Illinois Medicaid Hospital Reimbursement Reform

Technical Advisory Group
Discussion of Design Considerations
March 29, 2012
Agenda

1. Introductions (5 Minutes)
2. Confirmation of the Purpose of the TAG (10 Minutes)
3. Outpatient Payment Simulation Models – Changes and Results – 2 Models (40 Minutes)
4. Inpatient Payment Simulation Models – Changes and Results (40 Minutes)
5. Strategy for Coding and Documentation Improvement – Discussion of Options (30 Minutes)
6. Wrap-Up (5 Minutes)

Note: Will include 15 minute break as needed
## Technical Advisory Group

<table>
<thead>
<tr>
<th>Hospital System</th>
<th>Technical Advisor(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children’s Memorial Hospital</td>
<td>Prem Tuteja, Director, Third Party Reimbursement</td>
</tr>
<tr>
<td>Swedish Covenant Hospital</td>
<td>Gary M. Krugel, Senior Vice President of Operations and CFO</td>
</tr>
<tr>
<td>Southern Illinois Healthcare</td>
<td>Michael Kasser, Vice President/CFO/Treasurer</td>
</tr>
<tr>
<td>Memorial Health Systems</td>
<td>Bob Urbance, Director – Reimbursement</td>
</tr>
<tr>
<td>Carle Foundation Hospital</td>
<td>Theresa O’Banion, Manager-Budget &amp; Reimbursement</td>
</tr>
<tr>
<td>Franklin Hospital (Illinois Critical Access Hospitals)</td>
<td>Hervey Davis, CEO</td>
</tr>
<tr>
<td>Mercy Hospital and Medical Center</td>
<td>Thomas J. Garvey, Chief Financial Officer</td>
</tr>
<tr>
<td>Hospital Sister Health System</td>
<td>Richard A. Walbert, Vice President of Finance</td>
</tr>
<tr>
<td>Touchette Regional Hospital</td>
<td>Michael McManus, Chief Operating Officer</td>
</tr>
<tr>
<td>Resurrection Health Care</td>
<td>John Orsini, Executive VP &amp; CFO</td>
</tr>
<tr>
<td>University of Illinois Hospital</td>
<td>Patrick O’Leary, Director of Hospital Finance</td>
</tr>
<tr>
<td>Sinai Health System</td>
<td>Chuck Weiss, Executive VP &amp; CFO</td>
</tr>
<tr>
<td>Cook County Health &amp; Hospital System</td>
<td>Randall Mark, Director of Intergovernmental Affairs &amp; Policy</td>
</tr>
<tr>
<td>Provena Health System</td>
<td>Gary Gasbarra, Regional Chief Financial Officer</td>
</tr>
<tr>
<td>Advocate Healthcare System</td>
<td>Steve Pyrcioch, Director of Reimbursement</td>
</tr>
<tr>
<td>Universal Health Systems</td>
<td>Dan Mullins, Vice President of Reimbursement, Behavioral Health Division</td>
</tr>
</tbody>
</table>

### Technical Advisors to Hospital Systems

**Illinois Hospital Association**
- Steve Perlin, Group Vice President, Finance
- Jo Ann Spoor, Director, Finance
- Joe Holler, Vice President, Finance

**Illinois Academic Hospital Providers & multiple hospital provider systems**
- Matthew W. Werner - M. Werner Consulting - Designated Technical Consultant

**Multiple hospital provider systems**
- J. Andrew Kane - Kane consulting - Designated Technical Consultant
Objectives and Guidelines for the TAG  
(From July 15th Kick-off Meeting)

• As the “Medicaid single State agency”, HFS is ultimately responsible for the final system
• The group is gathered to act in a technical advisory capacity to the HFS
• Members should reach out to their peers to gather feedback from others and to share meeting issues and discussion points
• Members are encouraged to provide objective advice to the group as it relates to the complete Medicaid system
• All parties, both HFS and the provider community, must commit to remaining transparent and open during the process, bring all issues to the group for discussion
Outpatient Simulation Results – Model 1

Model Assumptions

*Similar to EAPG model presented at March 15th TAG meeting, with the following changes:*

- Separate conversion factors based on Category of Service (COS)
- Case mix adjustment to 3M’s EAPG national weights to achieve Illinois case mix of 1.0
- Addition of a policy adjustor for Critical Access Hospitals to establish payments at approximately 100% of estimated costs
- No $311 million increase in outpatient funding shifted from the inpatient system
- Adjustments to the static payments to remove one-time stimulus supplemental payments
Preliminary Outpatient Simulation Results

