

# Outpatient Therapy Alternative Payment Study 2 (OTAPS 2) Task Order

## CY 2006 Outpatient Therapy Services Utilization Report



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**Centers for Medicare & Medicaid Services (CMS)**

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Contract Number: GS-23F-8029H  
Task Order Number: HHSM-500-2007-00322G

**February 1, 2008**



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## 1.0 Introduction

On September 28, 2007, the Centers for Medicare & Medicaid Services (CMS) awarded a contract to Computer Sciences Corporation (CSC) to perform professional services that build upon prior outpatient therapy studies<sup>1</sup>. The Statement of Work (SOW) asks CSC to perform follow-on analysis using CY 2006 claims data and comparing trends to prior years. The project name is the *Outpatient Therapy Alternative Payment Study 2*, or OTAPS 2.

### 1.1 History

The Balanced Budget Act of 1997 enacted financial limitations (therapy caps) on outpatient physical therapy (PT) and speech-language pathology (SLP) combined, and outpatient occupational therapy (OT) separately. The caps applied to all outpatient therapy services in all settings except outpatient hospital. The therapy caps were implemented throughout calendar year (CY) 1999, however, they were subsequently under various Congressional moratoria from CY 2000 through CY 2005 (with the exception of implementation from September 1 – December 7, 2003). Although the moratoria recently expired, exceptions to the caps beginning on January 1, 2006 were enacted by the Deficit Reduction Act of 2005. The Medicare, Medicaid, and SCHIP Extension Act of 2007 has subsequently extended the cap exceptions process for services furnished through June 30, 2008.

Under the prior Task Orders, CSC (formerly AdvanceMed/DynCorp) performed analytic activities using a 100% file of outpatient therapy claims in order to describe utilization patterns, particularly as they related to payment policy changes, such as the therapy caps. Additional activities performed also included; identifying potential claim edits, identifying the feasibility of using claims data as the foundation for a condition-based alternative payment system, identifying beneficiary characteristic and clinical factors for CMS to consider collecting in order to identify therapy need and potentially outcomes, and short term policy support activities such as the development of the therapy caps exceptions process by CMS. The analytic activities are described in numerous reports at: [www.cms.hhs.gov/TherapyServices/SAR](http://www.cms.hhs.gov/TherapyServices/SAR) on the CMS website.

These studies are referred to on the website as the:

- *Utilization and Edit Report*<sup>2</sup>,
- *Pilot Report*<sup>3</sup>,
- *Edit Report*<sup>4</sup>;
- *Costliest Report*<sup>5</sup>;
- *Model Report*<sup>6</sup>;

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<sup>1</sup>Contract Number: *GS-23F-8029H*, Task Order Number: *HHSM-500-2007-00322G*.

<sup>2</sup>Ciolek, D. E. and Hwang, W. *Outpatient Therapy Services Utilization and Edit Report*, May 17, 2006. Contract Number *GS-35F-4694G*, Task Order Number *HHSM-500-2005-00192G*.

<sup>3</sup>Ciolek, D.E., Carter, S, MacIsaac, J, and Hwang, W. *Outpatient Therapy Services Pilot Report 2006*. July 28, 2006. Contract Number *GS-35F-4694G*, Task Order Number *HHSM-500-2005-00192G*.

<sup>4</sup>Ciolek, D.E. and Hwang, W. *Feasibility and Impact Analysis: Application of Various Outpatient Therapy Service Claim HCPCS Edits*, November 15, 2004. Contract Number *PSC 500-99-0009/0009*.

<sup>5</sup>Ciolek, D.E. and Hwang, W. *Utilization Analysis: Characteristics of High Expenditure Users of Outpatient Therapy Services CY 2002*. November 22, 2004. Contract Number *500-99-0009/0009*.

- *Final Report*<sup>7</sup>, and
- *Outpatient Therapy Utilization Report*<sup>8</sup>.

## 1.2 Purpose

This report provides an updated high-level analysis of the utilization of outpatient therapy services using more current claims data. Outpatient therapy services include all services meeting Medicare requirements under a PT, OT, or SLP plan of care as described in Medicare manuals<sup>9,10</sup>. The results describe aggregate therapy expenditures, expenditures by type of therapy, expenditures by therapy provider setting, expenditures by individual claims, lines, and Healthcare Common Procedural Coding System (HCPCS) procedures<sup>11</sup>, and expenditures by various beneficiary demographic variables.

In particular, this report will highlight utilization changes between CY 2006 and earlier years to identify the impact of the reimplementation of the outpatient therapy caps in CY 2006. **Such analysis will help CMS identify if the intended purpose of the caps with the exceptions process served the intended purpose of controlling costs while assuring the beneficiaries that needed therapy services received them.**

Appendix A ‘*Acronyms*’ provides definitions of acronyms used throughout this report.

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<sup>6</sup> Ciolek, D.E. and Hwang, W. *Development of a Model Episode-Based Payment System for Outpatient Therapy Services: Feasibility Analysis Using Existing CY 2002 Claims Data*. November 3, 2004. Contract Number 500-99-0009/0009.

<sup>7</sup> Ciolek, D.E. and Hwang W. *Final Project Report*. November 15, 2004. Contract Number 500-99-0009/0009.

<sup>8</sup> Olshin, J, Ciolek, D.E., and Hwang, W. *Study and Report on Outpatient Therapy Utilization: Physical Therapy, Occupational Therapy, and Speech-Language Pathology Services Billed to Medicare Part B in all Settings in 1998, 1999, and 2000*. September 16, 2002. Contract Number 500-99-0009/0002.

<sup>9</sup> Pub 100-02 *Medicare Benefit Policy Manual*, Chapter 15, Sections 220 and 230.

<sup>10</sup> Pub 100-4 *Medicare Claims Processing Manual*, Chapter 5.

<sup>11</sup> HCPCS is used in this report to represent Level 1 and Level 2 HCPCS. Level 1 HCPCS are also commonly known as Current Procedural Terminology (CPT) as Maintained by the American Medical Association. Level 2 HCPCS are maintained by CMS.

## **2.0 Data Analysis Methodology**

For the most part, the claims analysis methodology used within this study replicated the methodology described in CSC's prior analysis of CY 2002 - 2004 therapy claims. Analytic models were used to identify outpatient therapy services paid under the Medicare Physician Fee Schedule (MPFS), and the individual beneficiaries who received these services. The methodology used to identify therapy services and provider settings was consistent with CMS policy as it applied in CY 2006. Appendix B '*OTAPS 2 Therapy HCPCS Analysis Logic*' provides a visual representation of how the characteristics of the individual HCPCS codes, provider type identifiers, and therapy service modifiers were used to identify outpatient therapy service claims. Once claims attributable to individuals were matched, individual identifiers were encrypted, and the various analyses were performed.

### **2.1 Source of Data for Analysis**

CSC was able to obtain 100% of outpatient therapy claims data (with 2006 dates of service) processed from January 2006 through June 2007 replicating the innovative procedures established and described in the prior studies. These claims data were later merged with CMS provided Medicare Denominator files for CY 2006. This data was installed onto the OTAPS 2 Therapy Database server for analysis.

### **2.2 Creation of Therapy Data Sets for Analysis**

The programming logic used to extract the outpatient therapy data mirrored those used to extract CY 2002-2004 data in the prior studies with the following exceptions. The current extraction included outpatient therapy HCPCS codes that were introduced after CY 2004, and excluded HCPCS codes that no longer were considered outpatient therapy services in CY 2006. CSC was then able to successfully extract, test and validate all of the CY 2006 outpatient therapy claims data. The data was then placed in tables for a variety of analytic activities.



### 3.0 Outpatient Therapy Utilization Results – CY 2006

CSC believes that nearly 100% of outpatient therapy claims were accurately matched with individual beneficiaries, and line payments for all outpatient therapy HCPCS codes were identified. However, CSC is presenting results as estimates due to rounding error, a practice that has been successfully followed in similar CSC reports. By using a 100% rounded sample, these results are much more precise than analyses that use only a 5% file or other extracted databases. CY 2006 utilization patterns are compared with prior years to highlight major trends. This section provides an overview of outpatient therapy utilization during CY 2006. Detailed utilization information is available within the EXCEL workbook tables that accompany this report<sup>12</sup>.

#### 3.1 Outpatient Therapy Utilization in CY 2006 – Overall

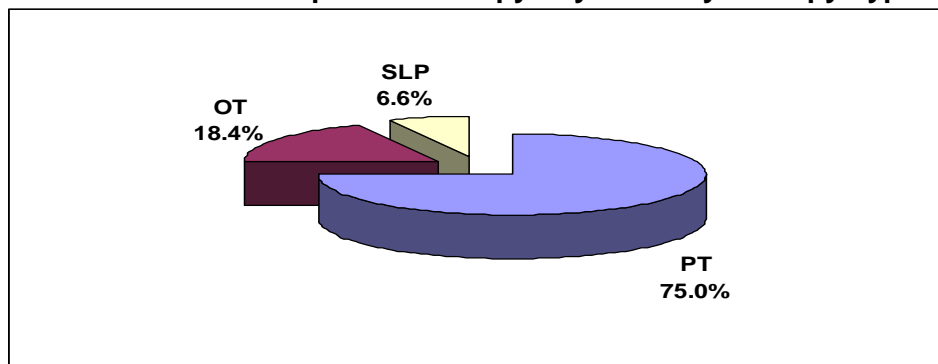
CSC's analysis identified that 4,419,907 individuals received either PT, OT, or SLP services, or a combination thereof, during CY 2006. This represents 9.7% of the 45.5 million beneficiaries enrolled in fee-for-service Medicare Part B. Of these enrollees, 8.5% (3.9 million) received PT services, 2.0% (915,867) received OT services, and 1.0% (445,389) received SLP services<sup>13</sup>.

As Table 1 summarizes, payments for outpatient therapy services totaled \$4.07 billion in CY 2006. PT services accounted for 75.0% (\$3.05 billion), OT services accounted for 18.4% (\$771 million), and SLP services accounted for 6.6% (\$270 million) of total payments (Figure 1). **The relative proportion of therapy expenditures by therapy type is consistent with prior years.**

**Table 1. Summary of Outpatient Therapy Utilization by Therapy Type**

CY 2006	Users	Total Paid
Total	4,419,907	\$4,072,563,388
PT	3,874,700	\$3,053,523,075
OT	915,867	\$747,207,924
SLP	445,389	\$270,585,218

**Figure 1. Distribution of Outpatient Therapy Payments by Therapy Type CY 2006**



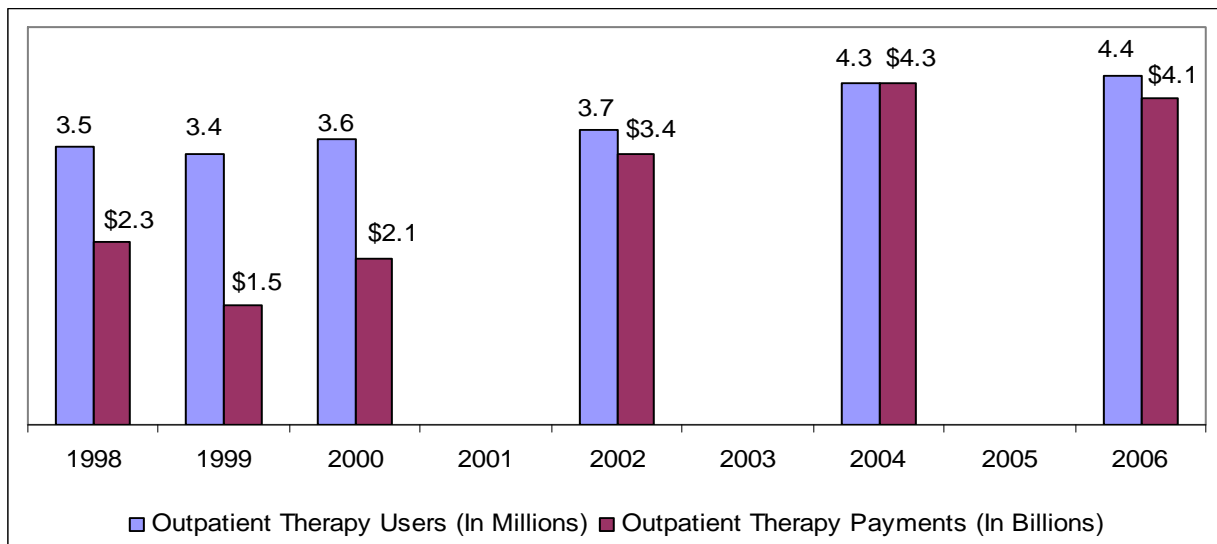
<sup>12</sup> See Appendix C for the 'Index of Attached EXCEL data Files'.

<sup>13</sup> Full demographic details are available in the accompanying EXCEL file labeled: A\_Outpatient Therapy Demographics\_CY 2006.

### 3.1.1 Outpatient Therapy Utilization – Overall Trend

As described in prior studies, from CY 1999 through CY 2004 the total number of beneficiaries and total outpatient therapy expenditures increased steadily, with the rate of growth in payments exceeding the rate of growth in beneficiaries served. Figure 2 and Table 2 demonstrate that from CY 2002-2004, the total number of therapy users increased 14%, while expenditures increased 26%. **However, this study reveals that from CY 2004-2006, although the total number of therapy users continued to increase by 3.5% the overall expenditures actually decreased 4.7%.**

**Figure 2. Total Outpatient Therapy Users and Expenditures from CY 1998-2006**



**This represents the first observed negative growth in payments per beneficiary since the implementation of the therapy caps during CY 1999.** During that year, the number of beneficiaries receiving outpatient therapy services declined by 2.5%, while payments declined by 34%. As the ‘Total’ row in Table 2 reveals, the impact of an increased number of beneficiaries receiving services in CY 2006 while overall payments declined, resulted in an 8% decline in mean payment per therapy user from \$1,001 in CY 2004 to \$921 in CY 2006. This occurred despite a 3.6% increase in the median payment from \$529 to \$548.

