

## PROSPECTIVE PAYMENT SYSTEM UPDATES – STATE MEDICAID PROGRAMS

Over twenty years ago, the Centers for Medicare and Medicaid Services (CMS) moved from cost-based reimbursement to DRG-based prospective payment for Medicare inpatient services. Soon afterwards, the Department of Defense initiated its own modified set of DRGs and prospective payment rules for its national CHAMPUS/TRICARE program. Since that time, and following the lead of these two national organizations, most states have modified their Medicaid, Worker's Compensation, or No-Fault programs to include some variation of prospective payment in the inpatient or outpatient settings. These systems generally involve calculating per-case reimbursements, which are determined prospectively based on the patient's condition, with adjustments for certain categories of facilities or certain types of patients. Typically, these systems are initiated and controlled through regulatory efforts and funded through the annual state budgeting process. This *Industry Insight* summarizes a number of recent changes made to these prospective payment systems.

1. **GEORGIA MEDICAID (JANUARY 1 REGULATORY UPDATE CYCLE):** The Georgia Department of Community Health (DCH) utilizes prospectively determined payment for its Medicaid inpatient program. Since October 16, 1999, this program has been using the Version 16 CHAMPUS DRGs (that is, the DRGs that were in effect for the CHAMPUS program from October 1, 1998 through September 30, 1999). The DCH has implemented the Version 24 CHAMPUS Grouper (DRGs that were in effect for the CHAMPUS program from October 1, 2006 through September 30, 2007) for inpatient hospital Medicaid claims effective January 1, 2008. They have also implemented a new set of Georgia-specific DRG weights, hospital-specific rates, and DRG-specific variables effective January 1, 2008. There were no changes to the existing pricing methodology.
2. **MICHIGAN MEDICAID (JANUARY 1 REGULATORY UPDATE CYCLE):** The Michigan Department of Community Health utilizes prospectively determined payment for its Medicaid inpatient program. Effective January 1, 2008, Michigan Medicaid implements Version 25 of the Medicare DRG Grouper, and applies Michigan-specific DRG weights. Changes to the Michigan Medicaid DRG system beginning January 1, 2008 are summarized below.
  - **DRG Modifications:** Michigan Medicaid will continue to have expanded grouping logic for cases where a patient was treated in an accredited neonatal intensive care unit (NICU) and the claim was grouped to a neonatal DRG. The Version 25 Medicare DRG Grouper has changed the numbering order for neonatal DRGs. In previous versions, DRGs 385-391 encompassed the neonatal DRGs; now DRGs 789-795 are used.

Michigan has also added special grouping rules for DRGs that were previously age categorized prior to implementation of Version 25 of the Medicare DRG Grouper. An alternate weight will be assigned for patients age 0-17 for these age categorized DRGs. All two digit age categorized DRGs will display an "01" at the end, and three digit DRGs will display a "1" to indicate that the age-related alternate DRG weights and rates are being used. For further details on Michigan's DRG changes, see *Product Bulletin No. 196, Updates to the EASYGroup™ Michigan Medicaid Prospective Payment System*.

- **Pricing:** New DRG-specific weights, average lengths of stay, and high and low trim points have been released by the Michigan Department of Community Health and are effective January 1, 2008. There are no changes to the Michigan Medicaid reimbursement formulas.
3. **NEW YORK STATE (JANUARY 1 REGULATORY UPDATE CYCLE):** Effective January 1, 2008, the New York Department of Health uses a prospective payment system based on the Version 25 All Patient DRGs (AP-DRGs). The state's pricing formulas include special adjustments for short stays, transfers, and alternate level of care days. As of January 1, 2008, New York has published a new set of DRG weights and rates for use with the Version 25 AP-DRGs. At this time, the top 20 DRGs for 2008 are not available. However, the hospital-specific New York state rates for January 1, 2007 are now available.
  4. **NORTH CAROLINA MEDICAID (OCTOBER 1 REGULATORY UPDATE CYCLE):** The North Carolina Division of Medical Assistance (NC DMA) reimburses hospitals for Medicaid inpatient care using a DRG-based prospective payment system. This system operates on an October through September fiscal year and is based on the Medicare DRGs with modifications for neonatal cases (MDC 15). In addition, state-specific pricing formulas and DRG weights are utilized. Changes to the North Carolina Medicaid DRG system for the fiscal year beginning October 1, 2007 are summarized below.
    - **DRG Modifications:** The NC DMA implemented the Medicare Version 24.0 DRG assignment rules retroactive to October 1, 2007. NC DMA will continue to replace MDC 15 (Medicare DRGs 385 through 391) with ten (10) North Carolina-specific neonatal DRGs. In addition, the NC DMA has published their mapping of new ICD-9 diagnosis and procedure codes, effective October 1, 2007, back to codes effective during the Version 24.0 Medicare Grouper (October 1, 2006 – September 30, 2007). For details on the Medicare Version 24.0 DRG changes, see *Industry Insight No. 403, Medicare DRG Changes for FY 2007*.
    - **Pricing:** New DRG-specific weights, average lengths of stay, high trim points, and cost outlier thresholds have been released by the NC DMA and are retroactive to October 1, 2007. There are no changes to the North Carolina Medicaid reimbursement formulas.
  5. **OHIO MEDICAID (JANUARY 1 REGULATORY UPDATE CYCLE):** The Ohio Department of Job and Family Services (ODJFS) utilizes a DRG-based prospective payment system for its Medicaid inpatient population. This system operates on a January to December fiscal year and is based on the Medicare DRGs. In addition, state-specific pricing formulas and DRG weights are utilized. Changes to the Ohio Medicaid DRG system for the fiscal year beginning January 1, 2008 are summarized below.
    - **DRG Modifications:** There are no DRG modifications for January 1, 2008. ODJFS will continue to use a DRG classification system based on the Version 15 Medicare DRGs (DRGs that were in effect from October 1, 1997 through September 30, 1998), with additional state-specific DRGs for newborns. The Department has announced plans to recalibrate relative weights for July 1, 2008.
    - **Pricing:** Ohio pricing is based on DRG weights, hospital base rates, and special pricing rules for day and cost outliers. Effective January 1, 2008, there will be new high trim points and cost outlier thresholds. Ohio Medicaid will continue to use its current pricing methodology.

### **FOR FURTHER INFORMATION**

If you have questions regarding the prospective payment programs described above, or if you need software to assign the appropriate casemix measures and calculate state-specific reimbursement, please contact our Client Services Department at 1-800-999-DRGS (3747). Be sure to check the

Ingenix website ([ingenix.com](http://www.ingenix.com)) for up-to-date information on other regulatory activities. **Industry Insights**, as well as source documents and relevant statistics, can be located on the website under "News & Events" (<http://www.ingenix.com/News/Industnews/>). New **Industry Insights** are posted on a regular basis, often in advance of formal notification of their availability.