



[We redact certain identifying information and certain potentially privileged, confidential, or proprietary information associated with the individual or entity, unless otherwise approved by the requestor.]

Issued: September 23, 2008

Posted: October 2, 2008

To: ATTACHED DISTRIBUTION LIST

Re: OIG Advisory Opinion No. 08-13

Ladies and Gentlemen:

We are writing in response to your request for an advisory opinion regarding the use of a “preferred hospital” network as part of a Medicare Supplemental Health Insurance (“Medigap”) policy (the “Arrangement”). In particular, the Medigap plan indirectly contracts with hospitals for discounts on the otherwise applicable Medicare inpatient deductibles for its policyholders and also, at the time of the next policy renewal, reduces the premium for policyholders utilizing a network hospital for an inpatient stay. You have asked whether the Arrangement constitutes prohibited remuneration within the meaning of section 1128A(a)(5) of the Social Security Act (the “Act”), or constitutes grounds for the imposition of sanctions under the exclusion authority at section 1128(b)(7) of the Act, or the civil monetary penalty provision at section 1128A(a)(7) of the Act, as those sections relate to the commission of acts described in section 1128B(b) of the Act, the Federal anti-kickback statute.

You have certified that all of the information provided in your request, including all supplemental letters, is true and correct and constitutes a complete description of the relevant facts and agreements among the parties.

In issuing this opinion, we have relied solely on the facts and information presented to us. We have not undertaken an independent investigation of such information. This opinion is limited to the facts presented. If material facts have not been disclosed or have been misrepresented, this opinion is without force and effect.

Based on the facts certified in your request for an advisory opinion and supplemental submissions, we conclude that the Arrangement does not constitute grounds for the imposition of civil monetary penalties under section 1128A(a)(5) of the Act, and, while the Arrangement could potentially generate prohibited remuneration under the anti-kickback statute, if the requisite intent to induce or reward referrals of Federal health care program business were present, the Office of Inspector General (“OIG”) will not impose administrative sanctions on [names redacted] (the “Requestors”), under sections 1128(b)(7) or 1128A(a)(7) of the Act (as those sections relate to the commission of acts described in section 1128B(b) of the Act) in connection with the Arrangement. This opinion is limited to the Arrangement and, therefore, we express no opinion about any ancillary agreements or arrangements disclosed or referenced in your request letter or supplemental submissions.

This opinion may not be relied on by any persons other than the Requestors of this opinion, and is further qualified as set out in Part IV below and in 42 C.F.R. Part 1008.

I. FACTUAL BACKGROUND

The Requestors are insurance subsidiaries of [name redacted]. The Requestors offer Medigap policies in almost every state in the country.

The Requestors participate in an arrangement with [name redacted] (the “MCO”), a managed care organization which has contracts with hospitals throughout the country, which comprise the MCO’s hospital network. Under these contracts, the Requestors’ Medigap policyholders receive discounts of up to 100 percent on Medicare inpatient deductibles incurred at network hospitals. These deductibles would otherwise be covered by the Requestors’ Medigap plans. The discounts apply only to the Part A in-patient hospital deductibles and not to any other coinsurance or cost-sharing amounts. The hospitals provide no other benefit to the Requestors or their policyholders as part of the Arrangement. The Requestors pay the MCO a fee for administrative services each time one of its insureds receives this discount. If a policyholder is admitted to a non-network hospital, the Requestors pay the full Part A hospital deductible, as provided under the Medigap policy. The Arrangement does not affect the liability of any Medigap policyholder for payments for covered services, whether provided by a participating hospital or any other hospital. The MCO hospital network is open to any accredited, Medicare-certified hospital that meets the requirements of applicable state laws.

The Requestors return a portion of the savings resulting from this Arrangement directly to any policyholder that has an inpatient stay at one of the network hospitals. Such individuals receive a \$100 credit against their next renewal premium. This feature of the Requestors’ Medigap plans is announced in plan materials provided to insureds and in the Requestors’

marketing materials. Plan materials provided to current and prospective policyholders identify hospitals that are participating in the arrangement, and policy documents and membership cards contain an icon indicating the participation of the plan in the MCO network.

Savings realized by the Requestors under the Arrangement are reflected in the Requestors' annual experience exhibits (which reflect loss ratios) filed with the state insurance departments that regulate the premium rates charged by Medigap insurers.