Preliminary Outpatient Model Assumptions (Cont’d)

Conversion Factors

- Created separate conversion factors based on category of service
  - General Outpatient: COS 024-Outpatient – General and COS 025-Outpatient – ESRD
  - Psychiatric: COS 027-Psychiatric - Type A and 028-Psychiatric - Type B
  - Rehabilitation: COS 029-Clinic - Rehab

- Conversion factors set to achieve consistent estimated pay-to-cost ratios among 3 service groups and to achieve benchmark expenditures

- Preliminary model standardized conversion factors before wage index adjustment are:

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Psychiatric</th>
<th>Rehabilitation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$479.80</td>
<td>$294.00</td>
<td>$158.10</td>
</tr>
</tbody>
</table>
EAPG Relative Weights

- Used 3M’s EAPG version 3.6 national weights with 0.880051 adjustment for Illinois case mix to achieve Illinois case mix of 1.0 (3M weights divided by 0.880051)
- For new v. 3.7 EAPGs not included in v. 3.6 national weights, EAPG weights were calculated based on claim costs for EAPG
- 3M’s EAPG national weights are visit based, not unit based

Policy Adjuster

- Included adjuster of 1.33 for CAHs to achieve approximately 100% pay-to-cost ratio
Outpatient Simulation Results – Model 1

Model Assumptions (Cont’d)

• **Ancillary Packaging**
  - Used EAPG program default list of 29 packaged routine ancillary services to bundle payment
  - Also treated Level 1 and “minor” drug and chemo EAPGs and as packaged per 3M recommendation

• **Procedure Consolidation** - Used EAPG program default consolidation list to bundle payment

• **Discounting** - Used all 4 discount types
  - 50% factor for Terminated Procedure, Multiple Significant Procedure and Repeat Ancillary discount type
  - 150% factor for Bilateral discount type
## Outpatient Simulation Results – Model 1

**Preliminary Simulated Payments**

<table>
<thead>
<tr>
<th>Service Type</th>
<th>SFY 2009 Claim Lines</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>10,417,281</td>
<td>$987.2</td>
<td>$988.8</td>
<td>0.2%</td>
</tr>
<tr>
<td>Psychiatric</td>
<td>168,437</td>
<td>$21.1</td>
<td>$21.0</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>61,300</td>
<td>$6.3</td>
<td>$5.1</td>
<td>-19.3%</td>
</tr>
<tr>
<td><strong>Outpatient Total</strong></td>
<td><strong>10,647,018</strong></td>
<td><strong>$1,014.6</strong></td>
<td><strong>$1,014.9</strong></td>
<td><strong>0.0%</strong></td>
</tr>
</tbody>
</table>
Outpatient Simulation Results – Model 1

Preliminary Simulated Payments

<table>
<thead>
<tr>
<th>Provider Category</th>
<th>Number of Providers</th>
<th>SFY 2009 Claim Lines</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Acute Providers</td>
<td>125</td>
<td>9,269,004</td>
<td>$882.3</td>
<td>$869.7</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Freestanding Children’s Providers</td>
<td>2</td>
<td>279,538</td>
<td>$40.8</td>
<td>$27.0</td>
<td>-33.9%</td>
</tr>
<tr>
<td>Critical Access Hospitals</td>
<td>51</td>
<td>735,879</td>
<td>$61.1</td>
<td>$78.4</td>
<td>28.4%</td>
</tr>
<tr>
<td>Freestanding Psychiatric Providers</td>
<td>8</td>
<td>37,961</td>
<td>$7.1</td>
<td>$5.4</td>
<td>-24.3%</td>
</tr>
<tr>
<td>Freestanding Rehabilitation Providers</td>
<td>4</td>
<td>28,195</td>
<td>$2.7</td>
<td>$2.4</td>
<td>-8.2%</td>
</tr>
<tr>
<td>LTAC Providers</td>
<td>2</td>
<td>8,077</td>
<td>$3.8</td>
<td>$1.2</td>
<td>-68.6%</td>
</tr>
<tr>
<td>Out-of-State Providers</td>
<td>32</td>
<td>288,364</td>
<td>$17.0</td>
<td>$30.8</td>
<td>81.4%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>224</strong></td>
<td><strong>10,647,018</strong></td>
<td><strong>$1,014.6</strong></td>
<td><strong>$1,014.9</strong></td>
<td><strong>0.0%</strong></td>
</tr>
</tbody>
</table>

