CMS Manual System	**Department of Health & Human Services (DHHS)**
Pub 100-04 Medicare Claims Processing	**Centers for Medicare & Medicaid Services (CMS)**
Transmittal 3551	**Date: June 23, 2016**
	Change Request 9642

SUBJECT: July Quarterly Update for 2016 Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS) Fee Schedule

I. SUMMARY OF CHANGES: The Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS) Fee Schedule is updated on a quarterly basis, when necessary, to implement fee schedule amounts for new codes and correct any fee schedule amounts for existing codes. The recurring update notification applies to chapter 23, section 60 of the Pub. 100-04 Medicare Claims Processing Manual.

EFFECTIVE DATE: July 1, 2016 - for implementation of fee schedule amounts for codes in effect on January 1, 2016; July 1, 2016 for all other changes.
**Unless otherwise specified, the effective date is the date of service.*
IMPLEMENTATION DATE: July 5, 2016

Disclaimer for manual changes only: The revision date and transmittal number apply only to red italicized material. Any other material was previously published and remains unchanged. However, if this revision contains a table of contents, you will receive the new/revised information only, and not the entire table of contents.

II. CHANGES IN MANUAL INSTRUCTIONS: (N/A if manual is not updated)
R=REVISED, N=NEW, D=DELETED-*Only One Per Row.*

R/N/D	CHAPTER / SECTION / SUBSECTION / TITLE
N/A	N/A

III. FUNDING:
For Medicare Administrative Contractors (MACs):
The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

IV. ATTACHMENTS:

Recurring Update Notification

Attachment - Recurring Update Notification

Pub. 100-04	Transmittal: 3551	Date: June 23, 2016	Change Request: 9642

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I. GENERAL INFORMATION

A. Background: The DMEPOS fee schedules are updated on a quarterly basis, when necessary, in order to implement fee schedule amounts for new and existing codes, as applicable, and apply changes in payment policies. The quarterly update process for the DMEPOS fee schedule is located in Pub.100-04, Medicare Claims Processing Manual, chapter 23, section 60.

Payment on a fee schedule basis is required for durable medical equipment (DME), prosthetic devices, orthotics, prosthetics and surgical dressings by §1834(a), (h), and (i) of the Social Security Act. Also, payment on a fee schedule basis is a regulatory requirement at 42 CFR §414.102 for parenteral and enteral nutrition (PEN), splints and casts, and intraocular lenses (IOLs) inserted in a physician's office.

Adjusted Fee Schedule Amounts

Section 1834(a)(1)(F)(ii) of the Act mandates adjustments to the fee schedule amounts for certain items furnished on or after January 1, 2016 in areas that are not competitive bid areas for the items, based on information from competitive bidding programs (CBPs) for DME. Section 1842(s)(3)(B) of the Act provides authority for making adjustments to the fee schedule amount for enteral nutrients, equipment and supplies (enteral nutrition) based on information from CBPs. CMS issued a final rule on November 6, 2014 (79 FR 66223) on the methodologies for adjusting DMEPOS fee schedule amounts using information from CBPs. Also, program instructions on these changes are available in Transmittal 3416, Change Request (CR) 9431, dated November 23, 2015.

The DMEPOS and PEN fee schedule files contain HCPCS codes that are subject to the adjusted fee schedule amounts as well as codes that are not subject to the fee schedule CBP adjustments. The adjustments to the fee schedule amounts have been phased in for claims with dates of service January 1, 2016 through June 30, 2016, so that each fee schedule amount is based on a blend of 50 percent of the fee schedule amount that would have gone into effect on January 1, 2016, if not adjusted based on information from the CBP, and 50 percent of the adjusted fee schedule amount. As part of this update, for claims with dates of service on or after July 1, 2016, the July quarterly update files include the fee schedule amounts based on 100 percent of the adjusted fee schedule amounts. Information from CBPs that take effect on July 1, 2016 has been factored into the adjusted fee schedule amounts effective on July 1, 2016 in accordance with the regulations at 42 CFR 414.210(g)(8).

