## **OB/GYN Reimbursement Rate Methodology White Paper**

This report deals with specific obstetric codes that were removed from the state-wide Resource Based Relative Value Scale methodology (RBRVS) in 2004 and subject to an enhanced rate setting methodology determined by the legislature.

The RBRVS methodology stayed in place since 2004 for other provider types. The RBRVS methodology assigns a relative value to a procedure which is adjusted by geographic factor for factors such as physician work, practice expense and malpractice expense. The rate is then multiplied by a fixed conversion factor. In addition to Medicaid, this method is partially used by Medicare to determine payment for services.

This analysis does not include hospital reimbursements for items such as room charges. Hospital charges were not included in the enhanced rate method established by the legislature. This analysis also does not address NICU rates or costs as these also were not included in the legislative enhanced rates.

## **Legislative History of Enhanced Obstetric Reimbursement**

In 2004, an enhanced obstetric reimbursement method was created by the 2004 Special Session of the Legislature to reduce some economic pressure on providers of obstetric services during a period of rising malpractice premiums and a non-competitive malpractice insurance market. This method differed substantially from the Resource Based Relative Value System that was in place in 2004 for most other Medicaid provider types.

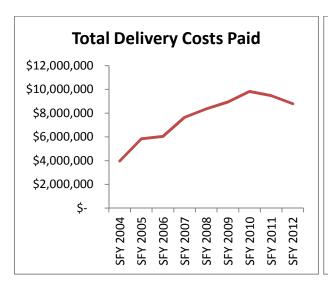
Engrossed Original Senate File 1009 Section 1 states:

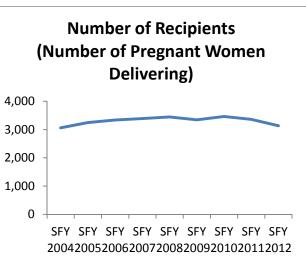
"For the period commencing July 1, 2004 and ending June 30, 2006, services authorized under the Wyoming Medical Assistance and Service Act involving the delivery of a child, including prenatal and postpartum care related to the delivery, shall be reimbursed at ninety percent (90%) of the statewide average of the physician's specialty for the services provided as of July 1, 2004, not to exceed one hundred percent (100%) of the provider's usual and customary billed charges."

In 2006, HB 80 extended this enhanced reimbursement method until June 30, 2008. In 2008, a budget footnote was added to the Department of Health budget extending the authorization to June 30, 2010. The authorizations and directions from the legislature regarding obstetric reimbursement expired on June 30, 2010. Governor Freudenthal asked the Medicaid agency to exempt the enhanced obstetric codes from across the board reductions. Currently, no specific authorization or direction from the legislature is in place regarding obstetric reimbursement.

## **Impact of Enhanced Obstetric Reimbursement**

The enhanced reimbursements have impacted all obstetric procedure codes<sup>1</sup> but have primarily impacted delivery costs<sup>2</sup> due to delivery being the most expensive and largest component of obstetric care. In FY 2012, delivery costs were 90% of obstetric care costs within twelve delivery procedure codes. Between FY 2004 to FY 2012, total delivery costs have more than doubled (121% increase) while then number of births on Medicaid has been relatively stable (2% increase). On a per delivery basis, the average cost per delivery has increased from \$1,299 in 2004 to \$2,829 YTD in FY 2013 (April 2013).







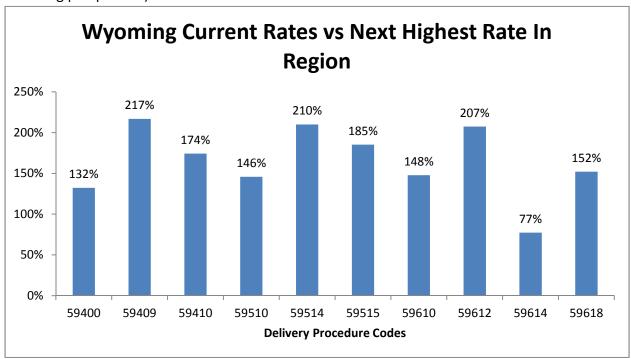
<sup>&</sup>lt;sup>1</sup> Obstetric Procedure Codes impacted by enhanced rates- 59000,59001,59015, 59025, 59051, 59400, 59409, 59410, 59412, 59414, 59425, 59426, 59430, 59510, 59514, 59515,59610, 59612, 59614,59618, 59620, 59622

<sup>&</sup>lt;sup>2</sup> Delivery Procedure Codes- 59400, 59409, 59410, 59510, 59514, 59515, 59610, 59612, 59614, 59618, 59620\*, 59622\*. (\*Not billed by any provider in FY 2012.)

