

# Navigant Consulting, Inc.

## Overview of Inpatient Hospital Rebasing



*April 19, 2007*

# Overview



Section 1 » Overview of Rebasing Process



Section 2 » Changes to System from Rebasing

- Peer Group Rates
- Relative Rates
- Outlier Thresholds
- Add-on Amount (*capital, GME*)



Section 3 » Payment Impact of Rebased System



Section 4 » Budget Neutrality Options

# Overview of Rebasing Process



Basic DRG payment components:

1. Use of a “Grouper” to classify individual claim based on the type of claim

2. Once classified into appropriate DRG:

(a) Peer group per case rate (Operating cost)

*Multiplied by*

DRG-specific Relative Weight

(b) Add-on for capital and GME

# Overview of Rebasing Process (cont.)



## Sample claim payment -- current vs. new system

<i>Sample Claim Payment Under Current Payment System</i>							
DRG V16	Covered Charge	Current Outlier Threshold	Current Base Rate	Current Relative Weight	Operating Payment	Current Add- ons	Current System Payment
370	\$6,856.70	\$28,516.24	\$3,737.81	1.2246	\$4,577.32	\$230.17	\$4,807.49
<i>Sample Claim Under New Payment System</i>							
DRG V23	Covered Charge	New Outlier Threshold	New Base Rate	New Relative Weight	Operating Payment	New Add- ons	New System Payment
370	\$6,856.70	\$33,172.20	\$5,096.13	0.9466	\$4,824.00	\$410.29	\$5,234.29

# Overview of Rebasing Process



Five key components updated in developing new payment rates (*data used to this point in rebasing work*):

1. New Grouper (*v16 versus v23*)
2. Paid claims data: SFYs 2004 and 2005\*
3. Cost-to-charge ratios: HFYs 2003 and 2004
4. Capital add-on: HFY 2004 cost reports and capital surveys for CY 2004 and 2005
5. GME add-on: 2004 cost reports

\* *All non-Medicare claims were included, both CMO and FFS*

# Changes to System from Rebasing



- Several changes in the DRG groups occur as a result of moving from Grouper *v16* to Grouper *v23*. Preliminary findings from last fall:
  - 41 new DRGs (*v23*) created from 54 old DRGs (*v16*)
  - 111 combinations of old and new DRGs
  
- Changes in Outlier Thresholds

# Changes to System from Rebasing (cont.)



## ➤ Changes in Peer Group Base Rates

Two factors contribute to the change in base rates

1. As a result of the changes in the outlier thresholds, a larger percentage of the claims are paid as “inliers”.
2. Changes in relative weights

## ➤ Capital and GME add-on amounts under the rebased system

# Payment Impact of Rebased System



- In our preliminary work, maintaining reimbursement at a level that is budget neutral has built on two adjustments:
  - When setting the new rates, costs across hospitals were inflated to a common point of time that is prior to the midpoint of the new payment year (*costs were all inflated to January 1, 2005*)
  - The overall level of payment across all rate components (*base rates and/or add-on components*) needs to be reduced to reflect that the rebased payment level exceeds budget neutrality

# Payment Impact of Rebased System (cont.)



## Sample claim payment -- current vs. new system

<i>Sample Claim Payment Under Current Payment System</i>							
DRG V16	Covered Charge	Current Outlier Threshold	Current Base Rate	Current Relative Weight	Operating Payment	Current Add-ons	Current System Payment
370	\$6,856.70	\$28,516.24	\$3,737.81	1.2246	\$4,577.32	\$230.17	\$4,807.49
<i>Sample Claim Under New Payment System</i>							
DRG V23	Covered Charge	New Outlier Threshold	New Base Rate	New Relative Weight	Operating Payment	New Add-ons	New System Payment
370	\$6,856.70	\$33,172.20	\$5,096.13	0.9466	\$4,824.00	\$410.29	\$5,234.29

# Budget Neutrality Options



- Initial budget neutrality scenarios considered:
  1. Capital add-on capped at 10% or a statewide average increase; remainder of reduction uniform across all peer group base rates
  2. Uniform budget neutrality adjustment across all peer group base rates; no adjustment to capital component
  3. Peer group-specific budget neutrality adjustments
  4. Statewide budget neutrality goal achieved through peer group-specific budget neutrality adjustments to bring each peer group to equal cost coverage

# Budget Neutrality Options



Discussion of next steps