MEDICARE PAYMENTS FOR CT AND MR ADVANCED IMAGING

April 17, 2013

Executive Summary

CMS should not implement payment based on separate cost centers for CT and MR

- Cost reporting requirements do not ensure accurate cost information for capital-intensive services
- Consequently, capital-intensive services will be paid inaccurately if detailed cost centers are required

Background

- **Medicare payments for inpatient and outpatient hospital services are based on two sources of information:**
  - Hospital charges on claims for services for Medicare beneficiaries
  - Hospital cost reports which allocate costs to various cost centers
- **CMS uses cost report information to deflate hospital charges**

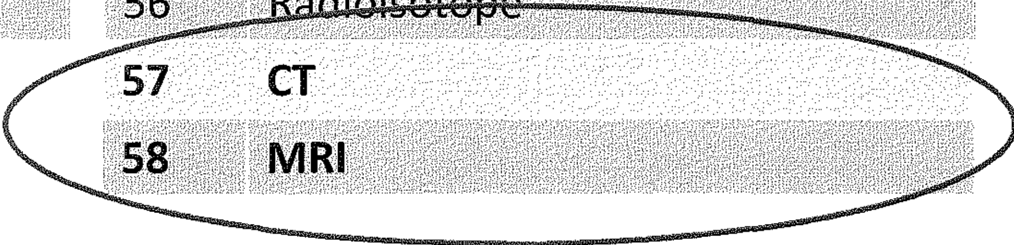
CMS Created Multiple Cost Centers Within Diagnostic Radiology

- Before 2010

ID	Description
41	Radiology-Diagnostic
42	Radiology-Therapeutic
43	Radioisotope

- After 2010

ID	Description
54	Radiology-Diagnostic
55	Radiology-Therapeutic
56	~~Radioisotope~~
57	**CT**
58	**MRI**



Hospitals Use Multiple, Legitimate Methods to Assign Costs to Cost Centers

- There is no one "right way" to allocate fixed costs
  - Treat equipment as a fixture and allocate across the entire hospital?
  - Mobile equipment?
  - Allocation of department fixed costs to sub-department service lines?

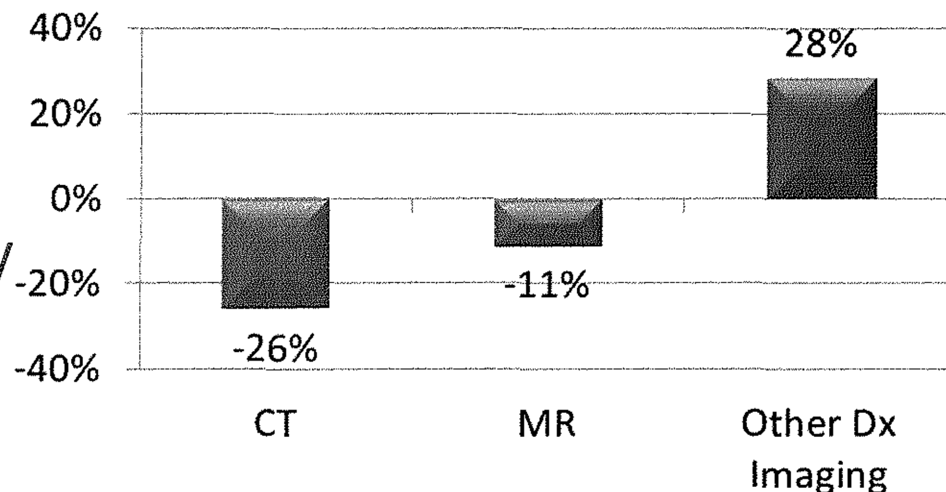
Research Triangle Institute Questioned the Accuracy of Cost Data*

- "Many facilities had very low cost ratios on these nonstandard lines...This raises questions about the relative accuracy of their cost finding"
- "[CT and MR] services are very capital-intensive, and accurate cost ratios will depend on providers' being able to assign actual equipment depreciation and lease costs directly to the cost centers, rather than the traditional method of allocating average capital costs based on square footage."

