Florida Agency for Health Care Administration

DRG Payment Implementation

Project Overview

August 2, 2012
Presentation by MGT of America, Inc. and Navigant Consulting, Inc.

MGT OF AMERICA, INC.

NAVIGANT

Meeting Agenda

Agenda Topic	Time
Introductions	*9:00 – 9:15*
Background	*9:15 – 9:20*
Project Overview	*9:20 – 9:40*
Typical DRG Pricing Formula	*9:40 – 9:55*
Overview of DRG Groupers	*9:55 – 10:10*
Key Payment Design Considerations	*10:10 – 10:30*
Stakeholder Input/Questions/Discussion	*10:30 – 11:50*
Wrap-Up	*11:50 – 12:00*

MGT OF AMERICA, INC. NAVIGANT

Background

MGT OF AMERICA, INC.

NAVIGANT

Background Discussion by AHCA

- Discussion of Legislation
- Timing of Implementation
- Discussion of Stakeholder Process
- Timing of Public Meetings

MGT OF AMERICA, INC. NAVIGANT

Section 409.905(5)(f), Florida Statutes as amended by House Bill 5301, 2012 session

The agency shall develop a plan to convert Medicaid inpatient hospital rates to a prospective payment system that categorizes each case into diagnosis-related groups (DRG) and assigns a payment weight based on the average resources used to treat Medicaid patients in that DRG. To the extent possible, the agency shall propose an adaptation of an existing prospective payment system, such as the one used by Medicare, and shall propose such adjustments as are necessary for the Medicaid population and to maintain budget neutrality for inpatient hospital expenditures.

MGT OF AMERICA, INC. NAVIGANT

Section 409.905(5)(f), continued

1. The plan must:

a. Define and describe DRGs for inpatient hospital care specific to Medicaid in this state;

b. Determine the use of resources needed for each DRG;

c. Apply current statewide levels of funding to DRGs based on the associated resource value of DRGs. Current statewide funding levels shall be calculated both with and without the use of intergovernmental transfers;

d. Calculate the current number of services provided in the Medicaid program based on DRGs defined under this subparagraph; and

e. Estimate the number of cases in each DRG for future years based on agency data and the official workload estimates of the Social Services Estimating Conference;

MGT OF AMERICA, INC. NAVIGANT

Section 409.905(5)(f), continued

f. Calculate the expected total Medicaid payments in the current year for each hospital with a Medicaid provider agreement, based on the DRGs and estimated workload;

g. Propose supplemental DRG payments to augment hospital reimbursements based on patient acuity and individual hospital characteristics, including classification as a children's hospital, rural hospital, trauma center, burn unit, and other characteristics that could warrant higher reimbursements, while maintaining budget neutrality; and

h. Estimate potential funding for each hospital with a Medicaid provider agreement for DRGs defined pursuant to this subparagraph and supplemental DRG payments using current funding levels, calculated both with and without the use of intergovernmental transfers.

MGT OF AMERICA, INC.

NAVIGANT

Section 409.905(5)(f), continued

2. The agency shall engage a consultant with expertise and experience in the implementation of DRG systems for hospital reimbursement to develop the DRG plan under subparagraph 1.

3. The agency shall submit the Medicaid DRG plan, identifying all steps necessary for the transition and any costs associated with plan implementation, to the Governor, the President of the Senate, and the Speaker of the House of Representatives no later than January 1, 2013. The plan shall include a timeline necessary to complete full implementation by July 1, 2013.If, during implementation of this paragraph, the agency determines that these timeframes might not be achievable, the agency shall report to the Legislative Budget Commission the status of its implementation efforts, the reasons the timeframes might not be achievable, and proposals for new timeframes.

MGT OF AMERICA, INC. NAVIGANT

Project Overview

MGT OF AMERICA, INC.