Over time the fees have risen dramatically and are substantially higher than other Medicaid programs in the region. For example, procedure code 59618 (routine obstetric care – global payment) pays \$3,866 in Wyoming Medicaid, whereas the same code pays much less in surrounding states (e.g., \$1,316 in Colorado; \$2,543 in Montana). Across 22 obstetric procedure codes, Wyoming pays more than double (235%) the regional average as compared to Colorado, Montana, Idaho, South Dakota, Nebraska, and Utah<sup>3</sup>.

Proc Code	Proc Code Description	WY	СО	MT	ID	SD	NE	UT
59618	Routine Obstetric Care, Global Payment	\$3,867	\$1,316	\$2,543	\$1,783	\$1,487	\$2,216	\$1,741

Compared to Wyoming, Montana and Nebraska have the next highest rates in the region. However, Wyoming's reimbursement rates for these procedure codes are substantially higher than the next highest rate in the region for all delivery codes except 59614 (vaginal delivery including postpartum).



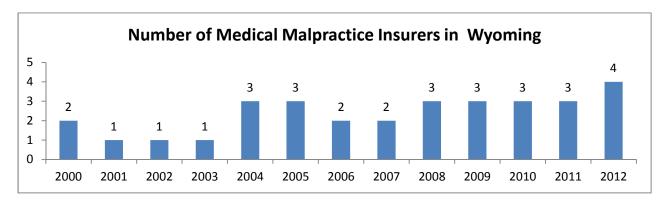
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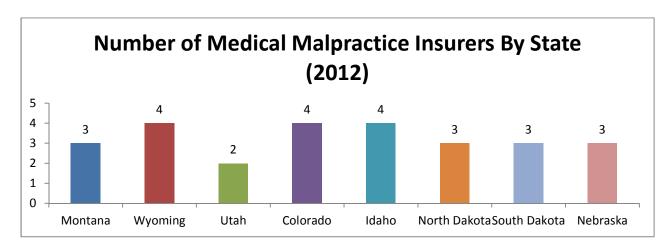
<sup>&</sup>lt;sup>3</sup> As part of this report, rates in surrounding states were surveyed in April 2013.

#### **Other Factors to Consider**

As the initial impetus for the Legislature to enhance obstetric rates was a non-competitive market for medical malpractice insurance and a spike in medical malpractice premiums for OB/GYN providers, the Division of Healthcare Financing researched whether either of these factors continued to be an issue. The Division of Healthcare Financing also investigated whether the change in obstetric reimbursement levels due to the enhanced rate was commensurate with changes in malpractice insurance<sup>4</sup>.

On the first issue, the state of Wyoming has gone from one medical malpractice insurance company issuing malpractice policies in the state in 2001, 2002, and 2003 to four medical malpractice insurers in 2012. Wyoming's market is among the most competitive (based on number of malpractice insurers in the market) in the region.

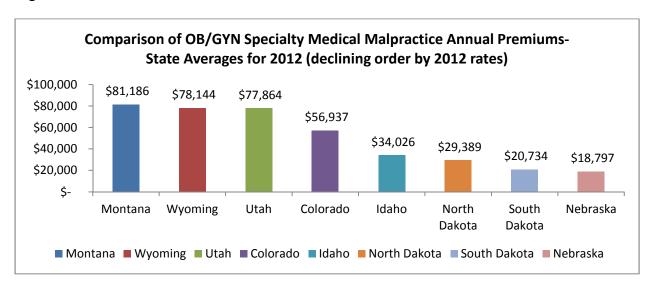




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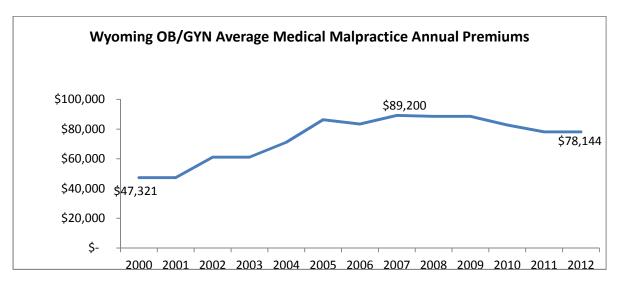
<sup>&</sup>lt;sup>4</sup> Medical Liability Monitor, Annual Rate Survey. OB/GYN specialty. Average of annual premiums.