**A Study of Charge Compression in Calculating DRG Relative Weights. Report to CMS, January 2007*

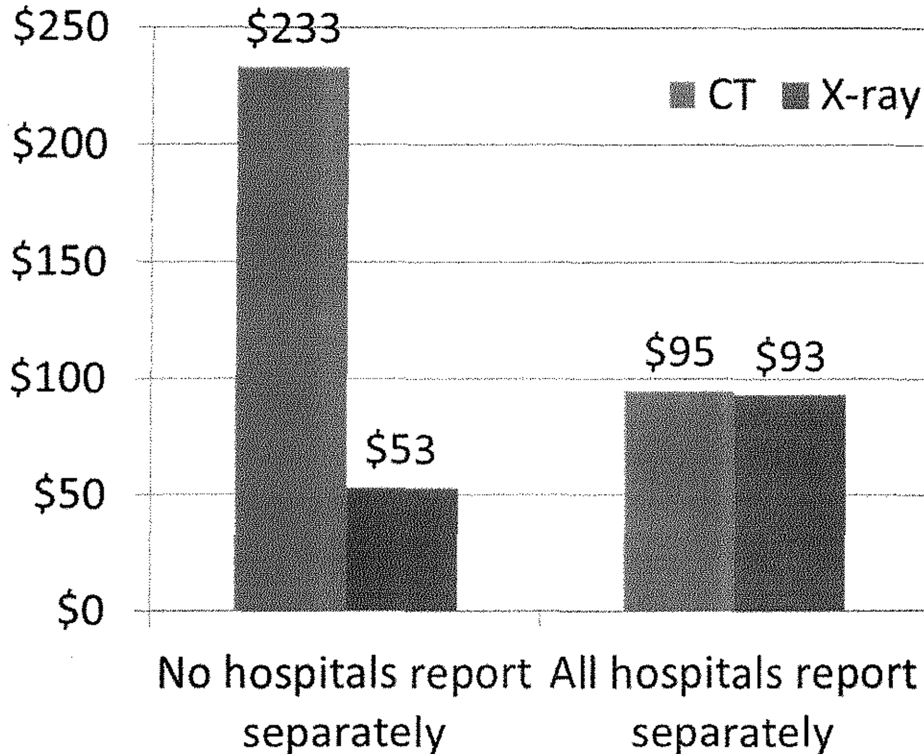
Overall Impact

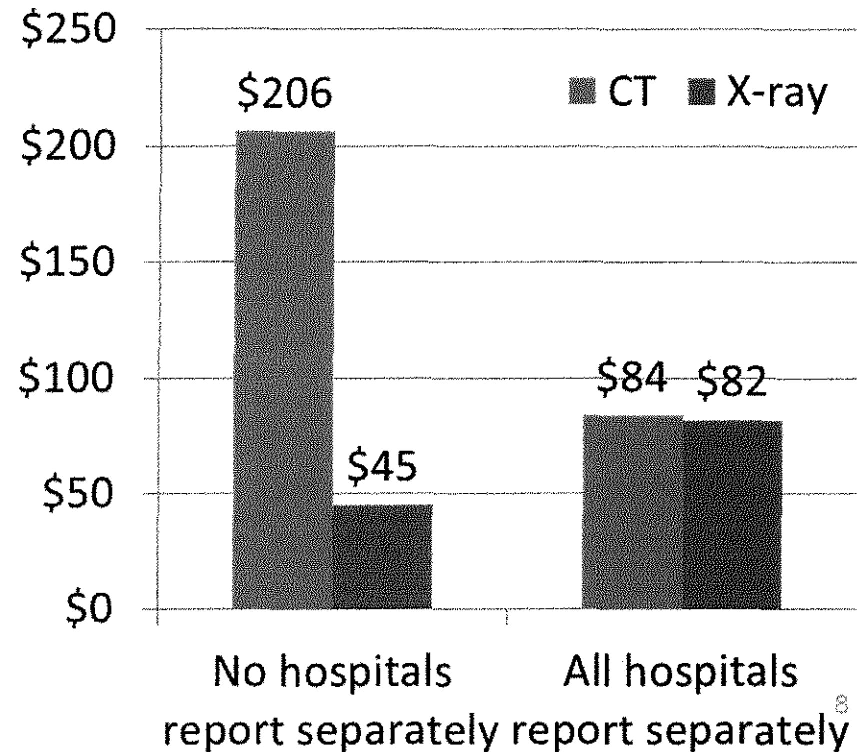
- Budget neutral shift in payments in hospital outpatient settings
- Cuts in CT & MR offset increases in x-ray, ultrasound, and other diagnostic radiology services
- Changing hospital outpatient payment also impacts:
  - DRG payments for CT/MR intensive admissions
  - Physician office and imaging center payments through the Deficit Reduction Act caps