Fee schedule amounts that are adjusted using information from CBPs will not be subject to the annual DMEPOS covered item update, but will be updated in accordance with regulations at 42 CFR 414.210(g)(8) when information from the CBPs is updated. Pursuant to 42 CFR §414.210(g)(4), for items where the single payment amounts (SPAs) from CBPs no longer in effect are used to adjust fee schedule amounts, the SPAs will be increased by an inflation adjustment factor that corresponds to the year in which the adjustment would go into effect (e.g., 2016 for this update) and for each subsequent year such as 2017, 2018, etc..

There are three general methodologies used in adjusting the fee schedule amounts:

1. Adjusted Fee Schedule Amounts for Areas within the Contiguous United States

The average of SPAs from CBPs located in eight different regions of the contiguous United States are used to adjust the fee schedule amounts for the states located in each of the eight regions. These regional SPAs (RSPAs) are also subject to a national ceiling (110% of the average of the RSPAs for all contiguous states plus the District of Columbia) and a national floor (90% of the average of the RSPAs for all contiguous states plus the District of Columbia). This methodology applies to enteral nutrition and most DME items furnished in the contiguous United States (i.e., those included in more than 10 competitive bidding areas (CBAs)).

Also, the fee schedule amounts for areas within the contiguous United States that are designated as rural areas are adjusted to equal the national ceiling amounts described above. Regulations at 42 CFR §414.202 define a rural area to be a geographical area represented by a postal ZIP code where at least 50 percent of the total geographical area of the ZIP code is estimated to be outside any metropolitan statistical area (MSA). A rural area also includes any ZIP Code within an MSA that is excluded from a competitive bidding area established for that MSA.

2. Adjusted Fee Schedule Amounts for Areas outside the Contiguous United States

Areas outside the contiguous United States (i.e., areas such as Alaska, Guam, Hawaii) receive adjusted fee schedule amounts so that they are equal to the higher of the average of SPAs for CBAs in areas outside the contiguous United States (currently only applicable to Honolulu, Hawaii) or the national ceiling amounts described above and calculated based on SPAs for areas within the contiguous United States.

3. Adjusted Fee Schedule Amounts for Items Included in 10 or Fewer Competitive Bidding Areas (CBAs)

DME items included in 10 or fewer CBAs receive adjusted fee schedule amounts so that they are equal to 110 percent of the average of the SPAs for the 10 or fewer CBAs. This methodology applies to all areas (i.e., non-contiguous and contiguous).

In order to apply the rural payment rule for areas within the contiguous United States, the DMEPOS fee schedule file has been updated to include rural payment amounts for certain HCPCS codes where the adjustment methodology is based on average regional SPAs. Also, on the PEN file the national fee schedule amounts for enteral nutrition transitions to statewide fee schedule amounts. For parenteral nutrition, the national fee schedule amount methodology will remain unchanged.

The ZIP code associated with the address used for pricing a DMEPOS claim determines the rural fee schedule payment applicability for codes with rural and non-rural adjusted fee schedule amounts based on information from the CBPs. ZIP codes for non-contiguous areas are not included in the DMEPOS Rural ZIP code file. The DMEPOS Rural ZIP code file is updated on a quarterly basis as necessary.

B. Policy: This recurring update notification provides instructions regarding the July quarterly update for the 2016 DMEPOS and PEN fee schedules and the July 2016 DMEPOS Rural ZIP code file containing the Quarter 3 2016 rural ZIP code changes.

Public Use Files (PUFs)

In October 2015 CMS posted sample 2016 DMEPOS and PEN Medicare payment public use files that were modified to accommodate the adjusted fee schedule amounts effective January 1, 2016. At that time we communicated that different PUF file formats would be used for the January 2016 Excel file update as opposed to the July 2016 update and all subsequent fee schedule updates. CMS has recently determined that it is necessary to retain separate rural fee fields for each state and not transition, beginning July 1, 2016, to one field titled "Contiguous United States Rural Fee" as previously communicated. Therefore, beginning

with the July 2016 update, the July DMEPOS and PEN Excel PUF record layouts will retain the separate rural fees for each state as implemented January 1, 2016. As discussed above, the phase in of adjusted fees are based on 100 percent of the adjusted fee schedule amounts effective July 1, 2016. The rural fee for the contiguous United States, which is equal to the national ceiling amount, applies to all rural areas within the contiguous United States. However, in any case where the application of the adjusted fee methodology results in an increase in the fee schedule amount that would otherwise apply, the rural adjustment for an area/state is not made. Non-contiguous areas are not subject to rural fees under the CY 2016 DMEPOS fee schedule methodology.

