

# iRhythm (IRTC): Palmetto Rate Read-Through

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The move by Medicare Administrative Contractor (MAC) [Palmetto](#) last night to establish *global* payments of \$160 for the 2-7 day wear time code for electrocardiographic (ECG) monitoring [CPT 93241], while positive relative to Novitas [payment levels](#), provides us with an incrementally *negative* read-through for **iRhythm (IRTC)**, and to a lesser extent **Hill-Rom (HRC)** and **Boston Scientific (BSX)**. Although Palmetto has yet to set rates for the scanning & analysis portion of the service [CPT 93243], nor the 7-15 day wear global [CPT 93245] / scanning & analysis [CPT 93247] components, both of which are more material for these companies: 1) a \$160 global rate would imply Palmetto payments of ~\$122 for IRTC's scanning / analysis portion [*explanation below*], in line with our long-held base case; 2) this is likely a setback for hopes that payments might return to pre-2021 levels [\$311], even in the unlikely event Palmetto [*0.83% of legacy volumes*] ascribes a 2x+ multiplier to 7-15 day rates; and 3) the already questionable prospect of companies funneling volumes through alternative MACs, should Novitas [*97.74% of legacy volumes*] not adjust its current rates upward [\$43], now has more negligible upside. We continue to believe that Novitas is likely to revise its Jan. 29 reimbursement, likely within the next few weeks, but would view a best-case scenario as ~\$170.

## ECG CODE SET: QUICK EXPLANATION

Investors will recall that long-term ECG services have historically been described by *four* temporary Category III CPT codes, with their descriptions and Novitas-specific payment levels (CY20) for Houston, TX included below:

**TABLE 1**

CODE	DESCRIPTION	NOVITAS (TX)
0295T	External electrocardiographic recording for more than 48 hours up to 7 days by continuous rhythm recording and storage; includes recording, scanning analysis with report, review and interpretation	\$331.33
0296T	....recording (includes connection and initial recording)	\$20.76
0297T	....scanning analysis with report	\$311.08
0298T	....review and interpretation	\$26.47
<b>0296T+0297T+0298T</b>	<b>TOTAL VALUE</b>	<b>\$358.31</b>

While 0297T is the most material for IRTC, in that it describes their primary service offering, the sum of each service *component* within a CPT code set is technically supposed to equal the value of the overall *global* code [0295T], particularly for permanent Category I codes. The intention is to establish a cumulative value of a given service type, with the subcomponents reflecting percentages of the aggregate. Clearly, this is not the case with the legacy Novitas payments above, but it *has been* the case with other MACs responsible for processing these payments last year, including Palmetto, Noridian, CGS Administrators, and First Coast.

**TABLE 2**

CODE	PALMETTO	NORIDIAN	CGS	FIRST COAST
0295T	\$224	\$114	\$89	\$107
0296T	\$11	\$35	\$26	\$32
0297T	\$188	\$49	\$36	\$47
0298T	\$25	\$30	\$27	\$28
<b>0296T+0297T+0298T</b>	<b>\$224</b>	<b>\$114</b>	<b>\$89</b>	<b>\$107</b>

The above similarly highlights the significant delta between historic Novitas payments and the rates set by other MACs, even if the overwhelming number of claims were processed through Novitas jurisdictions.

**TABLE 3: MAC CLAIMS BY VOLUME (CY19)**

MAC	0295T	0296T	0297T	0298T
NOVITAS	70.49%	26.91%	97.74%	21.82%
NORIDIAN	19.83%	35.26%	1.40%	32.42%
PALMETTO	5.13%	14.60%	0.82%	14.22%
WPS	2.76%	5.14%	0.00%	7.25%
NGS	1.07%	10.17%	0.02%	16.32%
CGS	0.43%	2.56%	0.03%	3.74%
FIRST COAST	0.30%	5.36%	0.00%	4.23%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

As part of the transition of these codes from temporary Category III status to permanent Category I, the four legacy codes were replaced with *eight* new codes, with one set of four describing ECG patches worn for 2-7 days [93241-93244] and the other describing those worn for 7-15 days [93245-93248], which represent the majority of IRTC services. As part of that process, investors may recall that, following CMS’s initial proposal regarding *national* rates for these codes, issued in early August, the agency quietly adjusted its own data tables within ~48 hours of the original release in order to make the sub-component codes equal to the global sum. While this adjustment was likely due to an unintentional technical error with the original release, it nevertheless signals the importance of coding consistency for CMS.

