

Related Change Request (CR) #: 3130

Medlearn Matters Number: MM3130

Related CR Release Date: February 13, 2004

Related CR Transmittal #:100

Effective Date: July 1, 2004

Implementation Date: July 6, 2004

## *MMA - Outpatient Clinical Laboratory Tests Furnished by Hospitals with Fewer Than 50 Beds in Qualified Rural Areas*

### Provider Types Affected

Hospitals with fewer than 50 beds in a qualified rural area. Note that the change applies to covered outpatient clinical laboratory tests in such facilities.

### Provider Action Needed

Affected hospitals should note that Section 416 of the Medicare Prescription Drug, Improvement and Modernization Act (MMA) alters the basis for payments for Medicare outpatient covered clinical laboratory services for hospitals with fewer than 50 beds in qualified rural areas. Such services will be paid on a reasonable cost basis during cost reporting periods beginning with cost reports that start on or after July 1, 2004, but before July 1, 2006.

### Background

Generally, Medicare outpatient covered clinical laboratory services are paid based on a fee schedule. Medicare beneficiaries are not liable for any coinsurance and deductible. Instructions for the calendar year 2004 Medicare clinical laboratory fee schedule were issued in:

- Pub. 100-20, Transmittal 20, Change Request (CR) 2959, *2004 Annual Update for Clinical Laboratory Fee Schedule*; and
- Pub. 100-20, Transmittal 31, Change Request (CR) 3013, *Emergency Revised 2004 Update of the DMEPOS and Clinical Laboratory Fee Schedules*.

MMA Section 416, however, states that payment for tests for Medicare beneficiaries provided by outpatient hospital laboratory testing by a hospital laboratory with fewer than 50 beds in a qualified rural area are paid on a reasonable cost basis for cost reporting periods beginning during the 2-year period that starts on July 1, 2004.

Medicare beneficiaries are **not** liable for coinsurance and deductibles during the applicable time period. Section 416 eliminates the application of the clinical laboratory fee schedule in such cases.

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The reasonable costs are determined using the ratio of costs to charges for the laboratory cost center, multiplied by the Provider Statistical & Reimbursement Report's (PS&R) billed charges for outpatient laboratory services for cost reporting periods beginning on or after July 1, 2004 but before July 1, 2006.

Please note that a qualified rural area is one with a population density in the lowest quartile of all rural county populations. The Centers for Medicare & Medicaid Services (CMS) central office will determine the qualified rural areas and will identify the lowest 25% quartile population density areas.

A file of the eligible zip codes will be made available by CMS to Medicare intermediaries on or about **May 15, 2004**.

In determining whether clinical laboratory services are furnished as part of outpatient services of a hospital, the same rules will apply that are used to determine whether clinical laboratory services are furnished as an outpatient critical access hospital service.

For cost reporting periods beginning July 1, 2004, intermediaries will use the designated zip codes to identify facilities in their files that are in qualified rural areas and have fewer than 50 beds for the purpose of making these reasonable cost payments required by Section 416 of the MMA.

## Implementation

The implementation date for this instruction is July 6, 2004.

## Additional Information

The official instruction issued to your intermediary regarding this change may be found by going to:

[http://www.cms.hhs.gov/manuals/pm\\_trans/R100CP.pdf](http://www.cms.hhs.gov/manuals/pm_trans/R100CP.pdf)

If you have any questions, please contact your intermediary at their toll-free number, which may be found at:

<http://www.cms.hhs.gov/medlearn/tollnums.asp>

Transmittal 20, CR 2959, *2004 Annual Update for Clinical Laboratory Fee Schedule*, can be found at the following Centers for Medicare and Medicaid Services (CMS) Website:

[http://www.cms.hhs.gov/manuals/pm\\_trans/R200TN.pdf](http://www.cms.hhs.gov/manuals/pm_trans/R200TN.pdf)

Also, Transmittal 31, CR 3013, *Emergency Revised 2004 Update of the DMEPOS and Clinical Laboratory Fee Schedules*, can be found at:

[http://www.cms.hhs.gov/manuals/pm\\_trans/R310TN.pdf](http://www.cms.hhs.gov/manuals/pm_trans/R310TN.pdf)

Finally, Transmittal A-01-31, CR 1568, *Clinical Diagnostic Laboratory Tests Furnished by Critical Access Hospitals (CAHs)*, can be found at:

[http://www.cms.hhs.gov/manuals/pm\\_trans/A0131.pdf](http://www.cms.hhs.gov/manuals/pm_trans/A0131.pdf)

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