

HANYS Data Academy Data Fundamentals

Introduction to Medicare

Part I

April 2007



Medicare - In The Beginning ...

- **Established in 1965 as Health Insurance for the Aged (Title 18)**
- **Part A: Hospital Insurance (Mandatory)**
 - Inpatient hospital services
 - Skilled nursing facility services
 - Some home health care
- **Part B: Supplemental Insurance (Voluntary)**
 - Physician services
 - Outpatient hospital services
 - Independent laboratories

**The Medicare
Trust Fund**



Major Legislative Changes

- Expanded in 1972 to cover disabled persons and those with ESRD – End Stage Renal Disease.
- Enactment and repeal of Medicare Catastrophic Coverage Act of 1988
- **Balanced Budget Act of 1997:**
 - Expanded Managed Care options
 - Moved away from cost-based reimbursement for all major providers
- **Medicare Prescription Drug and Modernization Act of 2003 (MMA)**
 - Created Medicare Parts C and D

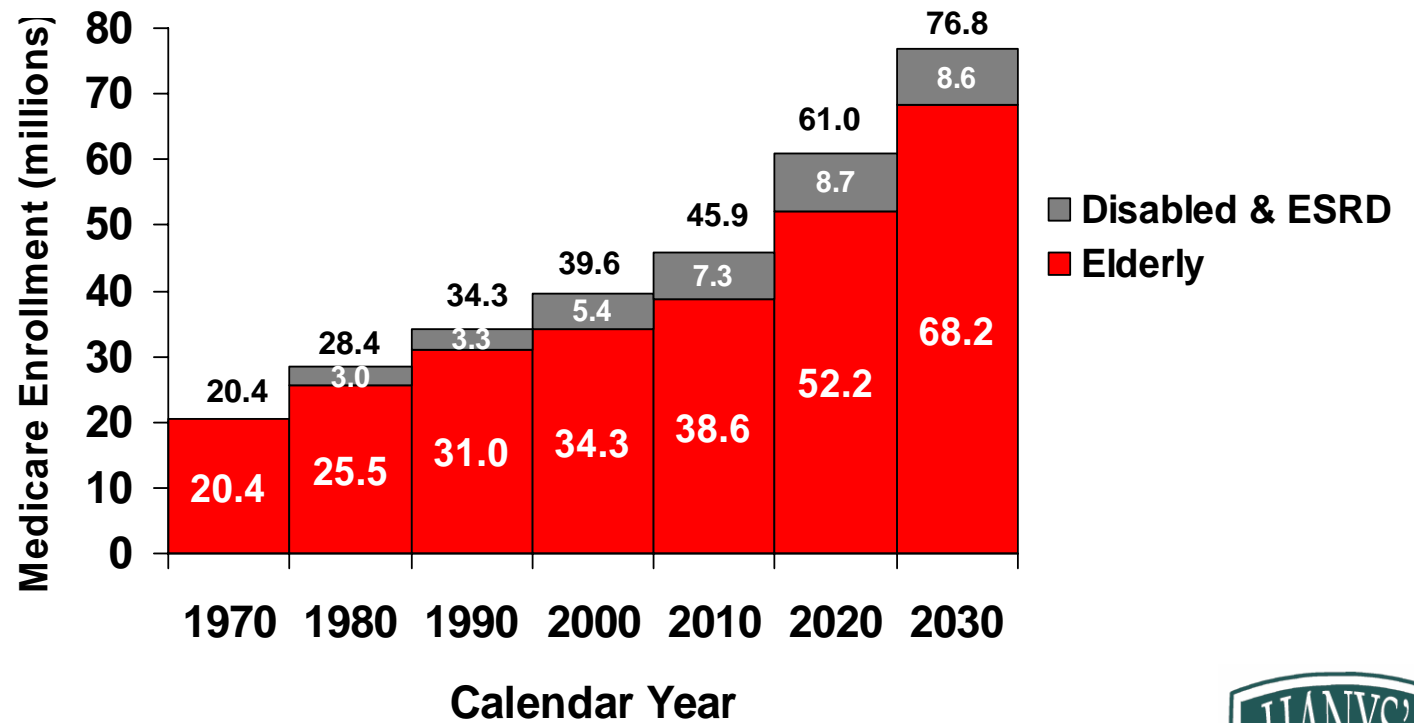


How Is Medicare Financed?⁴

- **Part A: Hospital Insurance**
 - 1.45% payroll tax on both employer and employee: paid to the Medicare Trust Fund
- **Part B: Supplemental Medical Insurance**
 - Beneficiary premium
 - Currently covers about 25% of total Part B spending
 - Increases in 2007 for higher income levels
 - General revenues
 - Interest on investments
- **Part C: Medicare Advantage**
 - General revenues
- **Part D: Prescription Drugs**
 - Beneficiary premium: \$35 per month in 2006
 - General revenues



Number of Medicare Beneficiaries



Source: CMS Statistics



Part A: Beneficiary Benefit Periods

- **Hospital Benefit period:**
 - 60 days basic, 30 days co-insurance, 60 days lifetime reserve.
 - Basic and co-insurance periods restart when patient has been out of the hospital or skilled nursing facility for 60 consecutive days.
 - No limit on number of benefit periods.
 - Reserve days are used for hospital stays beyond 90 days
 - Entitled to only 60 reserve days (lifetime)
- **SNF Benefit period:**
 - 20 days basic and 80 days co-insurance.
 - Basic and co-insurance periods restart when patient has been out of the hospital or SNF for 60 consecutive days.



Part A: Beneficiary Cost-Sharing in 2007

- **Inpatient hospital deductible: \$992**
 - Co-pay days 61-90, \$248 per day
 - Co-pay after day 90, \$496 per day
- **Skilled nursing facility**
 - No co-pay days 1 – 20
 - Co-pay after day 20, \$124 per day



Medicare Fee-for-Service versus Medicare Advantage

Fee-for-Service: traditional coverage in which Medicare makes payments directly to providers.