It is notable that during CY 1999 there was not an exceptions process available to permit beneficiaries to receive medically necessary services beyond the cap threshold from their current provider, and few beneficiaries opted to use (or were able to use) the hospital outpatient option to receive needed services beyond the caps. **This suggests that the exceptions process in CY 2006 may have satisfied to some extent the Congressional intent to assure access to medically necessary services while controlling the growth in expenditures as follows;**

- **The outpatient therapy caps with the exceptions process in CY 2006 did not appear to have the major impact on patient access that was apparent in CY 1999, and**
- **Although the caps reduced payments in CY 2006, the impact was not as dramatic as was observed in CY 1999 when there were no exceptions.**



**The trend of increasing therapy users and declining expenditures was also apparent in all three outpatient therapy service types.** As demonstrated in Table 2, From CY 2004 to CY 2006, the number of PT service users increased 3.7% while payments decreased 5.4%. The primary driver of the PT expenditure decrease appears to be related to 8.8% rate of decrease in mean annual per user expenditures from \$864 in CY 2004 to \$788 in CY 2006. The number of OT service users increased 3.1% as expenditures declined 3.1%. Similarly, the primary driver of the reduction in OT expenditures was mean annual per user expenditures which declined 5.9% from \$867 in CY 2004 to \$816 in CY 2006. Although at a smaller rate, the number of SLP users increased 2.8% from CY 2004 to CY 2006 while the total expenditures declined 1.5%. As with PT and OT, the primary driver of the reduced SLP payments was mean annual per user payments, which declined 4.1% from \$634 on CY 2004 to \$608 in CY 2006. It should be noted that for all three therapy service types, the annual per user payment at the 50<sup>th</sup> percentile (or median) increased. **This suggests that the payment reductions were incurred by providers tapering services for higher cost users that tended to skew mean payments upwards.**

**Table 2. Summary of Outpatient Therapy Utilization Changes by Therapy Type**

	Therapy Users (millions)			Paid (billions)			Mean Paid per User			Median User Paid		
	2004	2006	Change	2004	2006	Change	2004	2006	Change	2004	2006	Change
Total	4.27	4.42	3.5%	\$4.27	\$4.07	-4.7%	\$1,001	\$921	-8.0%	\$529	\$548	3.6%
PT	3.74	3.87	3.7%	\$3.23	\$3.05	-5.4%	\$864	\$788	-8.8%	\$517	\$534	3.3%
OT	0.88	0.92	3.1%	\$0.77	\$0.75	-3.1%	\$867	\$816	-5.9%	\$471	\$485	3.0%
SLP	0.43	0.45	2.8%	\$0.27	\$0.27	-1.5%	\$634	\$608	-4.1%	\$311	\$332	6.8%

Further evidence that the payment reductions were driven by traditionally higher cost beneficiaries is revealed in Table 3 below<sup>14</sup>. This table demonstrates clearly that the cap limits did not prevent minor growth in expenditures with lower cost beneficiaries (e.g. for PT service, payments at the 25<sup>th</sup> percentile grew 6.5% while a slower growth of 3.1% was observed at the 50<sup>th</sup> percentile). However, by the 75<sup>th</sup> percentile, there was a negative growth in payments for the PT, OT and SLP payment thresholds (12.1%, -1.1%, and -0.6% respectively). This negative growth grew through the 99<sup>th</sup> percentile for all three therapy types. At the 100<sup>th</sup> percentile the payments per therapy user declined by a remarkable 67.3% for PT services and 59.4% for OT services.

**This strongly suggests, and possibly confirms that the therapy caps, even with the exceptions process during CY 2006 were able to control spending growth among the higher cost beneficiaries.** More detailed analysis is needed to specify the impact of the caps, as well as identify the characteristics of the beneficiaries affected.

*Note: These tables represent annual therapy user expenditures across all settings (including hospitals) and should not be construed as an indicator of the percentage of individuals surpassing the therapy cap thresholds. Such analysis will be included in a subsequent therapy cap report under this contract.*

<sup>14</sup> Full details of the payment thresholds at all percentiles are available in the accompanying EXCEL file labeled: K\_Annual per User Expenditures by Therapy Type\_1-100 Percentile\_CY 2006.

**Table 3. Annual Per Beneficiary Payment Threshold Change per Percentile**

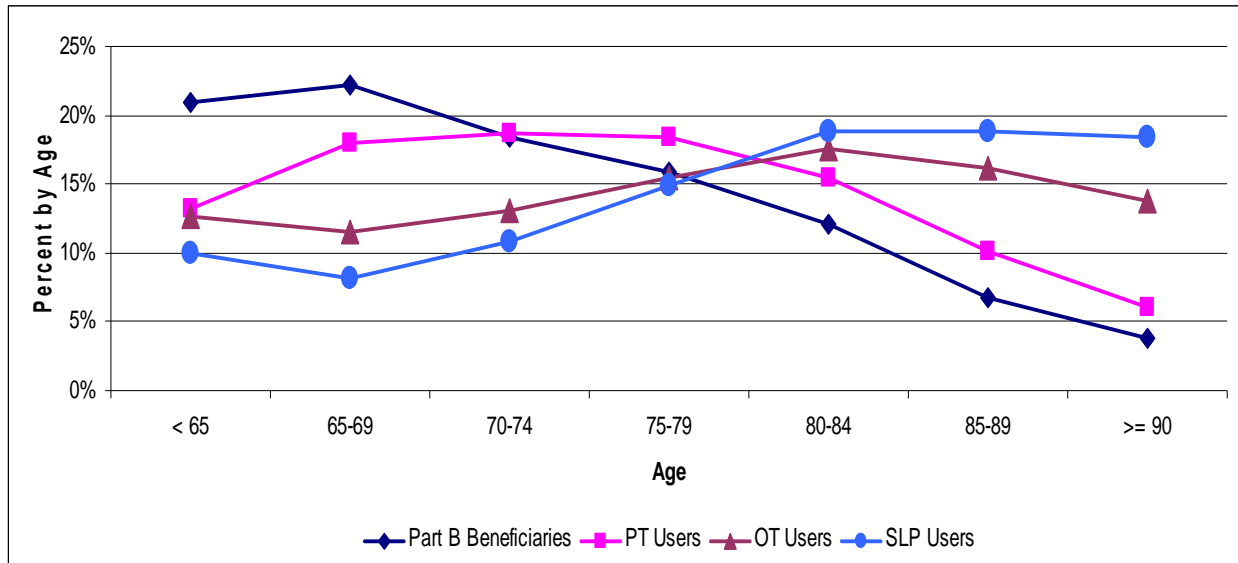
Percentile	PT			OT			SLP		
	2004	2006	Change	2004	2006	Change	2004	2006	Change
100th	\$114,799	\$37,543	-67.3%	\$69,114	\$28,083	-59.4%	\$33,444	\$35,168	5.2%
99th	\$5,332	\$4,342	-18.6%	\$5,478	\$4,802	-12.3%	\$4,324	\$3,838	-11.2%
98th	\$4,155	\$3,419	-17.7%	\$4,389	\$3,937	-10.3%	\$3,359	\$2,991	-11.0%
97th	\$3,535	\$2,923	-17.3%	\$3,802	\$3,391	-10.8%	\$2,837	\$2,557	-9.9%
96th	\$3,127	\$2,606	-16.6%	\$3,382	\$3,015	-10.9%	\$2,500	\$2,264	-9.4%
95th	\$2,827	\$2,364	-16.4%	\$3,069	\$2,753	-10.3%	\$2,251	\$2,041	-9.3%
94th	\$2,591	\$2,170	-16.2%	\$2,823	\$2,531	-10.3%	\$2,053	\$1,862	-9.3%
93rd	\$2,396	\$2,014	-15.9%	\$2,615	\$2,337	-10.6%	\$1,892	\$1,719	-9.1%
92nd	\$2,236	\$1,881	-15.8%	\$2,435	\$2,171	-10.9%	\$1,756	\$1,601	-8.8%
91st	\$2,100	\$1,767	-15.8%	\$2,282	\$2,025	-11.3%	\$1,639	\$1,502	-8.3%
90th	\$1,980	\$1,668	-15.8%	\$2,151	\$1,897	-11.8%	\$1,540	\$1,428	-7.2%
89th	\$1,877	\$1,581	-15.8%	\$2,035	\$1,786	-12.2%	\$1,453	\$1,366	-5.9%
88th	\$1,784	\$1,505	-15.6%	\$1,931	\$1,689	-12.5%	\$1,379	\$1,306	-5.3%
87th	\$1,700	\$1,442	-15.2%	\$1,836	\$1,602	-12.7%	\$1,312	\$1,247	-4.9%
86th	\$1,624	\$1,396	-14.1%	\$1,749	\$1,527	-12.7%	\$1,249	\$1,189	-4.8%
85th	\$1,555	\$1,392	-10.5%	\$1,669	\$1,463	-12.4%	\$1,190	\$1,138	-4.3%
84th	\$1,491	\$1,362	-8.7%	\$1,597	\$1,418	-11.2%	\$1,135	\$1,091	-3.9%
83rd	\$1,431	\$1,325	-7.4%	\$1,529	\$1,397	-8.6%	\$1,085	\$1,048	-3.4%
82nd	\$1,376	\$1,293	-6.0%	\$1,465	\$1,379	-5.9%	\$1,041	\$1,006	-3.4%
81st	\$1,324	\$1,255	-5.2%	\$1,407	\$1,341	-4.6%	\$994	\$969	-2.5%
80th	\$1,275	\$1,218	-4.5%	\$1,351	\$1,301	-3.7%	\$954	\$932	-2.3%
75th	\$1,072	\$1,050	-2.1%	\$1,116	\$1,105	-1.1%	\$784	\$780	-0.6%
50th	\$518	\$534	3.1%	\$471	\$485	3.0%	\$311	\$332	6.9%
25th	\$213	\$227	6.5%	\$154	\$159	3.7%	\$109	\$117	7.1%

### 3.2 Outpatient Therapy Utilization in CY 2006 – Age

Similar to the pattern described in prior years, outpatient therapy users continue to differ from the general Medicare population, as well as from each other (Figure 3).

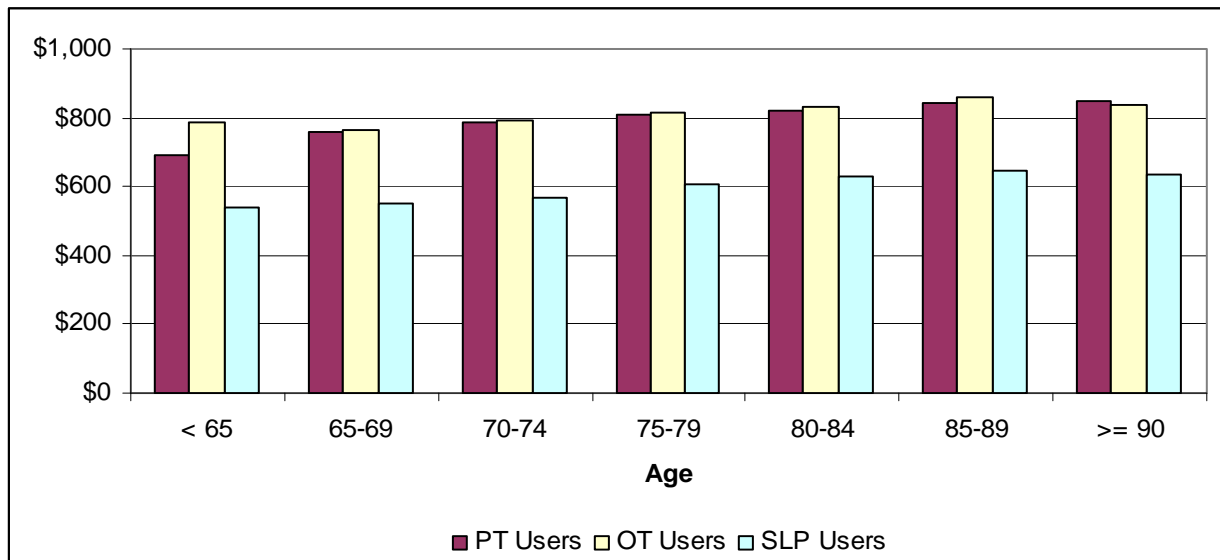
The distribution of Medicare Part B enrollees was skewed towards younger age groups with a peak at those age 65-69 (22.1%). However, the age distribution of therapy users was shifted towards older beneficiaries. The distribution of PT users peaked at ages 70-74 at (18.7%), while OT and SLP users peaked at age 80-84 (17.5%) and 18.9% respectively. **These observed patterns continue to be consistent with those described in prior CSC reports suggesting stability of the age demographics of outpatient therapy users.**

**Figure 3. Outpatient Therapy User Demographics CY 2006 – Age**



**Outpatient therapy payments also varied by age group** (Figure 4). While the mean annual expenditure for PT users was \$788, the mean average expenditures increased with each age group from a low of \$692 for those under age 65, to a high of \$851 for those age 90 and above. For OT and SLP services, a slightly different pattern was observed. For OT, the age group with the lowest annual expenditures was 65-69 at \$786, while users age 85-89 demonstrated the highest mean annual expenditures at \$857, as compared to the overall OT mean of \$816. SLP users followed a similar pattern as OT, with the lowest mean annual expenditures for age group 65-69 at \$539 and the highest for those aged 85-89 at \$644, as compared to the overall SLP mean of \$608.

