

Understanding Cost-to-charge Ratios and Their Role in Medicare Ratesetting

As detailed in AABB's Billing Guide for Blood Products and Related Services, a hospital's accurate reporting of appropriate charges is essential to help ensure that future Medicare payment rates are set at appropriate levels. This fact sheet, which is intended to supplement the Billing Guide, focuses on understanding a challenging yet crucial component of the Medicare ratesetting process: cost-to-charge ratios (CCRs).

Disclaimer: Due to the inherent complexity of the subject matter, certain details regarding CCRs and Medicare ratesetting have been simplified or omitted in order to enhance the reader's understanding of overall concepts. All examples included in the fact sheet are hypothetical. AABB cannot and does not recommend specific charge or markup amounts. It is the hospital's responsibility to determine appropriate charges and markups for all of the products and services that it provides to patients.

What are CCRs?

A CCR is calculated by dividing a hospital's total costs by its total charges, based on information from the facility's cost report.³ Each hospital has multiple CCRs, which generally correspond to different departments or cost centers.

CCRs essentially measure the extent to which hospitals mark up their costs when setting charges; the lower the ratio, the greater the markup. For example, a CCR of 0.33 would mean that a hospital marks up its costs on average by a multiple of 3x, while a CCR of 0.25 would mean that a hospital marks up by a multiple of 4x.



In addition to reporting appropriate charges, it is important for hospitals to properly report blood-related costs in their Medicare cost reports. For blood products carrying only a processing fee, the Centers for Medicare and Medicaid Services (CMS) instructs hospitals to report the direct expenses incurred for processing, storing and transfusing blood products (including the processing fees charged by blood suppliers) in the Blood Storing, Processing, & Transfusing cost center (Worksheet B, Part I, column 0, Line 63).^{1,2}

What is a typical CCR value?

CCR values vary significantly by hospital and by department. According to CMS, national average departmental CCRs for fiscal year (FY) 2024 range from 0.033 (for CT Scans) to 0.417 (for Routine Days). The FY 2024 national average CCR for blood and blood products is 0.245.⁴

How are CCRs used in Medicare ratesetting?

Under the Medicare hospital inpatient and hospital outpatient prospective payment systems (IPPS and OPPTS, respectively), CMS sets future Medicare payment rates based on average costs, which are derived by multiplying past hospital charges by the applicable CCR.



Hospital Charges

reported on past Medicare claim forms

X



CCR

from hospital cost reports

=



Costs

used to set future Medicare payment rates

Because hospital charges are adjusted down using CCRs, the resulting cost amounts and Medicare payment rates will be significantly lower than the corresponding charge amounts. The following hypothetical examples use the FY 2024 blood product national average CCR of 0.245 to illustrate how three different charge amounts (\$600, \$800 and \$1,000) would be reduced through the Medicare ratesetting process:



Average Hospital Charge

\$600

\$800

\$1,000



National Average CCR for Blood/Blood Products

0.245

0.245

0.245

X

=



Average Cost → Future Medicare Payment Rate

\$147

\$196

\$245

Why are CCRs important?

It is important for hospitals to understand the role of CCRs so that facilities can set their charges for blood products and related services at appropriate levels. In practical terms, this means establishing charges for blood units that cover the acquisition cost of the unit (i.e., the blood processing fee paid to the blood supplier) and include an appropriate markup to reflect the additional costs incurred internally by the hospital (such as costs related to storage, processing, handling, overhead, and other expenses) once it receives the blood unit. If a hospital's charges were to only cover the blood unit acquisition cost, this would be insufficient, because the charges would later be reduced by the applicable CCR, and the resulting cost amount would significantly understate the true costs associated with the blood product.

How can hospitals use this information to ensure that charges are set at appropriate levels?

Decisions regarding appropriate charges and markups are made by each individual hospital, usually based on a variety of factors. When making such decisions, it is recommended that hospitals take into account the applicable CCR for blood products at their facility. Readers who seek information on their hospital's CCRs are encouraged to contact the department(s) involved in the facility's cost reports, such as the finance department.



Reporting proper charges now will help to ensure that future Medicare payment rates reflect more accurately the true costs of blood products and related services.



CMS on the importance of appropriate charge and cost reporting:

“The OPSS is a prospective payment system that relies on hospital charges on the claims and cost report data from the hospitals that furnish the services in order to determine relative costs for OPSS ratesetting.”

-CY 2021 OPSS Final Rule⁵

“... we rely on hospitals ... to report charges on claims and charges and costs on their Medicare hospital cost reports appropriately.”

-CY 2020 OPSS Final Rule⁶

“We believe that hospitals have the ability to set charges for items properly so that charges converted to costs can appropriately account fully for their acquisition and overhead costs.”

-CY 2006 OPSS Final Rule⁷

Additional Resources

AABB is providing this fact sheet as a supplement to its Billing Guide for Blood Products and Related Services, which has been newly updated for 2023. The AABB Billing Guide contains a wealth of information on reimbursement for blood products, transfusion procedures, and patient-specific laboratory services performed on blood units. Section II of the Billing Guide discusses the relationship between hospital charges and Medicare reimbursement.

To download the latest version of the guide, go to: aabb.org/BillingGuide.

References

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