

Milliman

Diagnosis Related Groups (DRG) Payment System Educational Session

FEBRUARY 27, 2024



Agenda

- Introductions
- Overview of DRG-Based Payment Methodology
- Process for Updating APR DRG Payment System
- Base Data Preparation
- Payment Simulation Modeling
- Q&A

Introductions

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Overview of DRG-Based Payment Methodology

Scope of DRG-Based Reimbursement in Florida Medicaid Program

What is Included?

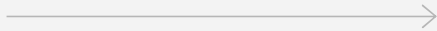
- In-state and out-of-state general acute care hospitals
- Rural hospitals
- Children's specialty hospitals
- Teaching hospitals
- Cancer specialty hospitals
- Rehabilitation specialty hospitals
- Long-term acute care specialty hospitals

What is Excluded?

- Specialty psychiatric facilities and units
- Tuberculosis claims
- Newborn hearing screenings
- Global Transplant Services

DRG Base Payments

Per-discharge payment calculated as the product of:



1

Standardized Base Rate

- Participating Hospitals
- Non-Participating Hospitals



2

DRG Relative Weights

- 3M™ APR DRG “traditional” national weights re-centered to the Florida Medicaid population
- Average re-centered relative weight is 1.0



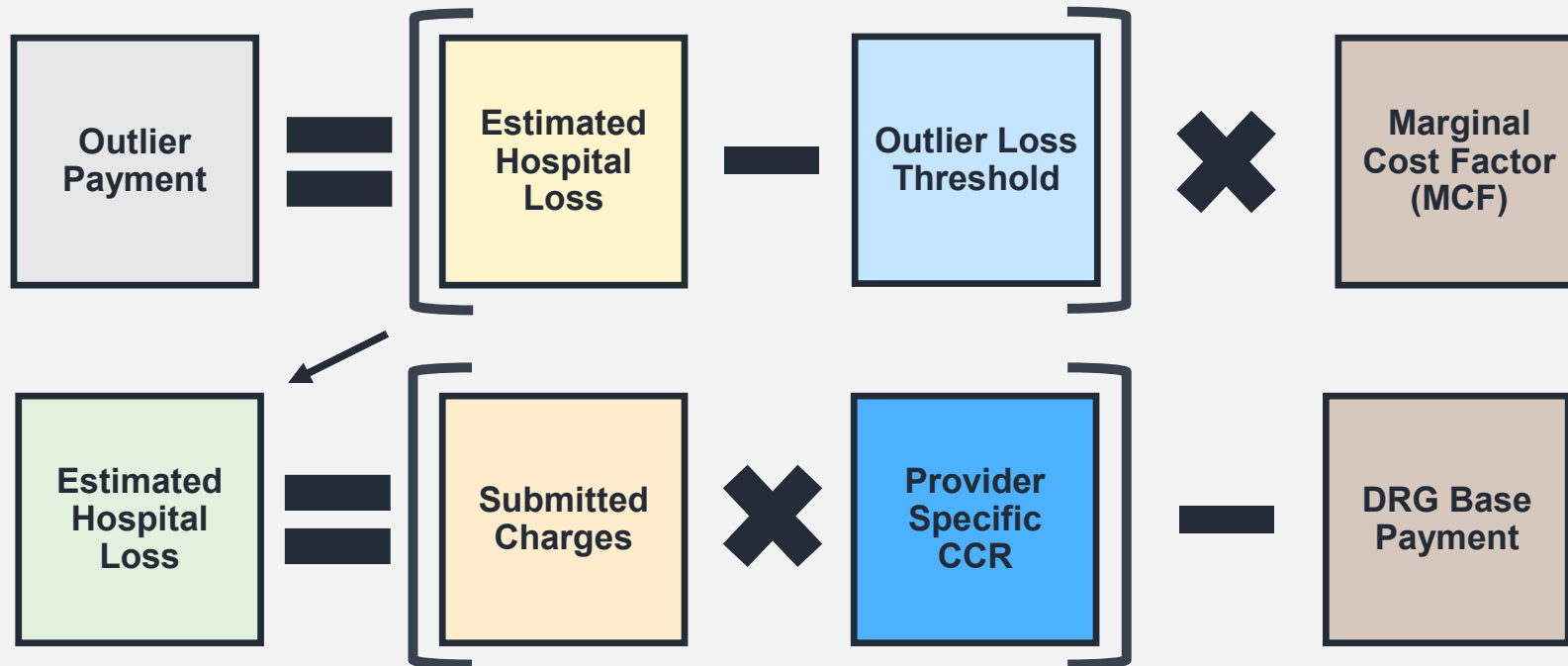
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Policy Adjustors