NAVIGANT

Overview of Design Framework

Identify System Component Options – Consideration of Best Practices
- Base Rates / Conversion Factors
- Relative Weights
- Treatment of Outlier Cases
- Other System Components

Select System Components Based on Evaluation
- "Qualitative" Evaluation
- Considers AHCA Proposed Evaluation Criteria and Other Factors
- Identification of Best Options

Simulate Payments Using Comprehensive and Recent Paid Claim and Encounter Data
- "Quantitative Evaluation
- Compare Simulated Payments to Legacy Payments and to Cost
- By Provider, by Service Line, and in Aggregate

Finalize System Recommendations
- Base Rates / Conversion Factors
- Relative Weights
- Treatment of Outlier Cases
- Other Components

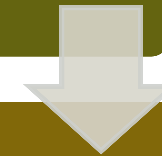
Stakeholder Input is Key to Successful Design Process

MGT OF AMERICA, INC. NAVIGANT

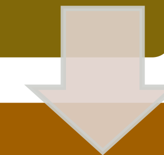
Key Project Steps

Step 1: Develop Guiding Principles for Evaluating Options

Step 2: Research and Determine Optimal DRG Model



Step 3: Identify and Evaluate Other Payment System Components



Step 4: Develop Conceptual Design and Documentation

MGT OF AMERICA, INC. NAVIGANT

Key Project Steps

Step 5: Prepare Inpatient Claims and Encounter Datasets for Analyses

Step 6: Create Dataset of Necessary Medicare Rate Components

Step 7: Estimate the Costs of Services, Claim by Claim, including Capital, Operating, Other

Step 8: Determine DRG Relative Weights

MGT OF AMERICA, INC. NAVIGANT

Key Project Steps

Step 9: Develop Payment Simulation Model

Step 10: Determine DRG Base Prices

Step 11: Determine Targeted Policy Adjustors, as Necessary, Based on Simulation Model Results

Step 12: Adjust System Parameters, as Necessary, Based on Simulation Model Results

Evaluating the Options

Guiding Principles for Evaluating Options	
Efficiency	Is the option aligned with incentives for providing efficient care?
Access	Does the option promote access to quality care, consistent with federal requirements?
Equity	Does the option promote equity of payment through appropriate recognition of resourse intensity and other factors?
Predictability	Does the option provide predictable and transparent payment for providers and the State?
Transparency and Simplicity	Does the option enhance transparency, and contribute to an overall methodology that is easy to understand and replicate?
Quality	Does the option promote and reward high value, quality-driven healthcare services?

Other Design Considerations

Other Design Considerations	
Budget Neutrality	Funding is not unlimited – goal for design is to be budget neutral.
Adaptability	Does the option promote adaptability for future changes in utilization and the need for regular updates?
Forward Compatibility	Is the option flexible enough to support payment structures in anticipated future service models?
Policy	Is the option consistent with State and Federal policy priorities?

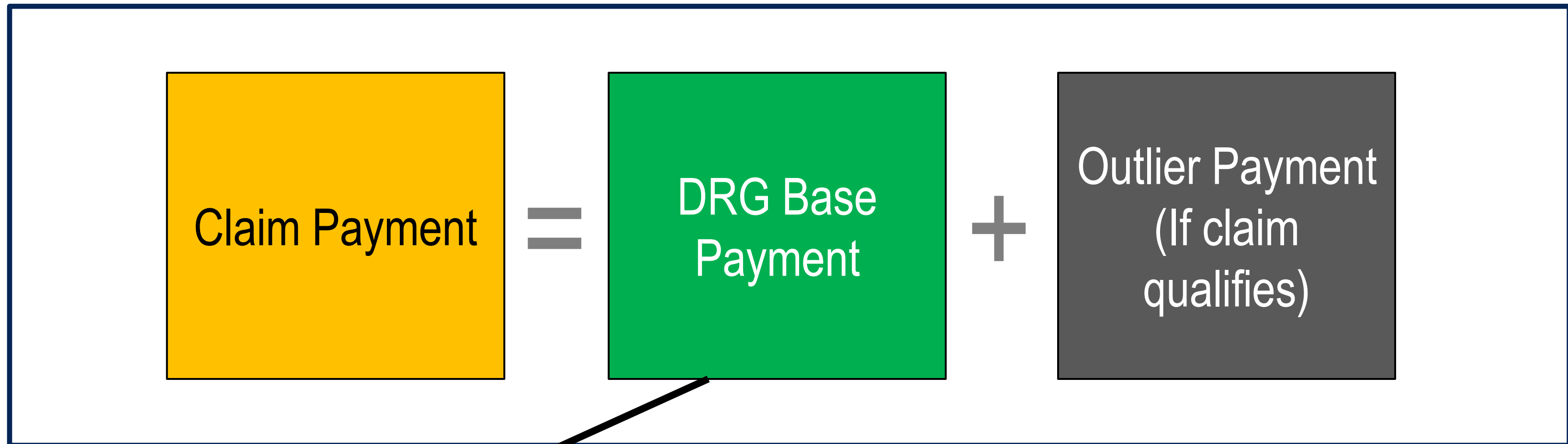
MGT OF AMERICA, INC. NAVIGANT

Typical DRG Pricing Formula

MGT OF AMERICA, INC.

