# Illinois Medicaid Hospital Reimbursement Reform

Technical Advisory Group

Discussion of Design Considerations

March 15, 2012

# Agenda

1. Introductions (5 Minutes)
2. Discussion of IHA Proposal and Timeline (20 Minutes)
3. Preliminary OP Model – Preliminary Assumptions and Results (40 Minutes)
   - Break (15 Minutes)
4. New Inpatient Payment Simulation Model – Changes and Results (40 Minutes)
5. Strategy for Coding and Documentation Improvement – Discussion of Options (20 Minutes)
6. Wrap-Up (5 Minutes)

# Technical Advisory Group

- Children's Memorial Hospital
  - **Prem Tuteja**, Director, Third Party Reimbursement
- Swedish Covenant Hospital
  - **Gary M. Krugel**, Senior Vice President of Operations and CFO
- Southern Illinois Healthcare
  - **Michael Kasser,** Vice President/CFO/Treasurer
- Memorial Health Systems
  - **Bob Urbance,** Director – Reimbursement
- Carle Foundation Hospital
  - **Theresa O'Banion**, Manager-Budget & Reimbursement
- Franklin Hospital (Illinois Critical Access Hospitals)
  - **Hervey Davis**, CEO
- Mercy Hospital and Medical Center
  - **Thomas J. Garvey**, Chief Financial Officer
- Hospital Sister Health System
  - **Richard A. Walbert**, Vice President of Finance

- Touchette Regional Hospital
  - **Michael McManus**, Chief Operating Officer
- Resurrection Health Care
  - **John Orsini,** Executive VP & CFO
- University of Illinois Hospital
  - **Patrick O'Leary,** Director of Hospital Finance
- Sinai Health System
  - **Chuck Weiss,** Executive VP & CFO
- Cook County Health & Hospital System
  - **Randall Mark,** Director of Intergovernmental Affairs & Policy
- Provena Health System
  - **Gary Gasbarra**, Regional Chief Financial Officer
- Advocate Healthcare System
  - **Steve Pyrcioch,** Director of Reimbursement
- Universal Health Systems
  - **Dan Mullins,** Vice President of Reimbursement, Behavioral Health Division

## Technical Advisors to Hospital Systems

**Illinois Hospital Association**

**Steve Perlin,** Group Vice President, Finance
**Jo Ann Spoor,** Director, Finance
**Joe Holler,** Vice President, Finance

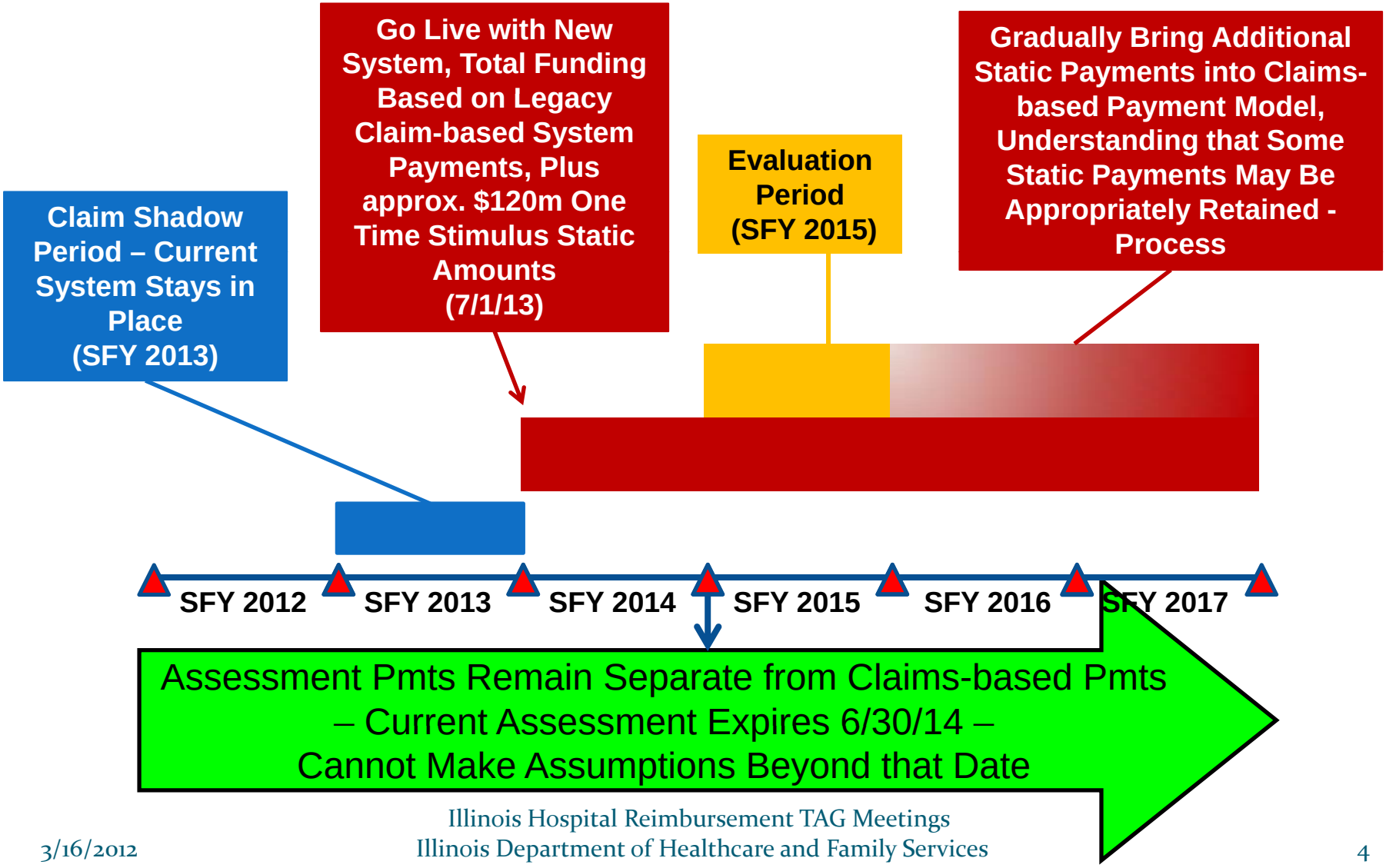
**Illinois Academic Hospital Providers & multiple hospital provider systems**

