



GEORGIA DEPARTMENT
OF COMMUNITY HEALTH

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



Presentation to: Hospital Advisory Inpatient Payment Subcommittee
Presented by: Department of Community Health

Background to Proposed IPPS Changes

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.

*Refer to the “DCH IPPS Presentation to the HAC IP Subcommittee April 14, 2015” at <http://dch.georgia.gov/hospital-providers>

Background to Proposed IPPS Changes

Proposal was designed to promote the following agency guidelines and policy objectives:

Guidelines:

1. Changes must be budget neutral.
2. Methodology must support regular updates on a predictable schedule.

Policy Objectives:

1. Promote efficiency in the delivery of services by:
 - Creating appropriate incentives to reduce/control costs; and
 - Better match reimbursement with the services provided.
2. Promote and support Governor's policy objective to enhance the physician workforce through graduate medical education programs.
3. Focus payment methodology on service delivery for Medicaid members.

**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 (DRG). (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)



Phase 3 Proposal

Effective July 1, 2017 DCH proposes to:

- 1. Update financial data to a more recent year in order to rebase rates and model components.**
- 2. Change Outlier Formula**
 - Base outlier payment on the difference between the cost of the claim and the outlier threshold.
 - This change will allow for an increase to inlier payments to all hospitals.
- 3. Apply a Stop Loss of -5.07% and a Stop Gain of 3.20% to mitigate the financial impact to individual hospitals.**
 - This adjustment does not apply to Direct GME Pool payments.

Phase 3 Proposal (Cont'd.)

Effective July 1, 2017 DCH proposes to:

4. **Allocate funds from the Direct GME Pool based on a per resident amount.**
 - Proposal presented to hospitals in May 2016.

5. **Indirect Medical Education (IME) will no longer be paid as part of the inpatient claim. Funds will be moved to the Graduate Medical Education Cost of Care (GMECC) Pool and paid as a flat grant amount quarterly.**
 - Proposal presented to hospitals in May 2016.

Phase 3 Proposal: Update Cost Data

DCH used the following updated financial data to rebase rates and model components:

Financial Data Component	Source
Base Year for Claims	<ul style="list-style-type: none">• Claims Data for CY 2014
Cost to Charge Ratio Calculations	<ul style="list-style-type: none">• CY 2017 DSH Survey Data and• Cost Reports for Hospital Fiscal Year Ending in 2015 when DSH data not available
Medicaid Utilization	<ul style="list-style-type: none">• CY 2017 DSH Survey Data• Cost Reports for Hospital Fiscal Year Ending in 2015 when DSH data not available

Phase 3 Proposal: GME Funding Methodology

- Proposed Start Date: July 1, 2017
- Create 2 sub-pools within the GME Pool:
 1. Direct Graduate Medical Education (GME) Pool
 2. Graduate Medical Education Cost of Care (GMECC) Pool

Phase 3 Proposal: Direct GME Pool Allocation

- Allocate funds from the Direct GME Pool based on a per resident amount.
- **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 are:
 - 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 to be made to the hospitals quarterly.
- SFY 2018 Direct GME Pool allocations for existing GME programs will be based on CY 2016 FTE resident counts submitted by the hospitals to DCH. SFY 2018 Direct GME Pool allocations for GME programs that are part of the Governor's Initiative will be based on projected counts, as supplied by the Medical College of Georgia at Augusta University.



Phase 3 Proposal: GMECC Pool Allocation

The Graduate Medical Education Cost of Care (GMECC) Pool will replace the current Indirect Medical Education (IME) funding methodology.

- IME will no longer be paid as part of the inpatient claim. Funds will be a flat grant amount to be paid quarterly.
- Funds will be in a separate pool to prevent growing IME costs from reducing payments to non-teaching hospitals.
- Size of the GMECC Pool and each hospital's annual allocation will be calculated using the formula currently in place (see below) and the prior year claims set.

$$\text{Medicare IME Adjustment Factor} = 1.35 \times [(1 + (r/b))^{0.405} - 1]$$

r = Number of Residents (Data Source: Direct GME Survey)

b = Number of Beds (Data Source: Medicare Cost Report)

- For SFY 2018, the Medicare IME formula was applied to CY 2014 claims and the results were trended forward for claims growth using a factor based on CY 2014 / CY 2015 discharges.
- SFY 2018 GMECC Pool = \$126,936,998



Phase 3 Proposal: Overall Impact

1. Updating rates to reflect more recent hospital cost data ensures that Medicaid payments are reflective of the actual cost and mix of services provided by each hospital.
2. Individual hospitals may experience either an increase or decrease in payment. DCH has included a stop loss of -5.07% and a stop gain of 3.20% to mitigate the impact to individual hospitals.
3. The change in outlier formula moves funds into the hospital base rates which benefits all hospitals, not just those with proportionally more outliers.
4. Carving out Indirect Medical Education (IME) will result in a reduction to the base rate payments to teaching hospitals. Instead, teaching hospitals will receive a flat grant for IME from the GMECC Pool. This change is necessary to protect payments to non-teaching hospitals and provide a mechanism to request additional funding to support growing programs. As Georgia's Graduate Medical Education program grows, IME payments will also grow. Without a separate GMECC Pool, in a budget neutral environment, funds for IME growth would come from the base rates of non-teaching hospitals.



Phase 3 Proposal: Impact Across Hospitals (Includes GME/GMECC)

% Change in Payment	# of Hospitals with a Projected Increase	# of Hospitals with a Projected Decrease	Total
0% - 2%	24	18	42
2% - 4%	31	11	42
4% - 6%	4	56	60
>6%	4	1	5
Total	63	86	149

\$ Change in Payment	# of Hospitals with a Projected Increase	# of Hospitals with a Projected Decrease	Total
\$0 - \$100K	33	62	95
\$100K - \$500K	17	13	30
\$500K - \$1M	5	8	13
\$1M - \$5M	8	2	10
> \$5M	0	1	1
Total	63	86	149

	\$	%
Average Increase	\$452,007	2.93%
Average Decrease	(\$258,736)	-3.90%



Phase 3 Proposal: Medicaid Inpatient Utilization Rate (MIUR) Distribution

Utilization Band	0% - 11%	11% - 21%	21% - 31%	31% - 41%	41% - 51%	51% +
Rate Adjustment Factor	0%	2%	4%	6%	8%	10%
# of Hospitals in SFY 2016	20	15	51	40	14	9
# of Hospitals in IPPS Phase 3	22	33	50	31	8	5

Phase 3 Proposal: Next Steps

- DCH will address questions and comments during the current meeting. DCH will also accept written comments during the Public Notice comment period.

Next Steps for DCH:

- June 8, 2017: Issue Public Notice for all Updates to the IPPS Methodology.
- Draft and Submit Medicaid State Plan Amendment (SPA) to CMS for review and approval.