NAVIGANT

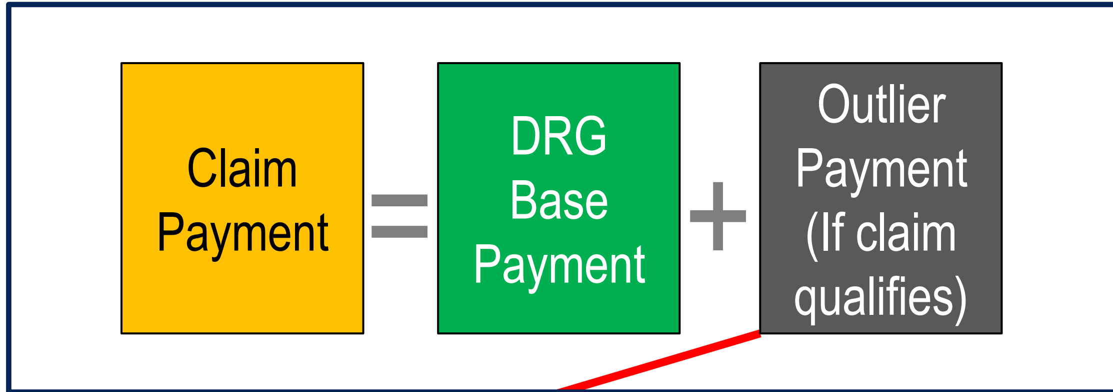
DRG Base Payment

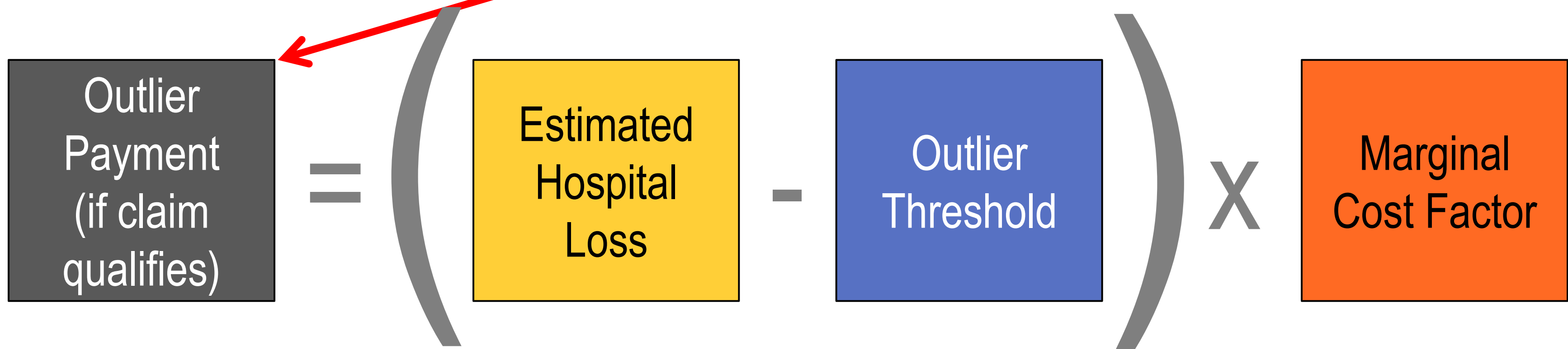


Note: DRG base payment is sometimes reduced on transfer and partial eligibility claims.

MGT OF AMERICA, INC.
NAVIGANT

Outlier Payment





Note: Outlier payments are only applied if hospital loss (or potentially hospital gain) is greater than the outlier threshold.

