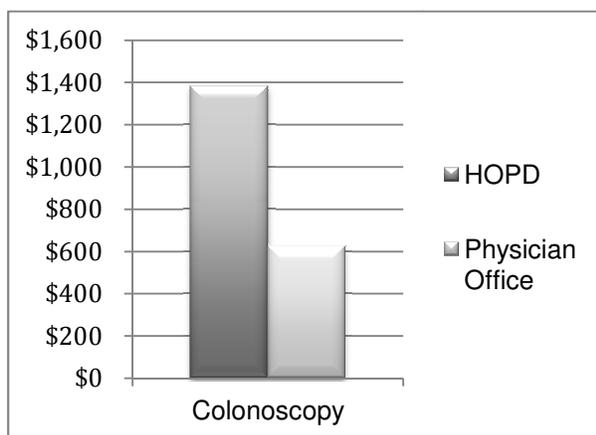


# THE CASE FOR SITE-NEUTRAL PAYMENT REFORM

## The Issue: Identical Services, Different Settings, Higher Costs

In our current healthcare system, patients have the option of receiving nonemergency and outpatient care services in various settings, including hospital outpatient departments (HOPDs) and community-based physician office settings. Despite the delivery of identical services in these two settings with no difference in outcomes, Medicare and private insurers pay significantly more for care in HOPDs, which evidence shows drives up healthcare spending and puts patient choice at risk.

For example, according to a recent study of private insurance claims data across 18 metropolitan areas, increased spending on HOPD services such as colonoscopy and MRI is playing a major role in overall spending growth on the publicly and privately insured because of increases in both prices and volume.<sup>1</sup>



## The Solution: Site-Neutral Payment Reform

America's healthcare system could save billions of dollars if payment rates for identical healthcare services were equalized across care settings. Site-neutral payment policies would ensure that healthcare payments are based on the needs of the patient and not the site of service.

### **Reduce Healthcare Costs**

Lawmakers, policy experts, payers and healthcare providers across the continuum agree that site-neutral payment policies can resolve payment inequalities that result in avoidable increases in healthcare costs for patients, insurers, employers, and the nation's healthcare system at large.

- In his FY2016 Budget Proposal, President Obama recommends lowering payment for Medicare services provided in off-campus hospital outpatient departments under the to either the Medicare Physician Fee Schedule-based rate or the rate for surgical procedures covered under the Ambulatory Surgical Center payment system, which would save an estimated **\$29.5 billion over 10 years.**

- The Medicare Payment Advisory Commission (MedPAC) estimated that equalizing payments for patient evaluation and management (E&M) visits across settings could generate Medicare savings of **\$1 billion to \$5 billion over five years.**<sup>ii</sup>
- MedPAC has also identified 66 ambulatory payment classifications (APC) for which equalizing the payment rate across settings, they estimate, would “reduce program spending and beneficiary cost sharing by a total of **\$900 million in one year.**”<sup>iii</sup>

### ***Improve Patient Access***

Higher payment rates for healthcare services result in higher out-of-pocket patient costs in the form of both increased fees and copayments.

- For example, cancer patients receiving care in hospital outpatient settings are charged on average 10 to 50 percent more than they would be for the same service provided in a community based setting, resulting in \$650 more on average in patient out-of-pocket costs annually.<sup>iv</sup>
- Patients’ rates of adherence to prescribed therapies drops significantly as out-of-pocket costs rise.<sup>v</sup> When patients do not adhere to prescribed therapies, costs to the patient and to the healthcare system also increase.<sup>vi</sup>

### ***Slow Provider Consolidation***

Payment policies that support higher reimbursement in the HOPD setting encourage the acquisition of office-based physician practices by hospitals, which results in higher costs and practice closures, further restricting patient access to care in lower cost community settings.

- Data collected from the American Hospital Association show that an increase in the market share of hospital ownership of physician practices has led to higher healthcare prices and spending.<sup>vii</sup>
- A new report published in the Journal of the American Medical Association found that total spending per patient was 10.3 percent higher for hospital-owned settings compared with physician-owned settings. Costs were even higher in large health systems where per-patient spending was 19.8 percent higher than independent physician group spending.<sup>viii</sup>

**Equalizing payments across all care settings would reduce healthcare spending, eliminate unfair incentives for consolidation and protect patient access to healthcare in the community setting.**

<sup>i</sup> “Location, Location, Location: Hospital Outpatient Prices Much Higher than Community Settings for Identical Services,” HIHCR, June 2014.

<sup>ii</sup> MEDPAC Report to Congress: Medicare and the Healthcare Delivery System, June 2012.

<sup>iii</sup> MedPAC Report to Congress: Medicare and the Healthcare Delivery System, June 2013.

<sup>iv</sup> “Comparing Episodes of Cancer Care Costs in Different Settings; An Actuarial Analysis of Patients Receiving Chemotherapy.” Milliman, Inc., August 29, 2013.

<sup>v</sup> *Ibid.*

<sup>vi</sup> *Ibid.*

<sup>vii</sup> “Vertical Integration: Hospital Ownership Of Physician Practices Is Associated With Higher Prices And Spending,” Health Affairs, May 2014.

<sup>viii</sup> “Total Expenditures per Patient in Hospital-Owned and Physician-Owned Physician Organizations in California,” JAMA. Oct.22/29, 2014, Vol. 312, No. 16.