UNITED STATES
GENERAL ACCOUNTING OFFICE

Effect Of Certain Policies And Procedures Of Blue Cross And Blue Shield Of Greater New York On Reasonable Charge Reductions Under Part B Of Medicare

Social Security Administration
Department of Health, Education, and Welfare

MWD-76-12

AUG 1 1975

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

MANPOWER AND WELFARE
DIVISION

B-164031(4)

AUG 1 1975

The Honorable Elizabeth Holtzman
House of Representatives

Dear Ms. Holtzman:

Pursuant to your request of August 26, 1974, we are reviewing reasonable charge reductions and related matters under Part B of Medicare as administered by Blue Cross and Blue Shield of Greater New York.

On March 5, 1975, we discussed with you the results of our work to date. As requested, we are furnishing you with this preliminary report on the results of some of our work to date. Another report will be issued to you when we complete our review.

As you requested, we did not afford Blue Cross and Blue Shield of Greater New York or Bureau of Health Insurance (BHI), Social Security Administration, officials an opportunity to formally review and comment on this report. However, we have discussed some of the matters contained in this report with BHI officials during the review and their comments have been incorporated where appropriate.

Sincerely yours,

Gregory J. Ahart
Director

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ABBREVIATIONS

BHI	Bureau of Health Insurance
GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
SSA	Social Security Administration
TUR	Transurethral prostatectomy

EFFECT OF CERTAIN POLICIES AND PROCEDURES OF BLUE CROSS AND BLUE SHIELD OF GREATER NEW YORK ON REASONABLE CHARGE REDUCTIONS UNDER PART B OF MEDICARE

BACKGROUND

Pursuant to Congresswoman Holtzman's request of August 26, 1974, we have reviewed reasonable charge reductions and related matters under Part B of Medicare in a 16-county area of southeastern New York, with particular emphasis on Kings County. Blue Cross and Blue Shield of Greater New York (Blue Cross-Blue Shield) is the Medicare carrier responsible for administering the program in the area.

On March 10, 1975, the Congresswoman requested that we provide her with a preliminary report covering the impact of reasonable charge reductions on the standards of living of Kings County beneficiaries and the policies and procedures of Blue Cross-Blue Shield for

--processing claims submitted by Medicare beneficiaries and suppliers of services, including those claims with more than one surgical service but treated as one service (lump coded) by Blue Cross-Blue Shield, and

--identifying and excluding extraordinary charges (token and extreme) which may distort future reasonable charge determinations.

This report is in response to the March 10, 1975, request. A later report will cover the other matters discussed in the August 26, 1974, letter.

Title XVIII of the Social Security Act (42 U.S.C. 1395), enacted on July 30, 1965, established the Medicare program, effective July 1, 1966, to provide eligible persons over age 65 with protection against the costs of health care services. The Social Security Amendments of 1972 (86 Stat. 1329) extended Medicare protection (effective July 1, 1973) to (1) individuals who have received social security cash benefits for at least 24 consecutive months because they were disabled and (2) eligible individuals under 65 suffering from chronic renal disease severe enough to require a regular course of dialysis or a kidney transplant.

Part B, Supplementary Medical Insurance Benefits for the Aged and Disabled, is a voluntary insurance plan which covers payments, based on reasonable charges, for medical and surgical services.

PAYMENTS FOR SERVICES ON THE BASIS OF REASONABLE CHARGES

The act provides that, in determining the reasonable charges for services, consideration shall be given to physicians' or suppliers' customary charges for similar services, as well as to the prevailing charges for similar services in the locality. A customary charge is the amount which best represents the actual charges made by a physician or supplier for a given service. Prevailing charges are those which fall within the range most frequently and widely charged in a locality for a particular service.

At the beginning of each fiscal year, Medicare carriers are to develop customary and prevailing charges (profiles) to be used as the basis for paying Medicare claims. The profiles are to be based on charges for services performed during the preceding calendar year. For example, the profiles used during fiscal year 1975 were based on the charges made in calendar year 1973.

The reasonable charge allowed for a service is generally the lowest of

--the actual charge of the physician or supplier of the service,

--the physician's or supplier's customary charge for that service, or

--the prevailing charge made for similar services in the locality.

The reasonable charge for a service may not exceed the charge applicable for a comparable service and under comparable circumstances to the policyholders or subscribers of the carrier.

The beneficiary is responsible for the first $60 of reasonable charges for covered services in each calendar year. Medicare pays 80 percent of the remaining reasonable charges and the beneficiary is responsible for the remaining 20 percent (coinsurance). On unassigned claims[1], the patient may have to pay any difference between the actual charge for a service and the Medicare reasonable charge. The following is a hypothetical illustration of a reasonable charge determination.