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.
Outpatient Simulation Results – Model 1

Preliminary Simulated Payments – General Services

<table>
<thead>
<tr>
<th>General Services (COS 24 and 25)</th>
<th>SFY 2009 Claim Lines</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAH</td>
<td>735,879</td>
<td>$61.1</td>
<td>$78.4</td>
<td>28.4%</td>
</tr>
<tr>
<td>MIUR Tier 1</td>
<td>270,440</td>
<td>$28.0</td>
<td>$22.9</td>
<td>-18.0%</td>
</tr>
<tr>
<td>MIUR Tier 2</td>
<td>858,692</td>
<td>$86.8</td>
<td>$74.7</td>
<td>-14.0%</td>
</tr>
<tr>
<td>MIUR Tier 3</td>
<td>843,152</td>
<td>$92.3</td>
<td>$82.7</td>
<td>-10.3%</td>
</tr>
<tr>
<td>Others</td>
<td>7,709,118</td>
<td>$719.1</td>
<td>$730.0</td>
<td>1.5%</td>
</tr>
<tr>
<td>Total</td>
<td>10,417,281</td>
<td>$987.2</td>
<td>$988.8</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.
Outpatient Simulation Results – Model 2

Model Assumptions

Similarly to Model 1 with following differences:

- The EAPG payment method is applied only to current claims-based funding levels
- Static payments, after adjustments described for Model 1, would remain separate
- General, psychiatric and rehabilitation services (based on category of service) simulated model payments for each group kept same as current payments (in aggregate – not by provider)
- No policy adjustors applied

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.
### Outpatient Simulation Results – Model 2

*Preliminary Simulated Payments*

<table>
<thead>
<tr>
<th>Service Type</th>
<th>SFY 2009 Claim Lines</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>10,417,281</td>
<td>$987.2</td>
<td>$987.2</td>
<td>0.0%</td>
</tr>
<tr>
<td>Psychiatric</td>
<td>168,437</td>
<td>$21.1</td>
<td>$21.1</td>
<td>0.0%</td>
</tr>
<tr>
<td>Rehabilitation</td>
<td>61,300</td>
<td>$6.3</td>
<td>$6.3</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Outpatient Total</strong></td>
<td><strong>10,647,018</strong></td>
<td><strong>$1,014.6</strong></td>
<td><strong>$1,014.6</strong></td>
<td><strong>0.0%</strong></td>
</tr>
</tbody>
</table>
These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.

## Outpatient Simulation Results – Model 2

### Preliminary Simulated Payments

<table>
<thead>
<tr>
<th>Provider Category</th>
<th>Number of Providers</th>
<th>SFY 2009 Claim Lines</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Acute Providers</td>
<td>125</td>
<td>9,269,004</td>
<td>$882.3</td>
<td>$880.4</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Freestanding Children’s Providers</td>
<td>2</td>
<td>279,538</td>
<td>$40.8</td>
<td>$41.9</td>
<td>2.7%</td>
</tr>
<tr>
<td>Critical Access Hospitals</td>
<td>51</td>
<td>735,879</td>
<td>$61.1</td>
<td>$60.9</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Freestanding Psychiatric Providers</td>
<td>8</td>
<td>37,961</td>
<td>$7.1</td>
<td>$7.2</td>
<td>1.1%</td>
</tr>
<tr>
<td>Freestanding Rehabilitation Providers</td>
<td>4</td>
<td>28,195</td>
<td>$2.7</td>
<td>$2.7</td>
<td>2.5%</td>
</tr>
<tr>
<td>LTAC Providers</td>
<td>2</td>
<td>8,077</td>
<td>$3.8</td>
<td>$3.8</td>
<td>0.6%</td>
</tr>
<tr>
<td>Out-of-State Providers</td>
<td>32</td>
<td>288,364</td>
<td>$17.0</td>
<td>$17.7</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>224</strong></td>
<td><strong>10,647,018</strong></td>
<td><strong>$1,014.6</strong></td>
<td><strong>$1,014.6</strong></td>
<td><strong>0.0%</strong></td>
</tr>
</tbody>
</table>
### Outpatient Simulation Results – Model 2

