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2008 MEDICARE HOSPITAL INPATIENT CODING AND PAYMENT UPDATE FOR X-STOP® IPD® PROCEDURES

On August 1, 2007, the Centers for Medicare & Medicaid Services (CMS) posted the Medicare Program Final Changes to the Hospital Inpatient Prospective Payment System (HIPPS) for Fiscal Year 2008. In 2008, payments to hospitals are expected to increase 3.5% taking into account all changes in the proposed rule, primarily as a result of the 3.3% market basket increase.

Among other things, the Final Rule includes reforms to implement the most significant revisions of the HIPPS since 1983. The reforms are intended to improve the accuracy of the Medicare payment for hospital inpatient services and involve implementation of Medicare severity-adjusted DRGs or MS-DRGs. CMS is proposing to create 745 new DRGs to replace the current 538. Overall, payments under the MS-DRGs are not projected to differ significantly from payments under the DRG system. **The new DRGs and payment rates are effective October 1, 2007.**

On September 29, 2007, the "Transitional Medical Assistance (TMA) ... Act of 2007" was enacted which, among other things, changed the HIPPS MS-DRG documentation and coding adjustment from -1.2 percent to -0.6 percent for FY 2008. According to the CMS website, the Medicare claims processing systems are updated and claims with discharge dates on or after October 1, 2007 will be processed with correct rates. CMS has also indicated that the revised rates and provisions in the legislation will be detailed in the near future in the Federal Register.

CODING AND BILLING

To receive appropriate payment for procedures involving the X-STOP® IPD® device, hospitals should bill Medicare using the **NEW** ICD-9-CM procedure code:

- 84.80 Insertion or replacement of interspinous process device(s)

CMS also announced that they are moving X-STOP® Interspinous Process Decompression (IPD®) procedures to a **NEW** MS-DRG (MS-DRG 490) and therefore would no longer continue the new technology add-on payment.

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PAYMENT

Based on the text in the final 2008 HIPPS rule, the X-STOP® IPD® procedures will generally classify to the **NEW MS-DRG 490**:

Back and Neck procedures except spinal fusion with complication or comorbidity (CC) / major complication or comorbidity (MCC) or disc devices or neurostimulator.

Note, in 2007, X-STOP® IPD® procedures were assigned to either DRG 499 or DRG 500. The 2007 and 2008 DRGs and the Medicare payment rates, effective October 1, 2007 are provided below.

INPATIENT DRG PAYMENTS FOR X-STOP® IPD® PROCEDURES

| 2007 DRG | 2007 Description | 2008 DRG | 2008 Description | 2007 RW Payment* | 2008 RW Payment** |
|-----------------|--|-----------------|---|-------------------------|--------------------------|
| 499 | Back & Neck procedures except spinal fusion with CC | 490 | Back and Neck procedures except spinal fusion with CC/MCC or disc devices or neurostimulator | 1.3863 \$7,361 | 1.4912 \$8,077 |
| 500 | Back and Neck procedures except spinal fusion without CC | 490 | Back and Neck procedures except spinal fusion with CC or <u>disc devices</u> (X-STOP® Procedures will generally be assigned to DRG 490, see CMS-1533-FCP pages 665 and 666) | 0.9210 \$4,889 | 1.4912 \$8,077 |

* National average payment for large urban hospital using full update amounts. Actual payment will vary by geographic location and type of hospital (teaching v. non-teaching), among other things. Payment does not include new technology add-on payment, which will vary by hospital. The 2007 Update \$5,301.52.

** 2008 Update is \$5,416.74 (Prior to correction notice: \$5,386.98)

BILLING GUIDELINES AND LIMITATIONS ON COVERAGE AND PAYMENT

Providers should report the codes that most accurately describe the patients' medical condition, procedures performed and the products used. Medtronic Spine LLC cannot guarantee coverage or payment for products or procedures. The service and the product must be reasonable and necessary for the care of the patient to support reimbursement.

Providers should check Medicare bulletins, manuals, program memoranda, and Medicare guidelines to ensure compliance with the Medicare requirements. Medicare coding, coverage, and payment is updated frequently with, at minimum, annual payment updates. The information contained in this

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document is current as of November 1, 2007. Reimbursement information from Medtronic Spine LLC that precedes this date is likely outdated and should be discarded. If providers have questions related to reimbursement, they may contact the hospital's fiscal intermediary or Medicare Administrative Contractor directly.

Payment policies and payment amounts vary from insurer to insurer.

The information provided above relates solely to Medicare.

Medtronic Spine LLC cannot guarantee coverage or reimbursement for X-STOP® IPD® procedure, and Medtronic Spine LLC makes no other representations as to selecting codes for procedures or compliance with any other billing protocols or prerequisites. As with all claims, individual physicians and hospitals are responsible for exercising their independent clinical judgment in selecting the codes that most accurately reflect the patient's condition and procedures performed for a patient. Physicians and hospitals should refer to current, complete, and authoritative publications such as AMA CPT lists or insurer policies for selecting codes and completing claims forms based on the care rendered to an individual patient, and may wish to contact individual carriers, fiscal intermediaries, or other third-party payers as needed.

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