Industrial Commission of Arizona

Staff Recommendations and Request for Public Comment
for
2017/2018 Arizona Physicians' and Pharmaceutical Fee Schedule

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I. INTRODUCTION

The information contained in this document is on a review of the following documents: 1) *Arizona Physicians & Pharmaceutical Fee Schedule 2016*, a fee schedule administered by the Industrial Commission of Arizona (ICA) that surveys workers' compensation fee schedules from seven states to calculate reimbursement values *2) CY 2017 Medicare Physician Fee Schedule (MPFS),* an RBRVS based reimbursement fee schedule used by Centers of Medicare and Medicaid Services (CMS) *3) 2017 OPTUM 360, The Essential RBRVS Fee Schedule 4) FY 2015 Office of Workers' Compensation Programs (OWCP), 5) FSY 2015 National Council on Compensation Insurance (NCCI) claims data,* a report providing utilization data for procedure codes under review *6) 2014 Anesthesia Base Units (unchanged for 2016),* a schedule comprising of base units used by CMS to compute allowable amounts for anesthesia services *7) 2016 Clinical Diagnostic Laboratory Fee schedule,* a fee schedule maintained by CMS that identifies state specific rates for pathology and laboratory services.

This document includes the methodology of transitioning to an RBRVS fee schedule, setting values of new codes and current codes from Anesthesia, Surgery, Radiology, Pathology/Laboratory, Medicine, Physical Medicine, Special Services, Evaluation and Management, and Category III.

It is important to note that this is a preliminary document that is intended to serve as a foundational document for public comment and future discussions that may arise during the public hearing process. Following the public hearing process, Commission staff will provide supplemental information to the Commissioners, including a summary of the public comments received and staff recommendations. The Commissioners, at a later duly noticed public meeting, will take official action, which will be incorporated in the 2017/2018 Fee Schedule.

For copyright reasons, the Commission is not permitted to include in its Fee Schedule, the descriptors associated with five-digit *CPT*® codes.

II. RECOMMENDATIONS AND REQUEST FOR PUBLIC COMMENT REGARDING THE 2017/2018 PHYSICIANS' AND PHARMACEUTICAL FEE SCHEDULE

A. Statement of Issues Under Consideration

1. Methodology to Determine the Values of Codes Under Review:

The Commission has transitioned to an RBRVS reimbursement system which calculates fee by multiplying resources required to perform a service with a dollar value conversion factor. The RBRVS fee schedule used the following two-step methodology to compute reimbursement values for all service codes included in the 2016 ICA Fee Schedule:

1. Assign RVUs to each service code

The first step in transitioning to an RBRVS based fee schedule required the development of RVUs for each service code included in the current Arizona workers' compensation fee schedule. This was done using one of the five methods stated below:

a. RVUs in the Medicare Physician Fee Schedule and BUs in the Anesthesia Base Units schedule

   The Medicare Physician Fee Schedule (MPFS) is an RBRVS fee schedule used by CMS to reimburse Medicaid physician cost. It consists of RVUs created by the American Medical Association (AMA). The CY 2017 MPFS was used as the preliminary source of assigning RVUs to all service codes. In addition to the main MPFS, the Anesthesia Base Units schedule, a separate fee schedule maintained by CMS, was used to assign units to all anesthesia service codes included in the Arizona workers' compensation fee schedule.

   After this step, the codes remaining were either Arizona-specific codes, CPT codes without published RVUs, or codes not included in the MPFS. Following are the four alternate methods that were used to assign RVUs to the remaining codes.

b. RVUs in the 2017 OPTUM 360, *The Essential RBRVS* Fee Schedule

   The Optum 360 Essential RBRVS consists of all codes valued by CMS, as well as relative values for "gap" codes not valued by CMS for the Medicare Physician Fee Schedule. The Essential RBRVS was used as the secondary source of assigning RVUS to all "gap" codes that were not found in the MPFS.

c. RVUs in the Office of Worker's Compensation Program Fee Schedule

   The third method used the Federal Department of Labor's Office of Workers' Compensation Program (OWCP) FY 2015 fee schedule to supply RVUs for all the remaining codes. The OWCP, uses the same measure as the MPFS to reimburse medical services based on relative value units (RVUs) and was used to generate RVUs for most of the remaining codes not found in the MPFS or the Optum Essential RBRVS.

d. Calculated Using Maximum Allowable Rates (Clinical and Diagnostic Laboratory fee schedule)

This method was used to assign RVUs to most pathology and laboratory service codes included in the current Arizona fee schedule. The 2016 Clinical and Diagnostic Laboratory (CDL) fee schedule publishes state specific dollar value reimbursements for pathology and laboratory service codes. RVUs were created for these dollar values by dividing them with the current CMS conversion factor.

e. Back-filling

Lastly, the back-fill method was used to assign RVUs to all service codes that had a current ICA rate but could not be assigned RVUs using the four methods stated above. This method involved backing into overall RVUs using the current ICA rate. Dividing the current ICA rate by the budget neutral conversion factor delivered RVUs for these remaining codes.