**Figure 4. Outpatient Therapy Annual per User Expenditures CY 2006 - Age**



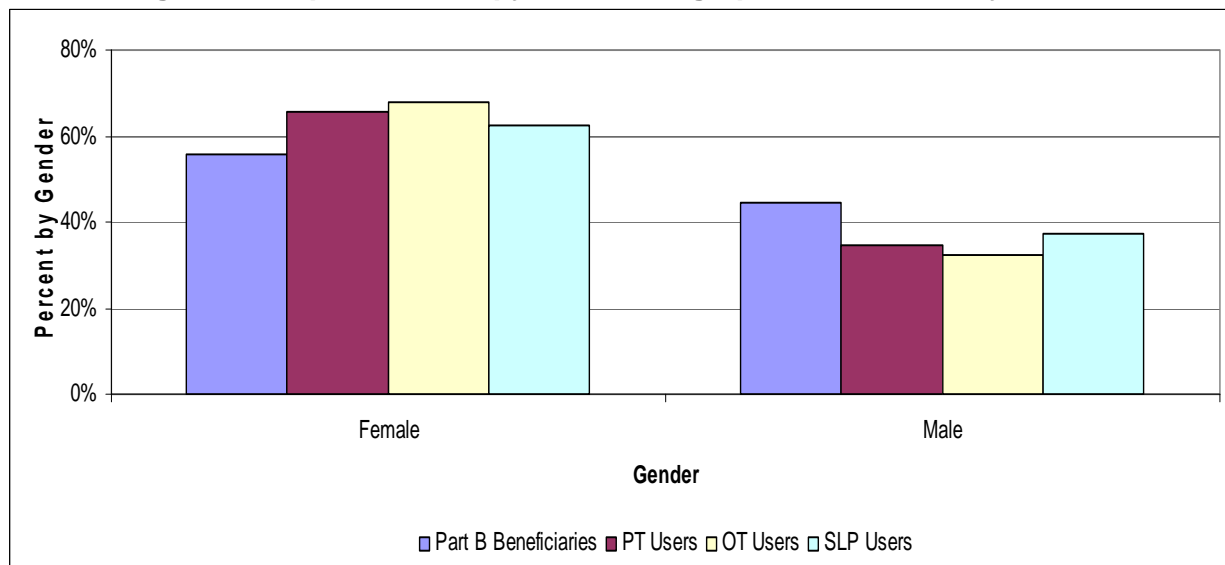
These observed expenditure patterns per age group are consistent with those described in recent CSC reports of CY 2002 and CY 2004 utilization. The decreases in payments in CY 2006 do not appear to be age related as the percent change in mean payments across age groups remained relatively constant. This is in contract to CY 1999 which saw a dramatic negative impact on older age groups. **This suggests that the exceptions process may have mitigated some of the negative age-related impact of the caps previously observed.**

### 3.3 Outpatient Therapy Utilization in CY 2006 – Gender

**Figure 5 demonstrates that the gender characteristics of outpatient therapy users also continue to differ from the general Medicare population, as well as from each other.**

Although 55.7% of Medicare Part B enrollees were female, CSC observed a higher percentage of female outpatient therapy users. OT services had 67.7% female users, followed by PT at 65.4%, and SLP at 62.5%. There were no notable differences in mean annual expenditures between the genders for PT, OT, or SLP services. **These patterns continue to be consistent with prior years suggesting stability of the gender demographics of outpatient therapy users regardless of the presence of the therapy caps.**

**Figure 5. Outpatient Therapy User Demographics CY 2006 – By Gender**



### 3.4 Outpatient Therapy Utilization in CY 2006 – State

**Medicare beneficiary use of outpatient therapy services continued to vary by geographic location, and this pattern also varied by therapy type.** For PT services, 34.9% of all users lived within five states. California led with 8.9%, followed by Florida (8.7%), New York (7.3%), Texas (5.6%), and Illinois (4.6%). For OT services, 34.1% of all users lived within five states. Florida led with 10.4%, followed by California (6.0%), Texas (6.0%), Ohio (5.9%), and Pennsylvania (5.9%). A total of 32.6% of SLP service users lived within five states. Florida led SLP users at 7.2%, followed by Pennsylvania (6.5%), California (6.4%), Texas (6.3%), and Ohio (6.2%).

**The mean annual expenditures per therapy user also varied between states, and the pattern also varied by therapy type.** While the mean annual per user PT expenditure was \$788, the five states with the highest means were: New Jersey (\$1,007); Florida (\$984); New York (\$972); California (\$919); and Maryland (\$909). To the contrary, the five states with the lowest means were: North Dakota (\$396); Minnesota (\$477); Iowa (\$504); Wisconsin (\$551); and South Dakota (\$557). However, during CY 2006, the variation in average payments per therapy user declined. From a high of \$1,452 to a low of \$402 in CY 2004 (\$1,050 difference) to the CY 2006 range of \$1,007 to \$396 (\$611 range). **This suggests that for PT services, the CY 2006 caps served to reduce the variation by state in per patient annual therapy utilization.**

The five states that most surpassed the mean annual per user OT expenditure of \$816 included: Florida (\$1,317); Mississippi (\$1,188); Louisiana (\$1,032); Texas (\$942); and Kentucky (\$894). The five states with that lowest annual per user OT expenditures were: North Dakota (\$354); Iowa (\$403); Minnesota (\$449); Alaska (\$472); and Montana (\$468). However, during CY 2006, the variation in average payments per therapy user declined. From a high of \$1,401 to a low of \$354 in CY 2004 (\$1,047 range) to the CY 2006 range of \$1,317 to \$403 (\$706 range). **This suggests that for OT services, the CY 2006 caps served to reduce the variation by state in per patient annual therapy utilization.**

For SLP services, the five states with the highest mean annual expenditures per user surpassing the overall mean of \$634 were: Mississippi (\$1,099); Louisiana (\$878); West Virginia (\$801); District of Columbia (\$795); and Texas at \$724. The five states with the lowest mean expenditure per SLP user were: North Dakota (\$332); New York (\$352); Iowa (\$365); Vermont (\$388); and Montana (\$407). However, during CY 2006, the variation in average payments per therapy user declined slightly. From a high of \$1,129 to a low of \$351 in CY 2004 (\$778 range) to the CY 2006 range of \$1,099 to \$332 (\$706 range). **This suggests that for SLP services, the CY 2006 caps served to slightly reduce the variation by state in per patient annual therapy utilization.**

**The overall geographic variations observed are consistent with previously reported patterns and likely reflect a combination of factors** such as the availability of outpatient therapy providers, geographic variations in HCPCS code pricing, payment policies of local Medicare contractors, local variations in clinical practice patterns, and local variations in beneficiary health status. Some variations (upwards or downwards) in the Gulf States and those surrounding may also have been influenced by the significant hurricane activity affecting the region at the time.

### **3.5 Outpatient Therapy Utilization in CY 2006 – Provider Setting**

In CY 2006, 96,917 providers (as identified by claim provider numbers) received payment for outpatient therapy services (Table 4). Medicare issued payments for 24.5 million outpatient therapy claims and over 128 million outpatient therapy claim lines. We found that 69.8% of the claims were submitted by professional settings; however, due to the differences in the types of claims submitted, facilities actually submitted more claim lines (61.1%)<sup>15</sup>. **This represents a**

<sup>15</sup> Full claim level details are available in the accompanying EXCEL file labeled: G\_Outpatient Therapy Claim Level\_CY 2006.

**4.4% decline in therapy claim lines in all provider settings since CY 2004 and suggests that CY 2006 therapy caps resulted in a reduction in the volume of procedures provided.**

**From CY 2004-2006 there has been a continuation of the previously reported shift of outpatient therapy providers used by beneficiaries away from outpatient hospitals to other settings.** The most notable increases were with individually identifiable Physical Therapist in Private Practice (PTPP) provider numbers which increased by 24.6%, and Occupational Therapist in Private Practice (OTPP) provider numbers which increased by 27.3%. It is difficult to determine how much of this increase is due to a true increase in the number of providers and how much is just a reflection of a change in the Medicare provider enrollment and claims processing policies. The later conclusion is supported by a corresponding decrease in the number of physicians and NPPs submitting ‘incident to’ therapy claims (-16.8% and -13.9% respectively)<sup>16</sup>.

**One new pattern that occurred between CY 2004 and CY 2006 is that the number of CORF and ORF facilities submitting claims also declined (-9.8% and -2.3% respectively).** It is difficult to determine the driver of this change from the available information; however, the potential exists that the payment reductions from the therapy caps may have played a role, or that these providers reenrolled as PTPP or OTTP or other provider types by CY 2006. Table 4 indicates the change in numbers of providers for each of the nine outpatient therapy setting types from CY 2000-2006.

**Table 4. Number of Outpatient Therapy Providers – CY 2000 to 2006**

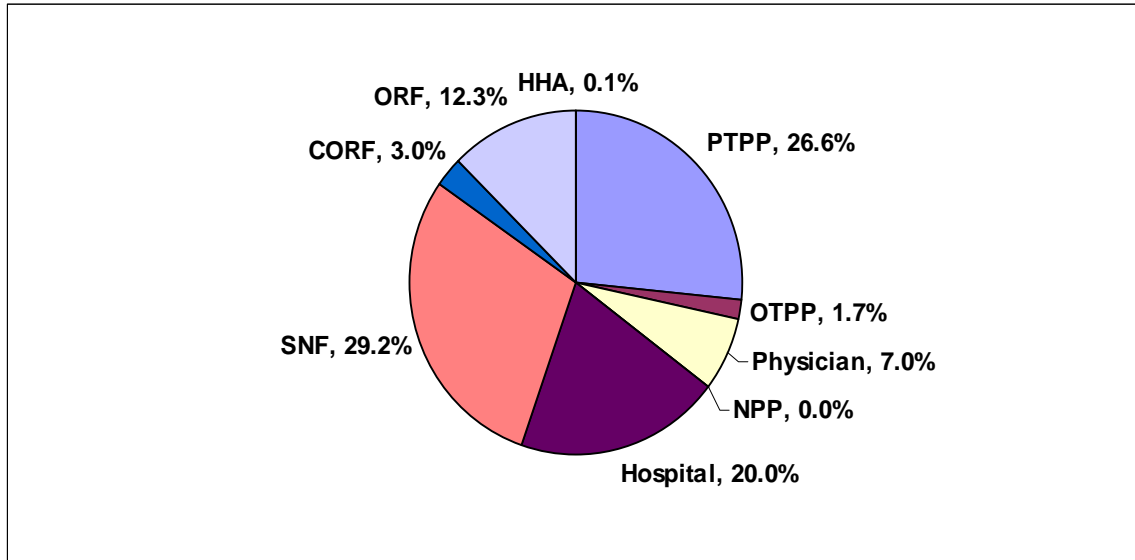
Outpatient Therapy Setting	Providers in CY 2000	Providers in CY 2004	Providers in CY 2006	Percent Change CY 2000-2004	Percent Change CY 2004-2006
Total	69,984	93,459	96,917	33.5%	3.7%
Hospital	5,601	5,326	4,958	-4.9%	-6.9%
SNF	13,445	14,088	14,267	4.8%	1.3%
CORF	464	613	553	32.1%	-9.8%
ORF	2,441	2,569	2,509	5.2%	-2.3%
HHA	N/A	272	275	N/A	1.1%
PTPP	11,602	33,704	41,980	190.5%	24.6%
OTTP	1,040	3,790	4,824	264.4%	27.3%
Physician	34,803	32,205	26,783	-7.5%	-16.8%
NPP	588	892	768	51.7%	-13.9%

<sup>16</sup> Beginning in 2003, CMS revised 42 C.F.R. §§ 410.59 and 410.60 and began issuing PTPP and OTTP provider numbers to physical and occupational therapists employed or under contract with suppliers that billed Carriers. Therefore, a PTPP or OTTP office that previously billed under the physician’s provider number would now bill using the provider number of each individual therapist employee, thus increasing the number of listed PTPP and OTTP providers without necessarily increasing the number of actual treating clinicians. In a physician or NPP office, CMS permits the option of the therapist employed or under contract to bill under the physician or NPP provider number under the ‘incident-to’ provisions, or the physician or NPP could bill the services using the therapist’s PTPP or OTTP provider number. In the second scenario, the number of physician and NPP provider numbers would decrease as the services would instead be reported as PTPP or OTTP services. The trends suggest that physicians and NPPs are more frequently following the second scenario and are billing using the employee/contractor therapist’s provider number via reassignment of benefits.



Along with the shift in the types of providers reported as furnishing outpatient therapy services was a shift in the distribution of overall payments by setting. Figure 6 demonstrates the relative proportion of outpatient therapy payments made to the nine settings in CY 2006 and reflects that 75.8% of all outpatient therapy service payments were issued to three settings; SNF (29.2%), PTPP (26.6%), and Hospital (20.0%). Table 5 summarizes the number of paid claims, claim lines, and payments for that year, while Table 6 presents the change in overall payments by setting from CY 2004 to CY 2006.

**Figure 6. Outpatient Therapy Expenditures CY 2006 - Setting**



**Table 5. CY 2006 Outpatient Therapy Expenditures by Setting**

Setting	Claims	Claim Lines	Paid	Percent of Paid Dollars	Paid per Claim	Paid Per Line
All Settings	24,493,979	128,265,693	\$4,072,563,388	100.0%	\$166.27	\$31.75
Facilities	7,406,340	78,307,602	\$2,633,387,392	64.7%	\$355.56	\$33.63
Hospital	3,134,482	22,590,708	\$815,647,413	20.0%	\$260.22	\$36.11
SNF	1,997,156	34,880,184	\$1,190,464,520	29.2%	\$596.08	\$34.13
CORF	320,562	4,324,523	\$122,466,513	3.0%	\$382.04	\$28.32
ORF	1,946,678	16,444,399	\$502,446,420	12.3%	\$258.10	\$30.55
HHA	7,462	67,788	\$2,362,526	0.1%	\$316.61	\$34.85
Professionals	17,087,639	49,958,091	\$1,439,175,996	35.3%	\$84.22	\$28.81
PTPP	12,278,401	36,639,146	\$1,081,570,159	26.6%	\$88.09	\$29.52
OTPP	711,591	2,055,251	\$69,541,676	1.7%	\$97.73	\$33.84
Physician	4,067,959	11,200,956	\$286,531,407	7.0%	\$70.44	\$25.58
NPP	29,709	62,738	\$1,532,755	0.0%	\$51.59	\$24.43

During CY 2006, Skilled Nursing Facility (SNF), at \$1.2 billion, remained the setting receiving the highest percentage of outpatient therapy payments despite an overall 3.8% decline in payments since CY 2004. PTPP payments followed at \$1.1 billion, reflecting a 10.9% increase in payments. However, the rate of PTPP payment increase was much lower than the 24.6% increase in the number of PTPP providers suggesting that the increase in payments is not



unexpected, particularly with the corresponding reduction in Physician and NPP provider numbers and payments. Hospital payments continued at third with \$816 million, reflecting a 2.8% decline in payments, which was not as sharp a drop as the number of hospital providers in CY 2006. Overall, facility per claim payments were markedly higher than professional setting per claim payments which reflects the differences in the types of claims submitted (e.g. facility claims include multiple treatment days while professional claims include few), however, the payments per line were much more similar suggesting similar delivery patterns for individual procedures regardless of setting.

