



**ANALYSIS OF ALTERNATIVES TO THE NORTH CAROLINA
AMBULATORY SURGICAL CENTER FEE SCHEDULE
PROPOSED TO BE EFFECTIVE OCTOBER 1, 2017**

The North Carolina Industrial Commission has requested that NCCI estimate the impact on workers compensation system costs under four reimbursement alternatives for Ambulatory Surgical Center (ASC) services. NCCI estimates that the fee schedule alternatives would result in an overall impact between -0.1% (-\$2.0M¹) and +0.6% (+\$12.0M) on North Carolina workers compensation system costs, if adopted.

The following table summarizes the alternatives and includes the estimated impacts.

	(A)	(B)	(C)	(D)	(E)
Maximum Reimbursement for ASC	Estimated Impact on ASC Services	ASC Share of Medical Costs (SY 2015)	Estimated Impact On Medical Costs (A) x (B)	Medical Costs as % of Overall Workers Compensation Benefit Costs (Eff. 10/1/2017)	Estimated Impact on Overall Workers Compensation System Costs (C) x (D)
200% of Medicare ASC Payment Rate with 135% of Medicare Outpatient Prospective Payment System (OPPS)	-0.1%		Negligible decrease		Negligible decrease
175% of Medicare ASC Payment Rate with 135% of Medicare OPPS	-5.0%	4.8%	-0.2%	48.5%	-0.1% (-2.0M)
200% of Medicare OPPS	+27.6%		+1.3%		+0.6% (+12.0M)
135% of Medicare OPPS	-1.1%		-0.1%		Negligible decrease

¹ The estimated dollar impact is the percentage impact(s) displayed multiplied by 2015 written premium of \$1,963M from NAIC Annual Statement data for North Carolina. This figure includes self-insurance, but not the policyholder retained portion of deductible policies, or the adjustments for subsequent changes in premium levels. The use of premium as the basis for the dollar impact assumes that expenses and other premium adjustments will be affected proportionally to the change in benefit costs. The dollar impact on overall system costs inclusive of self-insurance is estimated to be between -\$2M and \$+12M, where data on self-insurance is approximated using the National Academy of Social Insurance's October 2016 publication "Workers' Compensation: Benefits, Coverages, and Costs, 2014."



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Summary of Proposed Medical Fee Schedule Changes

The North Carolina Industrial Commission has requested that NCCI estimate the impact on workers compensation system costs from a change to the maximum reimbursement rate of 200% of the 2017 Medicare ASC facility specific amounts as of January 1, 2017. The following fee schedule alternatives for reimbursement for institutional services provided by ASCs, proposed to be effective October 1, 2017 are listed below:

1. Maximum reimbursement rate of 200% of the 2017 Medicare ASC facility specific amount and a maximum reimbursement rate of 135% of the OPSS facility specific amount for institutional services performed at an ASC that are eligible for payment if performed at an outpatient hospital facility, but would not be eligible for payment under Medicare rules if performed at an ASC.
2. Maximum reimbursement rate of 175% of the 2017 Medicare ASC facility specific amount and a maximum reimbursement rate of 135% of the OPSS facility specific amount for institutional services performed at an ASC that are eligible for payment if performed at an outpatient hospital facility, but would not be eligible for payment under Medicare rules if performed at an ASC.
3. Maximum reimbursement rate of 200% of the 2017 Medicare Outpatient facility specific amount
4. Maximum reimbursement rate of 135% of the 2017 Medicare Outpatient facility specific amount

Actuarial Analysis of Proposed Medical Fee Schedule Changes

NCCI's methodology to evaluate the impact of medical fee schedule changes includes three major steps:

1. Calculate the percentage change in maximum reimbursements
 - a. Compare the prior and proposed maximum reimbursements by procedure code and determine the percentage change by procedure code.
 - b. Calculate the weighted-average percentage change in maximum reimbursements for the fee schedule using observed payments by procedure code as weights.
2. Estimate the price level change as a result of the proposed fee schedule
 - a. NCCI research by Frank Schmid and Nathan Lord (2013), "The Impact of Physician Fee Schedule Changes in Workers Compensation: Evidence from 31 States", suggests that a portion of a change in maximum reimbursements is realized on payments impacted by the change.



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- i. In response to a fee schedule decrease, NCCI's research indicates that payments decline by approximately 50% of the fee schedule change.
 - ii. In response to a fee schedule increase, NCCI's research indicates that payments increase by approximately 80% of the fee schedule change and the magnitude of the response depends on the relative difference between actual payments and fee schedule maximums (i.e. the price departure).
The formula used to determine the percent realized for fee schedule increases is $80\% \times (1.10 + 1.20 \times (\text{price departure}))$.
3. Estimate the share of costs that are subject to the fee schedule
- a. The share is based on a combination of fields, such as procedure code, provider type, and place of service, as reported on the NCCI Medical Data Call, to categorize payments that are subject to the fee schedule.