*Preliminary Simulated Payments – General Services*

<table>
<thead>
<tr>
<th>General Services (COS 24 and 25)</th>
<th>SFY 2009 Claim Lines</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAH</td>
<td>735,879</td>
<td>$61.1</td>
<td>$60.9</td>
<td>-0.3%</td>
</tr>
<tr>
<td>MIUR Tier 1</td>
<td>270,440</td>
<td>$28.0</td>
<td>$28.1</td>
<td>0.5%</td>
</tr>
<tr>
<td>MIUR Tier 2</td>
<td>858,692</td>
<td>$86.8</td>
<td>$88.4</td>
<td>1.8%</td>
</tr>
<tr>
<td>MIUR Tier 3</td>
<td>843,152</td>
<td>$92.3</td>
<td>$86.4</td>
<td>-6.3%</td>
</tr>
<tr>
<td>Others</td>
<td>7,709,118</td>
<td>$719.1</td>
<td>$723.4</td>
<td>0.6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,417,281</td>
<td>$987.2</td>
<td>$987.2</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.
Inpatient Simulation Results – Model 1

Key Assumptions – Acute Services

- HFS’ proposed incorporation of all but $767 million of static payments into the payment rates – now excludes static payments that have been phased-out after SFY 2011
- Benchmark inpatient expenditures based on SFY 2009 reported claim payments (excluding DSH, without trending) plus SFY 2011 assessment and supplemental payments (adjusted to remove one-time stimulus, SNAP/RHA/DHA sunsetting June 2012 and outpatient OAAP)
- No adjustment to move funding from inpatient to outpatient - $311 million retained in inpatient
- 3M national relative weights adjusted for Illinois case mix
- Statewide standardized base rates and per diem rates
- Medicare outlier policy, with $22,385 fixed stop loss, and 80% marginal cost percentage
- Medicare transfer-out policy (not post-acute transfer policy) – prorated payment
- Direct and indirect medical education payments to both in-state and out-state providers
- Shifting of funds under new system between acute, psychiatric, rehabilitation and LTACs to achieve consistent aggregate pay-to-cost ratios for each service type – costs include 100% of assessment - potential policy adjusters for specific types of services
Inpatient Simulation Results – Model 1

Key Assumptions – Specialty Services

• Psychiatric Services:
  ➢ Psychiatric-specific standardized per diem payments rates, adjusted for wage index, teaching programs and rural status
  ➢ Relative weight adjustments for psychiatric and substance abuse APR-DRGs (72 total classifications)
  ➢ Day adjustments that incrementally decrease during the patient stay (119% on first day down to 92% on 22nd day and beyond)

• Rehabilitation Services:
  ➢ Rehabilitation-specific standardized per diem payments rates, adjusted for wage index, teaching programs and rural status
  ➢ Relative weight adjustments for rehabilitation APR-DRGs (4 total classifications)

• LTAC Services:
  ➢ DRG-based system using APR-DRGs and acute service weights with LTAC-specific base rates
  ➢ Outlier policy, with $17,931 fixed stop loss, and 80% marginal cost percentage
  ➢ No medical education payments (direct or indirect)
Inpatient Simulation Results – Model 1

Key Assumptions

• Model includes following acute policy adjusters (in hierarchical order):

<table>
<thead>
<tr>
<th>Acute Policy Adjustment</th>
<th>Adjustment Factor</th>
<th>Target Pay-to-Cost Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAHs</td>
<td>1.5</td>
<td>100%</td>
</tr>
<tr>
<td>In-State Freestanding Childrens'</td>
<td>1.4</td>
<td>100%</td>
</tr>
<tr>
<td>In-State MIUR Level 1 (Mean + 2 StDev)</td>
<td>1.1</td>
<td>125%</td>
</tr>
<tr>
<td>In-State MIUR Level 2 (Mean + 1 StDev)</td>
<td>1.1</td>
<td>At least 100%</td>
</tr>
<tr>
<td>In-State MIUR Level 3 (Mean Plus 1/2 StDev)</td>
<td>1.1</td>
<td>At least 100%</td>
</tr>
<tr>
<td>Normal Newborn/OB</td>
<td>1.4</td>
<td>97% (acute avg.)</td>
</tr>
<tr>
<td>Other Neonates</td>
<td>1.0</td>
<td>100%</td>
</tr>
<tr>
<td>Pediatric</td>
<td>1.0</td>
<td>100%</td>
</tr>
</tbody>
</table>

• Preliminary model standardized payment rates (before wage or teaching adjustments)

<table>
<thead>
<tr>
<th>DRG Base Rate</th>
<th>Psych Per Diem</th>
<th>Rehab Per Diem</th>
<th>LTAC Base Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5,283.53</td>
<td>$832.19</td>
<td>$581.82</td>
<td>$6,521.52</td>
</tr>
</tbody>
</table>

