DEPARTMENT OF HEALTH & HUMAN SERVICES
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CENTERS FOR MEDICARE & MEDICAID SERVICES
OFFICE OF THE ACTUARY

Office of the Actuary

DATE: April 15, 2016

SUBJECT: Estimate of Medicare Documentation and Coding Adjustments

Section 631 of the American Taxpayer Relief Act of 2012 (ATRA) requires that documentation and coding adjustments be made to the Medicare inpatient prospective payment system (IPPS) payment rates for discharges occurring during fiscal years (FYs) 2014-2017, in order to recoup $11 billion in fee for service overpayments associated with documentation and coding in FYs 2008-2010 that have not been recovered through previously implemented adjustments to payment rates. This memorandum summarizes the Office of the Actuary's (OACT's) original estimate of the reductions to the IPPS rates that would be necessary to achieve the $11 billion in savings during FYs 2014-2017, as well as OACT's current estimate of the necessary adjustment for FY 2017, which is the value that is proposed in the FY 2017 IPPS update rule. This memorandum also includes a description of the methodology used to develop these estimates.

For the projections from the Midsession Review of the President's FY 2014 Budget (completed in June 2013), we included the impact of the ATRA legislation. The following table shows the calculation we performed at that time to determine the necessary reductions to the IPPS rates to achieve the $11 billion in savings during FYs 2014-2017. Based on a decision to adjust the rates by the same reduction for each of the 4 fiscal years, we determined that a reduction of 0.8 percent each year would result in a little over $11 billion in savings. However, now that reductions of 0.8 percent have been implemented for the first 3 years, it is possible to determine more specifically what adjustment would be necessary in the final year to reach the savings target of $11 billion. The table below shows the fee for service amounts that we had estimated would be affected based on our assumptions in June 2013, along with the amount of savings generated by the 0.8-percent reduction each year. (Dollar amounts are in millions.)

FY	Estimated amount with reduction	Estimated amount before reduction	Estimated savings
2014	$126,701	$127,715	$1,010
2015	130.078	132,168	2,090
2016	138,945	142,306	3,360
2017	148,445	153,253	4,810
Total			11,270

The estimates in the column labeled "Estimated amount with reduction" come from unpublished output from the Midsession Review of the President's FY 2014 Budget and reflect the projected spending for operating costs, indirect medical education, capital, and disproportionate share hospital payments. The figures in the column labeled "Estimated amount before reduction" represent the amounts before the documentation and coding reductions have been removed from the figures in the other column. (For instance, the 2014 figure of $127,715 is the result of $126,701 multiplied by 1.008.) The savings are the difference between the two sets of figures (rounded to

the nearest $10 million). Since the total for the 4 years was slightly more than $11 billion, we believed that the last year would require less than the 0.8-percent reduction. These estimates were based on the Medicare cost reports available at that time, data from the IPPS impact file, and projected increases in utilization and case mix.

Since the time of those estimate in June 2013, our projections of inpatient hospital spending have changed. Some of the market basket projections have ultimately been lower than expected, and the number of hospital discharges has decreased more than expected. As a result, larger-than-expected adjustments have been necessary to achieve the required savings amount of $11 billion. The tables below show the values used for our June 2013 and April 2016 estimates.

June 2013 Estimate Values

FY	MB	Productivity	Update	Discharges
2014	2.5	0.4	1.8	12,601
2015	2.9	0.4	2.3	13,061
2016	3.4	0.5	2.7	13,648
2017	3.5	0.5	2.25	14,338

April 2016 Estimate Values

FY	MB	Productivity	Update	Discharges
2014	2.5	0.5	1.7	11,278
2015	2.9	0.5	2.2	11,159
2016	2.4	0.5	1.7	11,246
2017	2.8	0.5	1.55	11,435

The columns labeled “MB” (market basket) and “Productivity” are based on the economic assumptions from those projections. The “Update” column represents the percentage used to update the rates (which is equal to the market basket minus the productivity minus the required reductions due to the Affordable Care Act). The “Discharges” column shows the projected number of inpatient discharges (for all inpatient hospitals, not just acute care). We made a later adjustment to remove the non-acute care hospitals. As shown in the tables, the market baskets in the April 2016 estimate are lower for the later years than those in the June 2013 estimate, and the number of discharges in the April 2016 estimate is lower for all 4 years.

Our current estimate is based on the FY 2017 President’s Budget with a few minor adjustments. Specifically, we included (i) the proposed market basket and productivity values that are contained in the proposed rule; (ii) the 0.2-percent adjustment to the rates for the two-midnight policy and the temporary 0.6-percent adjustment to address the amounts from the previous 3 fiscal years; and (iii) the 1.5-percent reduction for documentation and coding that is being proposed in the rule. With those adjustments, we have a new set of estimates for the portion that is being affected by the documentation and coding adjustment and a new calculation of estimated savings. The following table shows the new calculation. (Dollar amounts are in millions.)

FY	Estimated amount affected with reduction	Estimated amount affected before reduction	Estimated savings
2014	$122,801	$123,783	$980
2015	122.395	124,361	1,970
2016	124,059	127,060	3,000
2017	124,693	129,625	4,930
Total			10,880

The results shown in this memorandum are OACT's latest and best estimates for Medicare payments for FYs 2014-2017. Since we do not know how many Medicare beneficiaries will choose to enroll in a Medicare Advantage plan, for example, or the degree to which the remaining fee-for-service enrollees will use hospital services, there is much uncertainty in these estimates. However, we believe that the spending estimates presented here, as well as the assumptions used to develop the estimates, are reasonable.

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