INSTRUCTIONS FOR CALCULATING THE WAGE ADJUSTED APC PAYMENT

The APC payment rates are calculated on a national basis and then adjusted by geographic area, depending on the area's wage level.

The Centers for Medicare and Medicaid Services (CMS) uses the Inpatient Prospective Payment System (IPPS) wage index as the source of a geographic adjustment factor for Hospital Outpatient Prospective Payment System (HOPPS) ambulatory payment classification (APC) payments.

In order to calculate the wage adjusted APC payment you must know the following:

1. The CPT code(s) for the procedure(s) you are determining payment for.
2. The APC payment for the CPT code(s).
3. The Core Based Statistical Area (CBSA).
4. The IPPS wage index for the CBSA.

Definitions:

1. Core Based Statistical Area (CBSA) - The term "core based statistical area" (CBSA) became effective in 2000 and refers collectively to metropolitan and micropolitan statistical areas. For more information go to: [http://www.census.gov/population/www/estimates/aboutmetro.html](http://www.census.gov/population/www/estimates/aboutmetro.html)
2. CPT – Current Procedural Terminology
3. APC – Ambulatory Payment Classification. All services paid under HOPPS are classified into APC groups. Outpatient PPS payment is based on the ambulatory payment classification (APC) system, which divides all outpatient services included in the new payment schedule into almost 600 procedural groups. The services within each group are clinically similar and require comparable resources. Each APC is assigned a relative payment weight based on the median cost of the services within the APC. The APC payment rates are calculated on a national basis and then adjusted by geographic area, depending on the area's wage level. To adjust for wage differences across geographic areas, the labor-related portion of the payment rate (60 percent) is wage adjusted, using each hospital's wage index value.

Performing the wage adjusted APC payment calculation:

1. Determine what CPT code(s) and CBSA(s) you are calculating the wage adjusted APC payment amount for.
2. To locate the wage index by CBSA go to Table 4c on the CMS Web site. The link is: [http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/table4c_101705.zip](http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/table4c_101705.zip)

3. To adjust for wage differences across geographic areas, the labor-related portion of the payment rate (60 percent) is wage adjusted by the wage index value. In order to calculate the wage adjusted payment, you must first separate the APC payment amount into 60 percent and 40 percent. For example: for CPT Code 70553, MRI brain w/o and w/dye, the APC payment amount is $506. Multiply the $506 amount by 60% = $304. Next, multiply the $506 amount by 40% = $202.

4. The second step is to multiply the labor-related portion of the payment rate (60 percent) by the wage index. This is the preliminary adjustment. For example: the wage index for CBSA code 10420, Akron, OH, is 0.8970. Multiply the 60 percent amount, which is $304, by 0.8970 = $273. The $273 is the preliminary adjustment amount.

5. The final step is to add the preliminary adjustment amount to the remaining 40 percent APC payment amount. For example: add $273 (preliminary adjustment amount) to $202 (remaining 40% APC amount) = $475. The wage adjusted payment for CPT code 70553, and CBSA 10420, is $475.

6. This means that the nationally averaged hospital outpatient payment rate for a MRI brain w/o and w/dye is $506 and the geographically adjusted amount that the hospitals get from Medicare in Akron, OH is $475.

*Please feel free to utilize the attached template in order to calculate the wage adjusted APC payment. You will need to know the CBSA code for your area, the CPT code(s) for the procedure(s) you're interested in determining an adjusted payment for, the APC payment for each procedure, and the wage index for your area.*