**Matthew W. Werner** - M. Werner Consulting - Designated Technical Consultant

**Multiple hospital provider systems**

**J. Andrew Kane** - Kane consulting - Designated Technical Consultant

# HFS' Understanding of IHA Proposal and Timeline



# Preliminary Outpatient Simulation Results

## *Preliminary Outpatient Model Assumptions*

- Benchmark outpatient expenditures based on SFY 2009 reported claim payments (excluding DSH, without trending) plus SFY 2011 assessment and supplemental payments, **plus** $311 million set aside for outpatient

- Initial preliminary outpatient model consists of:
  - $0 static payments in revised system
  - $0 assessment cost (100% of tax has been allocated to inpatient)
  - Excludes crossover claims, Cook/UI claims and claims without an assigned/valid EAPG

# Preliminary Outpatient Simulation Results

## *Preliminary Outpatient Model Assumptions (Cont'd)*

- EAPG Relative Weights
  - Used 3M's EAPG v. 3.6 national weights without adjusting for Illinois case mix (v 3.7 weights to be available in April)
  - For new v. 3.7 EAPGs not included in v. 3.6 national weights, EAPG weights were calculated based on claim costs for EAPG
  - 3M's EAPG national weights are **visit based**, not unit based

- Conversion Factors
  - Used standardized conversion factor, adjusted for hospital wage index:
    (Standardized Amount * Labor Portion * Wage Index) +
    (Standardized Amount * Non-Labor Portion)
  - Preliminary model standardized conversion factor before wage index adjustment is **$723.58**

# Preliminary Outpatient Simulation Results

## *Preliminary Outpatient Model Assumptions (Cont'd)*

- Ancillary Packaging
  - EAPG program recognizes routine ancillary services provided in conjunction with a significant procedure or medical visit by designating these services as "packaged ancillary"
  - Used EAPG program default list of 29 packaged routine ancillary services to bundle payment
  - 34% of total model claim lines contained packaged ancillary flag based on default list
  - Also treated Level 1 and "minor" drug and chemo EAPGs and as packaged per 3M recommendation (16% of total model claim lines)

- Procedure Consolidation
  - EAPG program designates certain procedures as "consolidated" EAPGs if another "key procedure" is present in the claim
  - Used EAPG program default consolidation list to bundle payment
  - 13% of model significant procedure claim lines have procedure consolidation flag