Cost continues to be an issue in Wyoming for malpractice insurance for providers of obstetric services. Wyoming had the second highest obstetric malpractice insurance premiums in the region in FY 2012.



Increase in OB/GYN medical malpractice premiums versus increase due to enhanced obstetric reimbursement rates. OB/GYN specialty rates increased 65% from 2001 to 2012, or 28% from 2003 to 2012. Since 2007, OB/GYN specialty malpractice premiums have been stable or declined each year.

During the period from 2004-2012, the increase in reimbursement rate averaged 137% increase across the 21 obstetric rate procedure codes from FY 2004 RBRVS levels to current rate levels. This led rates to currently be 93% higher (nearly double) than they would have been if the RBRVS methodology would have been maintained (2013 RBRVS at \$37.61 conversion factor).



# **Recommendation to Discontinue 90% of Billed Methodology**

In Fall 2012, the Department of Health proposed and the Governor and Legislature accepted that a portion of the FY 2014 budget reduction from the Medicaid agency would come from ending the enhanced rates caused by the 90% of billed methodology.

Any new rate setting methodology for obstetric codes would impact the \$10,138,093 Wyoming spent on the 21 enhanced rate obstetric specific codes in FY 2012. Wyoming Medicaid is required to reduce General Fund spending on pregnancy and delivery services by \$994,614 as part of the FY 2014 budget reduction. This equates to a total reduction of \$1,989,228 when federal match is considered, or approximately a 20% reduction in expenditures. This analysis assumes service volumes are steady from FY 2012 levels in FY 2013 and FY 2014, and expenditure reductions are achieved solely through rate decreases.

Given the amount of distortion to reimbursement rates since 2004 due to legislative direction to use the 90% of billed method and the steep growth in costs this created, any rate setting method resembling other states will cause a significant percentage decrease in reimbursement rates.

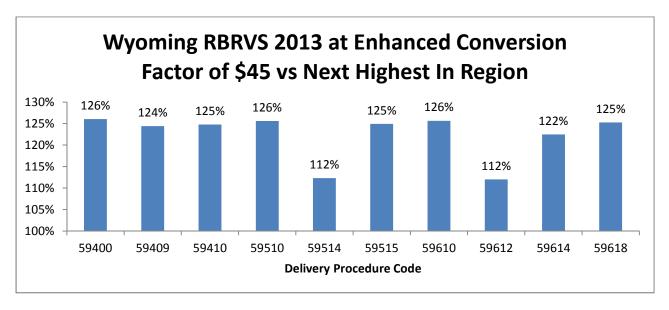
The Division of Healthcare Financing considered five methods. Of these, four methods would reduce expenditures more than necessary for the 2014 budget reduction and are not recommended at this time. The recommended method would implement a standard rate methodology with a special conversion factor to reflect the high costs of malpractice premiums for obstetric care in Wyoming.

#### SUMMARY OF RATE SETTING METHODS- RECOMMENDED

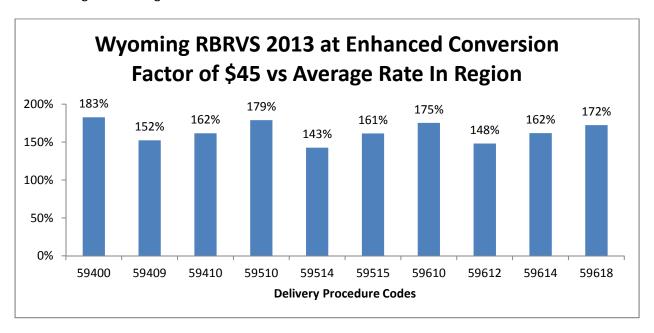
After preliminary internal analysis indicated that using RBRVS at 2009 or 2013 levels at the statewide conversion factor of \$37.61 would lead to a greater than needed reduction in obstetric rates, Wyoming retained Navigant Consulting for technical assistance in analyzing multiple years of claims data. Based on this analysis, Navigant determined that a special obstetric conversion factor of \$45 would achieve the necessary budget reduction for FY 2014 without reducing reimbursement levels more than necessary. The Navigant analysis is attached at the end of this document.