The CY 2016 DMEPOS and PEN fee schedules and the July 2016 DMEPOS Rural ZIP code file PUFs will be available for State Medicaid Agencies, managed care organizations, and other interested parties shortly after the release of the data files on the CMS Website at www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/DMEPOSFeeSched

KU Modifier for Complex Rehabilitative Power Wheelchair Accessories & Seat and Back Cushions

Section 2 of Patient Access and Medicare Protection Act (PAMPA) mandates that the adjustments to the CY 2016 fee schedule amounts for certain durable medical equipment based on information from competitive bidding programs not be applied to wheelchair accessories (including seating systems) and seat and back cushions furnished in connection with Group 3 complex rehabilitative power wheelchairs prior to January 1, 2017. Group 3 complex rehabilitative power wheelchair bases are currently described by codes K0848 through K0864 of the Healthcare Common Procedure Coding System (HCPCS).

As a result, the fees for wheelchair accessories and seat and back cushions denoted with the HCPCS modifier ‘KU’ are included in the July 2016 DMEPOS fee schedule file and are effective for dates of service January 1, 2016 through December 31, 2016. The fee schedule amounts associated with the KU modifier represent the unadjusted fee schedule amounts (i.e, the CY 2015 fee schedule amount updated by the 2016 DMEPOS covered item update factor of -0.4 percent) for these wheelchair accessory codes. The codes for wheelchair accessories and seat and back cushions affected by this change along with claims processing instructions are available in Transmittal 3535, CR 9520, dated June 7, 2016. In accordance with CR 9520, if brought to their attention, contractors may adjust claims for the Group 3 complex rehabilitative power wheelchair accessories referenced in Attachment A of CR 9520 for dates of service January 1, 2016 through June 30, 2016.

Discontinuation of KE Modifier for Items in Initial Round 1 Competitive Bidding Program

As part of this update, the fees for certain items included in Round 1 CBP, denoted with the HCPCS pricing modifier ‘KE’, are deleted from the DMEPOS fee schedule file. Program instructions on the implementation of these fees and the list of applicable HCPCS codes were issued in Transmittal 1630, CR 6270, dated November 7, 2008.

The KE modifier was added to the DMEPOS fee schedule file as part of the January 2009 fee schedule update and described items that were bid under the initial Round 1 Competitive Bidding Program but were used with non-competitive bid base equipment. The KE modifier was added to the file to accommodate the different CY 2009 fee schedule covered item updates required under 1834(a)(14)(J) for accessory codes that were bid under the initial Round 1 Competitive Bidding Program in 2008. Beginning January 1, 2016, section 1834(a)(1) (F) of the Act required that the fee schedule amounts be adjusted using information from CBPs. Per section 1834(a)(1)(F)(iii) of the Act, the adjusted fee schedule amounts are updated when information from the CBPs is updated as new contracts or items are phased in under the programs. The KE fees were retained on the fee schedule file for dates of service January 1, 2016 through June 30, 2016 because of the phase-in of the adjusted fee schedule amounts, but are no longer needed.

Reclassification of Certain DME Included in Competitive Bidding Programs

As part of this update, capped rental fees are established for payment of the following HCPCS codes: E0197 E0140 E0149 E0985 E1020 E1028 E2228 E2368 E2369 E2370 E2375 K0015 K0070 E0955.

For dates of service on or after July 1, 2016, these HCPCS codes are reclassified from the payment category for inexpensive and routinely purchased DME to payment on a capped rental basis in all areas except the nine Round 1 Recompete (Round 1 2014) CBAs. These changes are made to align the payment with the regulatory definition of routinely purchased equipment found at 42 CFR §414.220(a)(2). Program instructions on these changes were issued in Transmittal 1626, CR 8822, dated February 19, 2016 and Transmittal 1332, CR 8566, dated January 2, 2014. When submitting claims, suppliers in areas outside of Round 1 Recompete CBAs that furnish the 14 HCPCS codes on a capped rental basis should use the capped rental modifiers KH, KI and KJ as appropriate. Beginning January 1, 2017, payment for these codes in all geographic areas will be made on a capped rental basis.