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.
### Inpatient Simulation Results – Model 1

**Preliminary Simulated Payments**

<table>
<thead>
<tr>
<th>Service Type</th>
<th>SFY 2009 Claims</th>
<th>SFY 2009 Medicaid Days</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Acute Hospitals</td>
<td>338,972</td>
<td>1,277,472</td>
<td>$3,126.4</td>
<td>$3,152.3</td>
<td>0.8%</td>
</tr>
<tr>
<td>Psychiatric Providers/ Units</td>
<td>41,012</td>
<td>351,690</td>
<td>$345.8</td>
<td>$319.1</td>
<td>-7.7%</td>
</tr>
<tr>
<td>Rehabilitation Providers/ Units</td>
<td>2,889</td>
<td>48,721</td>
<td>$71.7</td>
<td>$83.2</td>
<td>16.0%</td>
</tr>
<tr>
<td>LTAC Providers</td>
<td>2,677</td>
<td>65,933</td>
<td>$111.2</td>
<td>$100.6</td>
<td>-9.5%</td>
</tr>
<tr>
<td>Inpatient Total</td>
<td>385,550</td>
<td>1,743,816</td>
<td>$3,655.1</td>
<td>$3,655.2</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
## Inpatient Simulation Results – Model 1

### Preliminary Simulated Payments – General Acute Only

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CAHs</td>
<td>1.5</td>
<td>5,881</td>
<td>14,111</td>
<td>$26.4</td>
<td>$34.7</td>
<td>31.3%</td>
</tr>
<tr>
<td>In-State Freestanding Childrens'</td>
<td>1.4</td>
<td>6,100</td>
<td>45,553</td>
<td>$172.8</td>
<td>$171.1</td>
<td>-1.0%</td>
</tr>
<tr>
<td>In-State MIUR Level 1</td>
<td>1.1</td>
<td>16,095</td>
<td>58,541</td>
<td>$167.7</td>
<td>$134.3</td>
<td>-19.9%</td>
</tr>
<tr>
<td>In-State MIUR Level 2</td>
<td>1.1</td>
<td>47,701</td>
<td>154,362</td>
<td>$357.6</td>
<td>$283.2</td>
<td>-20.8%</td>
</tr>
<tr>
<td>In-State MIUR Level 3</td>
<td>1.1</td>
<td>34,395</td>
<td>113,405</td>
<td>$259.2</td>
<td>$277.5</td>
<td>7.0%</td>
</tr>
<tr>
<td>Normal Newborn/OB</td>
<td>1.4</td>
<td>116,228</td>
<td>280,981</td>
<td>$392.8</td>
<td>$504.7</td>
<td>28.5%</td>
</tr>
<tr>
<td>Other Neonates</td>
<td>1.0</td>
<td>7,494</td>
<td>122,130</td>
<td>$316.0</td>
<td>$277.6</td>
<td>-12.1%</td>
</tr>
<tr>
<td>Pediatric</td>
<td>1.0</td>
<td>28,495</td>
<td>110,122</td>
<td>$295.4</td>
<td>$314.1</td>
<td>6.4%</td>
</tr>
<tr>
<td>Other - Adult</td>
<td>N/A</td>
<td>76,583</td>
<td>378,267</td>
<td>$1,138.6</td>
<td>$1,155.0</td>
<td>1.4%</td>
</tr>
<tr>
<td>General Acute Total</td>
<td></td>
<td>338,972</td>
<td>1,277,472</td>
<td>$3,126.4</td>
<td>$3,152.3</td>
<td>0.8%</td>
</tr>
</tbody>
</table>
# Inpatient Simulation Results – Model 1

