

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 TRICARE/CHAMPUS 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 TRICARE DRGs (that is, the DRGs that were in effect for the TRICARE/CHAMPUS program from October 1, 1998 through September 30, 1999). The DCH has implemented the Version 24 TRICARE Grouper (DRGs that were in effect for the TRICARE program from October 1, 2006 through September 30, 2007) for inpatient hospital Medicaid claims effective January 1, 2008. There were no changes to the pricing methodology, hospital-specific rates or DRG-specific weights for January 1, 2008.
- 2. MICHIGAN MEDICAID (JANUARY 1 REGULATORY UPDATE CYCLE):** The Michigan Department of Community Health (MDCH) utilizes prospectively determined payment for its Medicaid inpatient program. Effective January 1, 2009, Michigan Medicaid implements Version 26 of the Medicare DRG Grouper and applies Michigan-specific DRG weights. New DRG-specific weights, average lengths of stay, and high and low trim points have also been released by the MDCH and are effective January 1, 2009. The only change to the Michigan Medicaid reimbursement formulas was the indirect medical education (IME) formula used to set medical/surgical hospital, distinct part rehabilitation unit, and rehabilitation hospital prices. This formula was changed by replacing the 0.4290 multiplier with a 0.3575 multiplier.
- 3. NEW YORK STATE (JANUARY 1 REGULATORY UPDATE CYCLE):** There is a new Ambulatory Patient Group (APG) payment methodology for the New York Medicaid outpatient payment system. The implementation of APGs began with hospital-based outpatient and ambulatory surgery department services on December 1, 2008, followed by emergency department services beginning January 1, 2009. Free-standing diagnostic and treatment centers and ambulatory surgery centers were scheduled to be paid using APGs beginning March 1, 2009 but has been delayed pending approval from Medicare. For more information on this new payment system, refer to *Ingenix Industry Insight No. 472, New APG-Based Outpatient Payment System for New York Medicaid*.

For the inpatient setting, the New York State Department of Health (NYSDOH) uses a prospective payment system based on the All Patient DRGs (AP-DRGs) along with special

pricing adjustments for short stays, transfers, and alternate level of care days. Effective January 1, 2009, the NYSDOH has adopted the Version 26 AP-DRGs and has published a new set of DRG weights and rates for use with the Version 26 AP-DRGs.

Effective September 17, 2008, New York has implemented New York Present on Admission (POA) requirements for all inpatient claims. Also, per NYSDOH regulations, New York Medicaid is denying or reducing payment for “Never Events” – specific circumstances that should never occur during an inpatient hospitalization. These reductions involve bypassing the ICD-9-CM diagnosis codes representing these events during DRG assignment, with potential resulting reduction of DRG weight and inpatient reimbursement. The three Never Events selected for 2009 are: 1) Retention of a foreign object in a patient after surgery or other procedure, 2) Patient disability associated with a reaction to administration of ABO-incompatible blood or blood products, 3) Patient disability associated with intravascular air embolism that occurs while being cared for in a healthcare facility.

4. **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. There are no DRG modifications for January 1, 2009. 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.

Ohio pricing is based on DRG weights, hospital base rates, and special pricing rules for day and cost outliers. Ohio Medicaid will continue to use its current pricing methodology but has updated their cost outlier threshold for January 1, 2009.

5. **ILLINOIS MEDICAID (OCTOBER 1 REGULATORY UPDATE CYCLE):** The Illinois Department of Healthcare and Family Services uses a prospective payment system based on the Version 12 Medicare DRGs (Medicare DRGs in effect from October 1, 1994 through September 30, 1995), with state-specific modifications for neonatal patients. Each October, the Illinois Department of Healthcare and Family Services updates the facility-specific add-on values for disproportionate share, Medicaid high volume payments, and non-physician anesthesia. They will continue to use the Version 12 CMS DRGs, as well as the existing pricing methodology and DRG-specific variables for October 1, 2008.
6. **NEBRASKA MEDICAID (OCTOBER 1 REGULATORY UPDATE CYCLE):** The Nebraska Department of Health and Human Services (DHHS) reimburses hospitals for Medicaid inpatient care using a DRG-based prospective payment system. This system, which operates on an October to September fiscal year, is based on the Version 24 Medicare DRGs with state-specific modifications for neonatal patients. At this time, they will continue to use the Version 24 Medicare DRGs, as well as the existing pricing methodology and DRG weights.
7. **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 Version 24 DRGs with modifications for neonatal cases (MDC 15). NC DMA will continue to replace MDC 15 (Medicare DRGs 385 through 391) with ten (10) North Carolina-specific neonatal DRGs. In addition, state-specific pricing formulas and DRG weights are utilized. There are no known changes at this time to the North Carolina Medicaid reimbursement formulas for the fiscal year beginning October 1, 2008. There is a state plan amendment to implement Medicare Severity DRGs, which is currently being reviewed by CMS. There is no anticipated date for implementation at this time.
8. **PENNSYLVANIA MEDICAID (OCTOBER 1 REGULATORY UPDATE CYCLE):** The Pennsylvania Office of Medical Assistance Programs reimburses hospitals for Medicaid inpatient care using a DRG-

based prospective payment system. This system operates on an October to September fiscal year and is based upon the Version 23 Medicare DRGs. In addition, state-specific pricing formulas and DRG weights are utilized. There were no changes effective October 1, 2008. There was a state proposal to adopt All Patient Refined DRGs but this plan has been “frozen” by the state. There is no anticipated date for implementation at this time.

9. **TEXAS MEDICAID (OCTOBER 1 REGULATORY UPDATE CYCLE):** The Texas Health and Human Services Commission (HHSC) reimburses hospitals for Medicaid inpatient care using a DRG-based prospective payment system. This system, which operates on an October fiscal year, is based upon the new Version 26 Medicare Severity DRGs (MS-DRGs) along with updated DRG weights. There have been proposals to implement a rebasing project in the beginning of 2009, contingent on federal approval. There are no changes to the Texas Medicaid pricing methodology at this time.
10. **INDIANA MEDICAID (NOVEMBER 1 REGULATORY UPDATE CYCLE):** The Indiana Health Coverage Program (IHCP) currently uses a prospective payment system for hospital inpatient services based on the Version 18 AP-DRGs. There were no changes to the grouping or pricing methodology, hospital-specific rates or DRG-specific weights for November 1, 2008.
11. **WASHINGTON MEDICAID (NOVEMBER 1 REGULATORY UPDATE CYCLE):** The Washington State Department of Social and Health Services (DSHS) utilizes an inpatient prospective payment system based on the Version 23 All Patient (AP-DRGs). Its pricing formulas include special rules for same-day admissions, newborns, transfers, HIV cases and services performed in exempt facilities. There were no changes to the grouping or pricing methodology, hospital-specific rates or DRG-specific weights for November 1, 2008.
12. **NEW JERSEY MEDICAID (VARIABLE REGULATORY UPDATE CYCLE):** The New Jersey Department of Human Services currently uses a prospective payment system for hospital inpatient services based on the Version 8 AP-DRGs. New Jersey announced plans to update to the Version 24 AP-DRG Grouper but there is no definitive implementation date at this time. Currently, there are no changes to New Jersey Medicaid Inpatient Hospital prospective payment reimbursement for 2009.

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.