**PALMETTO & GLOBAL CODES**

With the above in mind, Palmetto has now set rates for three of the four 2-7 day ECG codes [93241, 93242, 93244]. Assuming the MAC continues past practice, we can therefore infer what it is likely to pay for the scanning & analysis code [93243] by simply subtracting the two known subcomponent codes [93242, 93244] from the now revealed global code [93241]:

**TABLE 4**

PALMETTO (SOUTH CAROLINA)					
93242 & SUB-TOTAL VALUES ESTIMATED FROM GLOBAL CODE					
YEAR	GLOBAL 0295T / 93241	PATCH CONNECTION 0296T / 93242	SCANNING & ANALYSIS 0297T / 93243	REVIEW & INTERPRETATION 0298T / 93244	SUB-TOTAL
2020	\$224	\$11	\$188	\$25	\$224
2021	\$160	\$14	\$122	\$24	\$160
YoY %Δ	-28.52%	21.60%	-34.88%	-3.24%	-28.53%

This suggests that the scanning & analysis code for 2-7 day wear products will likely be reimbursed at ~\$122 in Palmetto, which is ~35% *below* what that jurisdiction paid last year and 61% below what Novitas had paid in Houston, TX prior to its Jan. 29 revision. As shown in Table 2 above, however, Palmetto had maintained the second highest reimbursement rates – behind Novitas – up until YE20, and we view a *downward* revision from that point as negative

for expectations that payments may return to pre-2021 levels, whether through a Novitas-specific adjustment or companies seeking to process claims through alternative jurisdictions with potentially higher payment rates.

In point of fact, MACs representing more than 98% of historic scanning & analysis [0297T] volumes have now provided CY21 rate details that are materially lower than CY20 [see Appendix for full MAC by MAC data].

**PALMETTO-SPECIFIC READ-THROUGH**

A key question will be whether Palmetto, Novitas, or others can be convinced to define a material difference in reimbursement values between the 2-7 day and 7-15 day code sets, but returning rates to ~\$311 would appear unlikely. Assuming our Palmetto estimates hold, this would require the MAC to not only exceed its CY20 payments for these services [\$188], but also to determine that 7-15 day analysis services require resource inputs that are ~2.5x those of 2-7 day services. Considering that ECG analyses are performed on a computer workstation using pre-built algorithms, we have difficulty seeing how a MAC / CMS could determine that the marginal costs are so material.

The alternative would be for payers to assume different supply item cost inputs [e.g. the ECG patch itself] for services depending on whether it lasts for 2-7 days or 7-15 days. While this stands a greater chance of success, it is also inconsistent with CMS’s – now abandoned – initial proposal this summer, which companies have suggested is serving as their starting point for negotiations.

Investors will recall that the ultimate reimbursement difference between CMS’s proposed rates for 2-7 day services [\$379] and 7-15 day services [\$387] was just 2.1% [\$8], which was built off of *identical* assumptions for both the supply item inputs and time needed for an ECG technician to process the analysis itself. Virtually the entire delta was therefore derived from a somewhat longer amount of time [~37%] being needed for a cardiovascular technician to assess the ECG report, as measured by their time in front of a computer.

DURATION	DESCRIPTION	INUPT CODE	DURATION / COST
2-7 DAY	Electrodiagnostic Technologist	L037A	19
	Cardiovascular Technician	L038B	76
	Extended External ECG Patch	SD339	\$413.24
7-15 DAY	Electrodiagnostic Technologist	L037A	19
	Cardiovascular Technician	L038B	104
	Extended External ECG Patch	SD339	\$413.24
%Δ	<b>Electrodiagnostic Technologist</b>	<b>L037A</b>	<b>0%</b>
	<b>Cardiovascular Technician</b>	<b>L038B</b>	<b>37%</b>
	<b>Extended External ECG Patch</b>	<b>SD339</b>	<b>0%</b>

We view this as putting companies in a somewhat difficult position:

- If they want higher rates, they will likely have to argue that CMS’s – ultimately abandoned – initial proposal offered the correct approach, but this would keep payments roughly equal between 2-7 day and 7-15 day products, which the majority of MAC jurisdictions have now set at levels that are materially lower YoY.
- However, if longer-wear duration companies argue that their products are intrinsically more cost intensive than 2-7 day monitors, CMS’s initial proposal would have had to be incorrect.
- In the meantime, this would seem likely to drive a rift between companies whose services are predominantly 2-7 days [e.g. **Cardiac Insight (private)**] versus 7-15 days [e.g. IRTC].

