Georgia Medicaid Inpatient Prospective Payment System: Phase 3 Proposed Methodology Changes

Presentation to: Hospital Advisory Inpatient Payment Subcommittee
Presented by: Department of Community Health
In April 2015, DCH proposed a 3 phase approach to changing and updating its Medicaid IPPS methodology.

DCH proposed to update the IPPS Reimbursement because:

• The IPPS model components had been unchanged since the late 1990s. Grouper and cost updates were infrequent.
• To be effective, the methodology should be updated at least every 2 to 3 years to keep pace with industry changes and costs. Certain components must be updated annually. This is necessary to control overall costs to the state.
• DCH heard numerous concerns regarding the payment methodology from hospitals and internal/external subject matter experts.
• DCH developed policy objectives and guidelines associated with Medicaid and PeachCare inpatient hospital payments. DCH determined its IPPS methodology did not address these policy objectives and guidelines.

**Phases 1 and 2 of the IPPS update were completed on July 1, 2015 and January 1, 2016.**
Current IPPS Methodology

- Hospitals are divided into 3 Peer Groups, each with different base rates: Statewide, Pediatric, & Specialty.
- Tricare Version 33 to group claims into diagnostic related groups (DRGs). (Phase 2 update)
- Base rates are adjusted for Medicaid Utilization and Indirect Medical Education with a stop loss stop gain. (Phase 1 update)
- Outlier claims are paid based on the difference between the cost of the claim and the inlier payment amount.
- Direct GME is paid out of a supplemental pool, separate from the IPPS claim. (Phase 1 update)
Effective July 1, 2017, DCH proposed to:

1. Update financial data to a more recent year in order to rebase rates and model components.

2. Change Outlier Formula to base payment on the difference between the cost of the claim and the outlier threshold.

3. Apply a Stop Loss and Stop Gain to mitigate the financial impact to individual hospitals.

4. Allocate funds from the Direct GME Pool based on a per resident amount.

5. Pay Indirect Medical Education (IME) as a flat grant amount quarterly.
Effective July 1, 2018, DCH proposes to:

1. Update financial data to a more recent year in order to rebase rates and model components.

2. Change Outlier Formula to base payment on the difference between the cost of the claim and the outlier threshold.
   - To address hospital concerns with this aspect of the previous Phase 3 Proposal, the outlier thresholds will be lowered as part of the update.

3. Apply a Stop Loss and Stop Gain to mitigate the financial impact to individual hospitals.

4. Allocate funds from the Direct GME Pool based on a per resident amount.

5. Payment of Indirect Medical Education (IME) funds will remain part of the base rates.


7. Long Term Acute Care (LTAC) and Rehabilitation hospitals’ rates will not be updated as part of the Phase 3 Update.
## Phase 3 Proposal: Update Financial Data

<table>
<thead>
<tr>
<th>Financial Data Component</th>
<th>Current Data Sources (Implemented 7/1/2015)</th>
<th>Phase 3 Proposal Data Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Data for Model</td>
<td>- Claims Data for FY 2012</td>
<td>- Claims Data for CY 2016</td>
</tr>
<tr>
<td>Cost to Charge Ratio</td>
<td>- FY 2015 DSH Survey Data</td>
<td>- FY 2018 DSH Survey Data</td>
</tr>
<tr>
<td></td>
<td>- Cost Reports for Hospital Fiscal Year Ending in 2013 when DSH data not available</td>
<td>- Cost Reports for Hospital Fiscal Year Ending in 2016 when DSH data not available</td>
</tr>
</tbody>
</table>
| Medicaid Inpatient Utilization Rate (MIUR) | - FY 2015 DSH Survey Data  
- Cost Reports for Hospital Fiscal Year Ending in 2013 when DSH data not available | - FY 2018 DSH Survey Data  
- Cost Reports for Hospital Fiscal Year Ending in 2016 when DSH data not available |
| Indirect Medical Education (IME) | Number of Residents:  
- Cost Reports for Hospital Fiscal Year Ending in 2011  
Number of Beds:  
- Cost Reports for Hospital Fiscal Year Ending in 2011 | Number of Residents:  
- Existing Programs: CY 2016 GME FTE Counts  
- Programs in the Governor’s Initiative:  
  Projected FY 2019 FTE Counts from the Medical College of Georgia at Augusta University  
Number of Beds:  
- Cost Reports for Hospital Fiscal Year Ending in 2016 |
Phase 3 Proposal: Change Outlier Formula

- DCH makes outlier payments to mitigate hospitals’ risk for unusually high cost cases.
- Outlier payments should account for approximately 5% of all payments.
- The current outlier payment methodology of paying the difference between the cost of the claim and inlier amount results in duplicate payment for a portion of the claim.
- Impact of Budget Neutrality: Higher Outlier Payments = Lower Base Rates

Lower base rates impacts all hospitals statewide.

<table>
<thead>
<tr>
<th></th>
<th>CY 2015</th>
<th>CY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Hospitals</td>
<td>Number of Payments</td>
</tr>
<tr>
<td>Outliers</td>
<td>50</td>
<td>684</td>
</tr>
<tr>
<td>Total</td>
<td>144</td>
<td>100,860</td>
</tr>
<tr>
<td>Percent Outliers</td>
<td>34.72%</td>
<td>0.68%</td>
</tr>
</tbody>
</table>

Number of Hospitals  
Number of Payments  
Total Payments  
Number of Hospitals  
Number of Payments  
Total Payments
Phase 3 Proposal: Change Outlier Formula

- Over 85% of hospitals receive fewer than 10 outlier payments per year.
- In CY 2015 and CY 2016, 3 hospitals received over 45% of all outlier payments.
- Because the current outlier formula results in duplicate payment for a portion of the claim, hospitals with a high number of outlier payments generally have higher cost coverage than hospitals with a low number of outlier payments.
  - The 3 hospitals with more than 50 outlier payments have cost coverage rates exceeding 88%, whereas the statewide average cost coverage is 76%.
- The proposed change in the outlier formula would improve equity by removing the duplicate outlier payment amount that benefits a small number of hospitals and redirecting those funds into the base rates paid to all hospitals statewide.

