Medicare Reimbursement Basics By Type Of Provider

Provider	Medicare Reimbursement System	Description	Additional Notes	Implications
Hospital	Hospital Inpatient Prospective Payment System (IPPS) (Medicare Part A)	Hospitals are paid a single lump sum for an inpatient stay. Patients are categorized into a diagnosis-related group (DRG), such as heart failure. The hospital is reimbursed based on the patient's diagnosis, not the actual cost to treat a particular patient. The DRG-based payment is designed to cover all non-physician costs including nursing care, lab tests, overhead, and treatments.	Certain quality programs can increase or decrease overall payments to a hospital: Hospital-Acquired Condition (HAC) Reduction Program Hospital Value-Based Purchasing Program	Hospitals don't benefit financially from doing extra tests or other services. They don't benefit from longer patient stays, because they aren't paid by the day. They profit when the total costs to treat a patient are less than the DRG reimbursement. They lose money if total costs exceed the DRG reimbursement.
Hospital Outpatient Department	Hospital Outpatient Prospective Payment System (OPPS) (Medicare Part B)	Hospitals are paid a single amount for a patient's outpatient procedure, but certain costs are reimbursed separately. The payment is intended to cover nursing services, medical supplies, equipment, and rooms. CMS pays separately for physician services, many drugs, some implantable devices, and certain other services.	CMS classifies services into ambulatory payment classifications (APCs) and all services classified within a single APC have the same payment rate. This payment system also applies to hospital emergency department visits unless the patient is admitted.	Outpatient departments benefit from keeping costs down on medical supplies and equipment. Providers may be more open to trying new devices if they are reimbursed separately.
Ambulatory Surgery Center	Ambulatory Surgical Center (ASC) Payment System (Medicare Part B)	ASCs are paid a single amount for a patient's surgical procedure, but certain costs are reimbursed separately. The payment is intended to include nursing services, medical supplies, equipment, and rooms. CMS pays separately for physician services, many drugs, some implantable devices, and certain other services.	The ASC payment system largely uses the same ambulatory payment classifications (APCs) as the Hospital Outpatient Prospective Payment System	Outpatient departments benefit from keeping costs down on medical supplies and equipment. Providers may be more open to trying new devices if they are reimbursed separately.
Physician Practice (includes urgent care centers)	Physician Fee Schedule (PFS) (Medicare Part B)	Medicare reimburses physicians and other health professionals such as nurse practitioners based on a fee schedule. Payment rates are determined based on the expected costs of providing a service, using a system known as the Resource-Based Relative Value Scale (RBRVS).	Physicians may receive payment increases or decreases based on certain value-based measurements. The Merit-based Incentive Payment System (MIPS) is one way CMS adjusts physician rates based on value, with metrics for quality, improvement activities, promoting interoperability, and cost. Urgent care centers also fall into this reimbursement system.	Physician practices can sometimes increase their revenue and profitability by adding new reimbursable services such as in-office diagnostic testing.

Medicare Reimbursement Basics By Type Of Provider

Provider	Medicare Reimbursement System	Description	Additional Notes	Implications
 **Clinical Lab**	Clinical Laboratory Fee Schedule (CLFS) (Medicare Part B)	Outpatient clinical laboratory services are paid based on a fee schedule. The CLFS applies to hospital outpatient labs, physician office labs, independent labs, and other provider labs. It does not apply to a hospital's inpatient testing.	A law called PAMA resulted in large phased-in cuts to payment levels for lab tests.	Clinical labs are likely to be very cost-conscious.
 **Nursing Home**	Skilled Nursing Facility Prospective Payment System (SNF PPS) (Medicare Part A)	Skilled nursing facilities (SNFs) are paid a per diem amount covering all costs. The PPS payment rates cover all costs – routine services, supplies and ancillary services, and (routine, ancillary, and capital-related costs).	Per-diem rates are established using the Patient Driven Payment Model (PDPM) for classifying patients. PDPM uses a variable per diem, with different rates at different points in the episode of care. Rates are adjusted for case mix and geographic variation in wages.	In general, nursing facilities don't benefit financially from doing extra services.
 **Assisted Living Facility**	Medicaid only	Assisted living services are not covered by Medicare. Medicaid coverage for assisted living varies by state.		
 **Home Health Agency**	Home Health Prospective Payment System (HH PPS) (Medicare Part A)	Home health agencies receive a prospective payment based on a 30-day care period. The payment is intended to cover all the provider's operating and capital costs including supplies.	Payment is based on the Patient-Driven Groupings Model, or PDGM. These groupings take into account factors including the patient's impairments and comorbidities, and the type of clinical care required. Payment is adjusted for each 30-day period of care to reflect the beneficiary's changing health conditions and needs.	Home health agencies are likely to be very cost-conscious since supplies aren't reimbursed separately.
 **DME/HME Provider**	Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) Fee Schedule (Medicare Part B)	Medicare reimburses durable medical equipment (DME) providers using a fee schedule. Medicare pays 80% of the approved amount for the rental or purchase of necessary medical equipment.	DME is also known as home medical equipment, or HME. For many categories of DME products, payment rates are set, and providers are selected, through a competitive bidding process.	DME providers will lose money if the cost of the equipment they buy from suppliers exceeds the fee schedule payment.