**Preliminary Simulated Payments**

<table>
<thead>
<tr>
<th>Provider Category</th>
<th>Number of Providers</th>
<th>SFY 2009 Claims</th>
<th>SFY 2009 Medicaid Days</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Acute Providers (w/ DPUs)</td>
<td>125</td>
<td>348,756</td>
<td>1,385,191</td>
<td>$3,023.0</td>
<td>$3,047.5</td>
<td>0.8%</td>
</tr>
<tr>
<td>Freestanding Children's Providers</td>
<td>2</td>
<td>6,388</td>
<td>49,162</td>
<td>$181.1</td>
<td>$175.6</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Critical Access Hospitals</td>
<td>51</td>
<td>5,882</td>
<td>14,112</td>
<td>$26.4</td>
<td>$34.7</td>
<td>31.3%</td>
</tr>
<tr>
<td>Freestanding Psychiatric Providers</td>
<td>8</td>
<td>8,654</td>
<td>126,285</td>
<td>$130.1</td>
<td>$97.7</td>
<td>-24.9%</td>
</tr>
<tr>
<td>Freestanding Rehabilitation Providers</td>
<td>4</td>
<td>1,236</td>
<td>24,268</td>
<td>$44.4</td>
<td>$43.5</td>
<td>-1.9%</td>
</tr>
<tr>
<td>LTAC Providers</td>
<td>6</td>
<td>2,677</td>
<td>65,933</td>
<td>$111.2</td>
<td>$100.6</td>
<td>-9.5%</td>
</tr>
<tr>
<td>Out-of-State Providers</td>
<td>36</td>
<td>11,957</td>
<td>78,865</td>
<td>$138.9</td>
<td>$155.4</td>
<td>11.9%</td>
</tr>
<tr>
<td><strong>Inpatient Total</strong></td>
<td><strong>232</strong></td>
<td><strong>385,550</strong></td>
<td><strong>1,743,816</strong></td>
<td><strong>$3,655.1</strong></td>
<td><strong>$3,655.2</strong></td>
<td><strong>0.0%</strong></td>
</tr>
</tbody>
</table>
Inpatient Simulation Results – Model 1

Preliminary Simulated Payments

Estimated Simulation Model Payment Distribution:
Acute Services
Total Estimated Simulation Model Acute Payments =
$2,477.7 million

- Claim DRG Base Payments: 21%
- Claim Direct Medical Education Payments: 6%
- Claim IME Payments: 7%
- Claim Outlier Payments: 3%
- Preliminary Assessment Payments: 62%

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.
### Inpatient Simulation Results – Model 1

**Preliminary Simulated Payments - Transplants**

<table>
<thead>
<tr>
<th>Transplant APR-DRG</th>
<th>SFY 2009 Claims</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Aggregate CCR Approach Plus Static</th>
</tr>
</thead>
<tbody>
<tr>
<td>001 - LIVER TRANSPLANT &amp;/OR INTESTINAL TRANSPLANT</td>
<td>34</td>
<td>$10.1</td>
<td>$6.4</td>
<td>$5.6</td>
</tr>
<tr>
<td>002 - HEART &amp;/OR LUNG TRANSPLANT</td>
<td>15</td>
<td>$3.4</td>
<td>$3.1</td>
<td>$2.0</td>
</tr>
<tr>
<td>003 - BONE MARROW TRANSPLANT</td>
<td>64</td>
<td>$13.5</td>
<td>$9.6</td>
<td>$7.7</td>
</tr>
<tr>
<td>006 - PANCREAS TRANSPLANT</td>
<td>1</td>
<td>$0.1</td>
<td>$0.1</td>
<td>$0.1</td>
</tr>
<tr>
<td>440 - KIDNEY TRANSPLANT</td>
<td>28</td>
<td>$1.8</td>
<td>$2.4</td>
<td>$2.3</td>
</tr>
<tr>
<td><strong>Transplant Total</strong></td>
<td><strong>142</strong></td>
<td><strong>$28.8</strong></td>
<td><strong>$21.6</strong></td>
<td><strong>$17.8</strong></td>
</tr>
</tbody>
</table>
### Combined Simulation Results – Model 1

**Preliminary Simulated Payments**

<table>
<thead>
<tr>
<th>Provider Category</th>
<th>Inpatient</th>
<th>Outpatient</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Estimated Current System Payments ($Millions)</td>
<td>Estimated Simulation Model Payments ($Millions)</td>
<td>Estimated Current System Payments ($Millions)</td>
</tr>
<tr>
<td>General Acute Providers (w/ DPUs)</td>
<td>$3,023.0</td>
<td>$3,047.5</td>
<td>$882.3</td>
</tr>
<tr>
<td>Freestanding Children's Providers</td>
<td>$181.1</td>
<td>$175.6</td>
<td>$40.8</td>
</tr>
<tr>
<td>Critical Access Hospitals</td>
<td>$26.4</td>
<td>$34.7</td>
<td>$61.1</td>
</tr>
<tr>
<td>Freestanding Psychiatric Providers</td>
<td>$130.1</td>
<td>$97.7</td>
<td>$7.1</td>
</tr>
<tr>
<td>Freestanding Rehabilitation Providers</td>
<td>$44.4</td>
<td>$43.5</td>
<td>$2.7</td>
</tr>
<tr>
<td>LTAC Providers</td>
<td>$111.2</td>
<td>$100.6</td>
<td>$3.8</td>
</tr>
<tr>
<td>Out-of-State Providers</td>
<td>$138.9</td>
<td>$155.4</td>
<td>$17.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$3,655.1</strong></td>
<td><strong>$3,655.2</strong></td>
<td><strong>$1,014.6</strong></td>
</tr>
</tbody>
</table>