MGT OF AMERICA, INC. NAVIGANT

Examples

= ([Est Hosp Loss] - [Outlier Thrshld]) * [Marg Cost Factor]

= [Hosp Base Rt] * [DRG Rel Wt] * [Policy Adj Factor]

DRG	Hospital Base Rate	DRG Relative Weight	Policy Adjustment Factor	DRG Base Payment	Estimated Hospital Cost	Estimated Hospital Loss	Outlier Payment	Final DRG Payment
123-4	$5,000	0.40	1.00	$2,000	$2,500	$500	$0	**$2,000**
432-1	$5,000	2.25	1.25	$14,063	$12,000	$0	$0	**$14,063**
678-4	$5,000	9.50	1.00	$47,500	$80,000	$32,500	$5,250	**$52,750**

= [Est Hosp Cost] - [DRG Base Pymt]

= [DRG Base Pymt] + [Outlier Pymt]

Notes:
- Examples for illustration purposes only
- Assuming outlier cost threshold equal to $25,000
- Assuming outlier mariginal cost percentage equal to 70%

MGT OF AMERICA, INC.
NAVIGANT

Overview of DRG Groupers

MGT OF AMERICA, INC.

NAVIGANT

Comparison of State Medicaid Programs

- APR-DRGs
- MS-DRGs
- CMS-DRGs
- AP or Tricare DRGs
- Per Stay/Per Diem/Cost Reimbursement/Other

* Indicates Moving Toward
** Indicates Under Consideration

MGT OF AMERICA, INC.
NAVIGANT

Comparison of Top Three Options

Description	MS-DRGs V.29 (CMS - Maintained by 3M)	APR-DRGs V.29 (3M and NACHRI)	APS-DRGs V.29 (OptumInsight, fmr Ingenix)
Intended Population	Medicare (age 65+ or under age 65 with disability)	All patient (based on the Nationwide Inpatient Sample)	All patient (based on the Nationwide Inpatient Sample)
Overall approach and treatment of complications and comorbidities (CCs)	Intended for use in Medicare Population. Includes 335 base DRGs, initially separated by severity into “no CC”, “with CC” or “with major CC”. Low volume DRGs were then combined.	Structure unrelated to Medicare. Includes 314 base DRGs, each with four severity levels. The is no CC or major CC list; instead, severity depends on the number and interaction of CCs.	Structure based on MS-DRGs but adapted to be suitable for an all-patient population. Includes 407 base DRGs, each with three severity levels. Same CC and major CC list as MS-DRGs.
Number of DRGs	746	1,256	1,223
Newborn DRGs	7 DRGs, no use of birth weight	28 base DRGs, each with four levels of severity (total 112)	9 base DRGs, each with three levels of severity, based in part on birth weight (total 27)

Source: Quinn, K, Courts, C. *Sound Practices in Medicaid Payment for Hospital Care*. CHCS: November 2010, updated with current information by Navigant.

MGT OF AMERICA, INC.
NAVIGANT

Comparison of Top Three Options

Description	MS-DRGs V.29 (CMS - Maintained by 3M)	APR-DRGs V.29 (3M and NACHRI)	APS-DRGs V.29 (OptumInsight, fmr Ingenix)
Psychiatric DRGs	9 DRGs; most stays group to "psychoses"	24 DRGs, each with four levels of severity (total 96)	10 base DRGs, each with three levels of severity (total 30)
Payment Use by Medicaid	MI, NH, NM, OK, OR, SD, TX, WI	**AZ, CA, CO, IL**, MA, MD, MT, **MS, ND**, NY, PA, RI, SC, **TX** **Under consideration in numerous other states**	None
Payment use by other payers	Commercial plan use	BCBSMA, BCBSTN	Commercial plan use
Other users	Medicare, hospitals	Hospitals, AHRQ, MedPAC, JCAHO, various state "report cards"	Hospitals, AHRQ, various state "report cards"
Uses in measuring hospital quality	Used as a risk adjustor in measuring readmissions. Used to reduce payment for hospital-acquired conditions.	Used as risk adjustor in measuring mortality, readmissions, complications. Can also be used to reduce payment for hospital-acquired conditions.	Used as risk adjustor in measuring mortality and readmissions and to reduce payment for hospital-acquired conditions

Source: Quinn, K, Courts, C. *Sound Practices in Medicaid Payment for Hospital Care*. CHCS: November 2010, updated with current information by Navigant.

MGT OF AMERICA, INC.
NAVIGANT

MS-DRG Applicability in Medicaid

Designed for classification of Medicare patients …

"The MS-DRGs were specifically designed for purposes of Medicare hospital inpatient services payment… We simply do not have enough data to establish stable and reliable DRGs and relative weights to address the needs of non-Medicare payers for pediatric, newborn, and maternity patients. For this reason, we encourage those who want to use MS-DRGs for patient populations other than Medicare [to] make the relevant refinements to our system so it better serves the needs of those patients."

