Illinois Medicaid Hospital Reimbursement Reform

Technical Advisory Group
Discussion of Design Considerations
December 19, 2011
Agenda

- Introductions
- Inpatient Specialty Services Payment Methodologies
- Potential System Rebalancing
- Coordinated Care Initiative
- Static Payments
- Next Steps
- Next Meeting
## Technical Advisory Group

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

## Technical Advisors to Hospital Systems

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

**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
Preliminary Inpatient Simulation - Assumptions

- Statewide standardized base rate established to achieve existing funding levels (subject to future decisions regarding potential rebalancing) – aggregate funding pool includes all current supplemental and assessment payments
- Each facility’s base rate is equal to the statewide standardized base rate adjusted for geographic wage and teaching program differences
- Costs include 100 percent of assessment amounts
- Relative weights – adopted National weights and Illinois-specific lengths-of-stay
- Medicare outlier policy, with $22,385 fixed stop loss, and 80% marginal cost percentage
- Medicare transfer-out policy (not post-acute transfer policy)
- Optional adjusters yet to be determined
- Documentation and coding adjusters yet to be determined
- Specialty services – will incorporate alternative payment methods in future models
- CAH – included in DRG model as a baseline for evaluating future adjustments to payment policy

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.
New Inpatient Specialty Services Payment Systems

- HFS is considering the continuation of reimbursement for inpatient specialty services (psychiatric, rehabilitation and long-term acute care) using a separate methodology from the acute DRG payment system.

- HFS is considering the identification of specialty services to continue to be based on provider type as opposed to DRG classification.

- For each of the specialty service types, HFS is considering adopting elements (but not all) of Medicare’s payment parameters.
Inpatient Specialty Services Payment Methodologies

Psychiatric Providers / Distinct Part Unit Proposed Approach

- HFS is currently considering a Medicare-style psychiatric payment system

- Elements of the CMS IPF-PPS under consideration:
  - Psychiatric-specific standardized per diem payments rates, adjusted for wage index, teaching programs and rural status
  - Claim payments made on per diem basis with the following adjustments:
    - 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 22\textsuperscript{nd} day and beyond)
Inpatient Specialty Services Payment Methodologies

Psychiatric Providers / Distinct Part Units Proposed Pricing Formulas

- Proposed Claim Payment:
  \[(\text{Psychiatric Per Diem Rate}) \times (\text{Days Adjustment}) \times (\text{APR-DRG Relative Weight})\]

- Proposed Psychiatric Per Diem Rate:
  \[\left[ (\text{Standardized amount} \times \text{Labor Portion} \times \text{Wage Index}) + (\text{Standardized Amount} \times \text{Non-Labor Portion}) \right] \times (\text{Teaching Factor}) \times (\text{Rural Status})\]

- Proposed Days Adjustments (per Medicare IPF-PPS):

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Inpatient Specialty Services Payment Methodologies

Psychiatric Provider/Unit Claims

- **Number of SFY 2009 Claims**
- **Estimated SFY 2013 Allowable Cost Per Day (Including Provider Tax Costs)**
- **Current Payment Per Day (Including Static Payments)**

Note: Allowable costs are based on Medicare cost reporting rules, and therefore exclude amounts considered by Medicare to be “unallowable” for purposes of determining the costs of inpatient hospital services, such as certain costs associated with provider-based physicians, CRNAs and medical schools.
Inpatient Specialty Services Payment Methodologies

Rehabilitation Providers / Distinct Part Unit Proposed Approach

- HFS considered a Medicare-style rehabilitation payment system but determined major components were not feasible or appropriate for Medicaid services:
  - CMS IRF-PPS uses a rehabilitation-specific patient classification system (CMGs) which assigns classifications based on assessment data not available for Medicaid patients
  - CMS IRF-PPS reimburses on a per discharge basis; payment does not recognize the patient length of stay

- HFS is currently considering a rehabilitation payment system similar to the proposed psychiatric per diem payment system, without incremental day adjustments:
  - 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)
Inpatient Specialty Services Payment Methodologies

Rehabilitation Providers / Distinct Part Units Proposed Pricing Formulas

- Proposed Claim Payment:
  \[(\text{Rehabilitation Per Diem Rate}) \times (\text{Days}) \times (\text{APR-DRG Relative Weight})\]

- Proposed Rehabilitation Per Diem Rate:
  \[\left(\left(\text{Standardized amount} \times \text{Labor Portion} \times \text{Wage Index}\right) + \left(\text{Standardized Amount} \times \text{Non-Labor Portion}\right)\right) \times (\text{Teaching Factor}) \times (\text{Rural Status})\]
Inpatient Specialty Services Payment Methodologies

Rehabilitation Provider/Unit Claims

- Number of SFY 2009 Claims
- Estimated SFY 2013 Allowable Cost Per Day (Including Provider Tax Costs)
- Current Payment Per Day (Including Static Payments)

Excludes Cook County / U of I claims, Medicare crossover claims and claims with ungroupable/invalid APR-DRGs.

