



Rebasing of Hospital Reimbursement VA DMAS

Purpose of Rebasing

- Align reimbursement with the changing cost of hospitals providing services to Medicaid patients
- Adopt new grouping algorithms (single payments for categorized hospital services that are relative to patient acuity) that represent evolving best healthcare delivery practices.

Rebasing Tasks

- I. Determine cost of providing services to Medicaid patients for hospitals
- II. Determine relative weights used by groupers to adjust reimbursement relative to patient acuity (Inpatient DRGs/Outpatient EAPGs)
- III. Update reimbursement payment parameters (e.g. hospital base rates, wage index factors, payments for medical education expenses, etc.)
- IV. Model fiscal impact of updated reimbursement system for each hospital and in aggregate

I. Hospital Costs

- Data Sources
 - Medicare Cost Reports
 - Medicaid Claims Data
 - Crosswalk from cost report information to claim billing information
- Each claim billing line is assigned a cost using Medicare Cost Report information
 - Routine cost equals days multiplied by per diem cost
 - Ancillary costs are determined by multiplying billed charges by a cost to charge ratio
 - Apply inflation to upcoming Rate Year

I. Cost Neutrality

- Adjustments are made to allow a comparable cost of providing services between hospitals
 - Capital costs are removed for inpatient claims
 - The impact of wage differences are removed thru a wage index factor
 - Patient acuity differences are removed via an average relative weight case mix index
 - Medical education expenses are removed for inpatient claims

II. Relative Weights

- The payment formula makes use of relative weights assigned to each grouping (Inpatient DRGs/Outpatient EAPGs)
- $\text{Payment} = \text{Hospital Rate} * \text{Relative Weight}$
- Inpatient DRG Weights
 - Custom State Specific – Relative Weight based on average cost of individual DRG grouping divided by average cost of all claims
- Outpatient EAPG Weights
 - National Standard Weight Set

III. Update Reimbursement Payment Parameters

- Use hospital cost information to determine base rates
 - Inpatient - DRG base rate : Outpatient - EAPG conversion factor
 - Type 1 and Type 2 Hospitals have separate calculation
 - Adjust base rates for wage index
- Update other reimbursement system payment parameters
 - Determine capital payments and medical education payments
 - Cost to charge ratios, DRG average length of stay, outlier fixed loss threshold, outlier marginal cost factor, etc.

IV. Model Fiscal Impact

- Input
 - Historical claims data
 - Current reimbursement system and proposed reimbursement system parameters
 - Payment policies (handling of outlier cases, transfers, readmissions, etc.)
- Output – By hospital and in aggregate
 - Model of current reimbursement payments
 - Model of proposed reimbursement payments
 - Differences in payments



Questions