- Maximum of:
 - Age adjustor on qualifying pediatric claims
 - Provider adjustor (Rural hospitals, Freestanding rehabilitation hospitals, Long Term Acute Care hospitals, High Medicaid inpatient utilization hospitals)
 - Service adjustor

DRG Outlier Payments

Additional payments made at the claim level for stays that have extraordinarily high estimated costs when compared to other stays assigned to the same APR DRG.



Additional Adjustments

Transfers

Applied on claims with a transfer discharge that was shorter than the national average length of stay for the APR DRG assigned, based on statistics published by 3M.

Non-Covered Days

Proportional reduction to the DRG base payment and outlier payment to account for the portion of stay not reimbursable by Florida Medicaid.

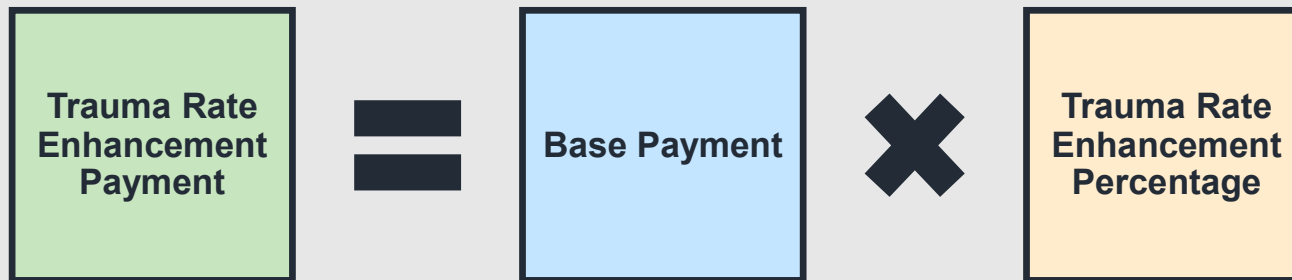
Charge Caps

“Caps” the DRG payment (sum of DRG base payment and outlier payment) at billed charges.



Trauma Hospital Rate Enhancement

Hospitals qualifying as Level I, II, or pediatric trauma facilities receive a trauma hospital rate enhancement

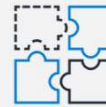


Final DRG Allowed Amount

Calculated after applying all policies and additional adjustments and adding any applicable trauma rate enhancement payment



