



Office of the Actuary

DATE: July 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. In an earlier memorandum, we had explained our estimates both originally (June 2013) and for the proposed rule. This memorandum summarizes the Office of the Actuary’s (OACT’s) final estimate of the reductions to the IPPS rates that would be necessary to achieve the \$11 billion in savings during FYs 2014-2017, including OACT’s current estimate of the necessary adjustment for FY 2017, which is the value that is finalized in the FY 2017 IPPS update rule. This memorandum also includes a description of the methodology used to develop this estimate.

For the projections from the Midsession Review of the President’s FY 2017 Budget (completed in June 2016), we included the impact of the ATRA legislation. The following table shows the calculation we performed to determine the necessary reductions to the IPPS rates to achieve the \$11 billion in savings during FYs 2014-2017. Since there had been reductions of 0.8 percent for the first 3 years, it is now 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 estimate would be affected based on our current assumptions, along with the amount of savings generated by the reductions each year. (Dollar amounts are in millions.)

FY	Estimated amount with reduction	Estimated amount before reduction	Estimated savings
2014	\$122,844	\$123,826	\$980
2015	122,483	124,450	1,970
2016	124,020	127,020	3,000
2017	126,403	131,402	5,000
Total			10,950

The estimates in the column labeled “Estimated amount with reduction” come from unpublished output from the Midsession Review of the President’s FY 2017 Budget and reflect the projected spending for operating costs, indirect medical education,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 \$123,826 is the result of \$122,844 multiplied by 1.008.) The savings are the difference between the two sets of figures (rounded to the nearest \$10 million). The last year is based on a 1.5-percent reduction, which gave us a total

savings closest to \$11 billion. These estimates were based on the most recent Medicare cost reports, data from the IPPS impact file, and projected increases in utilization and case mix.

The final estimates of payment rate adjustment factors are described in the table below.

Final Estimate Values				
FY	MB	Productivity	Update	Discharges
2014	2.5	0.5	1.7	11,278
2015	2.9	0.5	2.2	11,163
2016	2.4	0.5	1.7	11,016
2017	2.7	0.3	1.65	11,108

The columns labeled “MB” (market basket) and “Productivity” are based on the final projections used in those years. 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.

These estimates are based on the Midsession Review of the President’s FY 2017 Budget. They include (i) the final market basket and productivity values that are contained in the final 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 finalized in the rule.

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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