In general, the shift in the number of providers per setting type from CY 2004 to CY 2006 also reflected a shift in payments. However, when there was a growth in the number of providers (e.g. PTPP, OTPP, SNF, and HHA), there was not necessarily a similar growth in payments (in fact SNF and HHA payments declined). Also, when there was a decline in the number of providers (with the exception of hospitals) there was a disproportional decline in payments (particularly with ORF, CORF, Physician and NPP settings). **It is notable that the hospital setting, which is not subject to the therapy caps, was the only setting that demonstrated an average increase in payments per provider. This suggests that the therapy caps in CY 2006 did have an impact on all non-hospital settings.**

**Table 6. Outpatient Therapy Payment Changes by Setting**

Setting	Paid Lines CY 2004	Paid Lines CY 2006	Paid Change 2004-2006
<b>All</b>	<b>\$4,274,391,862</b>	<b>\$4,072,563,388</b>	<b>-4.7%</b>
<b>Facilities</b>	<b>\$2,824,063,258</b>	<b>\$2,633,387,392</b>	<b>-6.8%</b>
Hospital	\$838,837,762	\$815,647,413	-2.8%
SNF	\$1,237,575,461	\$1,190,464,520	-3.8%
CORF	\$155,839,168	\$122,466,513	-21.4%
ORF	\$587,521,718	\$502,446,420	-14.5%
HHA	\$4,289,149	\$2,362,526	-44.9%
<b>Professionals</b>	<b>\$1,450,328,604</b>	<b>\$1,439,175,996</b>	<b>-0.8%</b>
PTPP	\$975,121,682	\$1,081,570,926	10.9%
OTPP	\$63,843,109	\$69,540,973	8.9%
Physician	\$409,137,606	\$286,531,414	-30.0%
NPP	\$2,226,207	\$1,532,683	-31.2%

### 3.6 Outpatient Therapy Utilization CY 2006 – Therapy Type and Provider Setting

SNF, hospital, and PTPP payments accounted for 75.8% of outpatient therapy payments, however, the distribution of payments varies depending on the type of therapy furnished<sup>17,18,19</sup>. Since the beneficiary characteristics are different depending on therapy type, and therapy utilization patterns differ by therapy type, it is important to consider not just the setting, but the

<sup>17</sup> Full PT details are available in the accompanying EXCEL file labeled: HCPCS\_ Units per Line\_by Setting\_PT\_CY 2004.

<sup>18</sup> Full OT details are available in the accompanying EXCEL file labeled: HCPCS\_ Units per Line\_by Setting\_OT\_CY 2004.

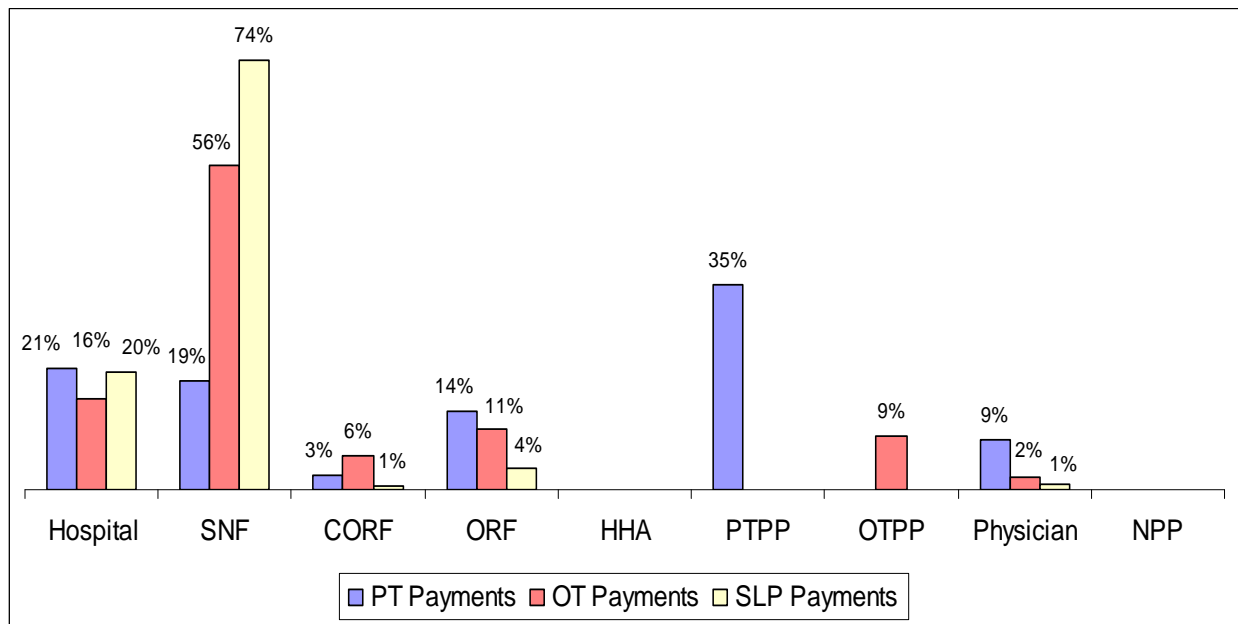
<sup>19</sup> Full SLP details are available in the accompanying EXCEL file labeled: HCPCS\_ Units per Line\_by Setting\_SLP\_CY 2004.

potential impact of therapy type utilization at the setting level. **PT, OT and SLP outpatient therapy services tend to cluster around a small number of the available setting types suggesting that payment policy changes that are setting specific could have a disproportionate impact on beneficiaries receiving a particular type of therapy service.** The following sections will detail the relative therapy utilization of each therapy type across settings, as well as the relative distribution of therapy utilization within each setting type.

### 3.6.1 Outpatient Therapy Payments in CY 2006 – Therapy Type across Provider Setting

As demonstrated in Figure 7, during CY 2006, **PT services were primarily distributed across five provider settings** with PTPP payments leading with 35% of total PT payments, followed by; hospital payments at 21%, SNF payments at 19%, ORF payments at 14%, and physician payments at 9%. **Over half of all OT service payments were SNF payments** at 56%, followed at a distance by four other settings; hospital payments at 16%; ORF payments at 11%, OTPP payments at 9%, and CORF payments at 6%. **Nearly three-quarters of all SLP payments were issued to SNFs** at 74%, followed by; hospital payments at 20%, and ORF payments at 4%. Other settings received negligible payments per therapy type.

**Figure 7. Outpatient Therapy Payments CY 2006 – Therapy type across settings**



### 3.6.2 Outpatient Therapy Payment in CY 2006 – Therapy Type within Provider Setting

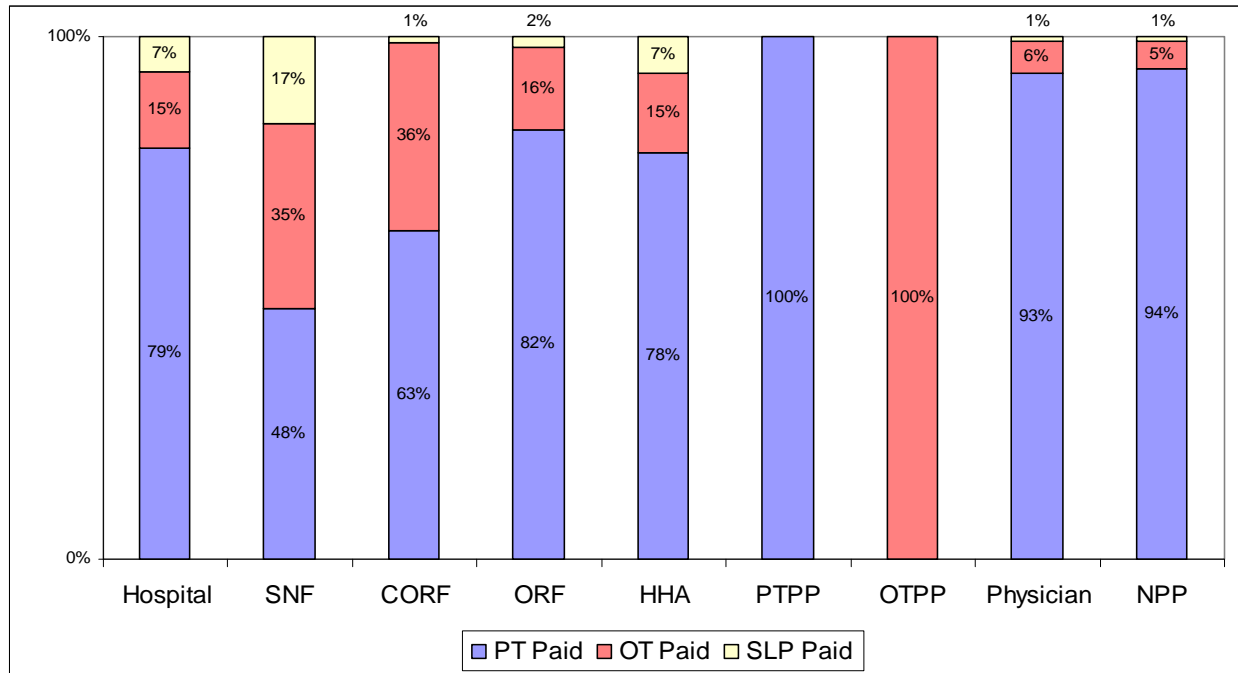
**In general, PT services dominate payments issued to most provider settings.** In Table 7 and Figure 8, which summarize all outpatient therapy expenditures during CY 2006 according to the type of outpatient therapy that was provided, PT services represent over 78% of payments to six of the nine outpatient therapy settings, including; PTPP at 100%, NPP at 94%, Physician at 93%, ORF at 82%, Hospital at 79%, and HHA at 78%. OT services only dominated payments in the OTPP setting at 100%. However, OT services did represent a significant portion of facility payments in the SNF and CORF settings, at 35% and 36% respectively. SLP service payments

were relatively negligible compared to PT and OT in most settings with the exception of SNF, where SLP services accounted for 17% of payments as well as Hospital and HHA settings where SLP accounted for 7% of the facility payments. The settings that demonstrated a notable presence of all three therapy types, suggesting the presence of interdisciplinary services were the Hospital, HHA, and in particular, SNF settings.

**Table 7. CY 2006 Outpatient Therapy Expenditures by Type of Therapy**

Setting	PT Paid	OT Paid	SLP Paid	Percent PT	Percent OT	Percent SLP
All	\$3,053,523,075	\$747,138,853	\$270,585,218	75.0%	18.4%	6.6%
Facilities	\$1,704,866,337	\$660,829,831	\$267,691,225	64.7%	25.1%	10.2%
Hospital	\$642,122,763	\$118,383,851	\$55,140,799	78.7%	14.5%	6.8%
SNF	\$571,112,627	\$418,891,159	\$200,460,734	48.0%	35.2%	16.8%
CORF	\$76,857,191	\$43,988,726	\$1,620,596	62.8%	35.9%	1.3%
ORF	\$412,937,028	\$79,205,318	\$10,304,075	82.2%	15.8%	2.1%
HHA	\$1,836,728	\$360,777	\$165,121	77.7%	15.3%	7.0%
Professionals	\$1,347,859,128	\$86,309,022	\$2,893,993	93.8%	6.0%	0.2%
PTPP	\$1,080,773,317	\$0	\$0	100.0%	0.0%	0.0%
OTPP	\$0	\$69,471,901	\$0	0.0%	100.0%	0.0%
Physician	\$265,651,823	\$16,760,148	\$2,879,454	93.1%	5.9%	1.0%
NPP	\$1,433,989	\$76,973	\$14,539	94.0%	5.1%	1.0%

**Figure 8. Outpatient Therapy Payments CY 2006 – Therapy type per setting**



### 3.7 Outpatient Therapy Utilization in CY 2006 – Services

During CY 2006, 128 million outpatient therapy service claim lines received payments totaling \$4.07 billion. The mean paid amount per claim line was \$31.75 (representing only a 0.3% drop in payments per line from the \$31.85 observed in CY 2004). **A total of 15 HCPCS codes continue to account for 94% of all outpatient therapy claim lines and 95% of total payments.** Most notably, HCPCS code 97110 (*Therapeutic Exercises*) accounted for 33% of all

claim lines and 40% of all outpatient therapy payments. The next two most frequently reported HCPCS codes were 97140 (*Manual Therapy*) and 97530 (*Therapeutic Activities*), which accounted for about 12% and 9% of the total claim lines each, and 14% and 13% of all outpatient therapy payments respectively. In total, these three HCPCS codes accounted for 54% of all outpatient therapy claim lines and 60% of all outpatient therapy payments<sup>20</sup>. **The overall HCPCS utilization pattern appears consistent with that observed in CY 2004 suggesting that the therapy caps in CY 2006 did not appear to impact the types of procedures used.**

**NOTE:** Details of HCPCS code use by therapy discipline are available in the EXCEL files accompanying this report labeled:

- *D\_HCPCS\_Units per Line\_by Setting\_PT\_CY 2006*
- *E\_HCPCS\_Units per Line\_by Setting\_OT\_CY 2006*
- *F\_HCPCS\_Units per Line\_by Setting\_SLP\_CY 2006*

Table 8 provides a summary of the 15 most frequently reported HCPCS codes for PT, OT, and SLP services combined.