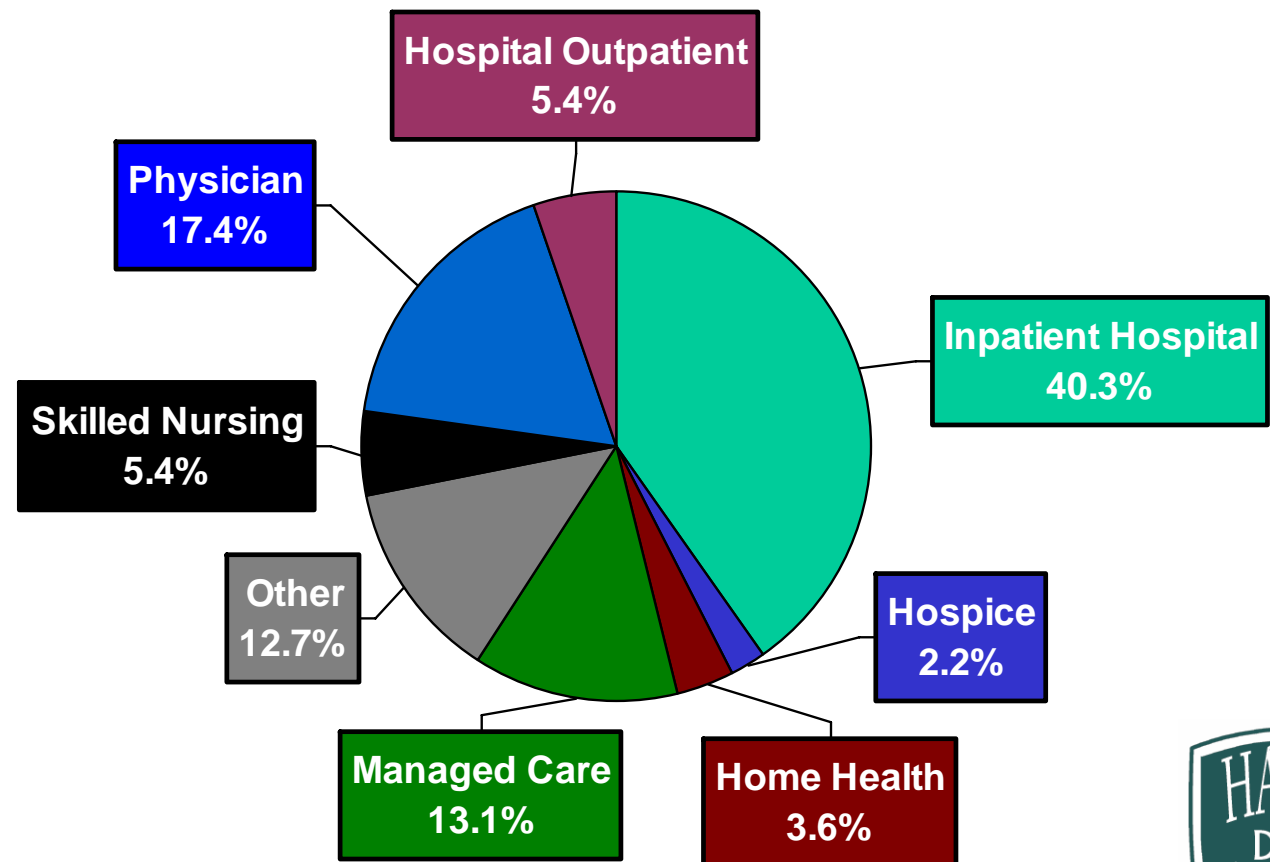
Medicare Advantage: Managed care version in which enrollee contracts with plans for Medicare coverage.

Source of coverage - 2007	U.S.	NY
–Fee-for-service	82.6%	78.0%
–Medicare Advantage	17.4%	22.0%

Sources: Centers for Medicare and Medicaid (CMS) 2007, and United States Census Bureau 2007 Estimate - Data includes Hospital Insurance and/or Supplemental Medical Insurance.



Where the Medicare Dollar Went, 2004



Source: 2004 CMS Statistics



Medicare in New York

Medicare Beneficiaries (2005)	2.9 Million
Percent of State Population	15%
U.S. Rank: Penetration	28th

Medicare Managed Care Enrollment (2007)	640,000
Percent of Total Beneficiaries	22%
U.S. Rank: Penetration	10th

Medicare Beneficiaries account for 40% of the hospital inpatient days in New York

Sources: Centers for Medicare and Medicaid (CMS) and United States Census Bureau Estimates - Data includes Hospital Insurance and/or Supplemental Medical Insurance, CMS Statistics and Medicare Cost Report Data.



How does Medicare Pay Providers?

- **Managed Care**
 - Medicare Advantage
- **Fee-for-Service**
 - Prospective Payment System (PPS)
 - Fee Schedule
 - Cost-Based



Medicare Advantage (Medicare Managed Care)

- **The Medicare Modernization Act (MMA) included many changes to Medicare managed care:**
 - Now called Medicare Advantage
- **Types of plans included:**
 - Health Maintenance Organization (HMO)
 - Preferred Provider Organizations (PPOs)
 - Provider Sponsored Organizations (PSOs)
 - Private Fee-For-Service (PFFS)
 - Medical Savings Accounts (MSAs).
- **Background:**
 - Originally, plans paid based on average fee-for-service costs in a county.
 - 1997 BBA established minimums, removed medical education costs, and required risk adjusted rates.
 - The MMA provides significant increases in managed care rates.



Medicare Advantage (Medicare Managed Care)

- **Annual County Rate Increases in 2003 : Increase based on the higher of**
 - An increase to the minimum payment rate (floor)
 - Rural Floor and Urban Floor
 - Minimum 2% increase over the prior year's rate
 - 50/50 blend of the national rate and county rate
- **The MMA adds a 4th alternative:**
 - 100% of the projected fee-for-service per capita cost in the county, excluding medical education costs
 - Minimum payment increase changed to the greater of 2% or the national per capita growth percentage
 - In 2004, aged: 6.3%, disabled: 5.3%
 - In 2005, aged: 6.6%, disabled: 6.8%



New York

Medicare Advantage Benchmark Rate Increases 1997 - 2007

**Medicare
Advantage rates
have increased by
63% statewide in
New York from
1997 to 2007.**

County Name	2007 Enrollees	1997 Rate	2003 Rate	1997 to 2003 Rate Change	2007 Rate	2003 to 2007 Rate Change	1997 to 2007 Rate Change
Queens	88,012	\$659	\$749	13.7%	\$990	32.1%	50.3%
Kings	83,939	\$705	\$802	13.7%	\$1,061	32.3%	50.4%
Erie	70,232	\$399	\$564	41.5%	\$732	29.8%	83.6%
Monroe	58,457	\$412	\$564	36.9%	\$809	43.3%	96.3%
Bronx	50,985	\$728	\$828	13.7%	\$1,050	26.8%	44.2%
New York	48,909	\$713	\$811	13.7%	\$1,028	26.8%	44.2%
Nassau	34,707	\$587	\$667	13.7%	\$1,019	52.7%	73.7%
Suffolk	28,947	\$547	\$635	16.1%	\$913	43.8%	66.9%
Richmond	23,270	\$767	\$873	13.7%	\$1,106	26.8%	44.2%
Westchester	20,345	\$562	\$652	16.1%	\$925	41.8%	64.6%
Niagara	14,418	\$410	\$564	37.6%	\$732	29.8%	78.6%
Albany	8,607	\$382	\$564	47.8%	\$732	29.8%	91.8%
Chautauqua	6,936	\$344	\$510	48.2%	\$662	29.8%	92.3%
Ontario	6,922	\$347	\$564	62.7%	\$732	29.8%	111.1%
Saratoga	6,823	\$375	\$564	50.6%	\$732	29.8%	95.4%
Wayne	6,214	\$359	\$564	57.0%	\$732	29.8%	103.7%
Onondaga	6,079	\$367	\$564	53.6%	\$732	29.8%	99.3%
Rensselaer	5,543	\$408	\$564	38.1%	\$732	29.8%	79.2%
Oneida	5,382	\$351	\$564	60.8%	\$732	29.8%	108.7%
Rockland	5,291	\$582	\$675	16.1%	\$938	38.8%	61.2%
Schenectady	5,122	\$362	\$564	55.7%	\$732	29.8%	102.0%
Genesee	4,078	\$386	\$564	46.1%	\$732	29.8%	89.6%
Livingston	3,884	\$387	\$564	45.6%	\$732	29.8%	89.0%
Cattaraugus	3,651	\$365	\$510	40.0%	\$662	29.8%	81.6%
Broome	2,948	\$364	\$548	50.6%	\$732	33.7%	101.3%
Orleans	2,653	\$360	\$564	56.7%	\$732	29.8%	103.3%
Wyoming	2,574	\$373	\$510	36.7%	\$662	29.8%	77.4%
Warren	2,364	\$344	\$510	48.2%	\$662	29.8%	92.4%
Chemung	1,888	\$353	\$510	44.6%	\$662	29.8%	87.6%
Fulton	1,857	\$344	\$510	48.3%	\$662	29.8%	92.5%
Ulster	1,832	\$427	\$511	19.7%	\$719	40.7%	68.3%

