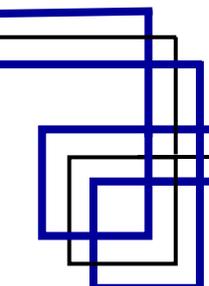


Overview of Rebased Inpatient Hospital Reimbursement System and Discussion of Budget Neutrality Options

EP&P CONSULTING, INC.

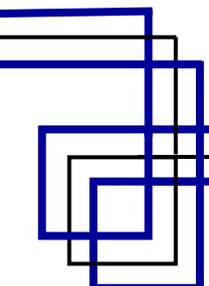
September 11, 2006

Agenda Items



- ❑ Overview of Rebasing Process
- ❑ Overview of Rebased System versus Current System
 - Peer Group Rates
 - Relative Weights
 - Outlier Thresholds
 - Add-on Amounts (*capital, GME*)
- ❑ Payment Impact of Rebased System
- ❑ Budget Neutrality Options

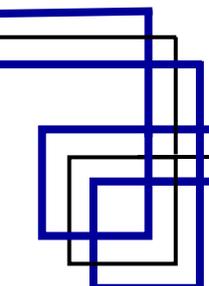
Overview of Rebasing Process



- ❑ Five key components updated in developing new payment rates
 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*

Rebased System vs. Current System



- Several changes in the DRG groups occur as a result of moving from Grouper v16 to Grouper v23:
 - 41 new DRGs (v23) created from 54 old DRGs (V16)
 - 111 combinations of old and new DRGs

Rebased System vs. Current System

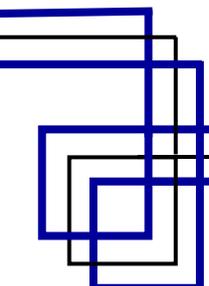
Changes in Peer Group Base Rates

	<u>Current</u>	<u>New*</u>	<u>Pct. Change</u>
Statewide:	\$3,737.81	\$5,096.13	36.3%
Pediatric:	\$4,221.93	\$5,731.89	35.8%
Specialty:**	\$7,828.38	\$8,495.39	8.5%

**Before budget neutrality adjustment*

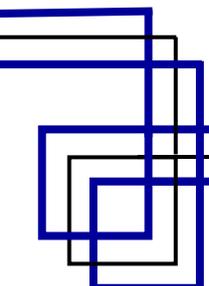
*** Peer group average. Some specialty hospitals have hospital-specific base rate.*

Rebased System vs. Current System



- 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”.
 - 419 DRG outlier thresholds increased (77%)
 - 80 DRG outlier thresholds decreased (15%)
 - 44 DRG outlier thresholds did not exist in 2002 (8%)

Rebased System vs. Current System



2. Changes in Relative Weights*

- 106 DRGs had relative weights that increased (20%)
- 396 DRGs had relative weights that decreased (73%)
- 41 were new DRGs, therefore no current relative weight exists (8%)

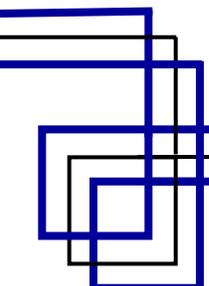
** Note that several DRGs changed in terms of diagnoses and procedures so this is not a straightforward comparison.*

Capital Add-on Amounts

- Distribution of capital add-on amounts under the rebased system

	<u>Mean</u>	<u>Min.</u>	<u>25th</u>	<u>50th</u>	<u>75th</u>	<u>Max.</u>
All Hospitals	\$542.82	\$72.98	\$295.89	\$417.42	\$582.06	\$8,145.91
Statewide	\$428.47	\$72.98	\$289.40	\$409.17	\$549.35	\$ 959.81
Pediatric	\$1,149.53	\$987.08				\$1,396.99
Specialty	\$5,096.35	\$3,061.38				\$8,145.91

Financial Impact of Rebasing



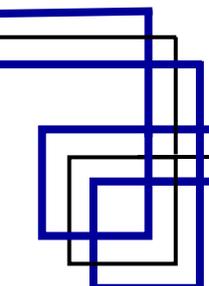
- Maintaining reimbursement at a level that is budget neutral requires two adjustments:
 - When setting the new rates, costs across hospitals were inflated to a common point of time that is prior to the midpoint of the new payment year (*costs were all inflated to January 1, 2005*).
 - The overall level 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 by 6.91%.

Sample of Payment Changes

Sample claim payment -- current vs. new system

Sample Claim Payment Under Current Payment System							
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
Sample Claim Under New Payment System							
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 Scenarios

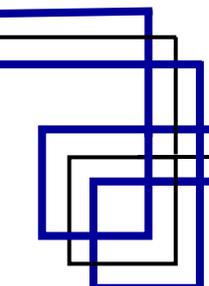


1. Initial budget neutrality scenarios considered:

1. Uniform budget neutrality adjustment across all peer group base rates
2. Capital add-on capped at 10%; remainder of reduction uniform across all peer group base rates
3. Capital add-on limited to 2002-2005 median change; remainder of reduction uniform across all peer group base rates
4. Capital add-on limited to 2002-2005 statewide average change; remainder of reduction uniform across all peer group base rates

Note: Based on Department input, GME and Capital add-ons were not affected by budget neutrality adjustments.

Budget Neutrality Scenarios



- Additional budget neutrality scenarios requested at August 25 meeting:
 5. Peer group-specific budget neutrality adjustments
 6. Statewide budget neutrality goal achieved through peer group-specific budget neutrality adjustments to bring each peer group to equal cost coverage.

Budget Neutrality Scenarios

□ Overview of Scenario 1

Peer Group	SFY 2005 Amount Paid	Rate of Increase	Cost Coverage
Pediatric	\$73,683,781	-4.37%	90.67%
Specialty	\$9,622,306	-8.35%	131.39%
Statewide	\$538,938,295	0.78%	94.06%
Total	\$622,244,384	0.03%	94.01%

Budget Neutrality Scenarios

□ Overview of Scenario 4

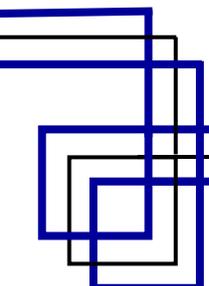
Peer Group	SFY 2005 Amount Paid	Rate of Increase	Cost Coverage
Pediatric	\$73,683,781	0.00%	94.81%
Specialty	\$9,622,306	0.00%	143.36%
Statewide	\$538,938,295	0.00%	93.33%
Total	\$622,244,384	0.03%	94.01%

Budget Neutrality Scenarios

□ Overview of Scenario 5

Peer Group	SFY 2005 Amount Paid	Rate of Increase	Cost Coverage
Pediatric	\$73,683,781	-0.82%	94.04%
Specialty	\$9,622,306	-34.30%	94.05%
Statewide	\$538,938,295	76.00%	94.04%
Total	\$622,244,384	-0.03%	94.01%

Budget Neutrality Discussion



- Discussion of Budget Neutrality and Next Steps