**Table 8. 15 Most Frequently Reported Outpatient Therapy HCPCS Codes – CY 2006**

HCPCS Code	Total Claim Lines	Mean Paid Per Claim Line	Mean Allowed Per Claim Line	Total Paid all Claim Lines	Total Allowed all Claim Lines	Percent of Total Claim Lines	Percent of Total Paid
	128,265,693	\$31.75	\$39.97	\$4,072,563,388	\$5,127,411,199		
97110	42,367,704	\$38.88	\$48.96	\$1,647,182,350	\$2,074,315,039	33.0%	40.4%
97140	14,581,050	\$27.20	\$34.37	\$396,597,695	\$501,093,770	11.4%	9.7%
97530	12,215,932	\$34.20	\$42.93	\$417,777,532	\$524,369,161	9.5%	10.3%
97112	9,629,599	\$29.83	\$37.47	\$287,212,250	\$360,780,245	7.5%	7.1%
G0283	7,996,895	\$9.17	\$11.57	\$73,305,085	\$92,497,452	6.2%	1.8%
97116	7,705,029	\$23.17	\$29.00	\$178,562,882	\$223,433,264	6.0%	4.4%
97035	7,465,223	\$9.97	\$12.60	\$74,437,656	\$94,080,355	5.8%	1.8%
97001	3,960,010	\$59.09	\$75.47	\$233,979,172	\$298,872,643	3.1%	5.7%
97535	3,777,559	\$37.33	\$46.71	\$141,002,358	\$176,432,998	2.9%	3.5%
97032	2,854,876	\$15.03	\$19.04	\$42,915,753	\$54,345,278	2.2%	1.1%
92526	2,186,329	\$65.58	\$81.98	\$143,382,679	\$179,237,358	1.7%	3.5%
97150	1,704,095	\$14.79	\$18.56	\$25,199,580	\$31,625,260	1.3%	0.6%
97124	1,572,935	\$20.94	\$26.47	\$32,932,414	\$41,632,586	1.2%	0.8%
97113	1,137,191	\$62.82	\$79.08	\$71,435,784	\$89,934,261	0.9%	1.8%
92507	1,077,585	\$50.50	\$63.17	\$54,423,241	\$68,068,701	0.8%	1.3%

**Consistent with prior years, when the relative HCPCS code use patterns of the nine outpatient therapy settings were compared, the codes revealed differences in treatment approaches.** These differences may be related to variations in patient population, conditions being treated, the type of therapy (PT, OT, or SLP) that was being furnished, and discipline related approaches to treatment. For example, Table 9 below demonstrates that while HCPCS code 97140 (*Manual Therapy*) was used in about 11% of all claim lines, the code was more frequently reported in PTPP claim lines (18%), and less often reported in SNF claim lines (1%). Concurrently, HCPCS code 97116 (*Gait Training*) was used in about 6% of all claim lines, but was more frequently reported in HHA and SNF claim lines (17% and 14% respectively), and

<sup>20</sup> Full details are available in the accompanying EXCEL file labeled: B\_HCPCS\_Utilization Summary\_by Setting\_all\_CY 2006.

reported in less than 1% of OTPP and Physician claim lines. Further study and medical review would be needed to determine if these practice patterns are consistent with best practice.

**Table 9. Percent of Claim Lines by Setting of 15 Most Frequently Reported Outpatient Therapy HCPCS Codes – CY 2006**

HCPCS Code	Percent of Claim Lines	Hospital	SNF	CORF	ORF	HHA	PTPP	OTPP	Physician	NPP
97110	33.03%	39.52%	30.67%	25.08%	32.24%	33.47%	34.43%	31.31%	27.32%	24.04%
97140	11.37%	11.43%	0.88%	16.00%	15.24%	3.65%	18.16%	14.84%	13.63%	11.56%
97530	9.52%	4.84%	16.61%	13.11%	8.77%	10.79%	6.59%	12.61%	5.63%	9.22%
97112	7.51%	3.67%	11.44%	6.47%	6.93%	10.24%	6.78%	5.90%	6.92%	6.96%
G0283	6.23%	5.54%	1.03%	10.40%	8.17%	0.14%	9.46%	3.88%	9.30%	8.11%
97116	6.01%	4.22%	13.59%	6.32%	4.92%	17.21%	2.21%	0.31%	0.90%	2.55%
97035	5.82%	5.95%	1.02%	6.99%	6.28%	3.34%	8.30%	5.81%	11.27%	9.41%
97001	3.09%	5.45%	1.77%	1.61%	3.11%	5.54%	3.54%	0.09%	2.04%	1.25%
97535	2.95%	1.30%	6.66%	6.30%	2.69%	3.46%	0.59%	6.97%	0.74%	0.56%
97032	2.23%	0.92%	0.50%	2.64%	1.36%	0.43%	2.94%	2.24%	8.96%	16.19%
92526	1.70%	0.63%	5.67%	0.18%	0.32%	0.90%	0.00%	0.01%	0.04%	0.01%
97150	1.33%	2.81%	0.68%	0.36%	2.28%	0.09%	1.01%	0.39%	0.59%	0.23%
97124	1.23%	0.99%	0.27%	1.10%	0.99%	1.50%	1.13%	2.06%	5.24%	1.60%
97113	0.89%	2.05%	0.06%	0.33%	1.20%	0.03%	1.09%	0.27%	0.33%	0.22%
92507	0.84%	1.82%	1.61%	0.33%	0.43%	1.77%	0.00%	0.03%	0.16%	0.03%

Since each HCPCS code is priced differently, the relative overall payments to provider settings may be impacted depending on the services most frequently billed. Table 10 demonstrates the impact of service use on the total payments by outpatient therapy provider setting. For example, while the overall total payment for the HCPCS modality code 97032 (*Electrical Stimulation, Manual*) represented 1% of all outpatient therapy payments, payment for this code represented 6% of total payments to physician and 14 % to NPP providers. Similarly, while the overall total payment for HCPCS code 97124 (*Massage Therapy*) represented less than 1% of all outpatient therapy payments, payment for this code represented 5% of the total payments to physician providers.

**Table 10. Percent of Total Payments by Setting of 15 Most Frequently Reported Outpatient Therapy HCPCS Codes – CY 2006**

HCPCS Code	Percent of Total Paid	Hospital	SNF	CORF	ORF	HHA	PTPP	OTPP	Physician	NPP
97110	40.45%	46.93%	29.95%	37.08%	43.40%	36.75%	46.85%	37.49%	38.49%	33.48%
97530	10.26%	5.32%	16.10%	14.68%	9.72%	10.51%	7.84%	15.21%	7.00%	13.55%
97140	9.74%	9.20%	0.74%	13.48%	12.60%	3.05%	16.84%	13.29%	14.40%	12.62%
97112	7.05%	3.72%	9.62%	6.38%	6.57%	9.43%	6.69%	5.92%	8.63%	7.16%
97001	5.75%	9.19%	3.07%	3.44%	6.05%	10.00%	6.84%	0.15%	4.67%	2.45%
97116	4.38%	2.94%	9.11%	4.97%	3.69%	12.00%	1.73%	0.21%	0.81%	1.98%
92526	3.52%	1.18%	10.88%	0.41%	0.67%	1.85%	0.00%	0.02%	0.11%	0.03%
97535	3.46%	1.43%	7.62%	6.87%	3.06%	4.39%	0.55%	8.77%	0.94%	0.50%
97035	1.83%	1.61%	0.30%	2.48%	2.02%	0.96%	2.76%	1.70%	4.67%	4.03%
G0283	1.80%	1.40%	0.27%	3.47%	2.43%	0.03%	2.92%	1.05%	3.43%	2.67%
97113	1.75%	3.36%	0.12%	0.80%	2.64%	0.05%	2.36%	0.66%	0.83%	0.36%
97003	1.45%	1.92%	2.45%	1.77%	1.04%	2.40%	0.02%	7.53%	0.54%	0.45%
92507	1.34%	2.64%	2.29%	0.64%	0.75%	3.13%	0.00%	0.05%	0.31%	0.05%
97032	1.05%	0.37%	0.24%	1.27%	0.62%	0.19%	1.35%	0.99%	5.91%	13.75%
97124	0.81%	0.52%	0.16%	0.75%	0.62%	0.76%	0.75%	1.49%	4.75%	1.23%

### 3.8 Outpatient Therapy Utilization in CY 2006 – Principal Claim Diagnosis

Current outpatient therapy service claims reporting requirements create challenges in reporting the condition being treated. While professional claims (CMS 1500 or electronic equivalent) permit International Classification of Disease, 9th Revision (ICD-9) diagnosis codes to be attributed to each claim line, facility provider claims (CMS 1450/UB-04 or electronic equivalent) do not have that option. Providers submitting facility claims can only report diagnoses at the claim level. When there are multiple revenue centers billing services, it is not possible to determine which ICD-9 diagnosis code is applicable to the PT, OT, or SLP service being billed. However, a majority of outpatient therapy claims have only one type of therapy being billed. Therefore, when considering the limitations, the principal claim diagnosis can be a useful indicator of utilization patterns for those conditions that are reported most frequently. Tables 11, 13, and 15 highlight the utilization patterns of the 20 most commonly reported ICD-9 diagnosis codes on PT, OT, and SLP outpatient therapy episodes during CY 2006 with regard to; number of episodes, episode paid, and episode claim lines<sup>21,22,23</sup>. Tables 12, 14, and 16 highlight episode trends by therapy type from CY 2004 to CY 2006.

*Note: In prior utilization reports, CSC included the generic V57 series ICD-9 codes (Care involving use of rehabilitation procedures). However, this series of codes, which do not describe a particular medical or functional condition, is commonly listed first in facility claims. In an effort to better identify the underlying condition creating the need for the outpatient therapy services, we varied the ICD-9 analytic approach to seek the first available claim ICD-9 code on the claim. In the event that there were no diagnosis codes other than the V57 series, our analysis defaulted to using the available V57 series code. The net result of this new approach was that the V57 diagnosis codes, which were the most common used principal claim diagnosis for PT and OT claims, and third most common for SLP claims in CY 2004, were rendered insignificant in this analysis.*

#### 3.8.1 PT Episodes by Principal Claim Diagnosis

During CY 2006, 6,964 different ICD-9 diagnosis codes were listed as principal claim diagnoses for outpatient PT episodes. However, a great majority of these represented only a few episodes per year. As Table 11 demonstrates, most PT episodes were represented by only a few ICD-9 diagnosis codes, as the **top 20 codes represented 48.7% of all PT episodes**. The most commonly reported ICD-9 code for PT was 724.2 (lumbago – or low back pain/syndrome) which represented 9% of all PT episodes. The top 100 ICD-9 diagnosis codes represent 77.2% of all PT episodes and 90% could be identified by the top 290 ICD-9 diagnosis codes reported.

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<sup>21</sup> Full PT details are available in the accompanying EXCEL file labeled: H\_Outpatient Episodes by Diagnosis\_PT\_CY 2004.

<sup>22</sup> Full OT details are available in the accompanying EXCEL file labeled: I\_Outpatient Episodes by Diagnosis\_OT\_CY 2004.

<sup>23</sup> Full SLP details are available in the accompanying EXCEL file labeled: J\_Outpatient Episodes by Diagnosis\_SLP\_CY 2004.



**Table 11. 20 Most Common Outpatient PT Episodes – CY 2006**

PT Claim ICD-9	Number of Episodes	Mean Episode Days	SD Episode Days	Mean Episode Paid	SD Episode Paid	Mean Claim Lines	SD Claim Lines	Percent of Episodes	Cumulative Percent of Episodes
	<b>4,477,757</b>	<b>10.4</b>	<b>10.4</b>	<b>\$682</b>	<b>\$782</b>	<b>22.9</b>	<b>26.8</b>		
724.2	403,206	9.0	8.0	\$583	\$625	20.8	23.3	9.0%	9.0%
781.2	237,950	11.4	11.0	\$804	\$869	24.2	28.2	5.31%	14.32%
719.41	180,865	10.4	9.3	\$655	\$690	23.3	24.9	4.04%	18.36%
719.46	171,189	10.2	9.0	\$676	\$717	21.7	24.1	3.82%	22.18%
723.1	159,825	8.9	7.8	\$555	\$599	21.9	23.7	3.57%	25.75%
719.7	125,539	12.8	11.8	\$844	\$844	27.6	28.8	2.80%	28.55%
719.45	81,165	9.3	8.3	\$587	\$629	19.2	20.7	1.81%	30.37%
724.02	78,478	10.8	9.4	\$765	\$800	24.6	26.5	1.75%	32.12%
715.16	78,065	12.0	10.1	\$890	\$864	28.5	30.1	1.74%	33.86%
728.87	77,552	12.4	12.1	\$803	\$865	25.3	28.7	1.73%	35.59%
729.5	73,126	8.5	9.1	\$535	\$683	18.7	24.8	1.63%	37.23%
726.10	72,918	11.2	9.7	\$764	\$772	27.4	27.7	1.63%	38.86%
724.4	72,375	10.4	8.9	\$782	\$781	28.9	30.0	1.62%	40.47%
724.5	65,985	8.5	7.9	\$512	\$561	17.8	20.5	1.47%	41.95%
715.96	63,694	11.3	9.7	\$802	\$795	25.5	27.9	1.42%	43.37%
722.52	52,891	9.4	8.2	\$608	\$633	21.3	23.2	1.18%	44.55%
V436.5	52,013	14.9	10.5	\$1,044	\$887	29.6	27.4	1.16%	45.71%
724.3	49,730	9.6	8.2	\$652	\$676	23.9	25.1	1.11%	46.82%
840.4	46,492	12.8	10.7	\$781	\$748	26.5	25.6	1.04%	47.86%
719.47	37,852	8.5	8.0	\$541	\$615	20.5	22.5	0.85%	48.71%

As table 12 demonstrates, the trends for PT episodes suggest that the therapy caps as implemented in CY 2006 did not appear to impact access to PT services as the 3.8% increase in the number of episodes corresponds with the 3.7% increase in PT users (see Table 2). However, the overall decline in mean episode days, mean episode paid, and mean claim lines suggests that the therapy caps impacted how much therapy was provided. Also, the marked decreases in the standard deviation for episode days, episode paid, and claim lines suggests that the therapy caps reduced the variance by primarily impacting higher cost episodes.