# Preliminary Outpatient Simulation Results

## *Initial Outpatient Model Assumptions (Cont'd)*

- Discounting
  - Discounting modifies the payment for an additional procedure provided during the same visit, unless it is consolidated
  - Used all 4 discount types (Terminated Procedure, Multiple Significant Procedure, Repeat Ancillary and Bilateral)
  - Used following discount factors based on New York Medicaid and Medicare:

| Discount Type | Preliminary Simulation Model Discount Factor |
|---|---|
| Terminated Procedure | 50% |
| Multiple Significant Procedure | 50% |
| Repeat Ancillary | 50% |
| Bilateral (percentage of single service) | 150% |

# Preliminary Outpatient Simulation Results

## *EAPG Category Distribution*

| EAPG Category | SFY 2009 Total Claim Detail Lines | Default Packaged Claim Lines | Default Consolidated Claim Lines | SFY 2009 Covered Charges ($ Million) |
|---|---|---|---|---|
| 01 - Per Diem | 78 | | 0 | $0.0 |
| 02 - Significant Procedure | 507,378 | | 79,942 | $630.1 |
| 03 - Medical Visit | 1,407,464 | | 0 | $795.1 |
| 04 - Ancillary | 4,502,043 | 3,116,881 | 0 | $805.8 |
| 05 - Incidental | 510,822 | 510,822 | 0 | $204.4 |
| 06 - Drug | 651,594 | | 0 | $146.4 |
| 07 - DME | 7,319 | | 0 | $9.4 |
| 08 - Unassigned (APG = 999) | 1,794,913 | | 0 | $504.9 |
| 21 - Physical Therapy & Rehabilitation | 435,474 | | 15,003 | $76.7 |
| 22 - Mental Health & Counseling | 144,714 | | 1,313 | $38.1 |
| 23 - Dental Procedure | 6,592 | | 1,832 | $2.9 |
| 24 - Radiologic Procedure | 517,369 | | 93,603 | $768.3 |
| 25 - Other Diagnostic Procedure | 161,258 | | 28,252 | $178.9 |
| **Total** | **10,647,018** | **3,627,703** | **219,945** | **$4,161.0** |

# Preliminary Outpatient Simulation Results

## *Preliminary Simulated Payments*

**Note that preliminary results shown below are before application of any adjustments (policy adjustors, etc.)**

| Provider Category | Number of Providers | SFY 2009 Claim Lines | Estimated Current System Payments ($ Millions) | Estimated Simulation Model Payments ($ Millions) | Estimated Payment Change |
|---|---|---|---|---|---|
| General Acute Providers (w/ DPUs) | 128 | 9,277,081 | $896.6 | $1,174.6 | 31.0% |
| Freestanding Children's Providers | 2 | 279,538 | $40.8 | $37.0 | -9.2% |
| Critical Access Hospitals | 51 | 735,879 | $77.6 | $78.3 | 0.8% |
| Freestanding Psychiatric Providers | 8 | 37,961 | $7.1 | $11.6 | 64.0% |
| Freestanding Rehabilitation Providers | 4 | 28,195 | $2.7 | $9.8 | 269.9% |
| Out-of-State Providers | 32 | 288,364 | $17.0 | $41.1 | 141.9% |
| **Outpatient Total** | **225** | **10,647,018** | **$1,041.8** | **$1,352.4** | **29.8%** |

These analyses have been prepared for discussion purposes only. They do not reflect recommendations by Navigant. No final decisions have been made or proposed by DHFS.

# Preliminary Inpatient Simulation Results

## *Inpatient Model Assumptions – Acute Services*

- Revised inpatient model includes:
  - HFS' proposed incorporation of all but $767 million of static payments into the payment rates
  - 3M national relative weights adjusted for Illinois case mix
  - Statewide standardized base rates and per diem rates
  - Medicare outlier policy, with $22,385 fixed stop loss, and 80% marginal cost percentage
  - Medicare transfer-out policy (not post-acute transfer policy) – prorated payment
  - Estimated costs with 100% of assessment cost
  - Shifting of funds under new system between acute, psychiatric, rehabilitation and LTACs to achieve consistent aggregate pay-to-cost ratios for each service type – potential policy adjusters for specific types of services

- Benchmark inpatient expenditures based on SFY 2009 reported claim payments (excluding DSH, without trending) plus SFY 2011 assessment and supplemental payments, less $311 million set aside for outpatient
  - Added LTAC add-on per diem in current payments