Final DRG Allowed Amount



Base Payment



Outlier Payment



Additional Adjustments



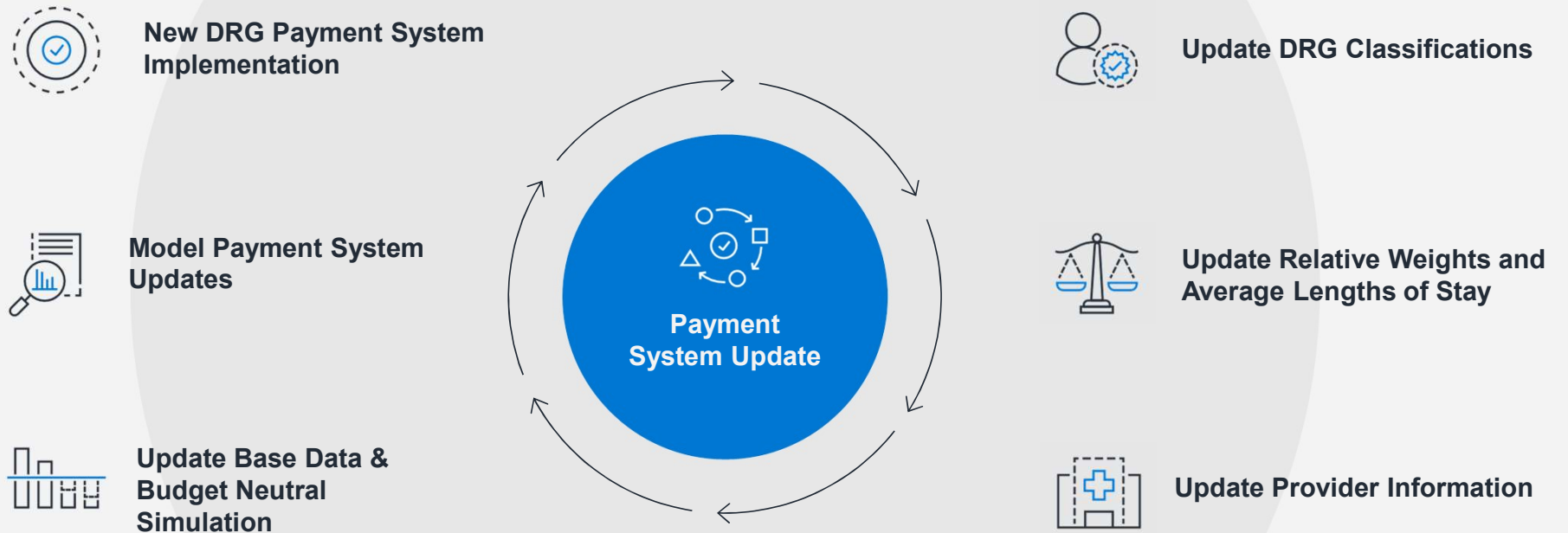
Trauma Rate Enhancement Payment

Children's Hospital Add-On Payments

- Children's hospital per-discharge add-on payments are paid to nonprofit hospitals that are separately licensed by the state as specialty hospitals providing comprehensive acute care services to children and qualify for the High Medicaid Inpatient Utilization Policy Adjustor. A hospital's eligibility to receive these add-on payments is contingent on the hospital having full network contracts with each applicable Medicaid managed care plan in the state.
- The inpatient DRG per-discharge add-on payments are calculated by distributing appropriated funds to qualifying hospitals proportionately based on each hospital's total of simulated DRG and Trauma hospital rate enhancement payments and simulated EAPG payments from the budget neutral (baseline) simulations.

Process for Updating APR DRG Payment System

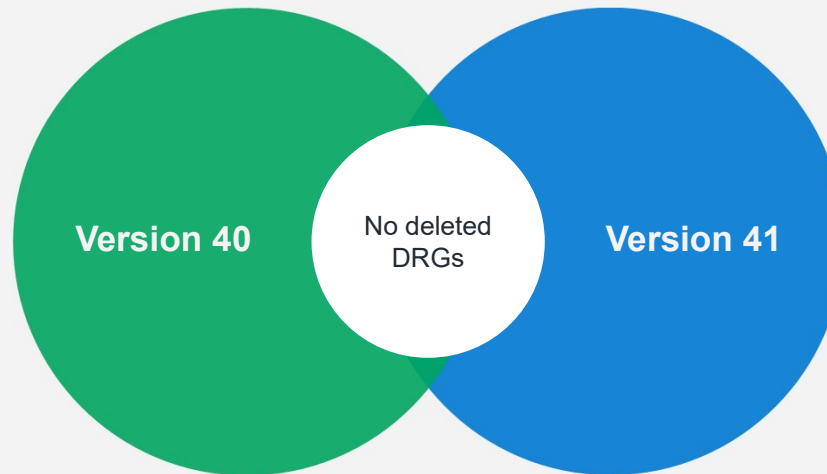
Annual Process for Updating APR DRG Payment System



DRG Classification System Updates

Each year, on or around October 1, 3M™ releases a new APR DRG grouper version, revising the grouper logic to accommodate changes in the ICD-10-CM diagnosis and ICD-10-PCS procedure code sets and to enhance the clinical precision for APR DRG and SOI classifications based on patient diagnoses, procedures, and other patient-related clinical data.

- In effect until July 1, 2024



- **1 new base APR DRG**
 - DRG 851, "Gender related procedures"
- **2 revised base APR DRGs**
 - DRG 098 to "Other ear, nose, mouth, throat, craniofacial, and neck procedures"
 - DRG 650 to "Splenic procedures."