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.
Inpatient Simulation Results – Model 2

Key Model Assumptions

- Keeps all current static payments (assessment and supplemental, with adjustments), leaving current claims payments as funding pool for APR-DRGs
- No outpatient set-aside (statewide aggregate simulation model payments equal current aggregate payments)
- Acute, rehabilitation, psychiatric and LTAC services simulation model payments for each group kept same as current payments (in aggregate – not by provider)
- No policy adjustors applied
- No teaching adjustments (IME or direct medical education)

- Alternative baseline model preliminary standardized payment rates (before wage adjustments)

<table>
<thead>
<tr>
<th>DRG Base Rate</th>
<th>Psych Per Diem</th>
<th>Rehab Per Diem</th>
<th>LTAC Base Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$4,852.16</td>
<td>$753.42</td>
<td>$360.14</td>
<td>$6,107.04</td>
</tr>
</tbody>
</table>

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.
### Inpatient Simulation Results – Model 2

*Estimated Payments, Including Static Payments*

<table>
<thead>
<tr>
<th>Service Type</th>
<th>SFY 2009 Claims</th>
<th>SFY 2009 Medicaid Days</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Acute Hospitals</td>
<td>338,972</td>
<td>1,277,472</td>
<td>$3,126.4</td>
<td>$3,126.4</td>
<td>0.0%</td>
</tr>
<tr>
<td>Psychiatric Providers/ Units</td>
<td>41,012</td>
<td>351,690</td>
<td>$345.8</td>
<td>$345.8</td>
<td>0.0%</td>
</tr>
<tr>
<td>Rehabilitation Providers/ Units</td>
<td>2,889</td>
<td>48,721</td>
<td>$71.7</td>
<td>$71.7</td>
<td>0.0%</td>
</tr>
<tr>
<td>LTAC Providers</td>
<td>2,677</td>
<td>65,933</td>
<td>$111.2</td>
<td>$111.2</td>
<td>0.0%</td>
</tr>
<tr>
<td>Inpatient Total</td>
<td>385,550</td>
<td>1,743,816</td>
<td>$3,655.1</td>
<td>$3,655.1</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
### Inpatient Simulation Results – Model 2

**Estimated Payments, Including Static – General Acute Only**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CAHs</td>
<td>N/A</td>
<td>5,881</td>
<td>14,111</td>
<td>$26.4</td>
<td>$31.7</td>
<td>20.0%</td>
</tr>
<tr>
<td>In-State Freestanding Childrens'</td>
<td>N/A</td>
<td>6,100</td>
<td>45,553</td>
<td>$172.8</td>
<td>$157.0</td>
<td>-9.1%</td>
</tr>
<tr>
<td>In-State MIUR Level 1</td>
<td>N/A</td>
<td>16,095</td>
<td>58,541</td>
<td>$167.7</td>
<td>$172.5</td>
<td>2.9%</td>
</tr>
<tr>
<td>In-State MIUR Level 2</td>
<td>N/A</td>
<td>47,701</td>
<td>154,362</td>
<td>$357.6</td>
<td>$371.9</td>
<td>4.0%</td>
</tr>
<tr>
<td>In-State MIUR Level 3</td>
<td>N/A</td>
<td>34,395</td>
<td>113,405</td>
<td>$259.2</td>
<td>$271.5</td>
<td>4.8%</td>
</tr>
<tr>
<td>Normal Newborn/OB</td>
<td>N/A</td>
<td>116,228</td>
<td>280,981</td>
<td>$392.8</td>
<td>$387.4</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Other Neonates</td>
<td>N/A</td>
<td>7,494</td>
<td>122,130</td>
<td>$316.0</td>
<td>$278.0</td>
<td>-12.0%</td>
</tr>
<tr>
<td>Pediatric</td>
<td>N/A</td>
<td>28,495</td>
<td>110,122</td>
<td>$295.4</td>
<td>$300.1</td>
<td>1.6%</td>
</tr>
<tr>
<td>Other</td>
<td>N/A</td>
<td>76,583</td>
<td>378,267</td>
<td>$1,138.6</td>
<td>$1,156.2</td>
<td>1.5%</td>
</tr>
<tr>
<td><strong>General Acute Total</strong></td>
<td></td>
<td>338,972</td>
<td>1,277,472</td>
<td>$3,126.4</td>
<td>$3,126.4</td>
<td>0.0%</td>
</tr>
</tbody>
</table>
### Inpatient Simulation Results – Model 2