New York

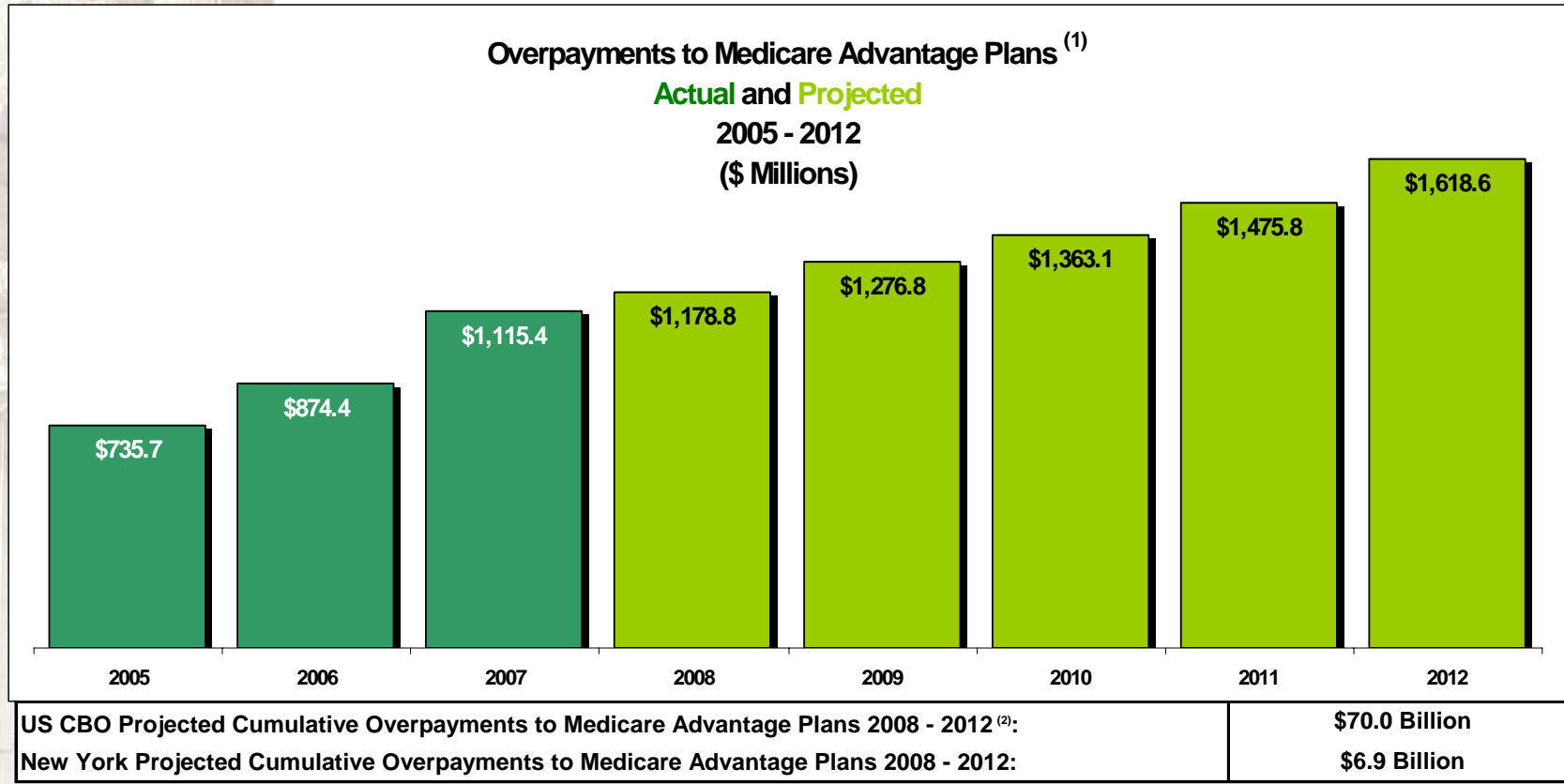
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Washington	1,823	\$348	\$510	46.5%	\$662	29.8%	90.2%
Dutchess	1,737	\$430	\$564	31.3%	\$732	29.8%	70.4%
Oswego	1,668	\$366	\$564	54.2%	\$732	29.8%	100.1%
Orange	1,601	\$470	\$564	19.9%	\$887	57.2%	88.5%
Steuben	1,600	\$358	\$510	42.6%	\$662	29.8%	85.0%
Yates	1,505	\$318	\$510	60.3%	\$662	29.8%	108.0%
Seneca	1,485	\$354	\$510	44.3%	\$662	29.8%	87.2%
Herkimer	1,440	\$345	\$564	63.4%	\$732	29.8%	112.0%
Columbia	1,234	\$367	\$510	38.9%	\$662	29.8%	80.3%
Greene	1,138	\$377	\$510	35.3%	\$662	29.8%	75.6%
Allegany	1,120	\$372	\$510	37.1%	\$662	29.8%	77.9%
Madison	1,076	\$355	\$564	58.8%	\$732	29.8%	106.1%
Jefferson	1,073	\$308	\$510	65.6%	\$662	29.8%	114.9%
Montgomery	1,052	\$363	\$564	55.3%	\$732	29.8%	101.5%
Cayuga	888	\$380	\$564	48.4%	\$732	29.8%	92.5%
St Lawrence	872	\$342	\$510	49.1%	\$662	29.8%	93.5%
Chenango	867	\$308	\$510	65.6%	\$662	29.8%	114.9%
Tioga	638	\$350	\$548	56.5%	\$732	33.7%	109.2%
Otsego	612	\$375	\$510	35.9%	\$662	29.8%	76.4%
Tompkins	546	\$344	\$510	48.5%	\$662	29.8%	92.7%
Clinton	529	\$370	\$510	37.8%	\$662	29.8%	78.9%
Delaware	499	\$375	\$510	36.1%	\$662	29.8%	76.7%
Cortland	443	\$356	\$510	43.2%	\$662	29.8%	85.8%
Franklin	327	\$339	\$510	50.4%	\$662	29.8%	95.2%
Putnam	278	\$588	\$673	14.6%	\$946	40.5%	61.0%
Lewis	274	\$303	\$510	68.3%	\$662	29.8%	118.4%
Schuyler	236	\$336	\$510	51.9%	\$662	29.8%	97.1%
Sullivan	213	\$483	\$568	17.6%	\$778	36.9%	61.0%
Essex	213	\$352	\$510	45.1%	\$662	29.8%	88.3%
Schoharie	146	\$358	\$564	57.4%	\$732	29.8%	104.3%
Hamilton	35	\$417	\$510	22.3%	\$662	29.8%	58.7%

Projected Overpayments to Medicare Advantage Plans in New York

2005 to 2012



PPS Reimbursement – Common Components

- **Standard Federal Rate**
- **Facility Adjustments**
 - Differences in area wages
 - Urban versus rural setting
 - Medical education
 - Disproportionate number of poor patients
- **Patient Adjustments**
 - Intensity of services provided to patient
 - Excessive case costs
 - Partial treatment



Who Receives PPS Reimbursement?