**Table 12. PT Episode Trends**

PT	2004	2006	Change 2004-2006
Number of Episodes	4,315,218	4,477,757	3.8%
Mean Episode Days	11.2	10.4	-7.1%
SD Episode Days	12.2	10.4	-15.0%
Mean Episode Paid	\$748	\$682	-8.9%
SD Episode Paid	\$1,047	\$782	-25.4%
Mean Claim Lines	25.1	22.9	-8.8%
SD Claim Lines	33.9	26.8	-21.0%
Percent of Therapy Episodes	75.5%	74.5%	-1.2%



### 3.8.2 OT Episodes by Principal Claim Diagnosis

During CY 2006, 5,852 different ICD-9 diagnosis codes were listed as principal claim diagnosis for outpatient OT episodes. However, a great majority of these codes represented only a few episodes per year. As Table 13 demonstrates, most OT episodes are represented by only a few ICD-9 codes, as the top **20 codes represented 34.9% of all OT episodes**. The most commonly reported ICD-9 code for OT was 728.87 (muscle weakness - generalized) which represented 4% of all OT episodes. The top 100 ICD-9 diagnosis codes represented 68.9% of all OT episodes. While requiring the listing of more codes than PT, the top 90% of OT episodes could be identified by the top 481 ICD-9 diagnosis codes reported.

**Table 13. 20 Most Common Outpatient OT Episodes – CY 2006**

OT Claim ICD-9	Number of Episodes	Mean Episode Days	SD Episode Days	Mean Episode Paid	SD Episode Paid	Mean Claim Lines	SD Claim Lines	Percent of Episodes	Cumulative Percent of Episodes
	1,035,008	10.5	11.4	\$722	\$858	20.7	25.4		
728.87	42,792	12.8	12.5	\$864	\$921	23.4	25.5	4.13%	4.13%
781.2	33,729	11.9	12.0	\$857	\$926	23.3	26.5	3.26%	7.39%
719.7	29,953	13.4	12.6	\$913	\$931	25.1	26.4	2.89%	10.29%
354.0	21,628	6.0	6.5	\$391	\$487	13.7	18.2	2.09%	12.38%
781.92	20,473	9.7	9.7	\$586	\$681	15.2	18.8	1.98%	14.35%
436	18,643	13.5	13.9	\$916	\$1,054	24.5	29.2	1.80%	16.16%
728.2	18,407	13.9	13.6	\$916	\$991	25.0	27.1	1.78%	17.93%
799.3	16,596	12.1	12.7	\$778	\$904	20.9	25.6	1.60%	19.54%
331.0	16,254	11.0	10.7	\$675	\$744	18.4	21.7	1.57%	21.11%
719.41	16,223	10.3	9.5	\$683	\$718	21.9	23.1	1.57%	22.68%
332.0	15,415	11.7	11.9	\$814	\$929	21.0	25.2	1.49%	24.17%
781.3	15,298	12.1	11.6	\$922	\$947	24.1	25.7	1.48%	25.64%
780.79	13,987	11.2	11.8	\$710	\$820	19.6	23.7	1.35%	26.99%
428.0	13,928	12.5	12.5	\$828	\$922	23.3	27.2	1.35%	28.34%
719.44	13,367	6.9	7.3	\$445	\$530	15.6	19.3	1.29%	29.63%
715.90	12,113	11.7	11.7	\$787	\$931	22.2	26.3	1.17%	30.80%
729.5	11,812	7.5	8.5	\$472	\$594	15.3	19.8	1.14%	31.94%
457.1	10,721	8.4	9.8	\$709	\$980	13.2	18.2	1.04%	32.98%
438.20	10,041	13.2	13.7	\$896	\$1,012	22.5	27.5	0.97%	33.95%
726.10	9,968	10.2	7.9	\$869	\$731	31.3	27.9	0.96%	34.91%

As table 14 demonstrates, the trends for OT episodes suggest that the therapy caps as implemented in CY 2006 did not appear to impact access to OT services as the 12.2% increase in the number of episodes exceeds the 3.1% increase in OT users (Table 2). **However, the overall decline in mean episode days, mean episode paid, and mean claim lines suggests that the therapy caps impacted how much therapy was provided. Also, the marked decreases in the standard deviation for episode days, episode paid, and claim lines suggests that the therapy caps reduced the variance by primarily impacting higher cost episodes.** A potential concern in these trends is that the increase in the number of OT episodes of 12.2% is nearly 4 times the rate of increase in the number of OT users. This particular pattern was not observed with PT or SLP services. This suggests a possibility that, due to the caps, some beneficiary OT episodes were concluded prematurely and resulted in a subsequent episode later in the year.

**Table 14. OT Episode Trends**

OT	2004	2006	Change 2004-2006
Number of Episodes	922,740	1,035,008	12.2%
Mean Episode Days	11	10.5	-4.4%
SD Episode Days	12.5	11.4	-8.8%
Mean Episode Paid	\$777	\$722	-7.1%
SD Episode Paid	\$1,016	\$858	-15.6%
Mean Claim Lines	21.7	20.7	-4.7%
SD Claim Lines	29.3	25.4	-13.3%
Percent of Therapy Episodes	16.1%	17.2%	6.8%

### 3.8.3 SLP Episodes by Principal Claim Diagnosis

During CY 2006, 4,277 different ICD-9 diagnosis codes were listed as principal claim diagnosis for outpatient SLP episodes. However, a great majority of these represented only a few episodes per year. As Table 15 demonstrates, most SLP episodes were represented by only a few ICD-9 diagnosis codes, as the top **20 codes represented 60.8% of all SLP episodes**. In particular, the code for **Dysphagia (787.2) accounted for 33.9% of all SLP outpatient therapy episodes**. The top 100 ICD-9 diagnosis codes represented 82.9% of all SLP episodes and 90% could be identified by the top 238 ICD-9 diagnosis codes reported.

**Table 15. 20 Most Common Outpatient SLP Episodes – CY 2004**

SLP Claim ICD-9	Number of Episodes	Mean Episode Days	SD Episode Days	Mean Episode Paid	SD Episode Paid	Mean Claim Lines	SD Claim Lines	Percent of Episodes	Cumulative Percent of Episodes
	493,794	7.5	10.2	\$548	\$718	8.6	12.5		
787.2	167,355	5.4	8.1	\$432	\$596	6.2	9.9	33.89%	33.89%
331.0	13,073	8.7	9.2	\$619	\$623	10.0	11.2	2.65%	36.54%
436	12,176	11.8	13.7	\$824	\$1,001	13.7	17.4	2.47%	39.00%
332.0	10,181	8.7	9.7	\$645	\$715	10.3	12.5	2.06%	41.07%
784.49	8,962	3.9	4.6	\$265	\$312	4.2	5.9	1.81%	42.88%
781.2	8,228	9.6	10.6	\$680	\$731	11.3	13.6	1.67%	44.55%
719.7	7,533	10.3	11.2	\$733	\$802	12.2	14.5	1.53%	46.07%
784.5	7,222	7.3	9.9	\$483	\$637	8.2	11.5	1.46%	47.54%
728.87	7,159	10.9	12.0	\$780	\$868	13.0	15.4	1.45%	48.99%
290.0	6,918	9.0	9.4	\$656	\$643	10.4	11.3	1.40%	50.39%
486	6,239	8.3	10.2	\$642	\$744	9.6	12.6	1.26%	51.65%
434.91	5,903	9.8	13.2	\$665	\$875	11.0	15.4	1.20%	52.85%
428.0	5,891	8.8	10.1	\$643	\$698	10.3	12.8	1.19%	54.04%
294.8	5,669	8.3	8.8	\$603	\$613	9.6	10.6	1.15%	55.19%
438.82	5,080	8.9	11.5	\$685	\$860	10.8	14.9	1.03%	56.22%
784.3	4,717	12.7	14.8	\$778	\$1,037	14.2	17.9	0.96%	57.17%
438.0	4,676	12.0	13.1	\$821	\$899	14.3	16.8	0.95%	58.12%
401.9	4,644	10.0	11.1	\$727	\$780	11.9	14.0	0.94%	59.06%
250.00	4,370	10.6	12.3	\$765	\$861	12.4	15.3	0.88%	59.94%
438.11	4,210	15.3	17.2	\$897	\$1,074	16.7	19.5	0.85%	60.80%

As table 16 demonstrates, the trends for SLP episodes suggest that the therapy caps as implemented in CY 2006 did not appear to impact access to SLP services as the 2.8% increase in the number of episodes mirrored the 2.8% increase in SLP users (Table 2). However, the overall decline in mean episode days, mean episode paid, and mean claim lines suggests that the therapy caps impacted how much therapy was provided. Also, the proportionately larger decreases in the standard deviation for episode days, episode paid, and claim lines suggests that the therapy caps reduced the variance by primarily impacting higher cost episodes.

**Table 16. SLP Episode Trends**

SLP	2004	2006	Change 2004-2006
Number of Episodes	480,274	493,794	2.8%
Mean Episode Days	7.5	7.5	-0.3%
SD Episode Days	10.6	10.2	-4.1%
Mean Episode Paid	\$572	\$548	-4.2%
SD Episode Paid	\$820	\$718	-12.4%
Mean Claim Lines	9.1	8.6	-5.1%
SD Claim Lines	14.1	12.5	-11.4%
Percent of Therapy Episodes	8.4%	8.2%	-2.1%

## 4.0 Summary and Conclusions

This report was developed as part of ongoing CMS activities directed at developing a more refined understanding of beneficiary use of outpatient therapy services under Medicare. The analysis provides a snapshot overview of the CY 2006 utilization of outpatient PT, OT, and SLP services in every setting where outpatient therapy policy applies and compares the trends with analysis findings from prior years. In particular, this report examines the impact of the reimplementation of the outpatient therapy caps in CY 2006 using 100% of the paid outpatient therapy claims.

CY 2006 represents the first full year of enforcement of the outpatient therapy caps for PT/SLP services combined, and OT services separately since CY 1999. There was a significant impact on providers and beneficiaries when the caps were first implemented across all settings (except hospitals) in CY 1999. At that time, overall provider payments declined by 34%, while the number of beneficiaries treated declined by 2.4% (despite an increase in enrollment). In addition, the caps in CY 1999 appeared to have a disproportionate impact on beneficiaries with certain diagnosis, age, race, and geographic characteristics. Although hospital settings were not subject to the caps, the evidence in CY 1999 was that beneficiaries either could not, or chose not to receive additional services beyond the caps in hospitals, or they chose to continue care with the capped provider and pay out of pocket. There were also some concurrent payment policy changes related to implementation of the MPFS upon facilities in CY 1999; however, the general conclusion was that a primary driver of the payment and beneficiary reductions in CY 1999 was related to the therapy caps, and the cap impact in CY 1999 would have been more severe if it had been fully enforced. The subsequent moratoria on the enforcement of the therapy caps throughout most of CY 2000 – 2005 were influenced by Congressional concerns regarding beneficiary access to necessary services under a capped payment system.

When therapy caps were re-implemented in CY 2006, the provisions were modified by Congress to include medical necessity exceptions for settings subject to cap limitations (hospitals remained excluded from the caps). In other words, if the treating clinician documented that the beneficiary needed services that would result in surpassing the cap limits, then Medicare would continue to pay for such services as long as they met certain requirements described in the Medicare Manuals.

These requirements included a process for ‘automatic process’ exceptions based upon specific conditions and/or complexities identified by CMS, as well as a process to receive contractor preauthorization for payment using a ‘manual process’ if a beneficiary’s condition or complexity was not included in the ‘automatic process’ exceptions requirements. CMS tracked the cap limits through the Common Working File (CWF). Payments beyond the \$1,740 allowed amount (or ~\$1392 paid amount) cap threshold were issued if the use of the automatic or manual process for exception authorized the provider to attach a –KX modifier to therapy service claim lines.

CMS did not require submission of documentation for automatic exceptions, however, it issued detailed guidelines in the manuals regarding documentation required to support the exception. CMS also offered stern warnings to providers that services beyond the cap thresholds may be scrutinized, and that if requested by CMS, the supporting documentation must support medical

necessity. According to CMS officials, the great majority of providers were able to use one of the automatic exceptions options. As a result, when the exceptions process was updated for CY 2007, the “manual process” preauthorization component was eliminated from the cap exceptions policy.

### **Beneficiary Access**

**The utilization analysis in this report clearly demonstrates that the outpatient therapy caps, as implemented in CY 1996 with the exceptions process had little or no impact on beneficiary access to outpatient therapy services.** This is in sharp contrast to CY 1999 when the caps were implemented without an exceptions process. Examples of the results that support these conclusions include:

- In contrast to CY 1999 which saw a decline in the number of outpatient therapy users as the number of Medicare enrollees increased, the number of outpatient therapy users in CY 2006 increased at a rate similar to the growth in Medicare enrollment.
- The relative proportion of beneficiaries accessing PT, OT and/or SLP services in CY 2006 remained similar to prior years, indicating no apparent impact upon access to a particular type of therapy.
- The relative demographic characteristics of outpatient therapy users (e.g. age, gender, state) in CY 2006 remained similar to recent years, and did not fluctuate as was observed during CY 1999.
- During CY 2006, the number of outpatient therapy episodes increased at least proportionally to the increase in the number of therapy users. For example, the number of PT episodes increased 3.8% while the number of PT users increased 3.7%. For SLP, the number of episodes and users both increased 2.8%. For OT services, the number of episodes increased 12.2% while the number of users increased only 3.1%. A potential concern with the OT episode growth which was four times the rate of growth of users is that it could suggest the possibility that OT episodes were concluded prematurely and resulted in a subsequent episode later in the year.
- Although ICD-9 claim diagnosis reporting is an imprecise method to identify and describe beneficiary condition, and nearly 7,000 different ICD-9 codes were reported on outpatient therapy claims during CY 2006, the great majority of episodes were described by a small percentage of ICD-9 codes. For example, 20 codes represent 49% of all PT episodes, 35% of all OT episodes, and 61% of all SLP episodes. In particular, the code for Dysphagia (787.2) accounted for 34% of all SLP outpatient therapy episodes. In general, the ICD-9 codes used to describe episodes varied by therapy type, however, the general pattern of ICD-9 diagnosis code use did not appear to vary much from CY 2004, suggesting the therapy caps as implemented in CY 2006 did not impact the types of conditions treated.