Option	Potential	Amount of Reduction
	Reduction Based	from FY 2012
	on FY 2012	Reimbursement
	Service Levels	Levels
Implement RBRVS for All Providers at 2013	*\$1,991,821	20% Reduction to in-
RVU Levels and special obstetric \$45 conversion factor-		state and out-of-state rates
<ul> <li>Implement payments based on RBRVS at 2013 levels- This option would implement the RBRVS using Medicare's 2013 Resource Value Units(RVU). The Medicare RVUs have increased for most procedure codes since 2009. Using a special enhanced conversion factor of \$45 (19.6% higher than other providers) would ensure the necessary budget reduction for FY 2014 and recognize the unique cost implications faced by obstetric providers from OB/GYN malpractice insurance.</li> </ul>		

After implementation of the recommended rate setting method, Wyoming will continue to have the highest reimbursement rate in the region for all ten delivery codes, with rates 12% to 26% higher than the next highest states (Montana and Nebraska). In addition, Wyoming's reimbursement will be the highest in the region on eight of twelve non-delivery obstetric procedure codes.



When comparing the new rates to the regional average rather than the next highest, Wyoming's recommended rates are even more favorable to providers, with reimbursement rates 43% to 83% higher than the regional average.



### SUMMARY OF OTHER RATE SETTING METHODS- NOT RECOMMENDED

Below are a number of potential rate setting options considered by the Division of Health Care Financing but not recommended because they exceed the level of budget reduction necessary for FY 2014 and will unnecessarily burden providers.

Option	Potential Reduction Based on FY 2012 Service Levels	Amount of Reduction from FY 2012 Reimbursement Levels
Implement RBRVS for All Providers at 2009 RVU Levels and \$37.61 conversion factor-  • Implement payments based on RBRVS at 2009 levels- Most payments to Wyoming Medicaid providers are based on the Medicare Resource Based Relative Value System at 2009 resource value unit levels with a conversion factor of \$37.61. Rates for a majority of providers have been fixed at these rates since 2009 as a budget control measure and Wyoming has not adjusted rates for most services since 2009. This Medicare system measures the relative resource intensity needed for a procedure or service and then is adjusted by a conversion factor.	\$4,904,121*	41% Reduction to instate and out-of-state rates
<ul> <li>Implement RBRVS for All Providers at 2013 RVU Levels and \$37.61 conversion factor</li> <li>Implement payments based on RBRVS at 2013 levels- This option would implement the RBRVS using Medicare's 2013 Resource Value Units(RVU). The Medicare RVUs have increased for most procedure codes since 2009. Using the existing conversion of \$37.61 factor would ensure comparability with other rates paid to other providers in the state.</li> </ul>	\$2,372,089*	24% Reduction to instate and out-of-state rates

Implement Max Rate in Region for each procedure code (CO,MT, ID, SD, NE, UT)  • Reduce rate on each procedure code to regional max- Wyoming could pay the regional max for each procedure code. The regional maximum for each of the 22 OB procedure codes is the rate paid in Montana (14 procedure codes) or Nebraska (8 procedure codes).	\$2,614,547**	27% Reduction to instate and out-of-state rates
Implement Average Rate in Region for each procedure code (average of CO, MT, ID, SD, NE, UT)  • Reduce rate on each service to regional average for that procedure code-Wyoming could pay the regional average for a service. This method would average the relatively high reimbursement rates in Montana and Nebraska with the relatively low reimbursements in Colorado, Utah, South Dakota and Utah. This method results in the largest reduction in Wyoming reimbursement rates.	\$4,652,423**	48% Reduction to instate and out-of-state rates

<sup>\*</sup>Navigant Analysis

<sup>\*\*</sup>WDH Internal Analysis