

**Conversion factor changes for October 1, 2021
in the Minnesota workers' compensation
Hospital Outpatient Fee Schedule (HOFS)**

	Minnesota conversion factor as of Oct. 1, 2020 [1]	Payment-neutrality adjustment [a]			Inflation adjustment [e] [5]	Overall conversion factor change [f] [6]	Minnesota conversion factor as of Oct. 1, 2021 [g] [7]
		Computed from Minnesota Hospital Association data [b] [2]	Computed from large-insurer data [c] [3]	Average of results from the two data sources [d] [4]			
Large hospitals [h]	\$207.5342	-2.96%	-3.35%	-3.16%	+2.26%	-0.97%	\$205.5288
Small hospitals [i]	\$390.2544	-2.62%	-2.85%	-2.74%	+2.26%	-0.54%	\$388.1595

- a. Under Minnesota Statutes § 176.1363, subd. 3(e), DLI must update the HOFS at least every three years by incorporating the current services with a J1 or J2 status indicator under Medicare. When it does so, it must adjust the Minnesota conversion factors separately for large and small hospitals so that total payments are the same for services in both the old HOFS and the new one. DLI is updating the HOFS under this requirement effective October, 1, 2021; the payment neutrality adjustments shown here are pursuant to this requirement.
- b. These payment-neutrality adjustments were computed with data from the Minnesota Hospital Association for Minnesota workers' compensation outpatient visits at Minnesota Non-Critical-Access Hospitals that occurred from April 1, 2018 through March 31, 2020. The adjustments were computed for cases whose services had the same J1 and J2 status indicators under the Medicare provisions incorporated in the old HOFS and those being newly incorporated (most recently in effect as of July 1, 2021). All HOFS payment rules were applied in the computation.
- c. These payment-neutrality adjustments were computed with data from a large insurer for Minnesota workers' compensation outpatient visits at Minnesota Non-Critical-Access Hospitals that occurred from April 1, 2018 through March 31, 2020. The adjustments were computed for cases whose services had the same J1 and J2 status indicators under the Medicare provisions incorporated in the old HOFS and those being newly incorporated (most recently in effect as of July 1, 2021). All HOFS payment rules were applied in the computation.
- d. This is the average of columns 2 and 3.
- e. Under Minnesota Statutes § 176.1363, subd. 3(d), DLI must adjust the HOFS conversion factors every October 1 using the Medicare market basket index for inpatient hospital services, published on the Medicare website. The adjustment must be equal to the percent change in the index in the most recent calendar year relative to the prior year. The adjustment shown is the one so computed.
- f. This percentage is obtained by combining those in the prior two columns. $Col. 6 = (col. 4 + 1) \times (col. 5 + 1) - 1$.
- g. This new conversion factor is obtained by applying the percent change in col. 6 to the prior conversion factor in col. 1.
- h. These are Minnesota hospitals with more than 100 licensed beds.
- i. These are Minnesota Non-Critical-Access Hospitals with 100 or fewer licensed beds.

**Explanation of
Conversion factor changes for October 1, 2021
In the Minnesota workers' compensation
Hospital Outpatient Fee Schedule**

The Department of Labor and Industry (DLI) is required to update the workers' compensation Hospital Outpatient Fee Schedule (HOFS) at least every three years by incorporating the current services with a J1 or J2 status indicator under Medicare. When DLI performs this update, it must adjust the Minnesota conversion factors separately for large and small hospitals so that total payments are the same for those services in both the old HOFS and the new one. DLI has updated the HOFS under this requirement effective October 1, 2021.

Using data from the Minnesota Hospital Association (MHA) and from a large insurer, DLI has also derived the payment-neutrality adjustments following the statutory requirement; these are shown in columns 2-4 of the accompanying table. DLI used the average of the results from the two data sources (column 4) in combination with the required annual inflation adjustment (column 5) to derive the overall conversion factor changes (column 6) and the new conversion factors effective October 1, 2021 (column 7).

For each J1 and J2 service in the HOFS, the Minnesota payment rate is computed as follows:

$$\text{Minnesota payment rate} = \text{Medicare payment weight} \times \text{Minnesota conversion factor}^1$$

Each service has its own payment weight, but the conversion factor is the same for all services provided by the hospital. When the HOFS is updated with the current Medicare payment weights, as is now happening, these weights generally differ from the prior ones. If the weights increase on average, the conversion factor must decrease to hold payments constant. If the weights decrease on average, the conversion factor must increase to hold payments constant.

As shown in columns 2 and 3 in the table, the conversion factor changes computed with both the MHA and large-insurer data show about a 3% decrease. To achieve the same total payment amount given the above equation, this decrease occurred because the Medicare payment weights increased on average by roughly 3%. That is, the new payment weights are roughly 3% greater than the old payment weights on average.

These calculations are before the inflation adjustment shown in column 5. Because of the inflation adjustment of +2.26% in the Minnesota conversion factors, Minnesota payment rates will increase by roughly this amount. This is because the payment-neutrality adjustment in columns 2-4 holds payments constant apart from the inflation adjustment. Viewed another way, in the payment equation above, the payment weights have increased by a larger proportion than the overall decrease in the conversion factor shown in column 6, so total payments will increase.

¹ Other payment provisions apply, such as modifications for units of service and multiple procedure discounts, but those provisions do not change the point of this discussion.