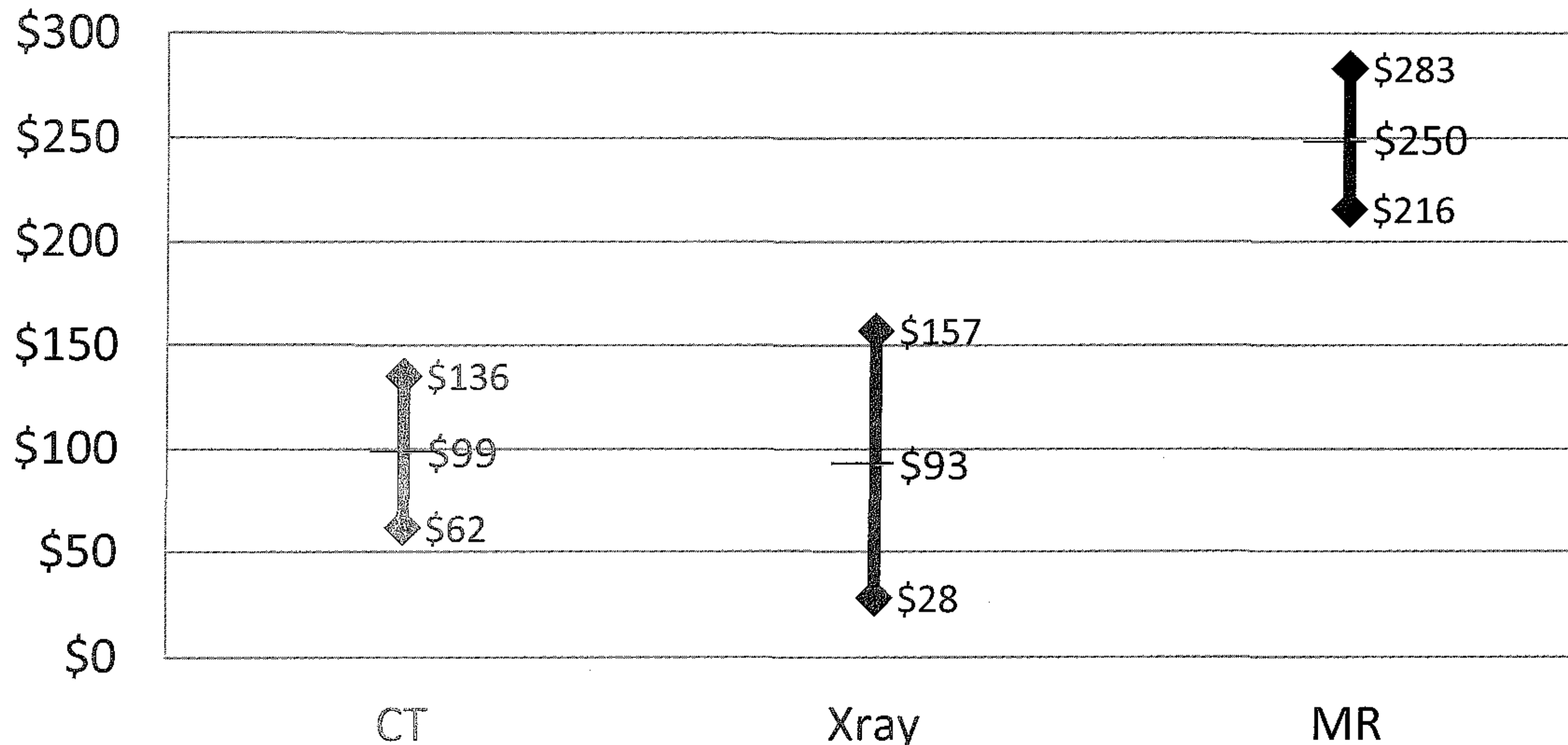
Source: Direct Research LLC analysis of Medicare claims data

Separate reporting leads to payments that lack face validity





Source: Direct Research LLC analysis of Medicare claims data.
Geometric mean of single-service claims



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Discussion