In this analysis, NCCI relies primarily on two data sources:

- Detailed medical data underlying the calculations in this analysis are based on NCCI's Medical Data Call for North Carolina for Service Year 2015.
- The share of benefit costs attributed to medical benefits is based on NCCI's Financial Call data for North Carolina from the latest two policy years projected to the effective date of the benefit changes.

Ambulatory Surgical Center Fee Schedule

In North Carolina, payments for ASC services represent 4.8% of total medical payments. NCCI calculated the percentage change in maximums and the percentage change in reimbursements for ASC services to estimate impacts due to the proposed fee schedule changes. The estimated impacts for the alternatives are calculated as follows:

Alternatives 1 & 2

To calculate the percentage change in maximums for ASC services, NCCI calculates the percentage change in maximum allowable reimbursement (MAR) for each procedure code listed on the fee schedule. For these alternatives, 2017 Medicare OPPS rates are to be utilized only when an applicable outpatient procedure is performed that is not included in the 2017 Medicare ASC fee schedule. The overall change in maximums for ASC services is a weighted average of the percentage change in MAR (proposed MAR / prior MAR) by procedure code weighted by the observed payments by procedure code as reported on NCCI's Medical Data Call, for North Carolina for Service Year 2015. The prior and proposed maximums are calculated as follows:



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Prior MAR

Prior MAR = [Multiplier x 2017 Medicare Adjusted Base Rate for North Carolina x 2017 Medicare ASC Payment Weight – Multiple Procedure Discounts (if applicable)]

Where Multiplier = 200%

Proposed MAR – ASC or Hospital Outpatient-Based

Proposed MAR = [Multiplier x 2017 Medicare Adjusted Base Rate for North Carolina x 2017 Medicare ASC Payment Weight – Multiple Procedure Discounts (if applicable)]

Where Multiplier = 200% or 175% in the two distinct scenarios or

Proposed MAR = [Multiplier x 2017 Medicare Adjusted Base Rate for North Carolina x 2017 Medicare OPSS Relative Weight – Multiple Procedure Discounts (if applicable)]

Where Multiplier = 135% in the two distinct scenarios

The overall weighted-average percentage change in maximums for each scenario for ASC services is multiplied by the price realization factor² to arrive at the estimated impact on ASC costs. The estimated impact on ASC costs is then multiplied by the percentage of medical costs attributed to ASC payments (4.8%) to arrive at the estimated impact on medical costs. The estimated impact on medical costs is then multiplied by the North Carolina percentage of benefit costs attributed to medical benefits (48.5%) to arrive at the estimated impact on overall workers compensation costs in North Carolina. The estimated impact on ASC services for each alternative is shown in the chart below.

Alternative	Proposed ASC Medicare Multiplier	Proposed OPSS Medicare Multiplier	Percentage Change in MAR	Price Realization Factor	Estimated Impact on ASC Service Costs
1	200%	135%	-0.2%	50%	-0.1%
2	175%	135%	-9.9%	50%	-5.0%

² The price realization factor from a fee schedule increase is estimated according to the formula 80% x (1.10 + 1.20 x (price departure)). Due to the volatility observed in the price departure for ASC services in North Carolina, a reliable price departure could not be determined. In such a situation, the price realization factor for a fee schedule increase is assumed to be 80%. The price realization factor for a fee schedule decrease is expected to be 50%.



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Alternative 3 & 4

To calculate the percentage change in maximums for ASC services, NCCI calculates the percentage change in MAR for each procedure code listed on the fee schedule. The overall change in maximums for ASC services is a weighted average of the percentage change in MAR (proposed MAR / prior MAR) by procedure code weighted by the observed payments by procedure code as reported on NCCI’s Medical Data Call, for North Carolina for Service Year 2015. The prior and proposed maximums are calculated as follows:

Prior MAR

Prior MAR = [Multiplier x 2017 Medicare Adjusted Base Rate for North Carolina x 2017 Medicare ASC Payment Weight – Multiple Procedure Discounts (if applicable)]

Where Multiplier = 200%

Proposed MAR – Hospital Outpatient-Based

Proposed MAR = [Multiplier x 2017 Medicare Adjusted Base Rate for North Carolina x 2017 Medicare OPSS Relative Weight – Multiple Procedure Discounts (if applicable)]

Where Multiplier = 200% and 135% in the two distinct scenarios

The overall weighted-average percentage change in maximums for each scenario for ASC services is then multiplied by the price realization factor to arrive at the estimated impact on ASC costs. The estimated impact on ASC costs is then multiplied by the percentage of medical costs attributed to ASC payments (4.8%) to arrive at the estimated impact on medical costs. The estimated impact on medical costs is then multiplied by the North Carolina percentage of benefit costs attributed to medical benefits (48.5%) to arrive at the estimated impact on overall workers compensation costs in North Carolina. The estimated impact on ASC services for each alternative is shown in the chart below.

Alternative	Proposed OPSS Medicare Multiplier	Percentage Change in Reimbursement	Price Realization Factor	Estimated Impact on ASC Service Costs
3	200%	+34.5%	80%	+27.6%
4	135%	-2.2%	50%	-1.1%