II. LEGAL ANALYSIS

A. Law

The anti-kickback statute makes it a criminal offense knowingly and willfully to offer, pay, solicit, or receive any remuneration to induce or reward referrals of items or services reimbursable by a Federal health care program. See section 1128B(b) of the Act. Where remuneration is paid purposefully to induce or reward referrals of items or services payable by a Federal health care program, the anti-kickback statute is violated. By its terms, the statute ascribes criminal liability to parties on both sides of an impermissible "kickback" transaction. For purposes of the anti-kickback statute, "remuneration" includes the transfer of anything of value, directly or indirectly, overtly or covertly, in cash or in kind.

The statute has been interpreted to cover any arrangement where one purpose of the remuneration was to obtain money for the referral of services or to induce further referrals. United States v. Kats, 871 F.2d 105 (9th Cir. 1989); United States v. Greber, 760 F.2d 68 (3d Cir.), cert. denied, 474 U.S. 988 (1985). Violation of the statute constitutes a felony punishable by a maximum fine of \$25,000, imprisonment up to five years, or both. Conviction will also lead to automatic exclusion from Federal health care programs, including Medicare and Medicaid. Where a party commits an act described in section 1128B(b) of the Act, the OIG may initiate administrative proceedings to impose civil monetary penalties on such party under section 1128A(a)(7) of the Act. The OIG may also initiate administrative proceedings to exclude such party from the Federal health care programs under section 1128(b)(7) of the Act.

The Department of Health and Human Services has promulgated safe harbor regulations that define practices that are not subject to the anti-kickback statute because such practices would be unlikely to result in fraud or abuse. See 42 C.F.R. § 1001.952. The safe harbors set forth specific conditions that, if met, assure entities involved of not being prosecuted or sanctioned for the arrangement qualifying for the safe harbor. However, safe harbor protection is afforded only to those arrangements that precisely meet all of the conditions set forth in the safe harbor. While offering no protection to the Arrangement, the

safe harbor for waivers of beneficiary coinsurance and deductible amounts, 42 C.F.R. § 1001.952(k), which permits hospitals to waive the Medicare Part A inpatient deductible in certain circumstances, bears on the instant inquiry. In addition, there is a safe harbor for reduced premium amounts offered by health plans, 42 C.F.R. § 1001.952(l). However, that safe harbor requires that the reduced premium be offered to all enrollees, and since the discount is not available to new enrollees, the safe harbor also offers no protection.

Section 1128A(a)(5) of the Act prohibits a person from offering or transferring remuneration to a Medicare or Medicaid beneficiary that such person knows or should know is likely to influence the beneficiary to select a particular practitioner, provider, or supplier of items or services for which payment may be made, in whole or in part, by Medicare or Medicaid. For purposes of section 1128A(a)(5), “remuneration” includes the waiver of coinsurance and deductible amounts (or any part thereof) and transfers of items and services for free or other than fair market value, but does not include cost-sharing waivers that are unadvertised, not routine, and made on the basis of individual financial need or failure of reasonable collection efforts. See section 1128A(a)(6)(i). Where a party commits an act described in section 1128A(a)(5) of the Act, the OIG may initiate administrative proceedings to impose civil monetary penalties and to exclude such party from the Federal health care programs.

B. Analysis

The Arrangement is a straightforward agreement by the MCO network hospitals to discount the Medicare inpatient deductible for the Requestors’ policyholders – an amount for which the Requestors would otherwise be liable. The law is clear that prohibited remuneration under the anti-kickback statute may include waivers of Medicare cost-sharing amounts. Likewise, relief of a financial obligation may constitute a prohibited kickback. The safe harbor regulation for waivers of inpatient deductibles specifically excludes such waivers when they are part of an agreement with an insurer, such as the Requestors. See 42 C.F.R. § 1001.952(k)(1)(iii). In addition, each Requestor will pass back a part of its savings to the policyholder as a credit against the next year’s premium. The premium credit implicates not only the anti-kickback statute (as remuneration for selecting the network hospital), but also the civil monetary prohibition on inducements to beneficiaries. Accordingly, we must examine both prongs of the Arrangement.

In combination with Medigap coverage, the discounts offered on inpatient deductibles by the network hospitals present a low risk of fraud or abuse. First, the waivers will not increase or affect per service Medicare payments. Payments to hospitals under Part A for inpatient services are fixed and unaffected by beneficiary cost-sharing. Second, the discounts should not increase utilization. In this case, the discounts effectively will be invisible to patients, since the patients have already purchased supplemental insurance to

cover such obligation. Third, the Arrangement should not unfairly affect competition among hospitals, since membership in the networks will be open to any accredited, Medicare-certified hospital that meets the requirements of applicable state laws. Fourth, the Arrangement is unlikely to affect professional medical judgment, since the patient's physician or surgeon will receive no remuneration, and the patient remains free to go to any hospital without incurring any additional out-of-pocket expense.