2. Conversion factor

Once RVUs were assigned to all service codes, the next step involved using an Arizona-specific conversion factor to calculate dollar value reimbursement rates for those relative unit values. A multiple conversion factor model was identified as most feasible for use in the ICA fee schedule consisting of one conversion factor for Anesthesia services, one for Surgery and Radiology and a third for all remaining service categories including E&M, Pathology and Laboratory, Physical Medicine, General Medicine, Special Services and Category III services.

To arrive at the conversion factor, payments were calculated based on the 2015 workers' compensation claims and ICA rates to estimate the expected payments, considering all claims were paid according to the ICA rate. These estimated payments were then divided by the total RVUs utilization to calculate the three conversion factors. Additionally, a 15% reduction in combined surgery and radiology reimbursements was incorporated in this model to minimize the massive cut in total reimbursements for surgery and radiology, and resulting in a more balanced distribution of payments across all service categories. Below are the three conversion factors computed using this model which were ultimately used in calculating the rates for all service codes to be included in the RBRVS fee schedule:

RBRVS Conversion Factors		
Surgery/Radiology	**$**	**82.38**
All Other	**$**	**64.63**
Anesthesia	**$**	**58.10**

The above mentioned methodology does not apply to following:

a. If a service code could not be assigned an RVU using the methods stated earlier, then the code may be identified as RNE (Relativity Not Established) or BR (By Report).
b. Codes specific to Arizona, the value of which may be determined through the hearing process.

c. Codes otherwise designated as BR or Not covered.

The following recommendations have been implemented and are reflected in this year's staff report:

a. The RBRVS based fee schedule adopts surgical global periods published by CMS, replacing those published by Optum.
b. The RBRVS based fee schedule continues to assign RVUs to consultation services, recognizing the functional importance of these services. However, these consultation service codes will observe the bundling principles used by CMS to avoid excessive reimbursement rates.
c. The RBRVS based fee schedule does not incorporate a geographic adjustment factor (GAF), but instead uses the Arizona-specific conversion factor to adjust payment for the state.
d. All CPT codes that contain explanatory language specific to Arizona will continue to be preceded by Δ. Codes, however, that are unique to Arizona and not otherwise found in the CPT are preceded by an AZ identifier and numbered in the following format: AZ0xx-xxx.
e. Reimbursement rates have been generated for only those designated BR and RNE codes for which RVUs could be established under an RBRVS fee schedule.

2. Methodology to Update the Values of Codes:

The RBRVS fee schedule will use the same two-step methodology stated above to update reimbursement values for all service codes for years following 2017.

1. Assign RVUs to each service code

The first step in updating the RBRVS fee schedule will require updating RVUs for each service code included in the current Arizona RBRVS fee schedule. This will be done using one of the five methods stated below:

a. RVUs in the Medicare Physician Fee Schedule and BUs in the Anesthesia Base Units schedule. The CY 2018 MPFS will be used as the preliminary source of assigning and updating RVUs for all service codes. In addition to the main MPFS, the Anesthesia Base Units schedule, a separate fee schedule maintained by CMS, will be used to assign and update units for all anesthesia service codes included in the Arizona RBRVS fee schedule.

   After this step, the codes remaining will use the following f alternate methods to update RVUs for the remaining codes.

b. RVUs in the Optum 360 *Essential RBRVS*
   The second method will use the Essential RBRVS to assign and update RVUs for all "gap" codes not found in the MPFS.

c. RVUs in the Office of Worker's Compensation Program Fee Schedule
The third method will use the Federal Department of Labor's Office of Workers' Compensation Program (OWCP) FY 2017 fee schedule to supply and update RVUs for all the remaining codes.

d. Calculated Using Maximum Allowable Rates (Clinical and Diagnostic Laboratory fee schedule)
This method will be used to update RVUs for most pathology and laboratory service codes included in the current Arizona fee schedule, using the 2017 Clinical and Diagnostic Laboratory (CDL) fee schedule.

e. Back-filling
Lastly, the back-fill method will be used to assign RVUs to all service codes that have a current rate but could not be assigned RVUs using the four methods stated above. This method will involve backing into overall RVUs by dividing the current rate by the updated conversion factor.