# Preliminary Inpatient Simulation Results

## *Inpatient Model Assumptions – Specialty Services*

- Psychiatric Services:
  - Psychiatric-specific standardized per diem payments rates, adjusted for wage index, in-state teaching programs and rural status
  - Relative weight adjustments for psychiatric and substance abuse APR-DRGs (72 total classifications)
  - Day adjustments that incrementally decrease during the patient stay (119% on first day down to 92% on 22$^{nd}$ day and beyond)

- Rehabilitation Services:
  - Rehabilitation-specific standardized per diem payments rates, adjusted for wage index, in-state teaching programs and rural status
  - Relative weight adjustments for rehabilitation APR-DRGs (4 total classifications)

- LTAC Services:
  - DRG-based system using APR-DRGs and acute service weights with LTAC-specific base rates
  - Outlier policy, with $17,931 fixed stop loss, and 80% marginal cost percentage
  - No medical education payments (direct or indirect)

# Preliminary Inpatient Simulation Results

## *Inpatient Model Assumptions Continued*

- Model includes following acute policy adjusters (in hierarchical order):

| Acute Policy Adjustment | Adjustment Factor | Target Pay-to-Cost Ratio |
|---|---|---|
| CAHs | 1.8 | 100% |
| In-State Freestanding Childrens' | 1.7 | 100% |
| In-State MIUR Level 1 (Mean + 2 StDev) | 1.4 | 125% |
| In-State MIUR Level 2 (Mean + 1 StDev) | 1.3 | 100% |
| In-State MIUR Level 3 (Mean Plus 1/2 StDev) | 1.3 | 100% |
| Normal Newborn/OB | 1.7 | 92% (acute avg.) |
| Other Neonates | 1.3 | 100% |
| Pediatric | 1.3 | 100% |

- Preliminary model standardized payment rates (before wage or teaching adjustments)

| DRG Base Rate | Psych Per Diem | Rehab Per Diem | LTAC Base Rate |
|---|---|---|---|
| $4,265.96 | $778.04 | $546.93 | $5,322.45 |

# Preliminary Inpatient Simulation Results

## *Estimated Payments*

| Service Type | SFY 2009 Claims | SFY 2009 Medicaid Days | Estimated Current System Payments ($ Millions) | Estimated Simulation Model Payments ($ Millions) | Estimated Payment Change |
|---|---|---|---|---|---|
| General Acute Hospitals | 338,972 | 1,277,472 | $3,231.0 | $2,986.6 | -7.6% |
| Psychiatric Providers/ Units | 41,012 | 351,690 | $357.1 | $302.3 | -15.4% |
| Rehabilitation Providers/ Units | 2,889 | 48,721 | $73.6 | $78.8 | 7.1% |
| LTAC Providers | 2,677 | 65,933 | $111.9 | $95.4 | -14.8% |
| **Inpatient Total** | **385,550** | **1,743,816** | **$3,773.7** | **$3,463.1** | **-8.2%** |

**Note that the preliminary results shown above reflect a $311 million outpatient set aside. As such, inpatient model results should be considered in conjunction with outpatient model results.**

# Preliminary Inpatient Simulation Results

## *Estimated Payments – General Acute Only*

| General Acute Policy Category | Policy Adjuster | SFY 2009 Claims | SFY 2009 Medicaid Days | Estimated Current System Payments ($ Millions) | Estimated Simulation Model Payments ($ Millions) | Estimated Payment Change |
|---|---|---|---|---|---|---|
| CAHs | 1.8 | 5,881 | 14,111 | $27.1 | $33.8 | 24.7% |
| In-State Freestanding Childrens' | 1.7 | 6,100 | 45,553 | $176.1 | $168.9 | -4.1% |
| In-State MIUR Level 1 | 1.4 | 16,095 | 58,541 | $173.9 | $137.0 | -21.2% |
| In-State MIUR Level 2 | 1.3 | 47,701 | 154,362 | $376.4 | $273.8 | -27.2% |
| In-State MIUR Level 3 | 1.3 | 34,395 | 113,405 | $275.3 | $268.9 | -2.3% |
| Normal Newborn/OB | 1.7 | 116,228 | 280,981 | $404.2 | $495.8 | 22.6% |
| Other Neonates | 1.3 | 7,494 | 122,130 | $323.6 | $283.1 | -12.5% |
| Pediatric | 1.3 | 28,495 | 110,122 | $303.7 | $314.9 | 3.7% |
| Other | N/A | 76,583 | 378,267 | $1,170.7 | $1,010.3 | -13.7% |
| **General Acute Total** | | **338,972** | **1,277,472** | **$3,231.0** | **$2,986.6** | **-7.6%** |

