What is the HOPPS?
HOPPS stands for the Hospital Outpatient Prospective Payment System. This payment system, established in August 2000 by government legislation, replaced the existing fee-for-service system and is used currently by the CMS to reimburse for hospital outpatient services. Hospitals will receive a 2% reduction in their annual payment update under the HOPPS for not successfully meeting the requirements of the Hospital Outpatient Quality Data Reporting Program, a financial incentive program for hospitals to meet certain quality-control criteria in the outpatient setting.

What is the Background of the HOPPS Program?
Beginning in 1965, the Medicare program retrospectively reimbursed medical services on the basis of hospital-specific reasonable costs. As a result of this system and a Medicare-driven increase in demand for medical services, health care costs rose significantly. The federal government responded in 1983 by creating a hospital inpatient prospective payment system, better known as the DRG system. The DRG system established a fixed prospectively determined payment structure based on patient diagnosis that reimbursed all products and services used to treat a given diagnosis with a single payment. The DRG system also shifted inpatient costs in excess of the fixed payment to the hospital itself rather than to Medicare. This change placed the financial risk associated with extended patient stays on hospitals to provide efficient and less costly care. Outpatient services, which were not part of the DRG system, continued to be reimbursed with cost taken into account. This ultimately led to higher billing charges, and eventually CMS established the current HOPPS program. Thus, similar to the DRG system for inpatient usage, HOPPS is another program intended to control health care costs through a prospective bundled payment system. This program is complex and represents a challenge for the radiology community to understand and use.

How Are Payment Rates Set?
The payment rate for most medical and surgical services is found by multiplying the prospectively established scaled relative weight for the clinical APC of the service by a CF to determine the national unadjusted payment rate for the APC. The scaled relative weight for an APC measures the resource requirements of the service and is based on the median cost of services in that APC group. The CF translates the scaled relative weights into dollar payment rates. To account for geographic differences in input prices, the labor portion of the national unadjusted payment rate (60%) is further adjusted by multiplying by the hospital wage index for the area in which the hospital is located. The remaining 40% is not adjusted.

A number of factors were considered in the establishment of APC reimbursement rates. Initially, CMS used fiscal-year 1996 outpatient claims cost data for specific procedures as a basis for reimbursement, with data to be updated annually. Also considered are other expenses incurred in furnishing the service, such as anesthesia and anesthesia recovery costs, supplies, capital expenses, and costs to procure donor tissue. The cost of drugs and biologics is packaged into the APC as well, though some new drugs may be eligible for special treatment through transitional pass-through payments. There are also specific exceptions for...
such diverse items as corneal tissue acquisition, blood and blood products, casting and splints, immunosuppressive drugs for organ transplantation, and other similarly and infrequently used drugs.

**What Are Some Additional Sources of Reimbursement in the HOPPS?**

Congress has allowed some additional sources of reimbursement through the Balanced Budget Refinement Act. Initially, the act provides pass-through payments for new drugs, devices, and biologics during the first 2–3 years that the product is on the market. In addition, transitional-corridor payments were added to compensate for patients with unusual expenses or for hospital costs that exceeded the APC rate. Finally, CMS created a special group of new-technology APCs for new services or procedures.

**Where Can I Find More Information?**

For more information about the HOPPS, please refer to the CMS Web site: www.cms.gov.

**Disclosures:** Pina C. Sanelli—UNRELATED: Consultancy: Maquet Cardiovascular LLC.

**References**

1. Social Security Act, Pub L No. 74-271 Title 18, Sec. 1833
2. Balanced Budget Act, Pub L. No. 74-271, H.R. 2015, Title IV
3. Balanced Budget Refinement Act, H.R. 3194, Public Law No. 106-113, Title II, Subtitle A