3M™ APR DRG Relative Weights and Average Lengths of Stay

Updating DRG Relative Weights

- APR DRG Relative Weights represent the relative average billed charges for inpatient hospital stays assigned to a particular APR DRG relative to the average charges of all inpatient hospital stays.
- 3M publishes two sets of relative weights, “Traditional” relative weights and Hospital Specific Relative Value (HSRV) relative weights. Florida Medicaid uses the **traditional relative weights**.
- The weights for version 41 of the APR DRG grouper were calculated by 3M using approximately 12 million inpatient claims from the 2019 and 2020 AHRQ HCUP NIS research datasets. The NIS approximates a 20 percent stratified sample of all discharges from U.S. community hospitals, excluding rehabilitation and long-term acute care hospitals, and contains information on all hospital stays, regardless of the expected payer for the hospital stay.

Updating DRG Average Length of Stay (ALOS) Statistics

- Based on **Untrimmed Arithmetic** ALOS statistics published by 3M.

Provider Information Updates

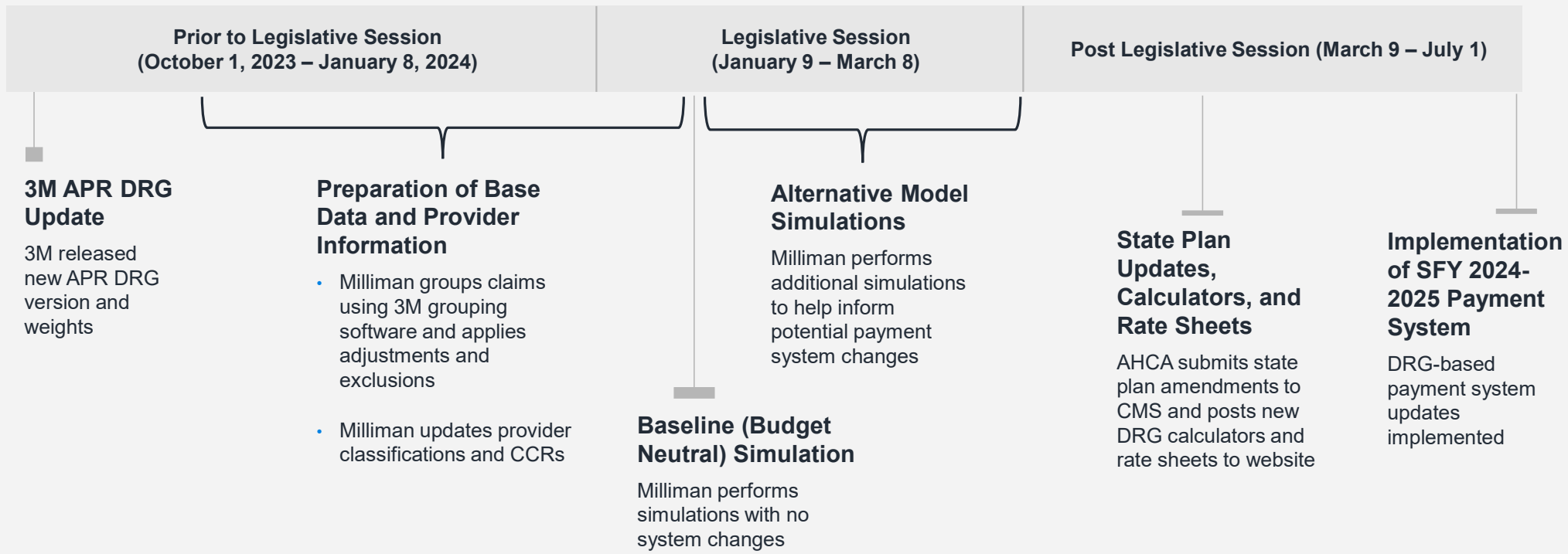
Outlier Cost-to-Charge Ratios

- Determined for each hospital participating in the Florida Medicaid program (including out-of-state providers with signed Medicaid participant agreements).
- If a provider's CCR is available in the Medicare IPPS PSF, the CCR is equal to the sum of the operating CCR and capital CCR reported in this file.
- If a provider's CCR is not available in the Medicare IPPS PSF, but if the provider's Medicare cost report is available in the Hospital 2552-10 Cost Report SAS Data Files, an all-payer aggregate CCR is calculated for the provider as total costs (Worksheet C, Part I, Column 5, Line 202) divided by total charges (Worksheet C, Part I, Column 8, Line 202) from the most recent cost report available.*
- If a provider's CCR is not available in either the Medicare IPPS PSF or Hospital 2552-10 Cost Report SAS Data Files, then the provider's CCR is set to be equal to the statewide average.