Furthermore, certain HCPCS codes for wheelchair options/accessories (E1020, E1028, E2368, E2369, E2370, E2375, K0015, and E0955) that are furnished to be used as part of a complex rehabilitative power wheelchair (wheelchair base codes K0835 – K0864) can be paid under the associated lump sum purchase option set forth at 42 CFR § 414.229(a)(5). The supplier must give the beneficiary the option of purchasing these accessories at the time they are furnished for initial or replacement. If the beneficiary declines the purchase option, the supplier must furnish the items on a capped rental basis and payment shall be made on a monthly rental basis in accordance with the capped rental payment rules.

Diabetic Testing Supplies

The fee schedule amounts for non-mail order diabetic testing supplies (DTS) without KL modifier for codes A4233, A4234, A4235, A4236, A4253, A4256, A4258, and A4259 are not updated by the covered item update. In accordance with section 636(a) of the American Taxpayer Relief Act of 2012, the fee schedule amounts for these codes were adjusted in CY 2013 so that they were equal to the single payment amounts for mail order DTS established in implementing the national mail-order CBP under section 1847 of the Act. The non-mail order payment amounts on the fee schedule file are updated each time the single payment amounts are updated. This can happen no less often than every three years as CBP contracts are recompeted. As part of the this update, the non-mail order payment amounts on the fee schedule file for the above codes will be updated, effective July 1, 2016, using the SPAs established under the National Mail-Order Recompete CBP.

As part of this update, the DTS mail order (with KL modifier) fee schedules for all states and territories are removed from the DMEPOS fee schedule file. The SPAs calculated under the National Mail-Order CBPs replace the mail order fee schedule amounts for diabetic testing supply codes A4233, A4234, A4235, A4236, A4253, A4256, A4258 and A4259. The SPAs are available http://www.dmecompetitivebid.com/palmetto/cbic.nsf/DocsCat/Home

The Northern Mariana Islands are not considered an area eligible for inclusion under a national mail order competitive bidding program. However, in accordance with section 414.210(g)(7), the fee schedule amounts for mail order DTS furnished in the Northern Mariana Islands are adjusted to equal 100 percent of the single payment amounts established under the national mail-order competitive bidding program (79 FR 66232). Because the Northern Mariana Islands adjustment is subject to the 6-month transition phase-in period, the adjusted Northern Mariana Island DTS mail order fees, which were based on 50 percent of the un-adjusted mail order fee schedule amounts and 50 percent of the adjusted mail order single payment amounts, were provided on the DMEPOS fee schedule file in the Hawaii column of the mail-order (KL) DTS (A4233, A4234, A4235, A4236, A4253, A4256, A4258 and A4259) codes for dates of service January 1, 2016 through June 30, 2016. Beginning July 1, 2016, the fully adjusted mail order fees (i.e., the single payment amounts) will apply for mail order DTS furnished in the Northern Mariana Islands. As part of this update, the Northern Mariana Island DTS transition mail-order payment amounts will no longer appear in the Hawaii column of the fee schedule file and the DTS mail order (KL) fee schedules for all states and territories are removed from the DMEPOS fee schedule file as of July 1, 2016.

Specific Coding and Pricing Issues

As part of this update, fees are established HCPCS codes A6450 and A6451 which were added to the HCPCS file in CY 2004. Claims for codes A6450 and A6451 with dates of service on or after January 1, 2016 that have already been processed may be adjusted to reflect the newly established fees if brought to the contractor's attention.

II. BUSINESS REQUIREMENTS TABLE

"Shall" denotes a mandatory requirement, and "should" denotes an optional requirement.

