



Illinois Medicaid Hospital Reimbursement Reform

Technical Advisory Group
Discussion of Design Considerations
October 28, 2011

Agenda

- Introductions
- Status of Cost Validation Process
- Analysis of National Relative Weights
- Revised Inpatient Payment Simulation Model
 - Preliminary Results for Acute Services
 - Next Steps for Psychiatric, Rehabilitation, Long-Term Acute
 - Other Policy Considerations
- Next Steps
 - Outpatient Analysis
 - Other
- Next meeting

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

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

Status of Cost Validation Process

- Standard costing assumptions have been adjusted to consider all input from providers – costs in simulation model have been updated to reflect revised cost assumptions – still reflect “allowable cost”
- Will share costing assumptions with individual hospitals
- 162 providers requested cost alignment files from DHFS, 119 hospitals submitted responses, 79 hospitals suggested changes to cost center alignments and 70 hospitals suggested changes to revenue code mapping

Discussion of Preliminary Inpatient Methodology Design Options

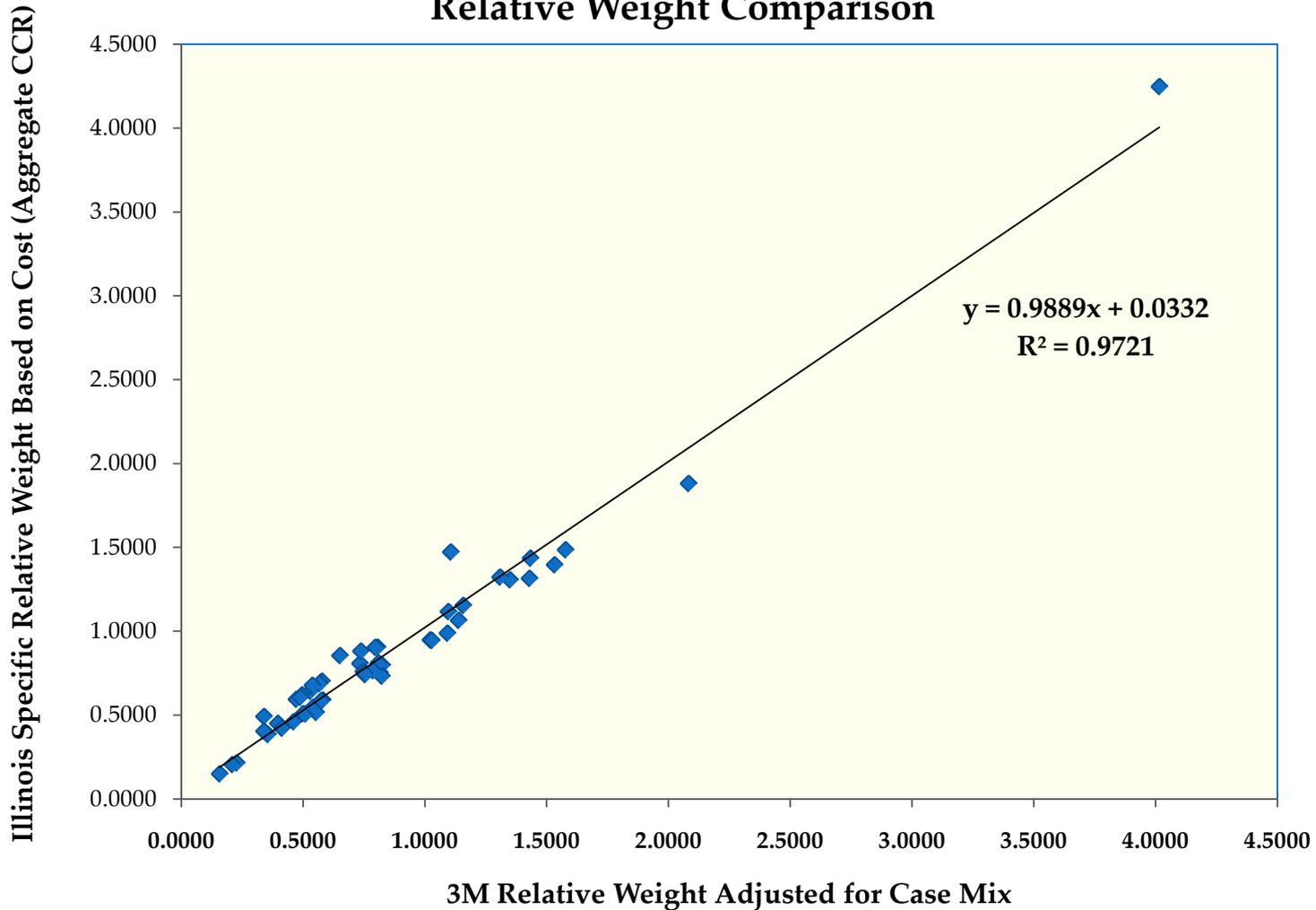
Note that at this time, no final decisions have been made or proposed by the Department of Healthcare and Family Services. The analyses on the following slides have been prepared and are solely the responsibility of Navigant. These analyses have been prepared for discussion purposes only, and do not reflect recommendations by Navigant.

