



Musculoskeletal Clinical
Regulatory Advisers, LLC

CMS Releases FY 2017 Medicare Hospital Inpatient Prospective Payment System (IPPS) Proposed Rule

CMS released the fiscal year (FY) 2017 Medicare Hospital Inpatient Prospective Payment System (IPPS) Proposed Rule and rates on April 18, 2016. Based upon the public display copy of the proposed rule, CMS will accept public comments on the rule until 5:00pm EDT June 17, 2016.

The provisions and payment rates described within this Rule will be effective for all applicable hospital inpatient and long-term care discharges on or after October 1, 2016. The cumulative estimated impact to Medicare spending on inpatient services for FY 2017 is a net increase of \$539 million.

Provisions of this proposed rule, particularly those most applicable to the orthopedic industry, are highlighted within this summary. Please contact MCRA if you would like more information or additional analysis specific to your technology and market.

General Provisions

Final Year of Recoupment Under the American Taxpayer Relief Act – FY 2017 will be the final year of the statutorily required recoupment of \$11 billion of documentation and coding overpayments that began in FY 2008. The proposed adjustment for FY 2017 is -1.5%, which is an increase from the -0.8% adjustment applied in FYs 2015 – 2016.

Two-Midnight Policy Update – CMS is proposing to permanently remove the 0.2% reduction to payment rates that was established in 2014 to offset the estimated increase in IPPS expenditures due to the Two-Midnight policy. This proposal was made in light of recent actuarial review and the unique circumstances of the situation, which include a lawsuit brought by hospitals challenging the -0.2% reduction (Shands Jacksonville Medical Center, Inc. v. Burwell). To address the effects of the 0.2% reduction established in FYs 2014 – 2016, CMS is proposing a temporary rate increase of 0.6% to the national capital Federal rate for FY 2017 only. This proposed Rule change amounts to a 0.8% increase for FY 2017 payments.

Hospital Readmissions Reduction Program – For FY 2017 and subsequent years, payment reductions to a hospital's base DRG will be based on a hospital's risk-adjusted readmission rate during a three-year period for six selected conditions, including total hip arthroplasty/total knee arthroplasty. Excess readmission rates will be posted to the CMS *Hospital Compare* website.

Hospital Inpatient Quality Reporting Program – CMS is proposing to add four new claims-based measures, including a spinal fusion clinical episode-based payment measure, for FY 2019 and subsequent years.



Musculoskeletal Clinical
Regulatory Advisers, LLC

Notification for Outpatients Receiving Observation Services – CMS is proposing that hospitals would be required to use a standardized Medicare Outpatient Observation Notice (MOON) for written notification to each patient who is receiving observation services as an outpatient for more than 24 hours. This notice would also provide an explanation of the implications of receiving observation services as an outpatient, such as those related to cost-sharing requirements and eligibility for Medicare-covered skilled nursing facility care.

Proposed Changes to MS-DRG Classification & Weights

For FY 2017, CMS used the established methodology of calculating MS-DRG relative weights from two data sources: the FY 2015 MedPAR file (claims data) and the FY 2014 HCRIS file (cost report data).

Charges from claims were adjusted to costs by applying the 19 national average cost-to-charge ratios (CCRs) developed from cost reports.

Requested and proposed changes to the relevant orthopedic MS-DRG category—Major Diagnostic Category 8 (Diseases and Disorders of the Musculoskeletal System and Connective Tissue) are described below. MCRA’s analysis of the proposed changes revealed no significant changes to orthopedic hospital inpatient procedures coded and paid under ICD-10 MS-DRGs Version 34, effective October 1, 2016.

Total Ankle Replacement – CMS received a request to create a new MS-DRG for total ankle replacement procedures, which are currently assigned to MS-DRGs 469 and 470. After considering analysis and clinical recommendations, CMS determined that the data do not support creating a new total ankle replacement MS-DRG.

Revision of Total Ankle Replacement – CMS received a request to modify the MS-DRG assignment for revision of total ankle replacement procedures. Based on its analysis, CMS is proposing to maintain the current MS-DRG assignment.

Hip Replacement with Fracture Principal Diagnosis – CMS received several requests to remove hip replacement procedures with a principal diagnosis of hip fracture from MS-DRGs 469 and 470, but determined that the claims data do not support creating a new MS-DRG for this status.

Combination Codes for Removal/Replacement of Knee Joints – CMS received several requests to examine whether additional combinations of procedure codes for the removal and replacement of knee joints should be added to MS-DRGs 466, 467, and 468. This request was based on the accurate replication of ICD-9-based MS-DRGs to ICD-10 MS-DRGs. CMS agreed with this request and is proposing to add 58 new code combinations to capture these joint revisions.



