



Highlights of [GAO-04-772](#), a report to the Chairman, Subcommittee on Health, Committee on Ways and Means, House of Representatives.

## Why GAO Did This Study

Under the Medicare hospital outpatient prospective payment system (OPPS), hospitals receive a temporary additional payment for certain new drugs and devices while data on their costs are collected. In 2003, these payments expired for the first time for many drugs and devices. To incorporate these items into OPPS, the Centers for Medicare & Medicaid Services (CMS) used its rate-setting methodology that calculates costs from charges reported on claims by hospitals. At that time, some drug and device industry representatives noted that payment rates for many of these items decreased and were concerned that hospitals may limit beneficiary access to these items if they could not recover their costs. GAO was asked to examine whether the OPPS rate-setting methodology results in payment rates that uniformly reflect hospitals' costs for providing drugs and devices, and other outpatient services, and if it does not, to identify specific factors of the methodology that are problematic.

## What GAO Recommends

GAO recommends that the Administrator of CMS collect data on excluded claims and analyze variation in hospital charge setting to determine if the OPPS payment rates uniformly reflect hospitals' costs of providing outpatient services, and, if they do not, to make appropriate changes to the methodology. CMS stated that it will consider GAO's recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-04-772](http://www.gao.gov/cgi-bin/getrpt?GAO-04-772).

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7119.

# MEDICARE

## Information Needed to Assess Adequacy of Rate-Setting Methodology for Payments for Hospital Outpatient Services

### What GAO Found

The rate-setting methodology used by CMS may result in OPSS payment rates for drugs, devices, and other services that do not uniformly reflect hospitals' costs of providing those services. Two areas of the methodology are particularly problematic. The hospital claims for outpatient services that CMS uses to calculate hospitals' costs and set payment rates may not be a representative sample of all hospital outpatient claims. For Medicare payment purposes, an outpatient service consists of a primary service and the additional services or items associated with the primary service, referred to as packaged services. CMS has excluded over 40 percent of multiple-service claims, claims that include more than one primary service along with packaged services, when calculating the cost of all OPSS services, including those with drugs and devices. It excludes these multiple-service claims because, when more than one primary service is reported on a claim, CMS cannot associate each packaged service with a specific primary service. Therefore, the agency cannot calculate a total cost for each primary service on that claim, which it would use to set payment rates. The data CMS has available do not allow for a determination of whether excluding many multiple-service claims has an effect on OPSS payment rates. However, if the types or costs of services on excluded claims differ from those on included claims, the payment rates of some or all services may not uniformly reflect hospitals' actual costs of providing those services. In addition, in calculating hospitals' costs, CMS assumes that, in setting charges within a specific department, a hospital marks up the cost of each service by the same percentage. However, based on information from 113 hospitals, GAO found that not all hospitals use this methodology: charge-setting methodologies for drugs, devices, and other outpatient services vary greatly across hospitals and across departments within a hospital. CMS's methodology does not recognize hospitals' variability in setting charges, and therefore, the costs of services used to set payment rates may be under- or overestimated.

**Number and Percentage of Hospitals that Reported Methods to Mark Up Drug and Device Charges, 2003**

	Drugs		Devices	
	Number	Percentage	Number	Percentage <sup>a</sup>
Same percentage for all items	40	43	39	46
Graduated percentage, higher for low-cost items	33	36	39	46
Graduated percentage, lower for low-cost items	6	7	4	5
Other	13	14	3	4

Source: GAO.

<sup>a</sup>Percentage of total hospitals does not total 100 percent due to rounding.