Source: CMS, "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Final Rule," *Federal Register* 72:162 (Aug. 22, 2007): 47158

MGT OF AMERICA, INC. NAVIGANT

Benefits of APR-DRGs

Benefits of Migrating to APR-DRGs

- Enhances Homogeneity of Classifications – Superior Measurement of Resources
- Enhances Recognition of Resources Necessary for High Severity Patients
- Incorporates Age into Classification Process – Critical for Neonatal Cases
- Enhances Recognition of Acuity Related to Specialty Hospitals, Including Children's and Teaching Hospitals
- Facilitates Measurement of Potentially Preventable Readmissions and Complications
- Reduces Occurrences of Outlier Cases

MGT OF AMERICA, INC.
NAVIGANT

Key Payment Design Considerations

MGT
OF AMERICA, INC.

NAVIGANT

Pricing Formula

Design Consideration	Options/Comments
Base Rates / Base Prices	• Statewide Standardized Amount (with or without adjustments) ✓ Adjust for wage differences? • Peer Group (with or without adjustments) • Hospital Specific
DRG Relative Weights	• Adopt national weights • Calculate State-specific weights
Targeted Policy Adjustors	• Potential adjustors for: ✓ Targeted service lines ✓ Specific age groups ✓ Targeted hospitals
Outlier Payment Policy	• Adopt "Medicare-like" model • Incorporate "low-resource" outlier policy

Sample Relative Weight Comparison

Top 50 Illinois Medicaid APR-DRGs By Total Claim Volume
(Based on SFY 2009 Inpatient Claim Cost With Provider Tax)
Relative Weight Comparison

$y = 0.9627x - 0.0042$
$R^2 = 0.9579$

3M Relative Weight Adjusted for Case Mix

4.0000
3.5000
3.0000
2.5000
2.0000
1.5000
1.0000
0.5000
0.0000

0.0000 0.5000 1.0000 1.5000 2.0000 2.5000 3.0000 3.5000 4.0000

Illinois-Specific Relative Weights

MGT OF AMERICA, INC.
NAVIGANT

Pricing Formula

Design Consideration	Options/Comments
Transfer Payment Policy	• Adopt "Medicare-like" model • Incorporate Medicare post-acute transfer policy?
Partial Eligibility	• Similar to transfer calculations
Charge Cap	• Include or exclude?
Interim Claims	• Allow or disallow • If allowed – ✓ Payment amount ✓ Minimum length-of-stay

MGT OF AMERICA, INC. NAVIGANT

Implementation Considerations

Design Consideration	Options/Comments
Adjustment for Expected Coding and Documentation Improvements	• Expected and appropriate response • Need strategy to mitigate risk to State and to providers
Transition Period	• Time Frame • Method of integration
Establishing Budget Neutrality	• Establishing targeted expenditures • Adjustments for inflation and utilization trends
Payment Adjustments for Differing Provider Cost Structures	• Rural hospitals • Teaching hospitals • High Medicaid volume hospitals
ICD-10 Compatibility	• DRG model must be compatible • Need strategy to mitigate risk to State and to providers

Payment Outside of DRG Method?

Design Consideration	Options/Comments
Payment for Specialty Services (Psychiatric, Rehabilitation, Other)	• Include in DRG payment method? • Establish separate payment policies (i.e., per diem) ✓ Adjust for Acuity ✓ Graduate based on length-of-stay (Medicare model)

MGT OF AMERICA, INC. NAVIGANT

Stakeholder Input

MGT OF AMERICA, INC.

NAVIGANT

Process

Consultants

Providers

Plans

Community Forum

AHCA

Final Design Decisions

System Implementation

MGT OF AMERICA, INC.

NAVIGANT

Contact Information

Tom Wallace, Bureau Chief
Medicaid Program Finance
Florida Agency for Health Care Administration
(850) 412-4101 (Office)
(850) 414-9789 (Fax)
Thomas.Wallace@ahca.myflorida.com

MGT OF AMERICA, INC.
NAVIGANT

Questions and Discussion

MGT
OF AMERICA, INC.

NAVIGANT