Total Claims: 2,801
Avg LOS: 16.6
LOS Max: 154
Avg Cost Per Day: $1,701.77
Avg Curr. Pay per Day: $1,547.74

Note: Allowable costs are based on Medicare cost reporting rules, and therefore exclude amounts considered by Medicare to be “unallowable” for purposes of determining the costs of inpatient hospital services, such as certain costs associated with provider-based physicians, CRNAs and medical schools.
LTAC Proposed Approach

- HFS is currently considering a Medicare-style LTAC payment system, which mimics the acute DRG system with LTAC-specific payment rates

- Elements of the CMS LTCH-PPS under consideration:
  - DRG-based system, using APR-DRGs and national weights
  - LTAC-specific standardized DRG base rates, adjusted for wage index
  - High cost outlier payments
  - Short-stay outliers
  - No medical education payments (direct or indirect)
Potential System Rebalancing

- The current Medicaid FFS hospital inpatient and outpatient payment systems appear to be unbalanced relative to estimated allowable costs:
  - Inpatient hospital payments are greater than outpatient hospital payments relative to estimated allowable costs
  - Inpatient hospital payments relative to cost differ between general acute, psychiatric, rehabilitation and LTAC providers
  - Inpatient hospital payments relative to cost for normal newborn and obstetric services are lower than for other acute service categories
Potential System Rebalancing

Medicaid FFS Aggregate Inpatient and Outpatient Hospital Current Payments and Estimated Allowable Costs

Payments $297.5 Above Estimated Allowable Cost (108.6% Cost Coverage)

Payments $336.2 Below Estimated Allowable Cost (75.2% Cost Coverage)

Excludes Cook County / U of I claims, Medicare crossover claims and claims with ungroupable/invalid APR-DRGs.

Note: Allowable costs are based on Medicare cost reporting rules, and therefore exclude amounts considered by Medicare to be “unallowable” for purposes of determining the costs of inpatient hospital services, such as certain costs associated with provider-based physicians, CRNAs and medical schools.
Potential System Rebalancing

Excludes Cook County / U of I claims, Medicare crossover claims and claims with ungroupable/invalid APR-DRGs

Note: Allowable costs are based on Medicare cost reporting rules, and therefore exclude amounts considered by Medicare to be “unallowable” for purposes of determining the costs of inpatient hospital services, such as certain costs associated with provider-based physicians, CRNAs and medical schools.

### Medicaid FFS Aggregate Inpatient Hospital Current Payments and Estimated Allowable Costs

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<td>Specialty Providers/Units</td>
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Note: Payments $269.0 Above Estimated Allowable Cost (109.1% Cost Coverage)

Note: Payments $28.5 Above Estimated Allowable Cost (105.9% Cost Coverage)
Potential System Rebalancing

Medicaid FFS Aggregate Inpatient Specialty Provider Current Payments and Estimated Allowable Costs

- Allocated Current System Supplemental Payments (SFY 2011)
- Allocated Current System Assessment Payments (SFY 2011)
- Current FFS Claim Payments (SFY 2009)
- SFY 2011 Assessment Costs
- SFY 2009 Claim Estimated Allowable Costs, Inflated to SFY 2013

Excludes Cook County/U of I claims, Medicare crossover claims and claims with ungroupable/invalid APR-DRGs

Payments $47.3 Above Estimated Allowable Cost (115.5% Cost Coverage)
- Psychiatric Providers/Units: $351.3 Total
  - Payments: $32.8
  - Estimated Allowable Cost: $304.0 Total
- Rehabilitation Providers/Units: $304.0 Total
  - Payments: $101.3
  - Estimated Allowable Cost: $204.7 Total
- LTACs: $72.1 Total
  - Payments: $7.2
  - Estimated Allowable Cost: $79.3 Total

Payments $7.2 Below Estimated Allowable Cost (90.9% Cost Coverage)
- Psychiatric Providers/Units: $217.2 Total
  - Payments: $64.5
  - Estimated Allowable Cost: $281.7 Total
- Rehabilitation Providers/Units: $239.5 Total
  - Payments: $16.4
  - Estimated Allowable Cost: $256.0 Total
- LTACs: $90.5 Total
  - Payments: $22.2
  - Estimated Allowable Cost: $112.7 Total

Payments $11.6 Below Estimated Allowable Cost (88.7% Cost Coverage)
- Psychiatric Providers/Units: $32.8
  - Estimated Allowable Cost: $44.4 Total
- Rehabilitation Providers/Units: $62.1
  - Estimated Allowable Cost: $85.0 Total
- LTACs: $82.0
  - Estimated Allowable Cost: $93.6 Total

Note: Allowable costs are based on Medicare cost reporting rules, and therefore exclude amounts considered by Medicare to be “unallowable” for purposes of determining the costs of inpatient hospital services, such as certain costs associated with provider-based physicians, CRNAs and medical schools.
Potential System Rebalancing

Medicaid FFS Aggregate Inpatient General Acute Provider Current Payments and Estimated Allowable Costs

- Allocated Current System Supplemental Payments (SFY 2011)
- Allocated Current System Assessment Payments (SFY 2011)
- Current FFS Claim Payments (SFY 2009)
- SFY 2011 Assessment Costs
- SFY 2009 Claim Estimated Allowable Costs, Inflated to SFY 2013

Excludes Cook County / U of I claims, Medicare crossover claims and claims with ungroupable/invalid APR-DRGs

Note: Allowable costs are based on Medicare cost reporting rules, and therefore exclude amounts considered by Medicare to be “unallowable” for purposes of determining the costs of inpatient hospital services, such as certain costs associated with provider-based physicians, CRNAs and medical schools.
Potential System Rebalancing

System Rebalancing Options:

- Assumption is that aggregate funding pool for inpatient and outpatient combined will not change

- Shift funding towards outpatient hospital services

- Shift funding towards normal newborn/obstetrics services

- Shift funding towards specialty services
Handout 1

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Non-assessment static payments

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Payments sunsetting on 06/30/2012

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Stimulus static payments

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One-time stimulus static payments

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Assessment static payments

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