The premium credit for patients who have inpatient stays in network hospitals similarly presents a low risk of fraud or abuse. With respect to the anti-kickback statute, the factors stated in the preceding paragraph apply equally to the premium credit. However, the premium credit also implicates the prohibition on inducements to beneficiaries. Unlike inducements to enroll generally in an insurance plan, which do not implicate the prohibition, see 65 Fed. Reg. 24400, 24407 (April 26, 2000), the premium credit in this instance is premised on a patient choosing a particular provider from a broader group of eligible providers. Such inducements come within the prohibition. Id. However, there is a statutory exception for differentials in coinsurance and deductible amounts as part of a benefit plan design, if the differential has been properly disclosed to affected parties and otherwise meets any requirements of corresponding regulations. See section 1128A(a)(6)(C). This exception permits benefit plan designs under which plan enrollees pay different cost-sharing amounts depending on whether, for example, they use network or non-network providers. While it is not technically a differential in a coinsurance or deductible amount, the premium credit will have substantially the same purpose and effect.

Finally, the Arrangement as a whole has the potential to lower Medigap costs for the Requestor's policyholders who select network hospitals (without increasing costs for those who do not). Moreover, because savings realized from the Arrangement will be reported to state insurance rate-setting regulators, the Arrangement has the potential to lower costs for all policyholders.

Based on the totality of facts and circumstances, and given the low risk of fraud or abuse and the potential for significant savings for beneficiaries, we will not impose administrative sanctions on the Requestor under the anti-kickback statute or the prohibition on inducements to beneficiaries in connection with the Arrangement.

III. CONCLUSION

Based on the facts certified in your request for an advisory opinion and supplemental submissions, we conclude that the Arrangement does not constitute grounds for the imposition of civil monetary penalties under section 1128A(a)(5) of the Act, and, while the Arrangement could potentially generate prohibited remuneration under the anti-kickback statute, if the requisite intent to induce or reward referrals of Federal health care

program business were present, the OIG will not impose administrative sanctions on the Requestors under sections 1128(b)(7) or 1128A(a)(7) of the Act (as those sections relate to the commission of acts described in section 1128B(b) of the Act) in connection with the Arrangement.

IV. LIMITATIONS

The limitations applicable to this opinion include the following:

- This advisory opinion is issued only to the Requestors of this opinion. This advisory opinion has no application to, and cannot be relied upon by, any other individual or entity.
- This advisory opinion may not be introduced into evidence in any matter involving an entity or individual that is not a requestor of this opinion.
- This advisory opinion is applicable only to the statutory provisions specifically noted above. No opinion is expressed or implied herein with respect to the application of any other Federal, state, or local statute, rule, regulation, ordinance, or other law that may be applicable to the Arrangement, including, without limitation, the physician self-referral law, section 1877 of the Act.
- This advisory opinion will not bind or obligate any agency other than the U.S. Department of Health and Human Services.
- This advisory opinion is limited in scope to the specific arrangement described in this letter and has no applicability to other arrangements, even those which appear similar in nature or scope.
- No opinion is expressed herein regarding the liability of any party under the False Claims Act or other legal authorities for any improper billing, claims submission, cost reporting, or related conduct.

This opinion is also subject to any additional limitations set forth at 42 C.F.R. Part 1008.

The OIG will not proceed against the Requestors with respect to any action that is part of the Arrangement taken in good faith reliance upon this advisory opinion, as long as all of the material facts have been fully, completely, and accurately presented, and the Arrangement in practice comports with the information provided. The OIG reserves the right to reconsider the questions and issues raised in this advisory opinion and, where the

public interest requires, to rescind, modify, or terminate this opinion. In the event that this advisory opinion is modified or terminated, the OIG will not proceed against the Requestor with respect to any action taken in good faith reliance upon this advisory opinion, where all of the relevant facts were fully, completely, and accurately presented and where such action was promptly discontinued upon notification of the modification or termination of this advisory opinion. An advisory opinion may be rescinded only if the relevant and material facts have not been fully, completely, and accurately disclosed to the OIG.

Sincerely,

/s/

Lewis Morris
Chief Counsel to the Inspector General

Distribution List – Advisory Opinion 08-13

[Names and addresses redacted]