**WHERE DO PALMETTO PAYMENTS GO FROM HERE?**

We see several potential outcomes based on publicly available information at this point:

SCENARIO	RATE	DESCRIPTION	PROBABILITY
#1	\$112	Set rates equivalent to CMS's Ambulatory Payment Classification (APC) assignment for 7-15 day scanning and analysis services	
#2	\$122	Set 7-15 day rates equal to those Palmetto established for 2-7 day services, as was also the case by Novitas and First Coast	
#3	\$127	Assign a 2.9% premium relative to the 2-7 day analysis code, as was the case in CMS's initial proposal	
#4	\$167	Assign a 37% premium to the 2-7 day code to account for the additional cardiovascular technician time, though this would seem highly inconsistent with Medicare methodology	
#5	\$188	Maintain Palmetto's legacy rates for 7-15 day codes while imposing cuts on 2-7 day services	
#6	\$224	Establish 7-15 day scanning and analysis rates at Palmetto's CY20 <i>global</i> code level, though this would be unusual	
#7	\$245	Apply a 2x multiplier to the 2-7 day codes, but this seems unlikely given the marginal costs of that additional time appear more modest	
#8	\$311	Retain legacy Novitas rates, but this seems improbable given the downward revisions seen by MACs representing >98% of historic claims and CMS's abandonment of its initial proposal	

**APPENDIX  
MAC-BY-MAC RATE DATA (CY21)**

**2-7 DAY WEAR CODES**

YEAR	GLOBAL 0295T / 93241	PATCH CONNECTION 0296T / 93242	SCANNING & ANALYSIS 0297T / 93243	REVIEW & INTERPRETATION 0298T / 93244
<b>NOVITAS (HOUSTON, TX) - 85.06% OF VOLUMES (CY19)</b>				
2020	\$331	\$21	\$311	\$26
2021	\$83	\$16	\$43	\$25
%Δ	<b>-74.99%</b>	<b>-24.13%</b>	<b>-86.28%</b>	<b>-3.85%</b>
<b>NOVITAS (PHILADELPHIA, PA) - 5.78% OF VOLUMES (CY19)</b>				
2020	\$357	\$23	\$336	\$27
2021	\$87	\$17	\$45	\$26
%Δ	<b>-75.74%</b>	<b>-26.01%</b>	<b>-86.61%</b>	<b>-5.17%</b>
<b>NOVITAS (N. NJ) - 5.24% OF VOLUMES (CY19)</b>				
2020	\$386	\$24	\$365	\$28
2021	\$94	\$18	\$50	\$27
%Δ	<b>-75.58%</b>	<b>-24.89%</b>	<b>-86.40%</b>	<b>-4.23%</b>
<b>NORDIAN (N. CA) - 1.32% OF VOLUMES (CY19)</b>				
2020	\$114	\$35	\$49	\$30
2021	TBD	\$20	TBD	\$28
%Δ	<b>TBD</b>	<b>-41.79%</b>	<b>TBD</b>	<b>-8.40%</b>
<b>NOVITAS (DC) - 1.04% OF VOLUMES (CY19)</b>				
2020	\$394	\$25	\$373	\$29
2021	\$97	\$19	\$51	\$27
%Δ	<b>-75.32%</b>	<b>-23.76%</b>	<b>-86.22%</b>	<b>-3.88%</b>
<b>NORIDIAN (NV) - 0.04% OF VOLUMES (CY19)</b>				
2020	\$92	\$27	\$38	\$27
2021	TBD	\$15	TBD	\$28
%Δ	<b>TBD</b>	<b>-42.07%</b>	<b>TBD</b>	<b>1.58%</b>
<b>CGS (OH) - 0.03% OF VOLUMES (CY19)</b>				
2020	\$89	\$26	\$36	\$27
2021	TBD	\$14	TBD	\$24
%Δ	<b>TBD</b>	<b>-44.87%</b>	<b>TBD</b>	<b>-11.49%</b>
<b>PALMETTO (SC) - 93242 VALUE ESTIMATED OFF OF GLOBAL CODE - 0.02% OF VOLUMES (CY19)</b>				
2020	\$224	\$11	\$188	\$25
2021	\$160	\$14	\$122	\$24
%Δ	<b>-28.52%</b>	<b>21.60%</b>	<b>-34.88%</b>	<b>-3.24%</b>
<b>FIRST COAST (FL) - 0.01% OF VOLUMES (CY19)</b>				
2020	\$107	\$32	\$47	\$28
2021	\$82	\$16	\$42	\$25
%Δ	<b>-23.42%</b>	<b>-50.72%</b>	<b>-10.54%</b>	<b>-9.19%</b>