- **Acute Care Inpatient Facilities**
- **Hospital Outpatient Departments**
- **Skilled Nursing Facilities**
- **Home Health Facilities**
- **Inpatient Rehabilitation Facilities**
- **Inpatient Psychiatric Facilities**
- **Long Term Care Hospitals**



Fee Schedule Reimbursement

- **Pre-determined rate for units of service:**
 - Similar to prospective payment, but fee schedule is for individual, not packaged, services.
- **The fee schedule is adjusted for provider characteristics and location**



Who Receives Fee Schedule Reimbursement?

- **Physicians**
- **Hospital – Outpatient Therapy Services**
 - **Uses the Physician Fee Schedule**
- **Laboratories**
- **Ambulance Services**



Cost-Based Reimbursement

- Allowable costs
- Frequently subject to a limit
- Frequently related to a base-year cost trended forward

Initially all provider payments were based on allowable costs.

“Retrospective” cost-based reimbursement created the need for a cost report to settle payments.



Who Receives Cost-Based Reimbursement?

- **Critical Access Hospitals**
- **Rural Health Clinics**
- **Psychiatric Hospitals and Units**
 - In transition to full PPS reimbursement
- **Hospitals - Direct Medical Education**
- **Sole Community Hospitals**
 - Higher of PPS or trended base year costs



Prospective Payment Systems (PPSs)

- Hospital Inpatient Operating
- Hospital Inpatient Capital
- Hospital Outpatient
- Skilled Nursing Facilities
- Home Health
- Inpatient Rehabilitation
- Inpatient Psychiatric (In transition)
- Long Term Care Hospitals





Comparison of PPSs

Provider Component	Hospital Inpatient Operating	Hospital Inpatient Capital	Hospital Outpatient	Skilled Nursing	Home Health	Inpatient Rehabilitation	Inpatient Psychiatric	Long Term Care Hospital
Federal Rate	Standard Amount (per discharge)	Federal Rate (per discharge)	Conversion Factor (per procedure)	Federal Rate Per Diem	National 60 Day Episode Rate	Standard Payment Amount (per Discharge)	Per Diem Base Rate	Federal Rate
Rate Year	Oct 1– Sept 30	Oct 1– Sept 30	Jan 1 – Dec 30	Oct 1– Sept 30	Jan 1 – Dec 30	Oct 1– Sept 30	July 1– June 30	July 1– June 30
Area Salary Adjustment / Labor Share	Wage Index @ 69.7% or 62%	Geographic Adjustment Factor (GAF)	Wage Index @ 60%	Wage Index @ 75.8%	Wage Index @ 76.8%	Wage Index @ 75.6%	Wage Index @ 75.7%	Wage Index @ 75.7%
Urban/ Rural Adjustment	None	3% Add-on to GAF for Large Urbans	7.1% Add-On SCHs	Urban and Rural Rates	None	21.3% Rural Add-On	17 % Rural Add-On	None
Medical Education	Indirect Medical Education (IME) Adjustment	IME Adjustment	None	None	None	Teaching Adjustment	Teaching Adjustment	None
Disproportionate Volume of Poor Patients	Disproportionate Share Hospital (DSH)	DSH	None	None	None	Low Income Patient Adjustment	None	None
Intensity of Services	DRGs – Diagnostic Related Groups	DRGs	APCs – Ambulatory Payment Classification	RUGS – Resource Utilization Groups	HHRGs – Home Health Resource Groups	CMGs (Case-Mix Group) with comorbidities	DRGs with day weights and comorbidities	Long Term Care DRGS
Excessive Costs	Cost Outliers	Cost Outliers	Cost Outliers	None	Cost Outliers & Significant Change	Cost Outliers	Cost Outliers	Cost Outliers
Partial Treatment	Short Stay Transfers	Short Stay Transfers	None	None	Partial Episodes/Low Utilization	Short Stay CMG	None	Short Stay Outliers

PPS Reimbursement – Updating the Components

- **Annual Proposed and Final Rules:**
 - **Regulatory changes from the Center for Medicare and Medicaid Services (CMS).**
- **Updates to federal rates based on “Market Basket” inflation factor.**
- **Wage Indexes recalculated based on updated hospital salaries.**
- **Severity weights (DRGs, APCs) are updated based on more current data.**
- **Other changes to “improve” payment policy.**

