



Colorado Department of Health Care Policy & Financing

Memorandum

To: Colorado Medicaid Outpatient Hospitals

From: Suzanne Brennan, Health Programs Office, Medicaid Director
John Bartholomew, Finance Office, Deputy Executive Director

Date: March 11, 2014

Re: Outpatient Hospital Rate Reform – Planned Implementation of Enhanced Ambulatory Patient Grouping (EAPG) System

The Colorado Department of Health Care Policy and Financing (the Department) plans to implement an outpatient prospective payment system (OPPS) to reimburse for Medicaid hospital services in CY 2017. The Department's goals with this change include:

- More accurately classify the full range of outpatient service episodes;
- More accurately account for the intensity of services provided; and
- Motivate outpatient service providers to increase efficiency and effectiveness.

There are two OPPS methodologies with wide use and general acceptance throughout the hospital community. Those methodologies are: Enhanced Ambulatory Patient Groupings (EAPGs) and Ambulatory Patient Classifications (APCs).

With the assistance of our contracted vendor, Public Consulting Group (PCG), the Department has conducted research on national best practices related to the implementation of and applicability of the EAPG and APC systems to other Medicaid programs. Additionally, the Department and PCG solicited feedback from representatives of the hospital community and the Colorado Hospital Association (CHA).

Discussions with the CHA and members of the Colorado hospital community began in December 2013. Open meetings were held on January 7 and January 21, 2014 to discuss the options for a new outpatient hospital reimbursement methodology. The options, including pros and cons of each system, were presented and discussed. Hospital representatives from large, urban hospitals, specialty hospitals, as well as small, rural hospitals participated in these open meetings.

Additionally, on February 4, 2014, representatives from 3M™ joined the meeting to further describe the functionality of the EAPG and APC systems, since 3M™ designs and licenses versions of both systems for states and hospitals.

Throughout the meetings, the groups provided feedback about the systems. Additionally, questions were addressed regarding the applicability of the new method to Critical Access Hospitals and special patient populations, such as rehabilitation or pediatric populations. There is a report document that complements this memo for further reference and review.

Based on these efforts with PCG, CHA, hospital representatives, and 3M™, the Department plans to implement the EAPG prospective payment reimbursement system in CY 2017.

The Department believes that the implementation of EAPGs is the best option for the Department, Colorado hospitals, and Colorado Medicaid beneficiaries for a number of reasons:

EAPGs are designed to reimburse for all patient population groups.

The APC system was designed for the Medicare population reimbursement. However, the EAPGs were designed to address all patient populations, including the Medicaid population.

EAPGs reimbursement is based on the types and the extent of services provided.

Reimbursement using EAPGs is based on the diagnosis and procedure codes included in the claim. Claims are reimbursed according to the patient's health needs and resources used. This methodology adds clinical definition and meaning to the outpatient hospital reimbursement.

EAPGs leverage data submitted to the Department on the outpatient claim form.

EAPGs are assigned using diagnosis and procedure codes submitted on a typical UB-04 claim form. Therefore, there should not be an increased administrative burden to hospitals related to the implementation of the EAPG system. Additionally, EAPGs are ICD-10 ready.

EAPGs are suitable for other outpatient setting.

In addition to outpatient hospital reimbursement, EAPGs can be implemented for free-standing ambulatory surgery centers (ASCs), clinics, dialysis centers, and other ambulatory care settings.

EAPGs cover the full spectrum of outpatient services.

Although Colorado can choose to pay for specific types of services using a fee schedule, the EAPG system has the capability to accommodate all possible services provided in the outpatient hospital setting.

EAPGs increases payment consistency and improves budget planning.

An EAPG and a corresponding standard weight is assigned on every line of an outpatient hospital claim. This means that different hospitals will be reimbursed similarly for similar services. As a prospective payment system, there will be no future cost reconciliation process.

Additionally, as a 3M™ product, the EAPG system interfaces with other 3M™ tools that can be used to identify potentially preventable events. These tools could be used in the future for reporting and/or payment purposes.

Finally, hospitals will not be required to purchase the EAPG software to facilitate the implementation of EAPGs. The EAPG grouper specific to Colorado Medicaid will assign the EAPGs to the claim lines and calculate the payment within the Department's MMIS system. Hospitals may choose to purchase the EAPG grouping software allowing them to project revenue. The Department and the CHA are reaching out to 3M™ to negotiate licensing fees reasonable for Colorado hospitals, including tiered pricing to accommodate small, rural hospitals.

The Department looks forward to continuing to work with the CHA and hospital representatives throughout the EAPG implementation process over the next several months. If you have any questions or comments, please contact Ana Lucaci at 303-866-6163 (ana.lucaci@state.co.us) or Elizabeth Lopez at 303-866-6018 (elizabeth.lopez@state.co.us).