<table>
<thead>
<tr>
<th>Number of Outlier Payments</th>
<th>Number of Hospitals</th>
<th>Total Outlier Payments</th>
<th>% of Total Outlier Payments</th>
<th>Average Outlier Payment</th>
<th>Number of Hospitals</th>
<th>Total Outlier Payments</th>
<th>% of Total Outlier Payments</th>
<th>Average Outlier Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 Outlier Payments</td>
<td>94</td>
<td>$0</td>
<td>0.00%</td>
<td>$0</td>
<td>90</td>
<td>$0</td>
<td>0.00%</td>
<td>$0</td>
</tr>
<tr>
<td>1 to 10 Outlier Payments</td>
<td>33</td>
<td>$9,251,441</td>
<td>11.90%</td>
<td>$81,871</td>
<td>34</td>
<td>$8,247,775</td>
<td>11.65%</td>
<td>$77,082</td>
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<tr>
<td>11 to 20 Outlier Payments</td>
<td>9</td>
<td>$14,709,772</td>
<td>18.92%</td>
<td>$108,160</td>
<td>8</td>
<td>$10,766,814</td>
<td>15.21%</td>
<td>$101,574</td>
</tr>
<tr>
<td>21 to 30 Outlier Payments</td>
<td>3</td>
<td>$7,295,607</td>
<td>9.38%</td>
<td>$85,831</td>
<td>5</td>
<td>$11,862,437</td>
<td>16.75%</td>
<td>$104,057</td>
</tr>
<tr>
<td>31 to 50 Outlier Payments</td>
<td>2</td>
<td>$7,805,325</td>
<td>10.04%</td>
<td>$100,068</td>
<td>2</td>
<td>$6,146,901</td>
<td>8.68%</td>
<td>$91,745</td>
</tr>
<tr>
<td>More than 50 Outlier Payments</td>
<td>3</td>
<td>$38,696,105</td>
<td>49.76%</td>
<td>$142,265</td>
<td>3</td>
<td>$33,786,297</td>
<td>47.71%</td>
<td>$134,607</td>
</tr>
</tbody>
</table>
Phase 3 Proposal: Direct GME Pool Allocation

• **Base Funding:**
  
  Hospital’s Base Funding = $44,000 per resident x FTE resident count x MAR
  
  MAR = Medicaid Allocation Ratio, the percent of the hospital’s revenue derived from Medicaid.
  
  • Hospitals that serve more Medicaid patients will receive a higher amount of base funding.

• **Funding Bumps:** Certain GME programs will receive increased funding, based on state needs and priorities. The bumps for FY 2019 will be:
  
  – Family Medicine: $33,000 / FTE resident
  – OB/GYN: $28,500 / FTE resident
  – General Pediatrics: $28,500 / FTE resident
  – Pediatric Specialty Programs: $13,500 / FTE resident

• **Payments:** Flat grant amounts quarterly
# Phase 3 Proposal: Direct GME Pool Allocation

<table>
<thead>
<tr>
<th>Type of GME Program</th>
<th>Current Data Sources (Implemented 7/1/2015)</th>
<th>Phase 3 Proposal Data Sources</th>
</tr>
</thead>
</table>
| Existing GME Programs                       | ➢ Cost Reports for Hospital Fiscal Year Ending in 2011                                                      | Number of Residents:  
  ➢ CY 2016 GME Survey FTE Counts  
  Medicaid Allocation Ratio (MAR):  
  ➢ FY 2018 DSH Survey Data  
  ➢ Cost Reports for Hospital Fiscal Year Ending in 2016 when DSH data not available |
| New GME Programs Part of the Governor’s Initiative | ➢ N/A                                                                                                        | Number of Residents:  
  ➢ Projected FY 2019 FTE Counts from the Medical College of Georgia at Augusta University  
  Medicaid Allocation Ratio (MAR):  
  ➢ FY 2018 DSH Survey Data  
  ➢ Cost Reports for Hospital Fiscal Year Ending in 2016 when DSH data not available |
Next Steps for Phase 3 Update

- **March 2018**: DCH and Myers and Stauffer to Finalize Phase 3 Model
- **April 2018**: IPPS Phase 3 Rate Sheets to be Sent to Hospitals
- **May 2018**: DCH to Issue Initial Public Notice
- **June 2018**: DCH to Issue Final Public Notice

If Final Public Notice is approved by the DCH Board, DCH will then submit a State Plan Amendment to CMS for review and approval.
Future Updates

• In order for the IPPS model to remain up-to-date, it needs to be updated regularly.
  – Annual Updates: CCRs, Direct GME Allocations, IME Add-On Amounts
  – Semi-Annual Updates: Base Rates, Weights, and Grouper

• SFY 2020
  – Any new funding needs for SFY 2020 must be known by May 2018.
    • Due to the anticipated growth in GME programs and funding needs statewide, hospitals with GME programs will receive a request to supply their CY 2017 GME FTE counts in February 2018. These counts will be due to DCH in March 2018 and used in the SFY 2020 IPPS Model.
  – Hospitals can expect to receive Rate Sheets for SFY 2020 in April 2019.
Questions?

Written Comments and Questions may be directed to Margaret Betzel, mbetzel@dch.ga.gov