2. Conversion factor

Once RVUs are updated for all service codes, the next step will involve using an Arizona-specific conversion factor to calculate dollar value reimbursement rates for those relative unit values. The fee schedule will continue using a multiple conversion factor model, consisting of one conversion factor for Anesthesia services, one for Surgery and Radiology and a third for all remaining service categories including E&M, Pathology and Laboratory, Physical Medicine, General Medicine, Special Services and Category III services.

To arrive at the new conversion factor, payments will be calculated based on the most recent available compensation claims and RBRVS rates to estimate the expected payments, considering all claims were paid according to the RBRVS rate. These estimated payments will then be divided by the total RVUs' utilization to calculate the three conversion factors. These conversion factors will then be used in calculating the rates for all service codes.

3. <u>Adoption of Physician's as Assistants at Surgery: 2016 Update</u>.

This is the publication that addresses when and what surgical procedures typically require second and third surgical assistants. This is the seventh edition of *Physicians as Assistants at Surgery*, a study first undertaken in 1994 by the American College of Surgeons and other surgical specialty organizations. The study reviews all procedures listed in the "Surgery" section of the 2016 American Medical Association's Current Procedural Terminology (CPT TM).

This table presents information about the need for a physician as an assistant at surgery. Also, please note that an indication that a physician would "almost never" be needed to assist at surgery for some procedures does NOT imply that a physician is never needed. The decision to request that a physician assist at surgery remains the responsibility of the primary surgeon and,

when necessary, should be a payable service. It should be noted that unlisted procedure codes are not included in this table because by nature they are undefined and vary on a case-by-case basis.

The Commission has adopted the Global Service Data publication (published by American Academy of Orthopedic Surgeons (AAOS)) as a reference for orthopedic surgery. The Global Service Data makes reference to the 2016 Physicians As Assistants at Surgery in the most recent adopted publication.

4. Designation of Medi-Span as the Publication for Purposes of Determining Average Wholesale Price ("AWP").

Medi-Span® is the publication currently used for determining AWP under the Pharmaceutical Fee Schedule. Staff recommends that this publication continue to be used for this purpose.

5. Payment to treating providers who participate in healthcare, preferred provider organization, outcome based network, or specialty networks.

The Commission is reviewing the issue of payment under the Arizona Physicians' and Pharmaceutical Fee Schedule to treating providers that participate in healthcare, preferred provider organization, outcome based network, or specialty networks. The Commission proposes to include the following language in the 2017-2018 Physician's and Pharmaceutical Fee Schedule:

A provider that participates in a healthcare, preferred provider, outcome-based, or specialty network and that delivers medical treatment and/or services to an injured worker in Arizona's workers' compensation system must receive no less than ninety percent (90%) of: (1) the Arizona Physicians' and Pharmaceutical Fee Schedule allowable amount for the provided medical treatment and/or services, or (2) the full value of any discounted rate negotiated between the payer and the network. A network seeking to retain a portion of amounts paid for provided medical treatment and/or services must have a written contract of participation with the subject provider that includes an up-to-date disclosure of rates based on the current Physician's and Pharmaceutical Fee Schedule and/or any discounted rates negotiated between the network and a payer. A network that does not have a written contract of participation with a provider (that includes an up-to-date disclosure of rates based on the current Physician's and Pharmaceutical Fee Schedule and/or any discounted rates negotiated between the network and a payer) is prohibited from retaining any potion of amounts paid for the provided medical treatment and/or services. Under no circumstances is a network permitted to retain more than 10% of the full amount paid for provided medical treatment and/or services. The terms "payer" and "provider" shall have the definitions stated in A.A.C. R20-5-1302.

B. Adoption of Deletions, Additions, General Guidelines, and Identifiers of the *CPT*®-4.

This document includes a review of deletions and additions to the CPT®-4. It is intended to conform the Fee Schedule to the changes that have taken place in the 2017 edition of the CPT®-

4. The recommended reimbursement values associated with each code are computed using the RBRVS reimbursement methodology.

C. Updates to the Adopted *CPT*® Codes

All *CPT*® codes have been reviewed in this staff report. Staff is recommending the adoption of the changes contained in Tables 1 through 5, which are found in the accompanying Excel file.

Further, as part of this process, and to improve the clarity of the information presented, *CPT*® codes that contain explanatory language specific to Arizona will continue to be preceded by Δ. Codes, however, that are unique to Arizona and not otherwise found in *CPT*®-4 are preceded by an AZ identifier (which replaces the Δ identifier) and numbered in the following format: AZ0xx-xxx.

Lastly, in establishing the follow-up days for adopted codes in the RBRVS based Fee Schedule, the Commission adopts surgical global periods published by CMS, replacing those published by Optum.