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[1]Claims on which payment is made to beneficiary. On assigned claims, Medicare pays the physician or supplier of service who agrees to accept the Medicare payment plus the 20 percent coinsurance as full payment.

Charge by a physician	$500
Physician's customary charge	400
Locality's prevailing charge	450
Reasonable charge (lowest of the above three charges)	400
Annual deductible	-60
	340
20 percent coinsurance	-68
Total Medicare payment	$272

CODING OF COMMON COMBINATIONS OF PROCEDURES

The Department of Health, Education, and Welfare's (HEW) Medicare Part B Intermediary Manual (Part B Manual), section 6712, provides that generally separate charges on claims should not be treated as one charge (lump coded). One of the exceptions to the general rule permits common combinations of procedures to be treated as single procedures if the carrier can establish the customary and prevailing charge for the combination.

Blue Cross-Blue Shield has established policies for coding certain common combinations of procedures. For example, the carrier's coding instructions applicable to prostatectomy surgery provide that, where a physician bills separately for procedures included in certain common combinations of procedures that are performed on a patient on the same day, the charges for the individual procedures are to be lumped for reasonable charge determinations and profile development.

For example, where a physician bills separately for a cystoscopy and a transurethral prostatectomy (TUR) performed on a patient the same day, the procedures are coded as a TUR for reasonable charge determination and the total actual charge for the cystoscopy and the TUR is used for profile development for a TUR. Where such procedures are performed on a patient on different days, the procedures are coded separately for reasonable charge determinations and profile development.

Where charges for individual procedures are lumped, the reasonable charge allowed may be considerably less than the total reasonable charge for each of the procedures--resulting in significant reasonable charge reductions.

The following is an example of coding by Blue Cross-Blue Shield of separate charges made by a physician for surgical procedures included in a common combination of procedures performed on the same day.

Procedure	Submitted charge	Reasonable charge	Amount allowed	Reasonable charge reduction		Amount used for profile development
				Total	Attributable to lump coding	
Cystoscopy	$ 75	$ 70	$ - 0 -	$ 75	$70	$- 0 -
Transurethral prostatectomy (TUR)	700	640	640	60	- 0 -	775
	$775	$710	$640	$135	$70	$775

Blue Cross-Blue Shield determined the reasonable charge of $640 by selecting the lowest of the total charge of $775, the physician's customary charge ($650) for a TUR, and the prevailing charge ($640) for a TUR.

By lump coding, Blue Cross-Blue Shield reduced the reasonable charge by $70 ($710 minus $640). If the reasonable charge had been established separately for the procedures, the total reasonable charge allowed would have been $710 and the actual charge for each of the procedures would have been used for profile development.

By lump coding, the amount used for profile development for a TUR was $775 rather than the $700 charged by the physician for the TUR. The $75 charged for the cystoscopy was not used for profile development for a cystoscopy since it was included in the amount used for profile development for a TUR.

It may be appropriate to allow the reasonable charge for only one procedure where certain common combinations of procedures are performed on a patient on the same day. However, the coding policy may be distorting profiles used for reasonable charge determinations because lumped charges for combinations of procedures and separate charges for individual procedures are included in developing reasonable charges that are used as the basis for paying for both the combinations of procedures and the individual procedures.

In the example discussed above, a reasonable charge of $640 was used as the basis for paying the combination cystoscopy and TUR which were performed on the same day. If the physician performs such services on different days,

the amount allowed includes the amount allowed for the cystoscopy and TUR when performed on the same day, plus the reasonable charge for a cystoscopy.

We were unable to determine the impact, if any, this coding policy may have had on reasonable charge reductions.

A BHI official told us that whether any or all of the lump coding policies of Blue Cross-Blue Shield of Greater New York are inappropriate depends on their relationship to accepted medical practice in New York. The official said that the BHI regional office in New York will obtain a full description of the lump coding policies applied by the carrier, as well as its rationale for their use and that the policies will be reviewed very carefully to determine whether or not they are appropriate.

REASONABLE CHARGE REDUCTIONS RESULTING FROM CODING ERRORS

To ascertain the accuracy of Blue Cross-Blue Shield's reasonable charge determinations and validity of data that is to be used to generate fiscal year 1976 profiles, we statistically selected a sample of 300 surgical claim line items from 123,500 surgical claim line items on claims paid during the first quarter of fiscal year 1975. The charges on the 123,500 claims totaled $26.1 million, of which $19.4 million was allowed--reasonable charge reductions were $6.7 million. The actual charges for the procedures are to be included in the data used to generate physicians' profiles for fiscal year 1976.