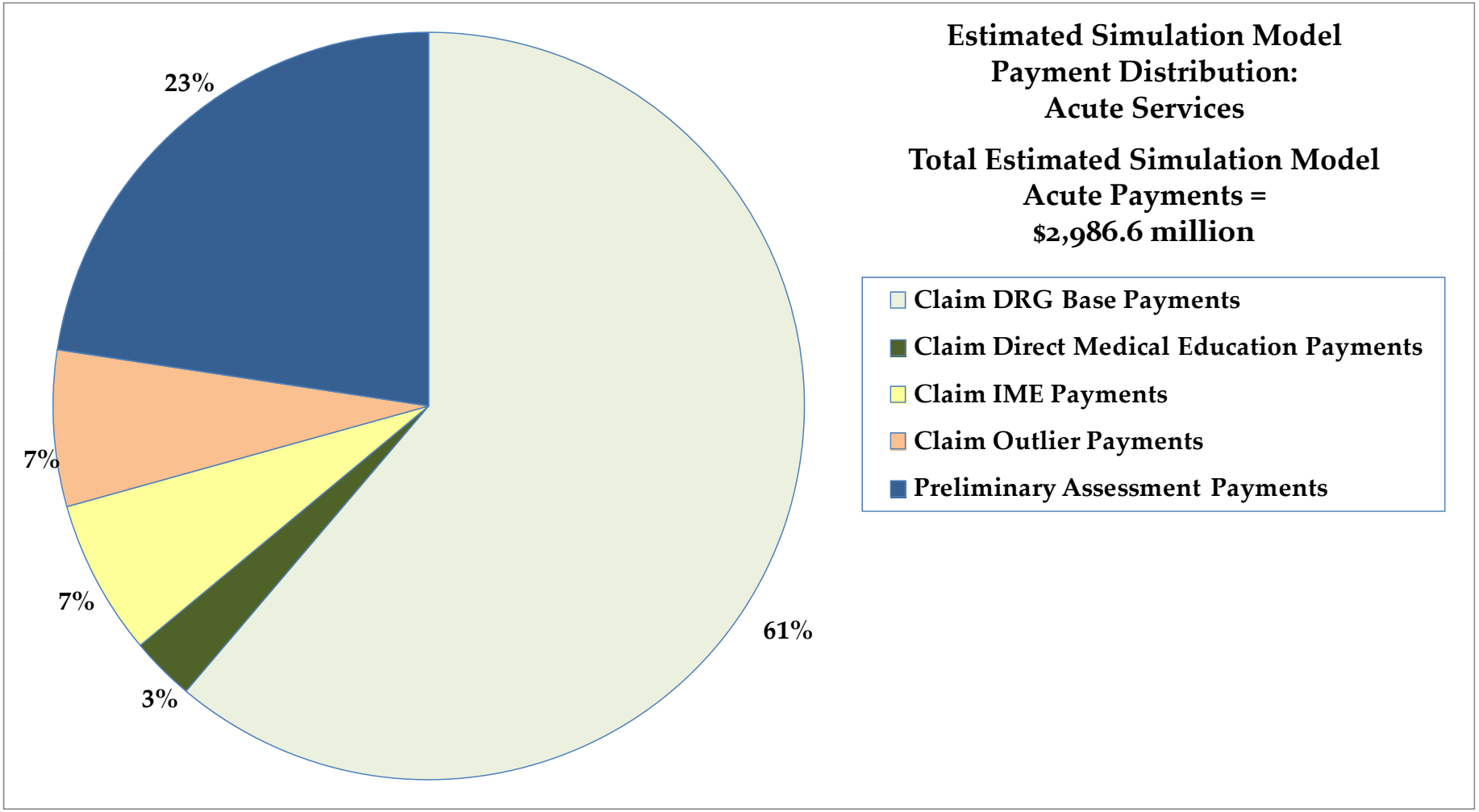
# Preliminary Inpatient Simulation Results