Analysis of National Relative Weights

- Options for establishing relative weights include:
 - Calculate from Illinois-specific data – costs or charges
 - Borrow from another state
 - Calculate from a national dataset (3M has done this)
- Most significant issue associated with calculating Illinois-specific relative weights is that for some DRGs, there are not sufficient volume to calculate stable weights
 - Based on Navigant analysis, using combined SFY 2008 and 2009 claims data, 513 out of 1,258 DRG classifications did not have sufficient volume
- Key question remains – Should the Department make the effort (which is substantial) to calculate (and periodically update) relative weights using Illinois-specific data, or should the Department adopt the 3M national weights
- 3M National Weights
 - Derived from 7.8 million stays in the Nationwide Inpatient Sample, which includes general hospitals and freestanding children’s hospitals, including data from Illinois
 - Based on average charge per discharge
- Navigant conducted analysis to determine how the 3M national weights correlated to the Illinois-specific weights where there were sufficient volume

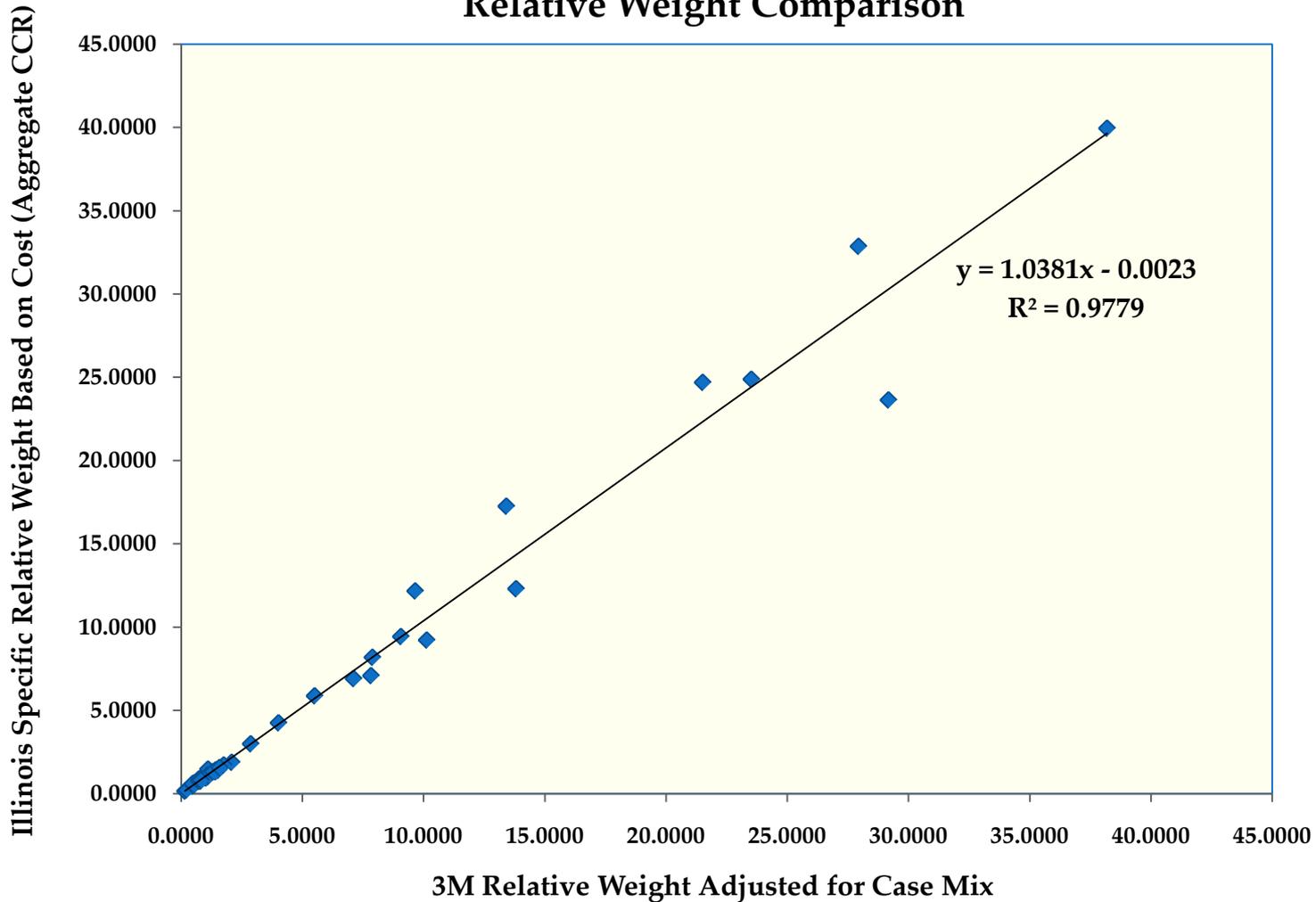
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Top 50 Illinois Medicaid APR-DRGs By Volume (Based on SFY 2009 Inpatient Claims) Relative Weight Comparison



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Top 50 Illinois Medicaid APR-DRGs By Total Case Weight (Based on SFY 2009 Inpatient Claims) Relative Weight Comparison



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Preliminary Inpatient Simulation - Assumptions

- Statewide standardized base rate, with adjustments for geographic wage and teaching program differences – cost basis determined using hospital-specific costs, with provider-specific adjustments to data inputs
- Costs include 100 percent of assessment amounts
- Base rates established to achieve existing funding levels - funding pool includes all supplemental and assessment payments, which have been allocated to individual claims based on relative charges
- Relative weights – adopted National weights and Illinois-specific lengths-of-stay
- Medicare outlier policy, with \$22,385 fixed stop loss, and 80% marginal cost percentage
- Medicare transfer-out policy (not post-acute transfer policy)
- No optional adjusters – may incorporate policy adjusters in future simulation models
- No documentation and coding adjuster – anticipate incorporating adjuster in future models
- Specialty services – psychiatric, rehabilitation and LTAC kept constant – will incorporate alternative payment methods in future models
- CAH – included in DRG model as a baseline for evaluating future adjustments to payment policy