Provider Classifications

- Determines qualification for provider policy adjustors and trauma add-on payments.

Timeline



Base Data Preparation

Base Data and APR DRG Assignments



Relied on claims data files provided by the Agency's Bureau of Medicaid Data Analytics (MDA), including hospital inpatient FFS claim and managed care encounter records from the Florida Medicaid Management Information System (FMMIS)







Limited the Analytical Dataset to inpatient hospital stays incurred in the calendar year ending 18 months prior to the rate effective date

Assigned APR DRGs to the FFS claim and managed care encounter records using 3M™ GPCS software.


Grouping preferences and settings are consistent with the Agency's APR DRG grouper preferences and settings for prior rate years

Payment Simulation Modeling

Scenarios in Simulations

Baseline Scenario	Simulation Scenario		
 <p>Calculates payments using payment parameters currently in effect</p>	 <p>Calculates payments using payment parameters that will be in effect in the new rate period</p>		
 <p>Uses the APR DRG grouper version and weights currently in effect</p>	 <p>Uses the new APR DRG grouper version and weights</p>		
 <p>DRG case mix and charges are trended to current time period</p>	 <p>DRG case mix and charges are trended to rating period</p>		

Trend Adjustments



Documentation and coding improvement (DCI) case mix trend

- One third of 1% per year to APR DRG relative weights re-centered to Florida Medicaid experience.
- Prescribed in Florida State Plan

Charge trend

- 6.0% annual trend assumption to the calendar year 2022 billed charges
- Based on Milliman research and professional judgment

Baseline (Budget Neutral) Simulation

- Calculate standardized base rate and provider policy adjustors to achieve simulated budget neutral effect for each provider category:
 - High Medicaid Inpatient Utilization Hospitals
 - Long Term Acute Care (LTAC) Hospitals
 - Freestanding Rehabilitation Hospitals
 - Rural Hospitals
 - All Other Hospitals
- Base rate and provider policy adjustors will change due to updates including base data, DRG classifications, DRG relative weights, outlier CCRs, and provider classifications.
- Children's hospital add-on payments are calculated for High Medicaid IP Utilization hospitals by distributing appropriated funds to qualifying hospitals proportionately based on each hospitals' total of Simulated DRG and Trauma Add-on payments and Simulated EAPG payments from the budget neutral (baseline) simulations.



Alternative Model Simulations

- Revisions to base rate and other payment system parameters for the July 1, 2024, payment system update are determined during and adopted through the 2024 legislative session.
- Milliman simulates payment impacts associated with potential revisions to base rate and other payment system parameters as requested by the Agency.



Q&A



Limitations

This material was developed for the specific purpose of providing general informational regarding the design and process for updating the Agency for Health Care Administration's (the Agency's) APR DRG payment system, to support the facilitation of a stakeholder meeting on February 27, 2024. This material is not appropriate for, and should not be used for, any other purpose.

This material has been prepared solely for the use and benefit of the Agency, and it is only to be relied upon by the Agency. Milliman makes no representations or warranties regarding the contents of this presentation to third parties. Likewise, third parties are instructed that they are to place no reliance upon this material prepared for the Agency by Milliman that would result in the creation of any duty or liability under any theory of law by Milliman or its employees to third parties.

In preparing this material, we relied on several sources of data and information from the Agency, 3M™, and other sources. These data sources and information include State Plan Amendments and other documents and guidance provided by the Agency, as well as APR DRG documentation produced by 3M™. **We did not audit any of this information**, but we did assess the information for reasonableness. If the information that we relied on is inadequate or incomplete, the information in this material will be likewise inadequate or incomplete.

This material is technical in nature and is dependent upon specific assumptions and methods. No party should rely on this material without a thorough understanding of those assumptions and methods. Such an understanding may require consultation with qualified professionals.



Thank you