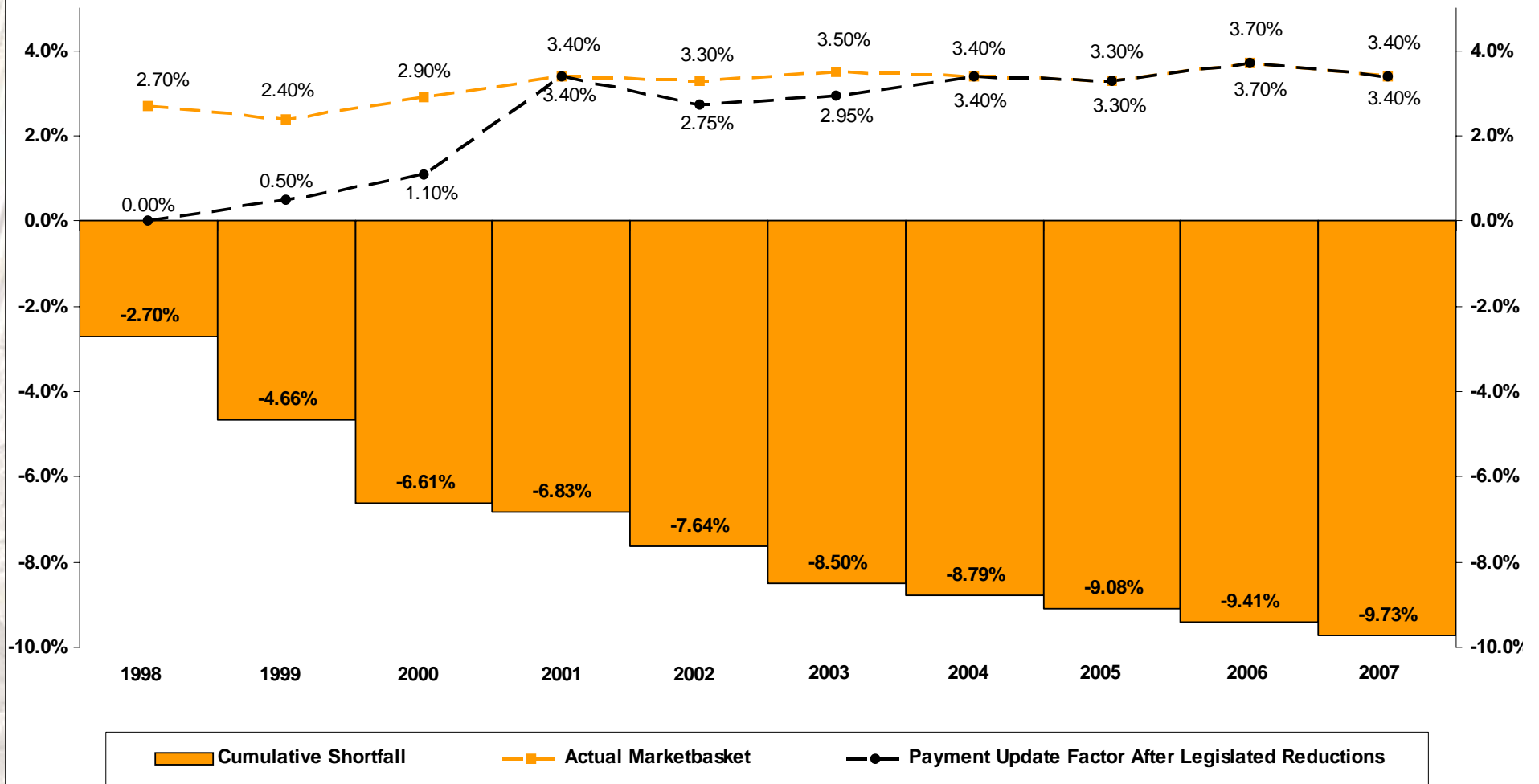




Unless
Congress
Changes the
Rules !!

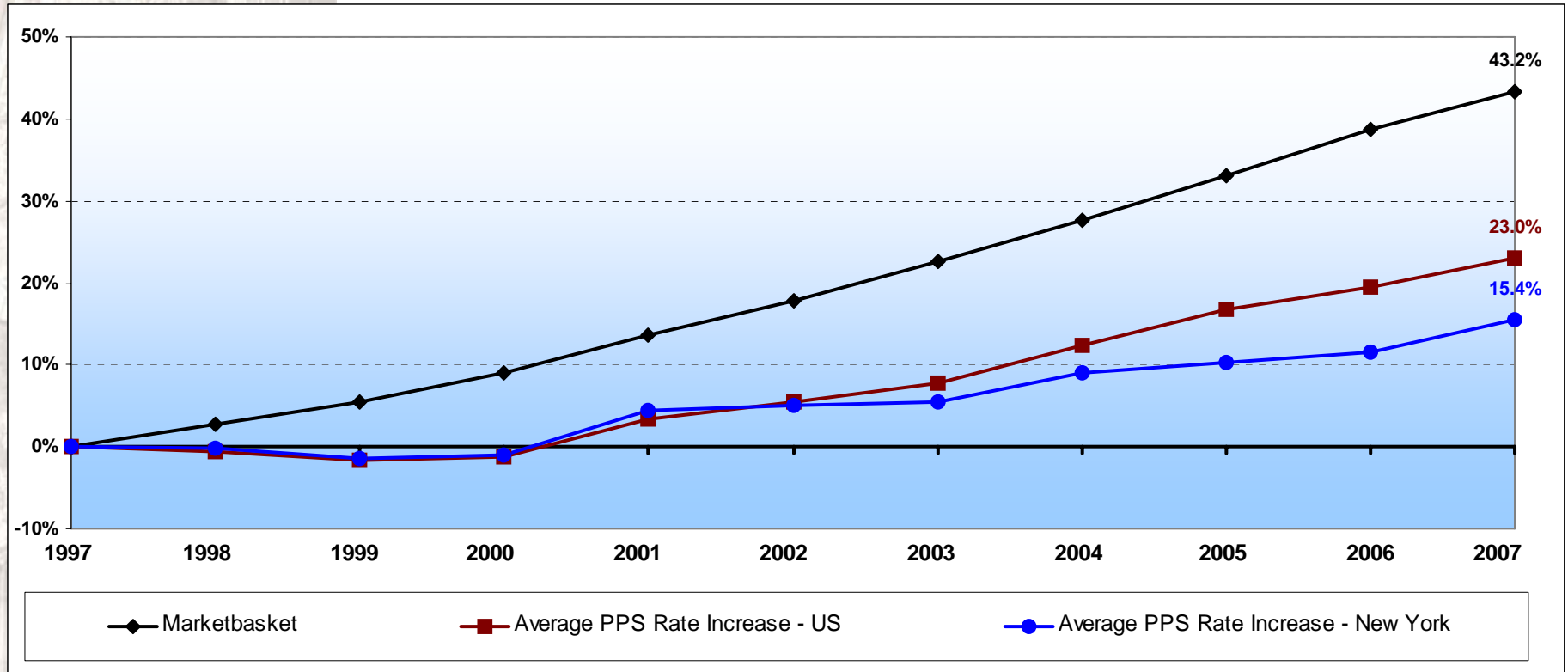


Marketbasket Forecast vs. Legislated Payment Update Factor 1998 - 2007



This table illustrates the impact of legislative reductions to the marketbasket as forecast by CMS.

Medicare Hospital Under-Reimbursement Trends



Why is the Wage Index²⁹ So Important ?

- **Wage Index**
 - Measures relative level of hourly wages in a labor market to national average:
 - **Final 2006 Wage Indexes:**
 - New York City: 1.3344 (33.4% higher than avg.)
 - Albany : 0.8849 (11.5% lower than avg.)
- **Labor/non-labor component**
 - Portion of total operating costs attributable to salaries and benefits.
 - Ranges from 60% to 78%.
 - Wage Index applied to labor share to adjust the federal rate.

Hospital wage data are used to develop the wage indexes for hospitals, SNFs, and home health agencies.



What are Relative Weights and Case Mix as related to: DRGs, APCs, RUGs, HHRGs, CMGs

- Reflects the resources* used in furnishing a particular service to patients within a group, compared to the “average” patient.
 - DRG 89 Simple Pneumonia, Age > 17 with CC 1.0376 Weight
 - DRG 90 Simple Pneumonia, Age > 17 without CC 0.6148 Weight
 - DRG 91 Simple Pneumonia, Age 0 - 17 0.5598 Weight
- Case Mix: reflects the types of patients treated by a provider compared to the national mix of patients

Note: Measuring resources varies among the provider PPS's. Currently, the hospital DRG weights are in transition from being charge-based to cost-based.



