



Problems with Applying “Cost Plus” Payment Methodology to Complex Rehab Technology

Background Information

- 1.) Complex Rehab Technology (CRT) products are specialized, individually configured, and service intensive.
- 2.) CRT products are provided to individuals with significant disabilities through a clinical team model to address both their medical and functional needs.
- 3.) When looking at “cost”, both the cost of the product and the cost of the services and required delivery and support system/infrastructure must be recognized.
- 4.) Product Cost is only about half the actual cost of providing the equipment. CRT studies have shown that for every dollar of funding Product Cost is approx 49 cents and Service Cost is approx 46 cents. The Service Costs are significant.
- 5.) To ensure access to CRT for people with disabilities, a funding system must incorporate the total costs of providing the product and the supporting services.
- 6.) Because of the operational and financial challenges there are a limited number of companies that supply CRT and that number is decreasing.

Problems with “Cost Plus” Payment Methodology

- 1.) Unless the Cost Plus methodology incorporates all costs (product and service) with an appropriate multiplier it does not provide appropriate payment rates.
- 2.) A Cost Plus system is time consuming for the Payer and creates additional administrative burdens. Due to the complexity of many CRT orders, it is not uncommon for there to be 20 to 30 invoice line items to review on each claim.
- 3.) A Cost Plus system penalizes the dedicated Suppliers that service a large number of beneficiaries and rewards those other companies that do not. Because dedicated Suppliers buy more products they will typically have a lower product cost as compared to the company that buys fewer products. The result is the dedicated Supplier gets paid less than the company that has made a minimal investment.
- 4.) A Cost Plus system reduces Suppliers’ desire to negotiate better acquisition costs.

Recommended Alternative Payment Methodologies

- 1.) Use published Medicare Fee Schedule-
 - a. Fee schedule follows established pricing.
 - b. Changes to fees are calculated by CMS; no Payer manpower/labor needed to determine and maintain pricing.
 - c. Ensures the most current fee schedules are in place.
 - d. Fee schedules are easily available and able to be downloaded from web site.
 - e. Enables the option for Payer to follow the Medicare coverage guidelines.
 - f. Minimizes claim pricing workload for prior authorization departments and for pre and post payment audit activities.

- 2.) Use Manufacturer's Suggested Retail Pricing (MSRP)-
 - a. Removes acquisition cost from the Supplier decision making process. This decreases the likelihood that a Supplier will provide a low quality product.
 - b. Increases likelihood that the beneficiary will receive a high quality product.
 - c. Payers are able to verify MSRP via the manufacturers' websites.

- 3.) Use a combination of Medicare Fee Schedule and Manufacturer's Suggested Retail Pricing-
 - a. For coded items use the Medicare Fee Schedule.
 - b. For non-coded items and where existing HCPCS codes do not adequately represent products used by the covered population of the Payer, i.e. pediatric products, use MSRP.

The National Coalition for Assistive and Rehab Technology (NCART) seeks to ensure individuals with disabilities have appropriate access to complex rehab technology and services. For additional information visit www.ncart.us.