**Estimated Payments, Including Static Payments**

<table>
<thead>
<tr>
<th>Provider Category</th>
<th>Number of Providers</th>
<th>SFY 2009 Claims</th>
<th>SFY 2009 Medicaid Days</th>
<th>Estimated Current System Payments ($ Millions)</th>
<th>Estimated Simulation Model Payments ($ Millions)</th>
<th>Estimated Payment Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Acute Providers (w/ DPUs)</td>
<td>125</td>
<td>348,756</td>
<td>1,385,191</td>
<td>$3,023.0</td>
<td>$3,077.4</td>
<td>1.8%</td>
</tr>
<tr>
<td>Freestanding Children's Providers</td>
<td>2</td>
<td>6,388</td>
<td>49,162</td>
<td>$181.1</td>
<td>$161.8</td>
<td>-10.7%</td>
</tr>
<tr>
<td>Critical Access Hospitals</td>
<td>51</td>
<td>5,882</td>
<td>14,112</td>
<td>$26.4</td>
<td>$31.7</td>
<td>20.0%</td>
</tr>
<tr>
<td>Freestanding Psychiatric Providers</td>
<td>8</td>
<td>8,654</td>
<td>126,285</td>
<td>$130.1</td>
<td>$100.5</td>
<td>-22.7%</td>
</tr>
<tr>
<td>Freestanding Rehabilitation Providers</td>
<td>4</td>
<td>1,236</td>
<td>24,268</td>
<td>$44.4</td>
<td>$43.3</td>
<td>-2.4%</td>
</tr>
<tr>
<td>LTAC Providers</td>
<td>6</td>
<td>2,677</td>
<td>65,933</td>
<td>$111.2</td>
<td>$111.2</td>
<td>0.0%</td>
</tr>
<tr>
<td>Out-of-State Providers</td>
<td>36</td>
<td>11,957</td>
<td>78,865</td>
<td>$138.9</td>
<td>$129.1</td>
<td>-7.0%</td>
</tr>
<tr>
<td><strong>Inpatient Total</strong></td>
<td><strong>232</strong></td>
<td><strong>385,550</strong></td>
<td><strong>1,743,816</strong></td>
<td><strong>$3,655.1</strong></td>
<td><strong>$3,655.1</strong></td>
<td><strong>0.0%</strong></td>
</tr>
</tbody>
</table>
# Summary of Options for Coding and Documentation Improvement Adjustments

<table>
<thead>
<tr>
<th>Option 1: Preemptive Adjustment</th>
<th>Option 2: 5% Set-Aside with Corridor and Semi-Annual Look-Back</th>
<th>Option 3: Monthly Prospective Adjustment with Corridor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce rates in advance in anticipation of higher CMI from improved coding.</td>
<td>Discussed at previous TAG meetings.</td>
<td>Illustrated in following slides.</td>
</tr>
<tr>
<td>Similar to approach employed by Medicare.</td>
<td>Establish a 5% set-aside (through a rate reduction) for all inpatient services</td>
<td>Establish expected CMI values for future periods based on historic trends.</td>
</tr>
<tr>
<td>Would require HFS the option of applying retrospective adjustments, downward or upward, if preemptive estimates are off target.</td>
<td>Establish expected CMI values for future periods based on historic trends.</td>
<td>Establish a corridor (e.g., 2%) above and below the expected CMI value.</td>
</tr>
<tr>
<td></td>
<td>After “go-live,” review actual CMI</td>
<td>On a monthly basis, HFS will review cumulative year-to-date CMI. If actual CMI exceeds or falls below the corridor, HFS will prospectively apply an adjustor to the rates to bring expected payment back to where it would be at the upper or lower bounds. If actual CMI comes back within the corridor, the adjustor is prospectively removed.</td>
</tr>
<tr>
<td></td>
<td>If actual CMI is less than expected CMI, HFS makes 5% set aside payments back to hospitals.</td>
<td>After a full 18-month period has passed, analysis will be based on a “rolling” 18-month average.</td>
</tr>
</tbody>
</table>
Wrap-Up

- Inpatient analysis
- Outpatient analysis
- Next Steps