What does your hospital look like? ³¹

TABLE 1: HOSPITAL PROFILE

Sample Hospital

Facility Identification Data			
Provider Number:	999999		
Cost Report Start Date:	January 1, 2005		
Cost Report End Date:	December 31, 2005		
Type of Hospital:	General Short Term		
Type of Subprovider(s):	Psychiatric	Rehabilitation	
Other Types of Units:			
Type of Control:	Voluntary Nonprofit, Other		
Teaching Status:	Teaching		
Interns & Residents - Hospital:	475.00		
Intern & Resident to Bed Ratio:	0.7500		
Disproportionate Share Hospital (DSH) Percent:	32.00%		
Statistical and Summary Utilization Data			
Total Hospital Beds:	600		
Inpatient Days			
Total Inpatient Days:	204,000		
Medicare Days:	60,000	29.4%	
Medicaid Inpatient Days:	28,500	14.0%	
Other Utilization			
Skilled Nursing Facility (SNF) Days:	0		
Home Health Agency (HHA) Visits:	0		
Observation Bed Days:	0		
Psychiatric Days:	29,000		
Rehabilitation Days:	6,500		
Wage Data			
Full-Time Employees - Facility:	5,500		
Total Salaries:	\$264,000,000		
Employee Benefits:	\$74,000,000		
Salary & Benefits Per FTE - Facility:	\$60,000		
Wage-Related Costs (Core):	\$56,000,000		
Wage-Related Costs (Other):	\$3,750,000		
Average Hourly Wage:	\$22.20		
Medicare Payment Summary			
Total Inpatient PPS Payment (Operating):	\$110,000,000		
Total Inpatient PPS Payment (Capital):	\$9,000,000		
Total Outpatient PPS Payment:	\$17,500,000		
Transitional Corridor Payment:	\$1,250,000		
Direct Graduate Medical Education Payment:	\$10,250,000		
Psychiatric Unit:	\$5,500,000		
Rehabilitation Unit:	\$2,000,000		
Skilled Nursing Facility (SNF) PPS Payments:	\$0		
Home Health Agency (HHA) PPS Payments:	\$0		
Swing Bed Payment:	\$0		
Summary Revenue Statistics			
Total Patient Revenue:	\$1,100,000,000		
Net Patient Revenue:	\$650,000,000		
Total Operating Expenses:	(\$625,000,000)		
Net Income from Service to Patients:	\$25,000,000		
Total Other Income:	\$19,000,000		
Total Other Expenses:	(\$26,000,000)		
Net Income/(Loss) for the Period:	\$18,000,000		
Medicare Payment Detail for Hospital Inpatient Services			
Operating Inpatient PPS			
DRG Payment	\$65,555,000		
Outlier Payment	\$4,500,000		
IME Payment	\$30,000,000		
DSH Payment	\$10,500,000		
Reimbursable Bad Debt	\$550,000		
Reimbursable Bad Debt Adjustment	\$1,200,000		
Capital Inpatient PPS			
DRG Payment	\$6,000,000		
Outlier Payment	\$400,000		
IME Payment	\$1,750,000		
DSH Payment	\$425,000		



Provider Component	Hospital Inpatient Operating
Federal Rate	Standard Amount (per discharge)
Rate Year	Oct 1– Sept 30
Area Salary Adjustment / Labor Share	Wage Index @ 69.7% or 62%
Urban/ Rural Adjustment	None
Medical Education	Indirect Medical Education (IME) Adjustment
Disproportionate Volume of Poor Patients	Disproportionate Share Hospital (DSH)
Intensity of Services	DRGs – Diagnostic Related Groups
Excessive Costs	Cost Outliers
Partial Treatment	Short Stay Transfers

Hospital Inpatient Operating PPS



Hospital Inpatient Operating PPS – The Core Issues ³³

- **As of 2004 – one federal rate for all hospitals**
 - In past years, separate rates for Large Urban (in an area with more than 1 million population), Other Urban, and Rural hospitals
 - Called the Standard Amount: \$4,874.49 per discharge in 2007
 - **Reduced by 2% for hospitals not reporting for the CMS Hospital Quality Initiative**
- **Wage Index method now complicated by legislative and regulatory changes:**

Annual geographic reclassification Rural Floor
Special one-time reclassification Two different labor shares
Lugar rural to urban reclassification Wage areas redefined in 2005
100% Occupational Mix Adjustment
Adjustment for hospitals in rural areas bordering an urban area with commuting patterns to the urban area

- **536 valid DRGs in 2007. Changes are made every year. Current issues include:**
 - Evaluation of Severity Adjusted DRGs
 - Update of diagnosis codes from ICD9CM to ICD10CM (International Classification of Diseases, Ninth and Tenth Editions, Clinical modification)



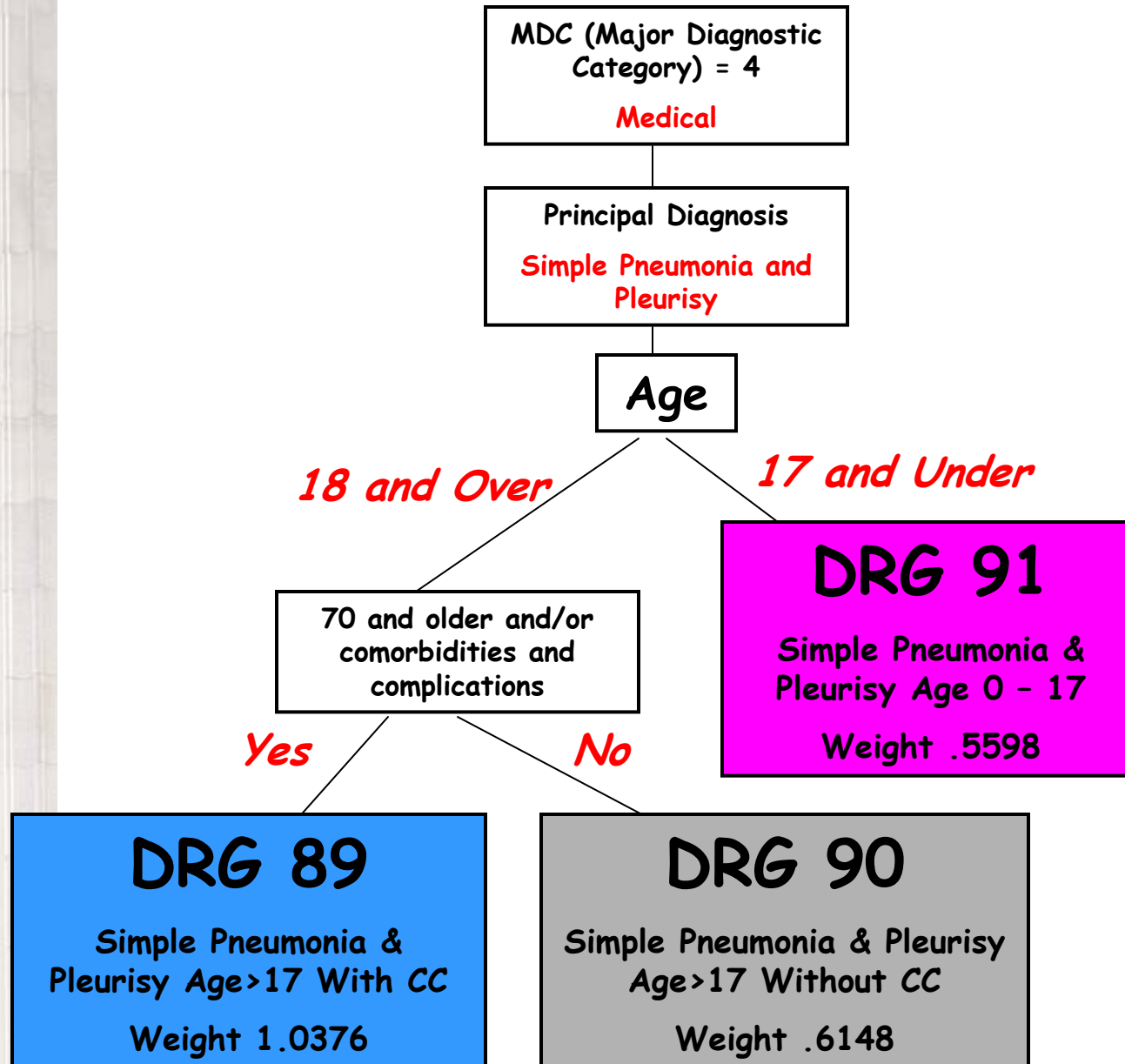
Example - Wage-Adjusted Federal Rate for Hospital Inpatient Operating PPS

