



2018 OPPS Medicare Part B Payment Impact Analysis

Avalere Health | An Inovalon Company
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Executive Summary

- The CY2018 Medicare Outpatient Prospective Payment System (OPPS) rule reduced Medicare's payment to hospitals for Part B drugs purchased under the 340B program, effective January 1
- The drug payment adjustment will reduce payments for Part B drugs to the impacted hospitals by the estimated \$1.6 billion in 2018, which reflects in government and beneficiary savings
- However, the savings from the 340B payment cut are reallocated to increase reimbursements for other non-drug items and services paid under the OPPS
- CMS estimated that all OPPS payment adjustments for CY 2018 to ~3,900 facilities paid under the OPPS will result in overall increase of approximately \$690 million compared to CY 2017 payments¹
- For all hospitals in aggregate, total OPPS Part B payments are going to increase by 1.5% in 2018, which reflects the estimated 17.6% decrease in Part B drug payments and 19.1% increase in non-drug payments
 - Among all hospitals, 85% of facilities will see net Part B payment increases as a result of OPPS payment changes
 - Only 1% of hospitals will experience net cuts greater than 10% of their Part B revenues

1. Source: Centers for Medicare & Medicaid Services. "Calendar Year 2018 Outpatient Prospective Payment System and Ambulatory Surgical Center [final rule](#)," November 2017

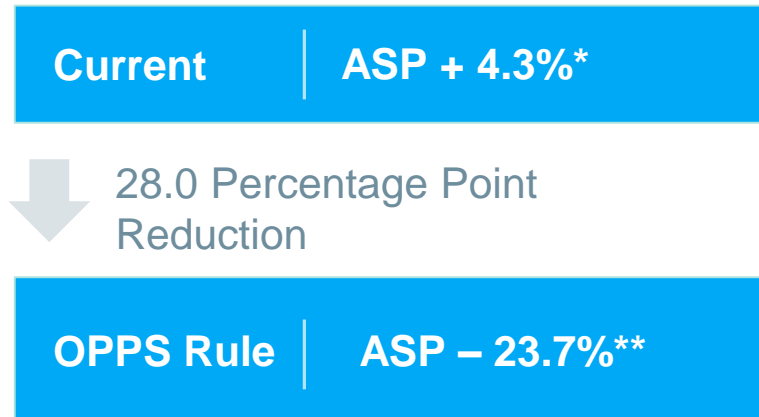


OPPS Part B Payment Adjustment


The OPPS Rule Will Reduce Hospital Reimbursement for Part B Drugs Purchased Through the 340B Program

- The CY 2018 OPPS final rule adjusts Part B payments to all separately payable, non pass-through Part B drugs (excluding vaccines) purchased through 340B
- CMS noted the increased number of 340B covered entities, rise of Part B drug prices, and patient coinsurance payments as reasons for the rule

Payment Change



Reporting Requirements



CMS will establish a modifier for facilities to report any separately payable drugs not acquired under 340B, effective January 2018

CMS estimates the OPPS payments for separately payable drugs, including beneficiary copayment, could decrease as much as \$1.6 billion annually

ASP: Average Sales Price; CMS: Centers for Medicare & Medicaid Services

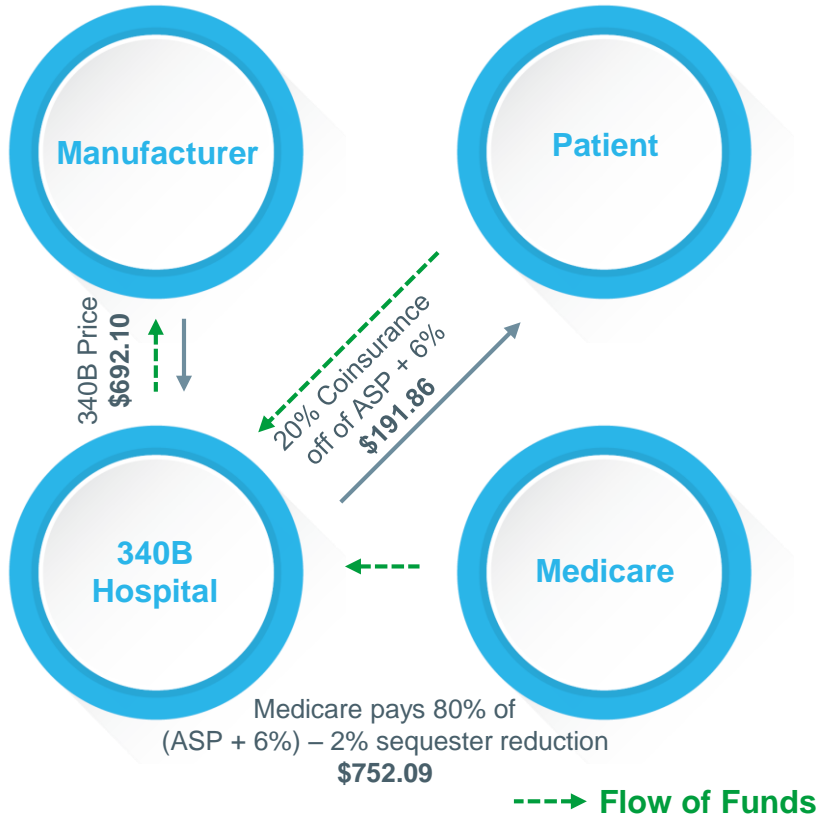
*The budget sequestration of 2013 reduced the Part B add-on payment from ASP + 6% to ASP + 4.3%