## *Estimated Payments*

| Provider Category | Number of Providers | SFY 2009 Claims | SFY 2009 Medicaid Days | Estimated Current System Payments ($ Millions) | Estimated Simulation Model Payments ($ Millions) | Estimated Payment Change |
|---|---|---|---|---|---|---|
| General Acute Providers (w/ DPUs) | 125 | 348,756 | 1,385,191 | $3,131.9 | $2,901.0 | -7.4% |
| Freestanding Children's Providers | 2 | 6,388 | 49,162 | $184.6 | $173.2 | -6.2% |
| Critical Access Hospitals | 51 | 5,882 | 14,112 | $27.1 | $33.8 | 24.7% |
| Freestanding Psychiatric Providers | 8 | 8,654 | 126,285 | $132.5 | $92.8 | -29.9% |
| Freestanding Rehabilitation Providers | 4 | 1,236 | 24,268 | $45.2 | $41.5 | -8.2% |
| LTAC Providers | 6 | 2,677 | 65,933 | $111.9 | $95.4 | -14.8% |
| Out-of-State Providers | 36 | 11,957 | 78,865 | $140.4 | $125.3 | -10.7% |
| **Inpatient Total** | **232** | **385,550** | **1,743,816** | **$3,773.7** | **$3,463.1** | **-8.2%** |

# Preliminary Inpatient Simulation Results

*Estimated Payments*



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# Preliminary Combined Simulation Results

## *Estimated Payments*

| Provider Category | Inpatient | | Outpatient | | Combined | |
|---|---|---|---|---|---|---|
| | Estimated Current System Payments ($Millions) | Estimated Simulation Model Payments ($Millions) | Estimated Current System Payments ($Millions) | Estimated Simulation Model Payments ($Millions) | Estimated Current System Payments ($Millions) | Estimated Simulation Model Payments ($Millions) |
| General Acute Providers (w/ DPUs) | $3,131.9 | $2,901.0 | $896.6 | $1,174.6 | $4,028.5 | $4,075.6 |
| Freestanding Children's Providers | $184.6 | $173.2 | $40.8 | $37.0 | $225.4 | $210.2 |
| Critical Access Hospitals | $27.1 | $33.8 | $77.6 | $78.3 | $104.8 | $112.1 |
| Freestanding Psychiatric Providers | $132.5 | $92.8 | $7.1 | $11.6 | $139.6 | $104.5 |
| Freestanding Rehabilitation Providers | $45.2 | $41.5 | $2.7 | $9.8 | $47.9 | $51.3 |
| LTAC Providers | $111.9 | $95.4 | $0.0 | $0.0 | $111.9 | $95.4 |
| Out-of-State Providers | $140.4 | $125.3 | $17.0 | $41.1 | $157.4 | $166.4 |
| **Total** | **$3,773.7** | **$3,463.1** | **$1,041.8** | **$1,352.4** | **$4,815.5** | **$4,815.5** |



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# Preliminary Inpatient Simulation Results

## *Alternative Inpatient "Baseline" Model Assumptions*

- Alternative baseline model assumptions:
  - Keeps all current static payments (assessment and supplemental), leaving current claims payments as funding pool for APR-DRGs
  - No outpatient set-aside (statewide aggregate simulation model payments equal current aggregate payments)
  - Acute, rehabilitation, psychiatric and LTAC services simulation model payments for each group kept same as current payments (in aggregate – not by provider)
  - No policy adjustors applied
  - No teaching adjustments (IME or direct medical education)

- Alternative baseline model preliminary standardized payment rates (before wage adjustments)

| DRG Base Rate | Psych Per Diem | Rehab Per Diem | LTAC Base Rate |
|---|---|---|---|
| $4,852.16 | $753.2 | $360.14 | $6,107.04 |

# Preliminary Inpatient Simulation Results

## *Alternative Inpatient Baseline Model Estimated Payments*

| Service Type | SFY 2009 Claims | SFY 2009 Medicaid Days | Estimated Current System Payments ($ Millions) | Estimated Simulation Model Payments ($ Millions) | Estimated Payment Change |
|---|---|---|---|---|---|
| General Acute Hospitals | 338,972 | 1,277,472 | $3,231.0 | $3,231.0 | 0.0% |
| Psychiatric Providers/ Units | 41,012 | 351,690 | $357.1 | $357.1 | 0.0% |
| Rehabilitation Providers/ Units | 2,889 | 48,721 | $73.6 | $73.6 | 0.0% |
| LTAC Providers | 2,677 | 65,933 | $111.9 | $111.9 | 0.0% |
| **Inpatient Total** | **385,550** | **1,743,816** | **$3,773.7** | **$3,773.7** | **0.0%** |