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
9642.1	The DME MACs, Part B MACs and/or VDCs shall retrieve the DMEPOS fee schedule file (filename: MU00.@BF12393.DMEPOS.T160101.V0516) The file is available for download on or after May 16, 2016.		X		X					VDC
9642.1.1	Notification of successful receipt shall be sent via email to price_file_receipt@cms.hhs.gov stating the name of the file received and the entity receiving the file (e.g., contractor name and number).		X		X					VDC
9642.2	The Part A MACs, HHH MACs and/or VDCs shall retrieve the DMEPOS fee schedule file (filename: MU00.@BF12393.DMEPOS.T160101.V0616.FI) The file is available for download on or after May 16, 2016.	X		X						VDC
9642.2.1	Notification of successful receipt shall be sent via email to price_file_receipt@cms.hhs.gov stating the name of the file received and the entity receiving the file (e.g., contractor name and number).	X		X						VDC
9642.3	The DME MACs and/or VDCs shall retrieve the PEN fee schedule file (filename: MU00.@BF12393.PEN.CY16.V0516) The file is available for download on or after May 16, 2016.				X					VDC
9642.3.1	Notification of successful receipt shall be sent via email to price_file_receipt@cms.hhs.gov stating the name of the file received and the entity receiving the file (e.g., contractor name and number).				X					VDC
9642.4	The DME MACs, Part B MACs, Part A MACs, HHH MACs and/or VDCs shall retrieve the CY 2016 DMEPOS Rural ZIP code file (filename: MU00.@DMECBIC.RURZIP.C16Q03.V0516) on or	X	X	X	X					VDC

Number	Requirement	Responsibility								
		A/B MAC			DME MAC	Shared-System Maintainers				Other
		A	B	HHH		FISS	MCS	VMS	CWF	
	after May 16, 2016.									
9642.4.1	Notification of successful receipt shall be sent via email to price_file_receipt@cms.hhs.gov stating the name of the file received and the entity receiving the file (e.g., contractor name and number).	X	X	X	X					VDC
9642.5	Contractors shall process claims for DMEPOS items using the fee schedules and Rural ZIP code file specified in business requirements 1-4 for dates of service on or after July 1, 2016. After the implementation date of this instruction, updates to processing claims for the applicable dates of service shall apply.	X	X	X	X					
9642.5.1	For HCPCS codes listed in Change Request 9520's Attachment A, when reported with the KU modifier, contractors shall process claims in accordance with CR 9520 using the fee schedules specified in business requirements 1 and 2 for dates of service January 1, 2016 through December 31, 2016.			X	X					
9642.6	Contractors shall not research and adjust claims for codes A6450 and A6451 with dates of service on or after January 1, 2016. However contractors may adjust claims brought to their attention.		X		X					

III. PROVIDER EDUCATION TABLE

Number	Requirement	Responsibility				
		A/B MAC			DME MAC	CEDI
		A	B	HHH		
9642.7	MLN Article: A provider education article related to this instruction will be available at http://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNMattersArticles/ shortly after the CR is released. You will receive notification of the article release via the established "MLN Matters" listserv. Contractors shall post this article, or a direct link to this article, on their Web sites and include information about it in a listserv message within 5 business days after receipt of the notification from CMS announcing the availability of the article. In addition, the provider education article shall be	X	X	X	X	

Number	Requirement	Responsibility				
		A/B MAC			DME MAC	CEDI
		A	B	HHH		
	included in the contractor's next regularly scheduled bulletin. Contractors are free to supplement MLN Matters articles with localized information that would benefit their provider community in billing and administering the Medicare program correctly.					

IV. SUPPORTING INFORMATION

Section A: Recommendations and supporting information associated with listed requirements:

"Should" denotes a recommendation.

X-Ref Requirement Number	Recommendations or other supporting information:

Section B: All other recommendations and supporting information: N/A

V. CONTACTS

Pre-Implementation Contact(s): Anita Greenberg, Anita.Greenberg@cms.hhs.gov , Karen Jacobs, Karen.Jacobs@cms.hhs.gov

Post-Implementation Contact(s): Contact your Contracting Officer's Representative (COR).

VI. FUNDING

Section A: For Medicare Administrative Contractors (MACs):
The Medicare Administrative Contractor is hereby advised that this constitutes technical direction as defined in your contract. CMS does not construe this as a change to the MAC Statement of Work. The contractor is not obligated to incur costs in excess of the amounts allotted in your contract unless and until specifically authorized by the Contracting Officer. If the contractor considers anything provided, as described above, to be outside the current scope of work, the contractor shall withhold performance on the part(s) in question and immediately notify the Contracting Officer, in writing or by e-mail, and request formal directions regarding continued performance requirements.

ATTACHMENTS: 0