**The budget sequestration of 2013 would further reduce the proposed Part B payment rate from ASP - 22.5% to ASP - 23.7%

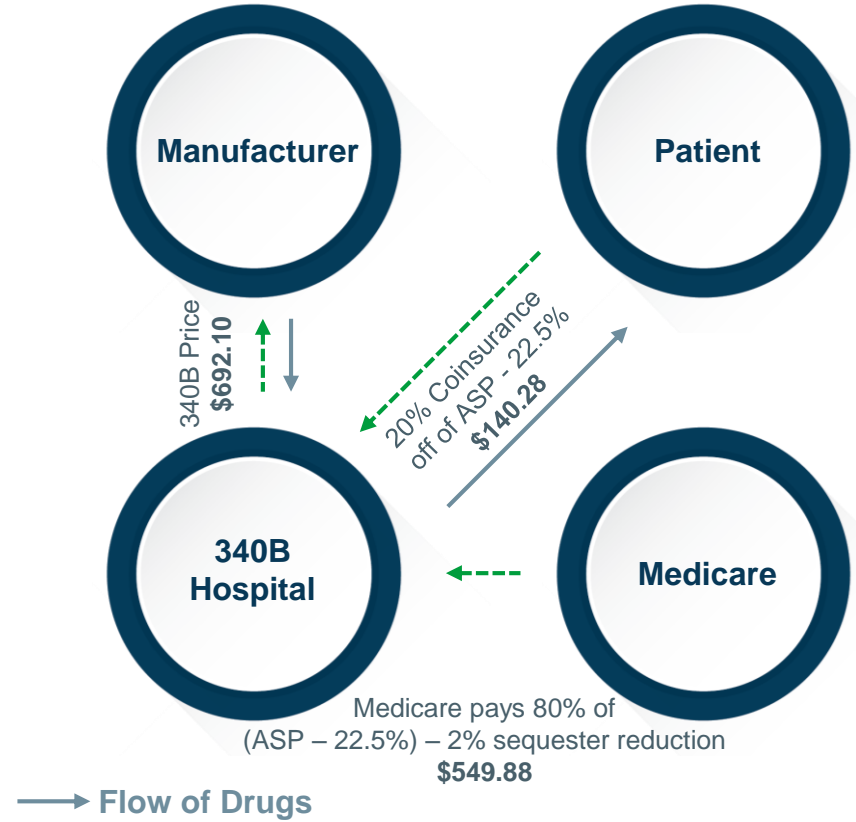
Source: Centers for Medicare & Medicaid Services. "Calendar Year 2018 Outpatient Prospective Payment System and Ambulatory Surgical Center [final rule](#)," November 2017

Illustration of a Hospital's Part B Reimbursement for a 340B-Acquired Drug: Current vs. New OPPS Policy

Example: AMP = **\$900** | ASP = **\$905** | 340B Ceiling = **\$692.10**
23.1% off AMP



Current Payment Methodology
Hospital Profit: \$251.85



New OPPS Payment Methodology
Hospital Profit: \$1.94

Example is illustrative only. The ASP payment is split to reflect the beneficiary paying 20% and Medicare paying 80% of drug costs. Medicare payments are adjusted to represent a 2% reduction due to the sequester (currently ASP + 4.3% and proposed ASP - 23.7%). Beneficiary coinsurance is not impacted by the sequester. The amounts shown only reflect payments for a specific drug, and does not account for premiums or other payments. Most hospitals negotiate discounts greater than the 340B ceiling price.