**Note that the alternative inpatient baseline model assumes no outpatient set aside.**

# Preliminary Inpatient Simulation Results

*Alternative Estimated Baseline Payments – General Acute Only*

| General Acute Policy Category | Policy Adjuster | SFY 2009 Claims | SFY 2009 Medicaid Days | Estimated Current System Payments ($ Millions) | Estimated Simulation Model Payments ($ Millions) | Estimated Payment Change |
|---|---|---|---|---|---|---|
| CAHs | N/A | 5,881 | 14,111 | $27.1 | $32.4 | 19.5% |
| In-State Freestanding Childrens' | N/A | 6,100 | 45,553 | $176.1 | $160.3 | -9.0% |
| In-State MIUR Level 1 | N/A | 16,095 | 58,541 | $173.9 | $178.8 | 2.8% |
| In-State MIUR Level 2 | N/A | 47,701 | 154,362 | $376.4 | $390.7 | 3.8% |
| In-State MIUR Level 3 | N/A | 34,395 | 113,405 | $275.3 | $287.6 | 4.5% |
| Normal Newborn/OB | N/A | 116,228 | 280,981 | $404.2 | $398.9 | -1.3% |
| Other Neonates | N/A | 7,494 | 122,130 | $323.6 | $285.6 | -11.7% |
| Pediatric | N/A | 28,495 | 110,122 | $303.7 | $308.4 | 1.6% |
| Other | N/A | 76,583 | 378,267 | $1,170.7 | $1,188.2 | 1.5% |
| **General Acute Total** | | **338,972** | **1,277,472** | **$3,231.0** | **$3,231.0** | **0.0%** |

# Preliminary Inpatient Simulation Results

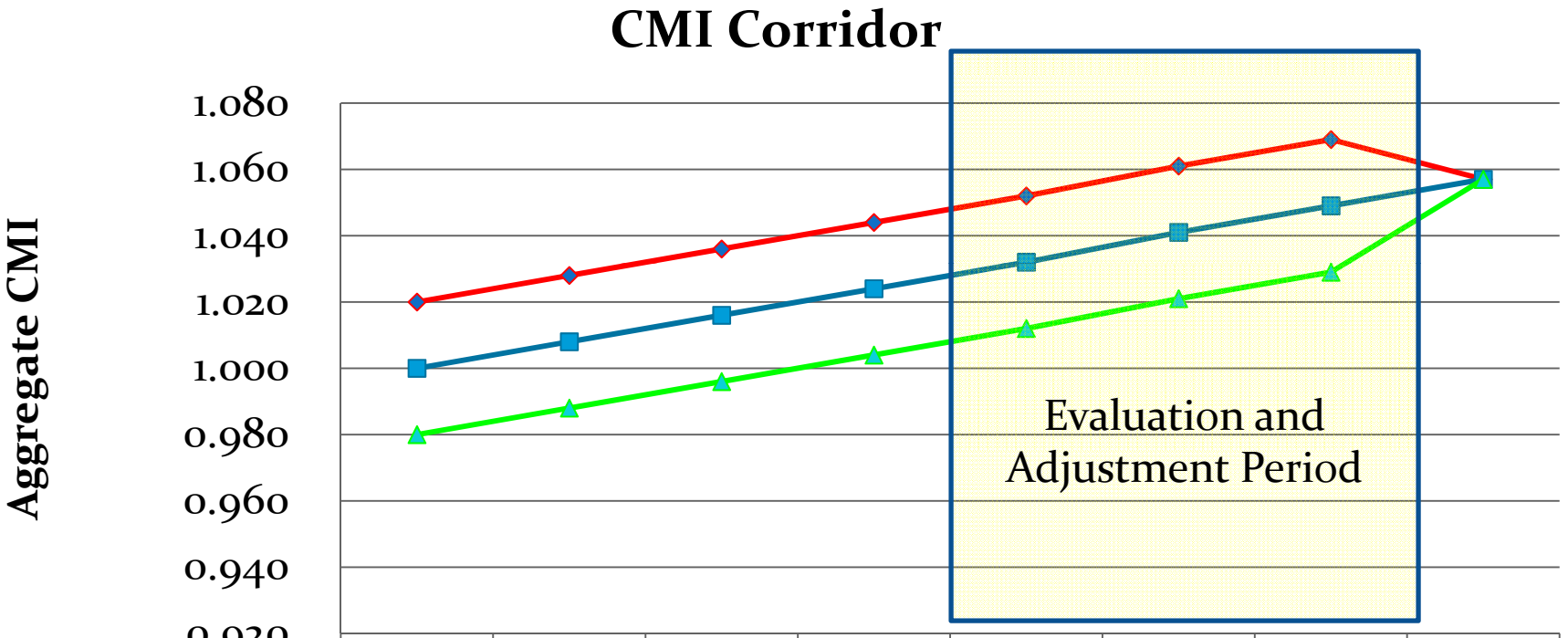
## *Alternative Baseline Estimated Payments*

