Medicare – Physician’s Fee Schedule

\[
[(\text{Work RVU} \times \text{Work GPCI}) + \\
(\text{Practice Expense RVU} \times \text{Practice Expense GPCI*}) + \\
(\text{Malpractice RVU} \times \text{Malpractice GPCI})] \times \text{Conversion Factor (CF)}
\]

*Geographic Price Cost Index

Example CPT 29881 – Arthroscopy of Knee
Using CMS conversion factor of $34.0230 (CY2013) $25.7109 (projected CY2014)

\[
[(7.03 \times 1.5)+(7.81 \times 1.067)+(1.37 \times .661)] \times 34.0230=
\]
\[
(10.545+8.333+.905) \times 34.0230=
\]
\[
19.783 \times 34.0230=
\]
\[
$673.098
\]

Medicare – Outpatient Prospective Payment System (OPPS)

APC* \times CF = NAP (non-adjusted payment)

\[
[(\text{NAP} \times 60\%) \times \text{HWI (hospital wage index)}) + (\text{NAP} \times 40\%) = \text{GAP (geographically adjusted payment)}
\]

*Ambulatory Payment Classification

Other CMS OPPS adjustments:
- Pass through payments for specific drugs, biologicals, and dme.
- Outlier payments (for services that substantially exceed the normal APC)
- Certain cancer and children’s hospitals
- Rural adjustment

Example CPT 29881 – Arthroscopy of Knee
Using CMS conversion factor of $71.313 (CY2013) $72.728 (Projected CY2014)

\[
29.6106 \times 71.313 = $2,111.62
\]
\[
(\$1,266.972 \times 1.2727) + \$844.648 =
\]
\[
1,612.475 + \$844.648 = $2,457.12
\]

Medicare – Inpatient Prospective Payment System (IPPS)

IPPS payment = Operating Base Payment Rate + Capital Base Payment Rate

Operating Base Rate (OBR)

\[
(\text{labour share} (\text{OBR} \times 68.8\%) \times \text{hospital wage index}) + (\text{nonlabour share} \times \text{COLA}) = \text{adjusted OBR}
\]

adjusted OBR \times \text{MSDRG* relative weight} = DRG payment

*medical severity diagnostic related group

Capital Base Rate (CBR)

\[
(\text{CBR} \times \text{hospital wage index}) \times \text{capital COLA} = \text{adjusted CBR}
\]

adjusted CBR \times \text{MSDRG* relative weight} = DRG payment

*medical severity diagnostic related group
Other CMS IPPS adjustments:
- Allowance for teaching hospitals
- Allowance for disproportionate share of low income patients (disproportionate share hospitals)
- Allowance for sole community hospitals
- Allowance for Medicare dependent hospitals
- Allowance for low volume hospitals
- Allowance for cases involving approved new technologies
- Allowance for high cost outlier cases
- Rural adjustment

**Example DRG 460 – Spinal Fusion without complications or comorbidities**
Using CMS OBR of $5,348.76 (CY2013) and CBR of $425.49 (CY2013) and COLA of 1.23 (CY2013)

**Operating Payment**

\[ (\$3,679.95 \times 1.2727) + (\$1,668.81 \times 1.23) = \$6,736.11 \]

\[ \$6,736.11 \times 3.8783 = \$26,124.65 \]

**Capital Payment**

\[ (\$425.49 \times 1.2727) \times 1.23 = \$666.07 \]

\[ \$666.07 \times 3.8783 = \$2,583.22 \]

Total (Operating + Capital) = \$28,707.87