Musculoskeletal Clinical
Regulatory Advisers, LLC

Decompression Laminectomy – Under ICD-10-PCS, a decompression laminectomy is coded for as the “release” of a specified area of the spinal cord. These decompression codes are assigned to MS-DRGs 028, 029, and 030 and to MS-DRGs 518, 519, and 520. A commenter noted that codes describing the release of a specific peripheral nerve are assigned to MS-DRGs 515, 516, and 517. To address this inconsistency, CMS is proposing to reassign several of these procedure codes to MS-DRGs 028-030 and 518-520.

Lordosis – To correct an ICD-10 replication issue, CMS is proposing to remove four lordosis diagnosis codes from the secondary diagnosis list.

Proposed Add-On Payments for New Services & Technologies

Under the IPPS, add-on payments can be made for new medical services or technologies that meet the established criteria. CMS reviewed nine applications for new technology add-on payments for FY 2017.

Relevant orthopedic and wound care applications are described below. Public comment is requested on these applications, and final decisions will be posted in the final Rule.

MAGEC® Spinal Bracing and Distraction System – This technology system is used in the treatment of children diagnosed with severe spinal deformities, such as scoliosis. CMS expressed concern that MAGEC® may not represent a substantial clinical improvement over existing technologies.

MIRODERM Biologic Wound Matrix – MIRODERM is a non-crosslinked acellular wound matrix derived from porcine liver that is indicated for the management of wounds. CMS believes that the mechanism of action may be substantially similar and expressed concern that the clinical data is from a very small sample with no comparisons to other approved wound treatment matrices.

Titan Spine Endoskeleton® nanoLOCK™ Interbody Device – The Titan Spine nanoLOCK™ is an interbody medical device used to treat degenerative disc disease. CMS believes that the technology is substantially similar to existing technologies and is seeking comments on this and additionally whether it meets the newness criterion.

Proposed FY 2017 MS-DRG Payment Rates

CMS calculated the proposed “applicable percentage increase” for FY 2017 based on a projected hospital market basket update of 2.8%. Additional adjustments to the increase will be made depending on whether a hospital has submitted quality data as part of the Hospital Inpatient Quality Reporting (IQR) Program and whether the hospital is a meaningful electronic health record (EHR) user. Further adjustments of -0.5% for multi-factor productivity and -0.75% in accordance with the Affordable Care Act will also be made.



Musculoskeletal Clinical
Regulatory Advisers, LLC

As described above, CMS is also proposing a -1.5% reduction for the required documentation and coding recoupment and a proposed increase of approximately 0.8% resulting from the Two-Midnight policy change. CMS projects that the rate increase, together with other proposed changes to IPPS payment policies, will increase IPPS operating payments by approximately 0.7%.

Appendix

Table 1: Proposed FY 2017 Applicable Percentage Increases for IPPS

FY 2017	Hospital Submitted Quality Data and is a Meaningful EHR User	Hospital Submitted Quality Data and is NOT a Meaningful EHR User	Hospital Did NOT Submit Quality Data and is a Meaningful EHR User	Hospital Did NOT Submit Quality Data and is NOT a Meaningful EHR User
Proposed Market Basket Rate-of-Increase	2.8	2.8	2.8	2.8
Proposed Adjustment for Failure to Submit Quality Data	0.0	0.0	-0.7	-0.7
Proposed Adjustment for Failure to be a Meaningful EHR User	0.0	-2.1	-0.0	-2.1
Proposed Multifactor Productivity (MFP) Adjustment	-0.5	-0.5	-0.5	-0.5
Statutory Adjustment (Affordable Care Act)	-0.75	-0.75	-0.75	-0.75
Proposed Applicable Percentage Increase Applied to Standardized Amount	1.55	-0.55	0.85	-1.25



Musculoskeletal Clinical
Regulatory Advisers, LLC

Table 2: Proposed National Adjusted Amounts

Labor/Nonlabor (62% Labor Share/38% Non-Labor Share if Wage Index \leq 1) Quality Data and Meaningful EHR User (1.55%)	
Labor-Related	\$3,417.31
Nonlabor-Related	\$2,094.48
Capital Standard Federal Payment Rate	\$446.35

About Musculoskeletal Clinical Regulatory Advisers, LLC (MCRA)

Musculoskeletal Clinical Regulatory Advisers, LLC (MCRA) is the leading adviser and clinical research organization to the medical device industry. MCRA's value lies in its industry experience and integration of five business value creators: regulatory, reimbursement, clinical research, healthcare compliance and quality assurance. MCRA's integrated approach of these key value creation initiatives provides unparalleled expertise for its clients. MCRA has offices in Washington, DC, Manchester, CT and New York, NY.

If you would like more information regarding these proposed changes and their impact for your technology and market space, please contact Daria Schuman, Director of Reimbursement, via telephone at 202.552.5806 or via electronic mail at dhschuman@mcra.com.

If you would like more information regarding MCRA's service offerings, please contact Amanda Tracy, Vice President for Global Market Development via telephone at 949.542.7648 or via electronic mail at abtracy@mcra.com.