Net Impact of the CY2018 OPPS Rule

Overall Approach

To better understand the overall impact of OPSS Medicare payment adjustments reported by CMS, Avalere modeled Part B drug spending cuts to affected 340B hospitals

In this analysis, Avalere:

Identified Medicare Part B payments using 2016 claims data, separating drug payments from other Part B services

Adjusted Part B drug payments to simulate the payment under ASP – 23.7% methodology*

Assessed overall OPSS payments impact reported by CMS**

Estimated non-drug OPSS payment changes

Stratified data and results to demonstrate impact on specific subsets of hospitals

Note: See Appendix for full description of methodology

*The budget sequestration of 2013 reduced the Part B add-on payment to 4.3%; the sequester would further reduce the proposed OPSS B payment rate from -22.5% to -23.7%

** CY2018 OOPS Final Rule Impact file, <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/HospitalOutpatientPPS/Hospital-Outpatient-Regulations-and-Notices-Items/CMS-1678-CN.html?DLPage=1&DLEntries=10&DLSort=2&DLSortDir=descending>



Overall, Rural Hospitals Will Benefit Most From OPPS Payment Changes in 2018

80% OF RURAL HOSPITALS WILL NOT BE SUBJECT TO 340B DRUG PAYMENT CUTS FROM MEDICARE

Those hospitals are going to see greater than average overall net payment increase due to OPPS redistribution effects

Total Net Payment Change for All Hospitals, Stratified by Rural vs. Urban

Hospital Type	Number of Hospitals	Total OPPS Payment Change	Drug OPPS Payment Change	Non-Drug OPPS Payment Change
Rural	815	2.7%	-7.7%	10.4%
Urban	2999	1.4%	-18.9%	20.3%
Total	3814	1.5%	-17.6%	19.1%

Total Net Payment Change for Hospitals Not Impacted by 340B Drug Reimbursement Cut, Stratified by Rural vs. Urban

Hospital Type	Number of Hospitals	Total OPPS Payment Change	Drug OPPS Payment Change	Non-Drug OPPS Payment Change
Rural	656	4.0%	0.0%	4.0%
Urban	2099	4.5%	0.0%	4.5%
Total	2755*	4.4%	0.0%	4.4%

* Majority or 92% of hospitals not impacted by the 340B drug reimbursement cut are non-340B; the remaining 8% represent rural sole community hospitals that are 340B program participants but were purposely excluded from the 340B payment cut.

In Aggregate, 340B DSH Hospitals Will See Small Net OPPS Payment Decrease in 2018

Total Net Payment Change for 340B DSH Hospitals, Stratified by Rural vs. Urban

Hospital Type	Number of Hospitals	Total OPPS Payment Change	Drug OPPS Payment Change	Non-Drug OPPS Payment Change
Rural	136	-1.8%	-26.9%	25.1%
Urban	848	-1.4%	-26.9%	25.5%
Total	984*	-1.4%	-26.9%	25.4%

* DSH hospitals represent 93% of all 340B hospitals impacted by OPPS 340B drug payment cuts. Other affected hospitals include rural referral centers and non-rural sole community hospitals.



Majority of Hospitals Will See Net Increase in Their 2018 OPPS Payments

Distribution of Hospitals Based on Total Net Payment Change

Total OPPS Payment Change	All Hospitals, % of Facilities			Impacted 340B DSH Hospitals, % of Facilities		
	Rural	Urban	Total	Rural	Urban	Total
Decrease: >10%	1%	1%	1%	4%	2%	2%
Decrease: 5-10%	2%	3%	3%	9%	9%	9%
Decrease: <5%	11%	12%	12%	37%	32%	33%
Increase: <5%	74%	51%	56%	49%	47%	47%
Increase: 5-10%	11%	31%	27%	2%	10%	9%
Increase: >10%	1%	3%	3%	0%	0%	0%

