

# Case Example

## Outpatient Evaluation & Management Services

### Allegiance Health

#### THE ISSUE:

**Congress is considering a Medicare Payment Advisory Commission (MedPAC) recommendation that would cap “total” payment for non-emergency department evaluation and management (E/M) services in hospital outpatient departments (HOPDs) at the rate paid to physicians for providing the services in their private offices.** For example, for a visit coded as 99201, the physician would receive the standard amount for the service

in the hospital setting (\$25.87). The hospital would receive the difference between the physician payment in the office (\$42.55) and the physician payment in the hospital, or  $\$42.55 - \$25.87 = \$16.68$ .

This would reduce the hospital payment between 67 percent and 80 percent for 10 of the most common outpatient hospital services. This proposal is estimated to reduce Medicare spending by \$1 billion per year and \$7 billion over 10 years.

#### THE HOSPITAL STORY:

**Allegiance Health** is a community-owned, not-for-profit, integrated health system with 480 beds and more than 40 sites of care, including an acute care hospital, a long-term acute care hospital, a network of primary care clinics and diagnostic centers, home care services, a hospice residence, a diabetes center and a wound care center. Allegiance provides the full spectrum of primary through tertiary care and has served Jackson and south central Michigan for more than 90 years. Through its clinics and other services, Allegiance meets the health care needs of its community, including providing an access point for the uninsured through the provision of financial assistance and charity care to those with financial needs, access for Medicaid patients, financial support for recruiting needed primary care and specialty physicians to the area, and a training site for medical students and allied health professionals. Thirty nine percent of the services are provided to Medicare beneficiaries and 13 percent to Medicaid beneficiaries.

Allegiance Health currently receives provider-based (hospital outpatient) payments for a number of services, including its Diabetes Center, Wound Care Center, Pain Management Clinic, Hematology/Oncology Clinic, Senior Care Clinic, and Hearing Clinic. These clinics fulfill a huge need in the community, particularly with regard to providing access to primary care and preventive services, which otherwise would not be available to many Medicaid and uninsured patients. Not only do these clinics provide much needed services to very vulnerable populations in the Jackson community, but the existence of these clinics improves the quality and reduces the cost of care by keeping people out of the emergency room and reducing hospital readmissions.

Continued on reverse



## **THE IMPACT:**

**Even with provider-based payment for the services delivered in these clinics, Allegiance Health loses a substantial amount of money on the services delivered. For the Diabetes Center alone, losses amount to about \$500,000 a year. Despite these losses, Allegiance maintains these services because they are needed by those in the community. If the services delivered in these clinics were no longer paid at the provider-based payment rates, which help cover the cost of E/M services, Allegiance Health would lose as much as another \$1 million a year. With these additional losses, Allegiance might be forced to reduce access to at least some of these much needed services in its community. Stated more positively, provider-based payment allows Allegiance Health to provide essential, cost-effective care to the most vulnerable in its service area.**

The added costs of operating provider-based services are substantial. There are additional costs for infrastructure, Joint Commission requirements, life-safety codes and other regulatory requirements, not to mention the additional overhead costs of being prepared to meet the community's needs on a 24/7 basis. While these expenses increase the cost in Allegiance's provider-based settings, they also ensure the safety and quality of the services delivered and 24/7 access.

If the proposed significant cut to reimbursement for E/M services takes effect, Allegiance Health would have to reduce programs that provide much needed care. In addition, loss of these payments would reduce the health system's ability to move forward with systemic change to improve not only the access to care but the cost-effectiveness with which care is delivered.