### **Provider Payments**

**The utilization analysis in this report clearly demonstrates that the outpatient therapy caps, as implemented in CY 1996 with the exceptions process had an impact on the amount of outpatient therapy services provided.** However, the payment reductions observed were significantly smaller than was observed in CY 1999. Examples of the results that support these conclusions include:

- During CY 2006, total outpatient therapy payments decreased by \$202 million (4.7%) despite an increase in the number of therapy users by 3.5%. In contrast, from CY 2002 to CY 2004, payments had increased 26%. CY 2006 demonstrated the first observable annual decline in outpatient therapy expenditures since CY 1999, in which total payments declined by 34%. This suggests that the payment caps do impact overall utilization, however, the exceptions process in CY 2006 helped reduce the severity of the impact.
- During CY 2006, mean annual per beneficiary payments decreased 8% from \$1,001 in CY 2004 to \$921 in CY 2006. This occurred despite a 4% increase in the median per user payment suggesting that the payment reductions were the result of reduced utilization with higher cost beneficiaries that would most likely be affected by the payment cap policy.
- The trend of increasing therapy users and declining expenditures from CY 2004 to CY 2006 was also apparent in all three outpatient therapy service types as the mean annual payment per therapy user declined for PT by 8.8% to \$788, OT by 5.9% to \$816, and SLP by 4.1% to \$608. Since PT and OT services have traditionally demonstrated higher annual costs than SLP services, it is not surprising that the impact of reduced payments would be more apparent with PT and OT services. The negative impact on PT payments may have also been further elevated by the fact that PT and SLP services share a single payment cap while OT services have a separate payment threshold.
- The payment trends related to the demographic factor of age revealed relative stability in the payment distribution. Although there are observed differences in payments between age groups, the observed per beneficiary payment reductions in CY 2006 were applied proportionately across age groups. This is in sharp contrast to CY 1999 in which mean payments for older beneficiaries were disproportionately reduced. This suggests that the exceptions process may have mitigated some of the negative age related impacts of the caps.
- The payment trends related to the demographic factor of gender are also relatively stable. Generally, the mean annual per user payments for females and males are comparable and, unlike age, gender does not appear to be sensitive to the presence or absence of therapy caps.
- The payment trends related to the demographic factor of state of residence are also relatively stable. In CY 2006, states identified in previous years as higher cost states remained higher in cost while lower cost states remained lower cost, with little shuffling of ranking by mean per beneficiary cost. Variations in payment patterns appear to be more sensitive to factors such as geographic variations in HCPCS code pricing, local Medicare contractor payment policies, local variations in clinical practice patterns, and local variations in beneficiary health status. It also appears that the CY 2006 payments were affected by the hurricane activity in the Gulf States. However, the impact of the caps in CY 2006 was clearly apparent by the reduction in the mean payment variance among states. States with traditionally higher cost beneficiaries demonstrated proportionally greater payment reductions than states with traditionally lower cost beneficiaries. Most likely, the exceptions process mitigated the impact of the caps somewhat for these higher cost states in CY 2006 as the overall impact was far less than was observed in CY 1999.



- From CY 2004 to CY 2006 there was a continuation of the previously reported shift of outpatient therapy providers used by beneficiaries away from outpatient hospitals to other settings. In addition, it appears that fewer physicians and NPPs are billing employee or contractor PT or OT services under the ‘incident to’ provisions. Practices are billing such services under the therapist’s individual provider number using assignment of benefits provisions. This has resulted in apparent increased PTPP and OTPP providers, which is offset primarily by notable decreases in Physician and NPP providers. One interesting new trend observed in CY 2006 is that there are fewer CORF and ORF providers. Since this is an ongoing trend, it is unlikely that any of these changes in the number of different types of outpatient therapy providers is related to the resumption of the therapy caps in CY 2006.
- With the complexities introduced by different types of outpatient therapy provider settings and the shifting numbers of such providers, the payment trends do suggest that the therapy caps did impact those providers that were subject to the caps. It is notable, that while Hospital providers were the only setting exempt from the therapy caps in CY 2006, it was the only setting that demonstrated a mean per-provider increase in payments.
- PT, OT and SLP outpatient therapy services tend to cluster around a small number of available provider setting types suggesting that payment policy changes that are setting specific could have a disproportionate impact on a particular therapy service type. For example, PT services are primarily distributed around five of the nine available provider settings; PTPP (35%), Hospital (21%), SNF (19%), ORF (14%) and Physician (9%). Four provider settings dominate OT services, led by SNF (56%) and followed by; Hospital (16%), ORF (11%), and OTPP (9%). SLP use was primarily limited to 3 of the 9 available settings. Nearly  $\frac{3}{4}$  of SLP payments were issued to SNF (74%), followed by Hospital (20%) and ORF (4%). As a result, PT services dominate payments in most settings with over 78% of payments in six of the nine settings (PTPP, NPP, Physician, ORF, Hospital, and HHA). OT services only dominated payments in the OTPP setting, while SLP services represented only a small portion of services in all settings. The three setting types that demonstrated a notable presence of payments of all three therapy types, suggesting the presence of significant interdisciplinary service delivery were the SNF, Hospital, and HHA settings. In particular, payments to the SNF setting were distributed 48% for PT, 35% for OT, and 17% for SLP services. Despite these differences, the relative distribution of outpatient therapy payments across and within settings in CY 2006 remained similar to prior patterns. This suggests that the exceptions process evened the playing field across provider types and helped mitigate potential disproportionate impact on one setting, or the therapy type that was represented in that setting.
- The overall HCPCS utilization pattern during CY 2006 appears consistent with that observed in CY 2004 suggesting that the therapy caps did not appear to impact the types of procedures or treatment approaches used. For example, a total of 15 HCPCS continue to account for 94% of outpatient therapy claim lines and 95% of payments, and with little deviation in the rank order. Most notably, HCPCS code 97110 (Therapeutic Exercises) accounted for 33% of claim lines and 40% of total payments. This trend was also apparent when separating HCPCS use by therapy service type and by setting. Although the types of therapy services remained stable, there was a



nominal 0.3% drop in payments per claim line from CY 2004 to CY 2006 which could be an indicator that the caps may have influenced the number of procedures furnished on a given treatment day.

- While Medicare issued payments for 24.5 million outpatient therapy claims in CY 2006 which included over 128 million claim lines, this represents a 4.4% decline in claim line volume since CY 2004. This suggests that although the types of services furnished did not change in CY 2006, the outpatient therapy caps may have impacted how many times (or days) the procedures were provided per beneficiary during the year.
- From CY 2004 to CY 2006, despite an increase in the number of outpatient therapy episodes across all three therapy types, there were across the board reductions in mean episode days, mean episode paid, and mean claim lines per episode. For example, the number of episode days declined by 7.1% for PT, 4.4% for OT, and 0.3% for SLP services, resulting in reduced per episode payments of 8.9%, 7.1%, and 4.2% for PT, OT and SLP services respectively. This reduction in the mean episode duration appears to be the primary driver for the reduced episode payments and claim lines. In other words, the therapy caps as implemented in CY 2006 appears to have primarily impacted the number of treatment days provided per episode. It is also apparent that the reduction in episode treatment days impacted beneficiaries that traditionally had a higher number of treatment days. This is demonstrated by the significant reduction in episode duration variance. For example, the PT episode day variance for PT services declined 15%, resulting in a 25% decrease in mean episode payments. The OT episode day variance decreased 9%, resulting in a 16% decrease in episode payments. The SLP episode days variance also declined by 4% resulting in a 12% decrease in episode payments.

It must be noted that the implementation of the therapy caps with the exceptions process was not the only policy that may have influenced outpatient therapy utilization in CY 2006, and thus, their potential impact on the observed utilization and utilization patterns should be considered. Three other policy issues; 1) annual updates to the MPFS, 2) the extension of Correct Coding Initiative (CCI) edits upon facilities furnishing outpatient therapy services that were formerly exempt, and 3) major revisions to the outpatient therapy clarification and guidance instructions in CMS Manuals.

During prior outpatient therapy utilization studies it was noted that a portion of the observed increased utilization could be attributed to inflation in the MPFS procedure code pricing. However, due to Congressional intervention, from CY 2004 to CY 2006, the relative procedure pricing for outpatient therapy HCPCS remained the same. In general, the mean procedure pricing information included in this report and the attached EXCEL spreadsheets confirms that there were no significant MPFS procedure price changes that could have influenced the utilization change findings in this report.

Prior to CY 2006, outpatient therapy providers in the PTPP, OTTP, Physician, NPP and Hospital settings were subject to CCI edits which prevented payments for certain HCPCS codes that were billed on the same date as another code because CMS considers one of the codes in the combination to be a component of the other code. Billing the codes together without a special

situation modifier would be considered ‘unbundling’ and CMS would not pay for one of the procedures on that day. Beginning on January 1, 2006, outpatient providers in the SNF, CORF, ORF and HHA settings became subject to the CCI coding requirements.

There is a potential that a portion of the decline in utilization in these settings in CY 2006 could be attributable to a lack of awareness of the new payment policy. These providers may not have been paid for procedures billed in combination with others due to the CCI edits. The observed significant reductions in CORF, ORF and HHA payments provide potential evidence for this possibility. However, the smaller decline in overall SNF payments was comparable to the Hospital setting (which had been under CCI edits for a number of years) appears to counter that argument. Further analysis would be necessary to explore the degree of impact the CCI edits may have influenced payments in CY 2006, and why SNF was not apparently as impacted as the other facility settings newly subject to the requirement.

During June 2005, CMS released major outpatient therapy policy instructions in the Medicare *Benefit Policy* and *Claims Processing Manuals* that provided detailed clarifications on the definition of qualifying therapy services as well as what constituted reasonable and necessary therapy services. This was followed up with the new therapy cap exceptions process instructions during February 2006 in these two manuals, as well as the Medicare *Program Integrity Manual*. These new instructions provided additional detailed guidance regarding required documentation to support medical necessity, including the use of outcomes measurements and/or instruments. The impact of these manual changes on the utilization reductions in CY 2006 is difficult to quantify, however, the increased emphasis on supporting medical necessity with outcomes evidence and detailed documentation may have impacted provider treatment decisions regarding discontinuing care sooner due to lack of measurable progress towards goals. In addition, the additional medical necessity guidance may have enhanced Medicare contractor medical review scrutiny.

### **Policy Options**

The current report relies principally on claims data which provides little insight regarding clinical need and no information related to clinical outcomes. Ultimately, that information will be necessary to develop a more clinically driven payment policy. However, to develop such an approach will in the least, take several years to accomplish. Recently, CMS awarded a 5-year contract to develop and test an approach to collect such clinical information.

Until the results of that study bears fruit, CMS, beneficiaries and providers are facing the prospect of the elimination of the exceptions process from the outpatient therapy caps beginning on July 1, 2008 unless Congress again intervenes with at least a short term payment policy intervention strategy. The only previous year when the therapy caps were implemented without exceptions was in CY 1999 and resulted in reports of devastating hardship on beneficiaries and providers. Based upon the results of this analysis of CY 2006 outpatient therapy service claims, it is quite apparent that the exceptions process as implemented may have satisfied to some extent, the Congressional intent to assure access to medically necessary services while controlling the growth in expenditures as follows:

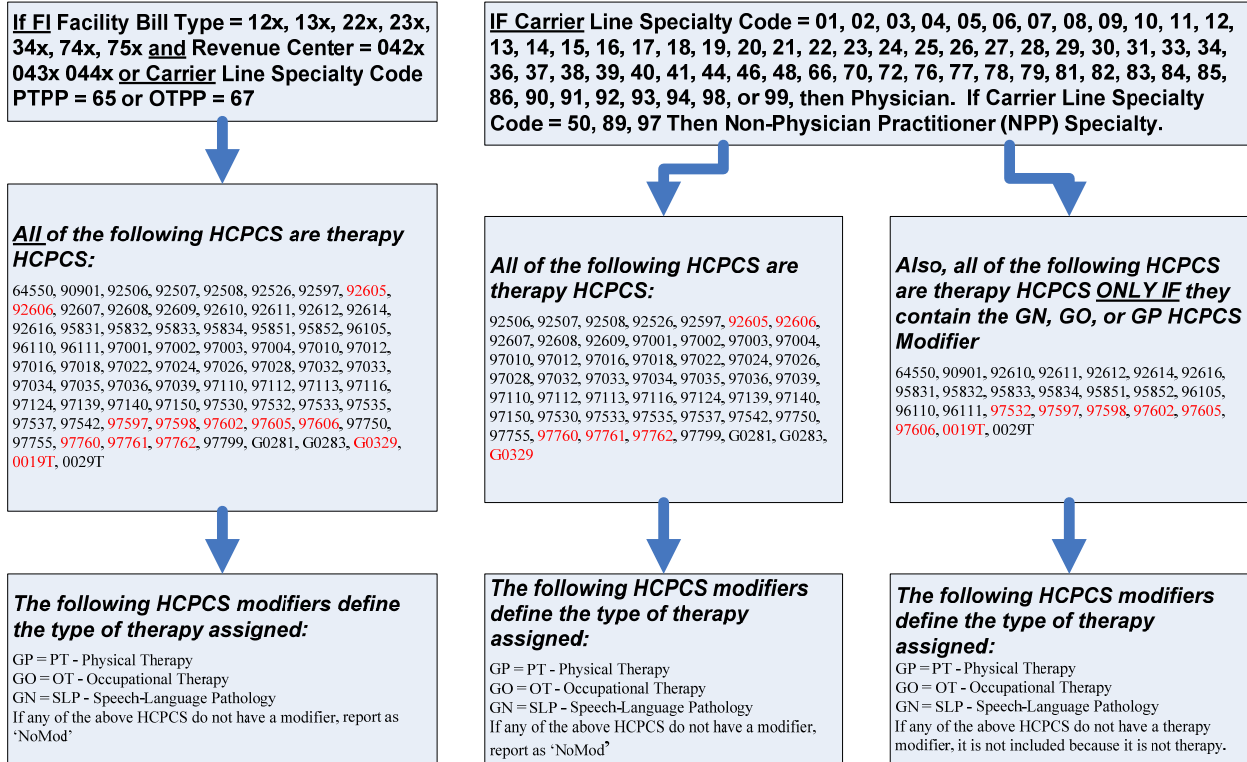
- **The outpatient therapy caps with the exceptions process in CY 2006 did not appear to have the major impact on patient access that was apparent in CY 1999, and**
- **Although the caps reduced payments in CY 2006, the impact was not as dramatic as was observed in CY 1999 when there were no exceptions.**

This would suggest that a plausible, realistic, and measurable short term solution to continue to control expenditures while assuring beneficiary access to outpatient therapy services would be to extend and refine the outpatient therapy cap exceptions process and other administrative controls (e.g. clinically realistic edits) based upon analysis and provider feedback for at least the five years that the patient assessment and outcomes study is being conducted.