Based on 2007 Final Rule

	New York City Hospital	Albany Hospital
Federal Rate	\$4,874.49	\$4,874.49
Labor Share	69.7%	62.0%
Labor Share of Rate	\$3,397.52	\$3,022.18
Wage Index	1.3344	0.8849
Adjusted Labor Share	\$4,533.65	\$2,674.33
Non Labor Share	\$1,476.97	\$1,852.31
Wage-Adjusted Rate	\$6,010.62	\$4,526.64



DRG Assignment



Continuation of Example - DRG Relative Weights Applied to Wage Adjusted Rates

Based on 2007 Final Rule

	New York City Hospital	Albany Hospital
Wage-Adjusted Rate	\$6,010.62	\$4,526.64
DRG 127 - Heart failure and Shock		
DRG 127 Weight	1.0490	1.0490
DRG 127 Payment	\$6,305.14	\$4,748.44
DRG 079 - Respiratory Infections & Inflammations Age>17 with CC		
DRG 079 Weight	1.6268	1.6268
DRG 079 Payment	\$9,778.08	\$7,363.93



Table 3: Medicare Inpatient Utilization - Top 50 DRGs

(Ranked by Total Payments)

New York

**Top 50
DRGs**

DRG Code	Description	2005 Weight	New York		Percent of Total \$
			2005		
			Discharges	Total Pmts	
Total of Top 50 DRGs			440,348	\$5,721,373,748	68.8%
All Other DRGs			301,374	\$2,599,981,836	31.2%
TOTALS			741,722	\$8,321,355,584	
541	Trach w Mv 96+Hrs Or Pdx Exc Face, Mouth, & Neck Dx W/Maj Or	20.04	2,393	\$398,131,861	4.8%
209	Major Joint & Limb Reattachment Procedures Of Lower Extremity	2.03	22,705	\$304,391,694	3.7%
127	Heart Failure & Shock	1.04	40,453	\$299,196,180	3.6%
542	Trach w Mv 96+Hrs Or Pdx Exc Face, Mouth, & Neck Dx w/o Mj Or	12.03	2,707	\$274,895,853	3.3%
527	Percutaneous Cardiovascular Proc w Drug Eluting Stent w/o AMI	2.33	14,070	\$256,107,956	3.1%
475	Respiratory System Diagnosis With Ventilator Support	3.62	8,664	\$252,184,614	3.0%
416	Septicemia Age >17	1.60	19,569	\$240,783,063	2.9%
089	Simple Pneumonia & Pleurisy Age >17 w CC	1.05	33,544	\$237,875,743	2.9%
148	Major Small & Large Bowel Procedures w CC	3.39	7,425	\$186,065,724	2.2%
088	Chronic Obstructive Pulmonary Disease	0.91	23,585	\$146,993,887	1.8%
014	Intracranial Hemorrhage Or Cerebral Infarction	1.27	14,777	\$133,968,308	1.6%
478	Other Vascular Procedures w CC	2.40	7,019	\$133,485,505	1.6%
316	Renal Failure	1.28	11,882	\$116,867,039	1.4%
415	O.R. Procedure For Infectious & Parasitic Diseases	3.63	3,779	\$116,134,361	1.4%
121	Circulatory Disorders w AMI & Major Comp, Discharged Alive	1.62	10,563	\$115,156,857	1.4%
116	Other Permanent Cardiac Pacemaker Implant	2.36	6,705	\$111,465,733	1.3%
107	Coronary Bypass w Cardiac Cath	5.38	2,765	\$111,083,413	1.3%
174	G.I. Hemorrhage w CC	1.01	15,138	\$110,180,237	1.3%
104	Cardiac Valve & Oth Major Cardiothoracic Proc w Card Cath	7.92	1,665	\$106,326,645	1.3%
182	Esophagitis, Gastroent & Misc Digest Disorders Age >17 w CC	0.83	17,762	\$106,297,824	1.3%
110	Major Cardiovascular Procedures w CC	3.96	3,148	\$96,949,420	1.2%
210	Hip & Femur Procedures Except Major Joint Age >17 w CC	1.88	7,343	\$95,245,233	1.1%
296	Nutritional & Misc Metabolic Disorders Age >17 w CC	0.84	15,423	\$93,224,142	1.1%
105	Cardiac Valve & Oth Major Cardiothoracic Proc w/o Card Cath	5.79	2,019	\$92,688,184	1.1%
079	Respiratory Infections & Inflammations Age >17 w CC	1.59	8,219	\$91,122,447	1.1%
468	Extensive O.R. Procedure Unrelated To Principal Diagnosis	3.95	2,899	\$86,683,559	1.0%
320	Kidney & Urinary Tract Infections Age >17 w CC	0.88	13,003	\$83,073,458	1.0%
526	Percutaneous Cardiovascular Proc w Drug Eluting Stent w AMI	2.97	3,598	\$80,511,840	1.0%
515	Cardiac Defibrillator Implant w/o Cardiac Cath	5.43	1,824	\$76,492,645	0.9%
138	Cardiac Arrhythmia & Conduction Disorders w CC	0.84	12,658	\$76,203,437	0.9%
143	Chest Pain	0.56	17,706	\$76,106,871	0.9%
535	Cardiac Defib Implant w Cardiac Cath w AMI/Hf/Shock	7.70	1,157	\$70,715,267	0.8%
536	Cardiac Defib Implant w Cardiac Cath w/o AMI/Hf/Shock	6.24	1,426	\$67,980,007	0.8%
124	Circulatory Disorders Except AMI, w Card Cath & Complex Diag	1.46	5,678	\$64,607,535	0.8%
141	Syncope & Collapse w CC	0.76	10,999	\$63,036,651	0.8%
075	Major Chest Procedures	3.03	2,624	\$61,587,162	0.7%
109	Coronary Bypass w/o Ptca Or Cardiac Cath	3.95	1,998	\$59,308,980	0.7%
144	Other Circulatory System Diagnoses w CC	1.25	5,865	\$58,171,731	0.7%
076	Other Resp System O.R. Procedures w CC	2.82	2,532	\$57,006,287	0.7%
188	Other Digestive System Diagnoses Age >17 w CC	1.11	6,520	\$56,702,577	0.7%
294	Diabetes Age >35	0.78	8,749	\$55,832,923	0.7%
277	Cellulitis Age >17 w CC	0.89	8,425	\$54,137,173	0.7%
395	Red Blood Cell Disorders Age >17	0.84	7,523	\$47,824,563	0.6%
113	Amputation For Circ System Disorders Except Upper Limb & Toe	3.11	1,984	\$47,733,522	0.6%
120	Other Circulatory System O.R. Procedures	2.31	2,383	\$46,975,124	0.6%
154	Stomach, Esophageal & Duodenal Procedures Age >17 w CC	4.05	1,394	\$44,474,035	0.5%
115	Prm Card Pacem Impl w AMI/Hr/Shock Or Aicd Lead Or Gntr	3.59	1,511	\$40,319,897	0.5%
130	Peripheral Vascular Disorders w CC	0.96	5,675	\$40,112,884	0.5%
001	Craniotomy Age >17 w CC	3.33	1,451	\$39,611,848	0.5%
524	Transient Ischemia	0.74	7,444	\$39,341,849	0.5%