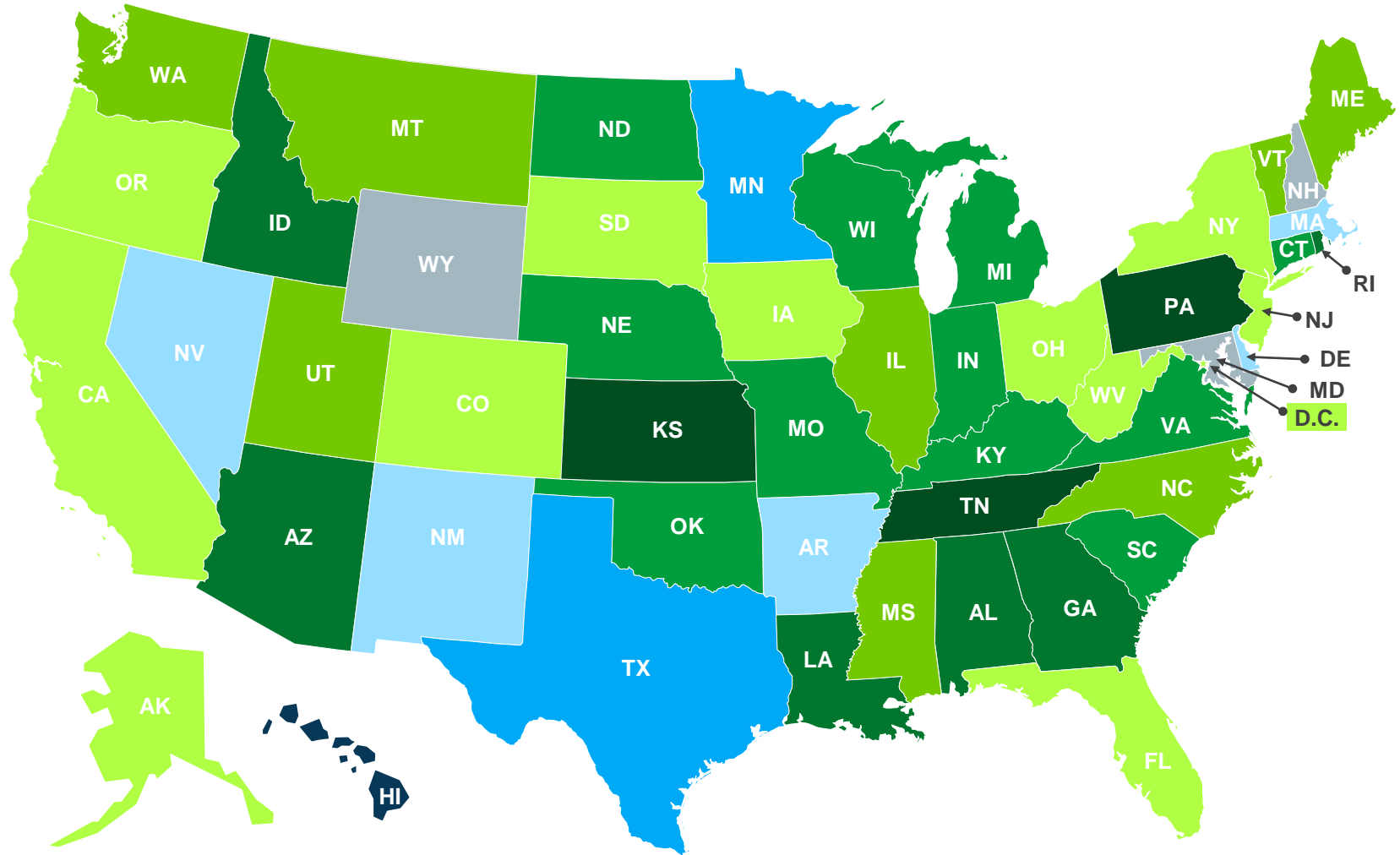
Note: Percentages may not add up to 100% due to rounding

Of all hospitals, 85% will see net increase in overall OPPS payments

Of 340B DSH hospitals, 55% will see net increase in overall OPPS payments



Some States Will See Net Increase in Total OPPTS Payments Across Their 340B DSH Hospitals