## Appendix A: Acronyms

<b>Acronym</b>	<b>Definition</b>
CCI	Correct Coding Initiative
CMS	Centers for Medicare and Medicaid Services
CORF	Comprehensive Outpatient Rehabilitation Facility
CPT	Current Procedural Terminology
CSC	Computer Sciences Corporation
CWF	Common Working File
CY	Calendar Year
EDB	Medicare Enrollment Database
HCPCS	Healthcare Common Procedure Coding System
HHA	Home Health Agency
ICD-9	International Classification of Disease, 9th Edition
MPFS	Medicare Physician Fee Schedule
NPP	Non-Physician Practitioner
ORF	Outpatient Rehabilitation Facility
OT	Occupational Therapy Services
OTAPS	Outpatient Therapy Alternative Payment Study
OTPP	Occupational Therapist in Private Practice
PT	Physical Therapy Services
PTPP	Physical Therapist in Private Practice
SD	Standard Deviation
SLP	Speech-Language Pathology Services
SNF	Skilled Nursing Facility
SOW	Statement of Work

## Appendix B: OTAPS 2 Therapy HCPCS Analysis Logic



## Appendix C: Index of Attached EXCEL Data Files

### A\_Outpatient Therapy Demographics\_CY 2006

Outpatient Therapy Demographics (All Therapy Users) - CY 2006  
Outpatient PT Demographics - CY 2006  
Outpatient OT Demographics - CY 2006  
Outpatient SLP Demographics - CY 2006

### B\_HCPCS\_Utilization Summary\_by Setting\_all\_CY 2006

Therapy HCPCS by Setting (combined therapies) - CY 2006: All Settings Aggregate  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Facilities Aggregate  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Professionals Aggregate  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Hospital  
Therapy HCPCS by Setting (combined therapies) - CY 2006: SNF  
Therapy HCPCS by Setting (combined therapies) - CY 2006: CORF  
Therapy HCPCS by Setting (combined therapies) - CY 2006: ORF  
Therapy HCPCS by Setting (combined therapies) - CY 2006: HHA  
Therapy HCPCS by Setting (combined therapies) - CY 2006: PTPP  
Therapy HCPCS by Setting (combined therapies) - CY 2006: OTPP  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Physician  
Therapy HCPCS by Setting (combined therapies) - CY 2006: NPP  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Total Paid per Setting  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Line Frequency per Setting  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Percent Lines per Setting  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Percent Lines per Setting Rank  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Paid per Line per Setting  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Percent Paid per Setting  
Therapy HCPCS by Setting (combined therapies) - CY 2006: Percent Paid per Setting Rank

### C\_HCPCS\_Utilization Summary\_by Therapy Type\_CY 2006

Therapy HCPCS - CY 2006: Total All Therapies  
Therapy HCPCS - CY 2006: Total PT  
Therapy HCPCS - CY 2006: Total OT  
Therapy HCPCS - CY 2006: Total SLP  
Therapy HCPCS - CY 2006: Total Paid by Therapy Type  
Therapy HCPCS - CY 2006: Total Lines by Therapy Type

### D\_HCPCS\_Units per Line\_by Setting\_PT\_CY 2006

PT HCPCS per Line and by Setting - CY 2006: Total Aggregate  
PT HCPCS per Line and by Setting - CY 2006: Facilities Aggregate  
PT HCPCS per Line and by Setting - CY 2006: Professionals Aggregate  
PT HCPCS per Line and by Setting - CY 2006: Hospital  
PT HCPCS per Line and by Setting - CY 2006: SNF  
PT HCPCS per Line and by Setting - CY 2006: CORF  
PT HCPCS per Line and by Setting - CY 2006: ORF  
PT HCPCS per Line and by Setting - CY 2006: HHA  
PT HCPCS per Line and by Setting - CY 2006: PTPP  
PT HCPCS per Line and by Setting - CY 2006: Physician

PT HCPCS per Line and by Setting - CY 2006: NPP  
Therapy HCPCS per Line and by Setting (PT only) - CY 2006: Total Paid per Setting  
Therapy HCPCS per Line and by Setting (PT only) - CY 2006: Line Frequency per Setting  
Therapy HCPCS per Line and by Setting (PT only) - CY 2006: Percent Lines per Setting  
Therapy HCPCS per Line and by Setting (PT only) - CY 2006: Percent Lines per Setting Rank  
Therapy HCPCS per Line and by Setting (PT only) - CY 2006: Paid per Line per Setting  
Therapy HCPCS per Line and by Setting (PT only) - CY 2006: Percent Paid per Setting  
Therapy HCPCS per Line and by Setting (PT only) - CY 2006: Percent Paid per Setting Rank

**E\_HCPCS\_Units per Line\_by Setting\_OT\_CY 2006**

OT HCPCS per Line and by Setting - CY 2006: Total Aggregate  
OT HCPCS per Line and by Setting - CY 2006: Facilities Aggregate  
OT HCPCS per Line and by Setting - CY 2006: Professionals Aggregate  
OT HCPCS per Line and by Setting - CY 2006: Hospital  
OT HCPCS per Line and by Setting - CY 2006: SNF  
OT HCPCS per Line and by Setting - CY 2006: CORF  
OT HCPCS per Line and by Setting - CY 2006: ORF  
OT HCPCS per Line and by Setting - CY 2006: HHA  
OT HCPCS per Line and by Setting - CY 2006: OTPP  
OT HCPCS per Line and by Setting - CY 2006: Physician  
OT HCPCS per Line and by Setting - CY 2006: NPP  
Therapy HCPCS per Line and by Setting (OT only) - CY 2006: Total Paid per Setting  
Therapy HCPCS per Line and by Setting (OT only) - CY 2006: Line Frequency per Setting  
Therapy HCPCS per Line and by Setting (OT only) - CY 2006: Percent Lines per Setting  
Therapy HCPCS per Line and by Setting (OT only) - CY 2006: Percent Lines per Setting Rank  
Therapy HCPCS per Line and by Setting (OT only) - CY 2006: Paid per Line per Setting  
Therapy HCPCS per Line and by Setting (OT only) - CY 2006: Percent Paid per Setting  
Therapy HCPCS per Line and by Setting (OT only) - CY 2006: Percent Paid per Setting Rank

**F\_HCPCS\_Units per Line\_by Setting\_SLP\_CY 2006**

SLP HCPCS per Line and by Setting - CY 2006: Total Aggregate  
SLP HCPCS per Line and by Setting - CY 2006: Facilities Aggregate  
SLP HCPCS per Line and by Setting - CY 2006: Professionals Aggregate  
SLP HCPCS per Line and by Setting - CY 2006: Hospital  
SLP HCPCS per Line and by Setting - CY 2006: SNF  
SLP HCPCS per Line and by Setting - CY 2006: CORF  
SLP HCPCS per Line and by Setting - CY 2006: ORF  
SLP HCPCS per Line and by Setting - CY 2006: HHA  
SLP HCPCS per Line and by Setting - CY 2006: Physician  
SLP HCPCS per Line and by Setting - CY 2006: NPP  
Therapy HCPCS per Line and by Setting (SLP only) - CY 2006: Total Paid per Setting  
Therapy HCPCS per Line and by Setting (SLP only) - CY 2006: Line Frequency per Setting  
Therapy HCPCS per Line and by Setting (SLP only) - CY 2006: Percent Lines per Setting  
Therapy HCPCS per Line and by Setting (SLP only) - CY 2006: Percent Lines per Setting Rank  
Therapy HCPCS per Line and by Setting (SLP only) - CY 2006: Paid per Line per Setting  
Therapy HCPCS per Line and by Setting (SLP only) - CY 2006: Percent Paid per Setting  
Therapy HCPCS per Line and by Setting (SLP only) - CY 2006: Percent Paid per Setting Rank

**G\_Outpatient Therapy Claim Level\_CY 2006**

CY 2006 Outpatient Therapy Claims Summary - Setting



CY 2006 Outpatient Therapy Claims Summary - Therapy Type  
CY 2006 Outpatient Therapy Claim Treatment Days - All Facilities  
CY 2006 Outpatient Therapy Claim Treatment Days - PT Facilities  
CY 2006 Outpatient Therapy Claim Treatment Days - OT Facilities  
CY 2006 Outpatient Therapy Claim Treatment Days - SLP Facilities  
CY 2006 Outpatient Therapy Claim Treatment Days - Hospital  
CY 2006 Outpatient Therapy Claim Treatment Days - SNF  
CY 2006 Outpatient Therapy Claim Treatment Days - CORF  
CY 2006 Outpatient Therapy Claim Treatment Days - ORF  
CY 2006 Outpatient Therapy Claim Treatment Days - HHA  
CY 2006 Outpatient Therapy Claim Treatment Days - Hospital PT  
CY 2006 Outpatient Therapy Claim Treatment Days - Hospital OT  
CY 2006 Outpatient Therapy Claim Treatment Days - Hospital SLP  
CY 2006 Outpatient Therapy Claim Treatment Days - SNF PT  
CY 2006 Outpatient Therapy Claim Treatment Days - SNF OT  
CY 2006 Outpatient Therapy Claim Treatment Days - SNF SLP  
CY 2006 Outpatient Therapy Claim Treatment Days - CORF PT  
CY 2006 Outpatient Therapy Claim Treatment Days - CORF OT  
CY 2006 Outpatient Therapy Claim Treatment Days - CORF SLP  
CY 2006 Outpatient Therapy Claim Treatment Days - ORF PT  
CY 2006 Outpatient Therapy Claim Treatment Days - ORF OT  
CY 2006 Outpatient Therapy Claim Treatment Days - ORF SLP  
CY 2006 Outpatient Therapy Claim Treatment Days - HHA PT  
CY 2006 Outpatient Therapy Claim Treatment Days - HHA OT  
CY 2006 Outpatient Therapy Claim Treatment Days - HHA SLP  
CY 2006 Outpatient Therapy Claim Treatment Days - All Professional  
CY 2006 Outpatient Therapy Claim Treatment Days - PT Professional  
CY 2006 Outpatient Therapy Claim Treatment Days - OT Professional  
CY 2006 Outpatient Therapy Claim Treatment Days - SLP Professional  
CY 2006 Outpatient Therapy Claim Treatment Days - Professional: Multiple Therapy Modifiers  
CY 2006 Outpatient Therapy Claim Treatment Days - Professional: No Therapy Modifiers  
CY 2006 Outpatient Therapy Claim Treatment Days - PTPP  
CY 2006 Outpatient Therapy Claim Treatment Days - OTPP  
CY 2006 Outpatient Therapy Claim Treatment Days - Physician  
CY 2006 Outpatient Therapy Claim Treatment Days - NPP  
CY 2006 Outpatient Therapy Claim Treatment Days - PTPP PT  
CY 2006 Outpatient Therapy Claim Treatment Days - PTPP: Multiple Therapy Modifiers  
CY 2006 Outpatient Therapy Claim Treatment Days - PTPP: No Therapy Modifiers  
CY 2006 Outpatient Therapy Claim Treatment Days - OTPP OT  
CY 2006 Outpatient Therapy Claim Treatment Days - OTPP: Multiple Therapy Modifiers  
CY 2006 Outpatient Therapy Claim Treatment Days - OTPP: No Therapy Modifiers  
CY 2006 Outpatient Therapy Claim Treatment Days - Physician PT  
CY 2006 Outpatient Therapy Claim Treatment Days - Physician OT  
CY 2006 Outpatient Therapy Claim Treatment Days - Physician SLP  
CY 2006 Outpatient Therapy Claim Treatment Days - Physician: Multiple Therapy Modifiers  
CY 2006 Outpatient Therapy Claim Treatment Days - Physician: No Therapy Modifiers  
CY 2006 Outpatient Therapy Claim Treatment Days - NPP PT  
CY 2006 Outpatient Therapy Claim Treatment Days - NPP OT  
CY 2006 Outpatient Therapy Claim Treatment Days - NPP SLP  
CY 2006 Outpatient Therapy Claim Treatment Days - NPP: Multiple Therapy Modifiers

CY 2006 Outpatient Therapy Claim Treatment Days - NPP: No Therapy Modifiers

**H\_Outpatient Episodes by Diagnosis\_PT\_CY 2006**

PT Episode Diagnosis Ranked by Number of Episodes - CY 2006  
PT Episode Diagnosis Ranked by Number of Treatment Days - CY 2006  
PT Episode Diagnosis Ranked by Mean Expenditures - CY 2006  
PT Episode Diagnosis in Numerical Order - CY 2006

**I\_Outpatient Episodes by Diagnosis\_OT\_CY 2006**

OT Episode Diagnosis Ranked by Number of Episodes - CY 2006  
OT Episode Diagnosis Ranked by Number of Treatment Days - CY 2006  
OT Episode Diagnosis Ranked by Mean Expenditures - CY 2006  
OT Episode Diagnosis in Numerical Order - CY 2006

**J\_Outpatient Episodes by Diagnosis\_SLP\_CY 2006**

SLP Episode Diagnosis Ranked by Number of Episodes - CY 2006  
SLP Episode Diagnosis Ranked by Number of Treatment Days - CY 2006  
SLP Episode Diagnosis Ranked by Mean Expenditures - CY 2006  
SLP Episode Diagnosis in Numerical Order - CY 2006

**K\_Annual per User Expenditures by Therapy Type\_1-100 Percentile\_CY 2006**

Outpatient Therapy 1-100 Percentile Annual (per user) Expenditures by Therapy Type - CY 2006