| Provider Category | Number of Providers | SFY 2009 Claims | SFY 2009 Medicaid Days | Estimated Current System Payments ($ Millions) | Estimated Simulation Model Payments ($ Millions) | Estimated Payment Change |
|---|---|---|---|---|---|---|
| General Acute Providers (w/ DPUs) | 125 | 348,756 | 1,385,191 | $3,131.9 | $3,186.3 | 1.7% |
| Freestanding Children's Providers | 2 | 6,388 | 49,162 | $184.6 | $165.2 | -10.5% |
| Critical Access Hospitals | 51 | 5,882 | 14,112 | $27.1 | $32.4 | 19.5% |
| Freestanding Psychiatric Providers | 8 | 8,654 | 126,285 | $132.5 | $103.0 | -22.3% |
| Freestanding Rehabilitation Providers | 4 | 1,236 | 24,268 | $45.2 | $44.2 | -2.3% |
| LTAC Providers | 6 | 2,677 | 65,933 | $111.9 | $111.9 | 0.0% |
| Out-of-State Providers | 36 | 11,957 | 78,865 | $140.4 | $130.7 | -6.9% |
| **Inpatient Total** | **232** | **385,550** | **1,743,816** | **$3,773.7** | **$3,773.7** | **0.0%** |

# Summary of Options for Coding and Documentation Improvement Adjustments

| Option 1: Preemptive Adjustment | Option 2: 5% Set-Aside with Corridor and Semi-Annual Look-Back | Option 3: Monthly Prospective Adjustment with Corridor |
|---|---|---|
| • Reduce rates in advance in anticipation of higher CMI from improved coding.<br>• Similar to approach employed by Medicare.<br>• Would require HFS the option of applying retrospective adjustments, downward or upward, if preemptive estimates are off target. | • Discussed at previous TAG meetings.<br>• Establish a 5% set-aside (through a rate reduction) for all inpatient services<br>• Establish expected CMI values for future periods based on historic trends.<br>• After "go-live," review actual CMI<br>• If actual CMI is less than expected CMI, HFS makes 5% set aside payments back to hospitals.<br>• If actual CMI exceeds expected CMI by less than 5%, then HFS makes proportional set aside payments back to hospitals.<br>• HFS may adjust weights prospectively or retrospectively, depending on the significance of case mix changes. | • Illustrated in following slides.<br>• Establish expected CMI values for future periods based on historic trends.<br>• Establish a corridor (e.g., 2%) above and below the expected CMI value.<br>• On a monthly basis, HFS will review cumulative year-to-date CMI. If actual CMI exceeds or falls below the corridor, HFS will prospectively apply an adjustor to the rates to bring expected payment back to where it would be at the upper or lower bounds. If actual CMI comes back within the corridor, the adjustor is prospectively removed.<br>• After a full 18-month period has passed, analysis will be based on a "rolling" 18-month average. |

# Option 3 Transitional Strategy for Expected Coding and Documentation Improvement




| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|
| Upper Bound | 1.020 | 1.028 | 1.036 | 1.044 | 1.052 | 1.061 | 1.069 | 1.057 |
| Current Trend | 1.000 | 1.008 | 1.016 | 1.024 | 1.032 | 1.041 | 1.049 | 1.057 |
| Lower Bound | 0.980 | 0.988 | 0.996 | 1.004 | 1.012 | 1.021 | 1.029 | 1.057 |

# Option 3 Transitional Strategy for Expected Coding and Documentation Improvement

***Scenario 1:*** Actual cumulative CMI exceeds CMI upper bound

***Assume:*** Actual cumulative CMI = 1.062

CMI Upper Bound = 1.052

**DRG Payment Calculation:**


CMI Adjustor calculated as 1.052/1.062 = .9906, and would be recalculated on a cumulative basis each month.

# Option 3 Transitional Strategy for Expected Coding and Documentation Improvement

***Scenario 2:*** Actual CMI falls below CMI lower bound

***Assume:*** Actual Cumulative CMI = 1.015
CMI Lower Bound = 1.021

**DRG Payment Calculation:**


CMI Adjustor calculated as 1.021/1.015 = 1.0059, and would be recalculated on a cumulative basis each month.

# Wrap-Up

- Inpatient analysis
- Outpatient analysis
- Next Meeting