At our request, internal auditors of Blue Cross-Blue Shield reviewed the 300 claim line items. They determined that 51 line items were incorrectly coded. On the basis of the analysis of the line items included in the sample, we believe that at least 16,000 or 13.0 percent, of the 123,500 line items, were incorrectly coded and resulted in erroneous reasonable charge reductions of at least $608,000. The incorrect coding included cases such as a biopsy of stomach, with laparotomy, having a reasonable charge of $750 being coded as an exploratory celiotomy, having a reasonable charge of $696, which resulted in an erroneous reasonable charge reduction of $54.

The BHI official stated that the figures presented on reasonable charge reductions resulting from coding errors may be misleading if corrections made through the appeals process have not been taken into account. He stated, however, that where incorrectly coded items have been identified, the incorrect data should not be used for calculating fiscal year 1976 reasonable charge screens.

TOKEN AND EXTREME CHARGES

Section 405.503 of Regulations No. 5, Federal Health Insurance for the Aged, furnishes guidance to carriers for the establishment of customary charges. It provides for the exclusion from profile development of extraordinary charges--token (unusually low) and extreme (unusually high)--which may distort reasonable charge determinations.

Blue Cross-Blue Shield defined token and extreme charges for fiscal year 1975 as those charges which were less than one-third or greater than three times the physician's customary charge and excluded them for profile generation. The range established by the carrier for token and extreme exclusion does not eliminate some charges that, in our opinion, should be considered token or extreme. For example, charges by a physician of as little as $30 and as much as $270 for a procedure for which the customary charge is $90 would not be considered as token or extreme charges and excluded from profile development. Where a physician's customary charge has not been established for a procedure, the carrier's method does not eliminate token and extreme charges.

Failure to exclude token and extreme charges from profile development could distort profiles and result in overpayments and underpayments.

A Blue Cross-Blue Shield official told us that the carrier plans to evaluate alternative methods, including a method we developed based on statistical measures of standard deviations from actual charges, for eliminating token and extreme charges for fiscal year 1976. BHI officials concurred with Blue Cross-Blue Shield's plan to evaluate alternative methods to eliminate token and extreme charges from profile development.

IMPACT OF CHARGE REDUCTIONS ON STANDARDS OF LIVING

We analyzed all unassigned claims submitted by Kings County beneficiaries during the period July 1, 1973, to April 30, 1974, to assess the impact that reasonable charge reductions had on individuals' standards of living. Our analysis revealed that about 42,500 beneficiaries submitted one or more claims that were reduced. The average reduction for 94.1 percent of the beneficiaries was about $10; about 2.1 percent had reductions of $100 or more.

The number of beneficiaries are shown below according to dollar ranges of reasonable charge reductions.

Range of reasonable charge reductions	Number of beneficiaries	Percent
$ .01 - 49.99	40,006	94.1
50.00 - 99.99	1,588	3.8
100.00 - 199.99	599	1.4
200.00 - 299.99	167	.4
300.00 - 399.99	57	.1
400.00 or more	82	.2
	42,499	100.0

To assess the impact that large reasonable charge reductions had on standards of living, we sent questionnaires to all Kings County beneficiaries who, according to Blue Cross-Blue Shield records, experienced $400 or more in reasonable charge reductions. Of the 82 beneficiaries, 37 or 45.1 percent responded. Reasonable charge reductions for the 37 beneficiaries amounted to $22,207, or an average of $600.

The 37 beneficiaries reported that expenses for doctors and medical services not paid by Medicare had the following effects on their savings and standards of living.

Effect on Savings

Reported income	Savings: Decreased	Savings: Remained the same	Medical bills paid by other than beneficiary	No response and other	Total
Not shown	-	1	-	-	1
Less than $2,500	6	1	3	3	13
$2,500 - $ 4,999	10	2	-	1	13
$5,000 - $10,000	3	1	1	2	7
Above $10,000	3	-	-	-	3
	22	5	4	6	37

Effect on Standards of Living

Reported income	Cut back of purchase of: Food	Clothing	Furniture	Forced to move	No effect	Total (note 1)
Not shown	1	-	-	-	-	1
Less than $ 2,500	7	8	3	1	1	20
$2,500 - $ 4,999	9	7	2	-	4	22
$5,000 - $10,000	1	2	1	-	3	7
Above $10,000	-	1	-	-	1	2
	18	18	6	1	9	52

[1] Total figures do not agree with total number of respondents because individuals were allowed to give multiple answers. One respondent reported moderate effect on standard of living but is not included in table.

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Our analysis showed that a large number of beneficiaries experienced small amounts of reasonable charge reductions which, in our opinion, would have little impact on their standards of living. The results of the questionnaire showed that larger reasonable charge reductions had a significant impact on individuals' savings and standards of living.