Hospital Inpatient Operating PPS – Other Critical Issues ³⁸

- **Indirect Medical Education (IME)** – adjustment reflecting indirect costs of patient care associated with operating approved graduate medical education program:
 - Based on the ratio of interns and residents to hospital beds (IRB) with a cap on allowable interns and residents.
 - Adjustment formula reduced since 1997 BBA.
 - The MMA called for a redistribution of unused resident slots.
- **Disproportionate Share Hospital (DSH)** – adjustment intended to partially offset losses from uncompensated care:
 - Based on a hospital's share of Medicaid patients and Medicare SSI patients (called the DSH percent).
 - Hospitals must have at least 15% DSH to qualify.
 - The adjustment is capped for rural hospitals less than 500 beds, urban hospitals less than 100 beds, and sole community providers.
 - The adjustment formula has improved significantly for small urban and rural hospitals over the past few years.



Continuation of Example - IME and DSH adjustments Applied to DRG Payment Amounts

Based on 2007 Final Rule

	New York City Hospital	Albany Hospital
DRG 127 Payment	\$9,778.08	\$7,363.93
IRB	0.5000	-
IME Adjustment	0.2534	-
IME Add-On	\$2,477.97	-
DSH Percent	35%	25%
DSH Adjustment	0.1809	0.0984
DSH Add-On	\$1,768.85	\$724.61
Total DRG Operating Pmt	\$14,024.91	\$8,088.54
Original Federal Rate	\$4,731.47	\$4,731.47



Hospital Inpatient Operating PPS – Other Critical Issues continued

- **Cost Outliers** - Additional payment for high cost cases.
 - Method for estimating case costs recently changed, significantly reducing payments.
- **Transfer Policy** – Reduced payments for short stay patients transferred to acute hospitals.
 - For 190 select DRGs, reduced payments for short stay patients transferred to post-acute care settings.
 - In 2005, only 29 post-acute transfer DRGs
- **New Technology** - Additional payment for new technology
 - Additional payment of up to 50% of new technology costs above total DRG payments and cost outlier payments.



Hospital Inpatient Operating PPS – Special Rural Status ⁴¹

- **Rural Referral Centers (RRCs)**
 - Based on bed size, referral rates, patient distance from hospital, and case mix.
 - Receive higher DSH payments than other rural hospitals and have more lenient criteria for wage index reclassification.
- **Sole Community Hospitals (SCHs)**
 - Criteria predominately based on distance to other hospitals.
 - Paid the higher of PPS payments or costs (base year costs trended forward).
- **Medicare Dependent Hospitals (MDHs)**
 - Based on a hospital's share of Medicare patients.
 - Paid a 25-75 blend of PPS payments and costs (base year trended forward) if blend is higher than PPS payments.



Provider Component	Hospital Inpatient Capital
Federal Rate	Federal Rate (per discharge)
Rate Year	Oct 1– Sept 30
Area Salary Adjustment / Labor Share	Geographic Adjustment Factor (GAF)
Urban/ Rural Adjustment	3% Add-on to GAF for Large Urbans
Medical Education	IME Adjustment
Disproportionate Volume of Poor Patients	DSH
Intensity of Services	DRGs
Excessive Costs	Cost Outliers
Partial Treatment	Short Stay Transfers

Hospital Inpatient Capital PPS



Hospital Inpatient Capital PPS – The Core Issues

- **As of 2002 – one federal rate for all but new hospitals:**
 - Called the Federal Rate: \$427.03 per discharge in 2007
 - New hospitals receive 85% of costs for 2 years.
 - From 1992 to 2001, there was a transition from cost-based to PPS.
- **The geographic adjustment factor (GAF) is based on the hospital wage index:**
 - $GAF = \text{Wage Index}^{.6848}$
 - Large Urban hospitals receive a 3 percent add-on to their GAF.
- **DRGs are the same as for inpatient operating PPS.**



Hospital Inpatient Capital PPS – Other Critical Issues

- **Indirect Medical Education (IME) – same concept as inpatient operating:**
 - However, based on the ratio of interns and residents to **average daily census**.
 - Adjustment formula for capital is different from operating, and produces lower add-ons.
- **Disproportionate Share Hospital (DSH) - same concept as inpatient operating:**
 - Based on a hospital's share of Medicaid patients and Medicare SSI patients.
 - Adjustment formula for capital is different from operating:
 - No threshold to receive DSH payments
 - Same formula for all urban hospitals; rural hospitals do not receive capital DSH



Hospital Inpatient Capital PPS– Other Critical Issues continued

- **Cost Outliers** - same concept as inpatient operating.
- **Transfer Policy** – same concept as inpatient operating.
- **Special Rural Status** – None, all RRC, SCH, and MDH hospitals paid under capital PPS.



2008 Proposed Rule Hospital Inpatient Operating and Capital

- **200 additional DRGs to adjust for patient severity levels.**
- **2.4 percent reduction for anticipated “upcoding” for both operating and capital rates.**
- **Expiration of 508 reclass and “hold harmless” wage indexes.**
- **No update for urban hospital capital rate and removal of 3% add-on for large urban hospitals.**
- **Increase in the IME formula.**



**Inpatient Prospective Payment System (IPPS)
Impact of Changes
Federal Fiscal Year (FFY) 2007 Final Rule Compared to FFY 2008 Proposed Rule
New York**

	Operating		Capital		Total	
	Dollar Impact	Percent Change	Dollar Impact	Percent Change	Dollar Impact	Percent Change
Estimated FFY 2007 Payments	\$7,628,173,000		\$608,275,000		\$8,236,449,000	
Update Factor (Including Budget Neutrality)	\$262,785,000	3.4%	(\$4,072,000)	-0.7%	\$258,713,000	3.1%
Behavioral Offset	(\$188,310,000)	-2.4%	(\$14,053,000)	-2.4%	(\$202,363,000)	-2.4%
Diagnosis-Related Groups (DRG) Expansion & Transition to Cost-Based Weights	\$13,239,000	0.2%	\$627,000	0.1%	\$13,866,000	0.2%
Wage Index / Geographic Adjustment Factor (GAF)	(\$76,488,000)	-1.0%	(\$5,392,000)	-0.9%	(\$81,880,000)	-1.0%
Indirect Medical Education (IME) & Other	\$18,553,679	0.2%	Not Applicable		\$18,554,000	0.2%
Large Urban Add-On	Not Applicable		(\$13,915,000)	-2.3%	(\$13,915,000)	-0.2%
Estimated FFY 2008 Payments	\$7,657,953,000		\$571,470,000		\$8,229,423,000	
Total Estimated Change FFY 2007 to FFY 2008	\$29,780,000	0.4%	(\$36,805,000)	-6.1%	(\$7,025,000)	-0.1%