**7-15 DAY WEAR CODES**

YEAR	GLOBAL 0295T / 93245	PATCH CONNECTION 0296T / 93246	SCANNING & ANALYSIS 0297T / 93247	REVIEW & INTERPRETATION 0298T / 93248
<b>NOVITAS (HOUSTON, TX) - 85.06% OF VOLUMES (CY19)</b>				
2020	\$331	\$21	\$311	\$26
2021	\$83	\$16	\$43	\$28
%Δ	<b>-74.99%</b>	<b>-24.13%</b>	<b>-86.28%</b>	<b>5.67%</b>
<b>NOVITAS (PHILADELPHIA, PA) - 5.78% OF VOLUMES (CY19)</b>				
2020	\$357	\$23	\$336	\$27
2021	\$87	\$17	\$45	\$28
%Δ	<b>-75.74%</b>	<b>-26.01%</b>	<b>-86.61%</b>	<b>4.15%</b>
<b>NOVITAS (N. NJ) - 5.24% OF VOLUMES (CY19)</b>				
2020	\$386	\$24	\$365	\$28
2021	\$94	\$18	\$50	\$30
%Δ	<b>-75.58%</b>	<b>-24.89%</b>	<b>-86.40%</b>	<b>5.27%</b>
<b>NORDIAN (N. CA) - 1.32% OF VOLUMES (CY19)</b>				
2020	\$114	\$35	\$49	\$30
2021	TBD	\$20	TBD	\$31
%Δ	<b>TBD</b>	<b>-41.79%</b>	<b>TBD</b>	<b>0.82%</b>
<b>NOVITAS (DC) - 1.04% OF VOLUMES (CY19)</b>				
2020	\$394	\$25	\$373	\$29
2021	\$97	\$19	\$51	\$30
%Δ	<b>-75.32%</b>	<b>-23.76%</b>	<b>-86.22%</b>	<b>5.56%</b>
<b>NORIDIAN (NV) - 0.04% OF VOLUMES (CY19)</b>				
2020	\$92	\$27	\$38	\$27
2021	TBD	\$15	TBD	\$28
%Δ	<b>TBD</b>	<b>-42.07%</b>	<b>TBD</b>	<b>1.58%</b>
<b>CGS (OH) - 0.03% OF VOLUMES (CY19)</b>				
2020	\$89	\$26	\$36	\$27
2021	TBD	\$14	TBD	\$27
%Δ	<b>TBD</b>	<b>-44.87%</b>	<b>TBD</b>	<b>-2.81%</b>
<b>PALMETTO (SC) - 0.02% OF VOLUMES (CY19)</b>				
2020	\$224	\$11	\$188	\$25
2021	TBD	\$14	TBD	\$26
%Δ	<b>TBD</b>	<b>21.60%</b>	<b>TBD</b>	<b>6.35%</b>
<b>FIRST COAST (FL) - 0.01% OF VOLUMES (CY19)</b>				
2020	\$107	\$32	\$47	\$28
2021	\$82	\$16	\$42	\$28
%Δ	<b>-23.42%</b>	<b>-50.72%</b>	<b>-10.54%</b>	<b>-0.47%</b>

Additional information is available upon request.

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