DECREASE

■ <1%
 ■ 1-2%
 ■ 2-3%
 ■ 3-4%
 ■ 4-5%

INCREASE

■ <1%
 ■ 1-2%
 ■ 3-4%

N/A

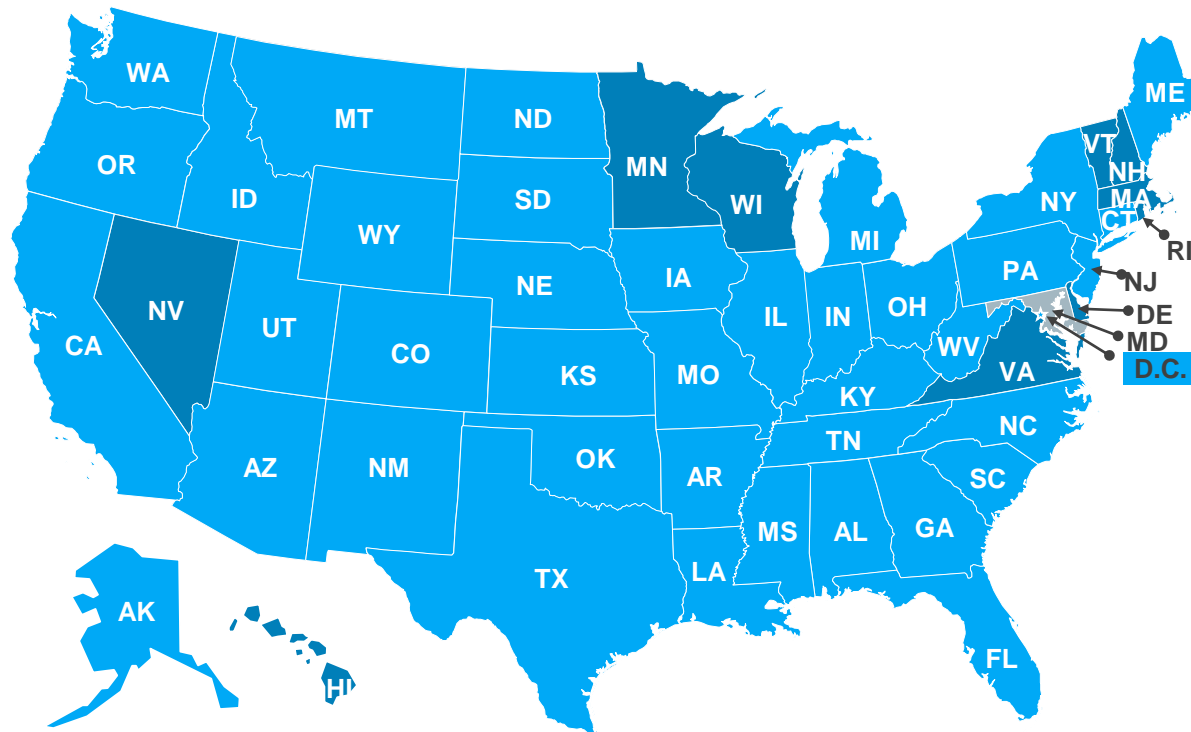
■ No data



All States Will See Net Increase in Total OPPS Payments Across Hospitals Not Impacted by 340B Drug Payment Cuts

HOSPITALS NOT IMPACTED BY 340B PAYMENT CUTS WILL BENEFIT FROM OPPS REDISTRIBUTION EFFECTS

THE AVERAGE STATE-LEVEL NET INCREASE IN TOTAL OPPS PAYMENTS AMONG THOSE HOSPITALS WILL BE 4.3%



INCREASE

Light Blue: <5%
Dark Blue: 5-10%

N/A

Grey: No data





Appendix

Methodology

PART B DRUG SPENDING: Avalere analyzed 2016 Part B drug spending using the Medicare Standard Analytical File (SAF) that includes 100% of fee-for-service (FFS) drug billing by hospital outpatient departments (HOPDs)

PART B DRUG SELECTION: Avalere identified Part B drugs reimbursed by Medicare based on ASP methodology

- J-, Q-, A- and P-codes: Avalere captured all drugs appearing in the quarterly 2016 ASP Drug Pricing Files¹
- Vaccines/Numerical codes: Avalere excluded vaccines per OPSS rule

HOSPITAL SELECTION: Our analysis included 3814 hospitals paid under OPSS, not including 53 children's and 11 free-standing cancer "held harmless" hospitals that receive proportional adjustments to their OPSS payment rates and are excluded from CMS' impact file.² Those hospitals are not subject to the part B drug payment reduction even though they are 340B-eligible. Similarly, Critical Access Hospitals and hospitals located in Maryland are eligible for 340B prices but not paid under OPSS methodology.

TOTAL OPSS PAYMENT IMPACT: Avalere analyzed CMS-estimated hospital-level OPSS payments for CY2017 and CY2018 to determine the overall impact of the rule that captures both, 340B drug payment reduction and all other annual payment updates²; CMS's payment estimates reflect only rate updates and do not include changes in service volume, service-mix, or number of encounters, all of which would affect the actual payments to hospitals.

340B PARTICIPATION: Avalere assessed current (as of January 2018) hospital 340B participation using the 340B Office of Pharmacy Affairs information System (340B OPAIS) from Health Resources and Services Administration (HRSA)

¹ <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Part-B-Drugs/McrPartBDrugAvgSalesPrice/2016ASPFiles.html>

² CY2018 OOPS Final Rule Impact file, <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/HospitalOutpatientPPS/Hospital-Outpatient-Regulations-and-Notices-Items/CMS-1678-CN.html?DLPage=1&DLEntries=10&DLSort=2&DLSortDir=descending>