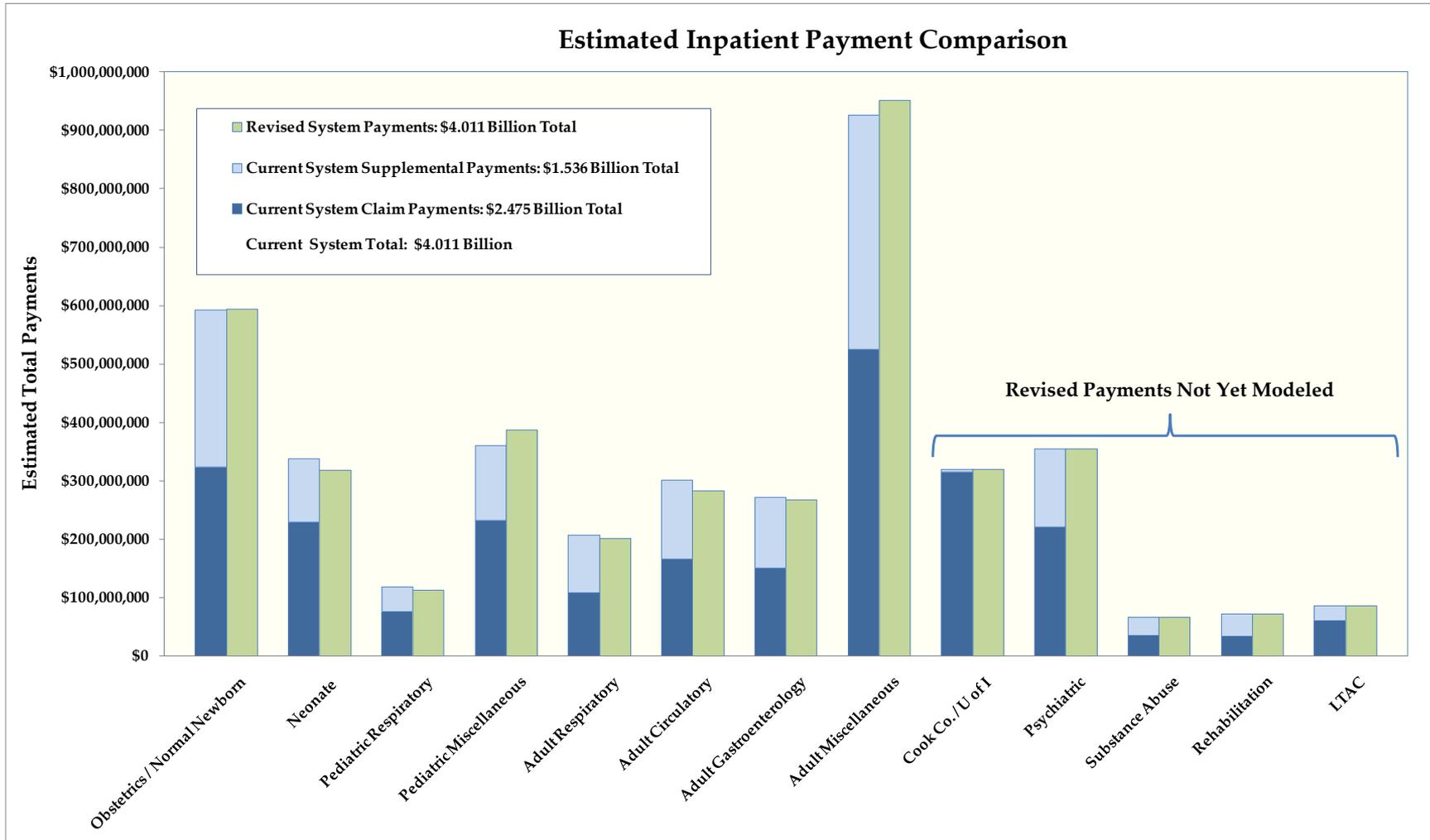
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Preliminary Inpatient Simulation - Results

Description	Results	Comments
Legacy system payments	\$ 4.011 Billion	
Simulated system payments	\$ 4.011 Billion	Budget Neutral
DRG Base Standardized Amount	\$ 8,271	Statewide standardized amount with facility-specific adjustments for wage and teaching program differences
Relative Weights	APR-DRG National Weights	Adjusted to average of 1.0, based on 2009 claims data
Documentation and Coding Adjustment	None	Anticipate incorporating adjustment based on historical analysis
Optional Adjustors	None	Will add based on DHFS policy priorities
High cost outlier parameters	Fixed Stop-Loss = \$22,385 Marginal Cost Percentage = 80%	
Low cost outlier parameters	None	Options open for discussion
Outlier payments as % of total	4.2%	As a percentage of total DRG payments

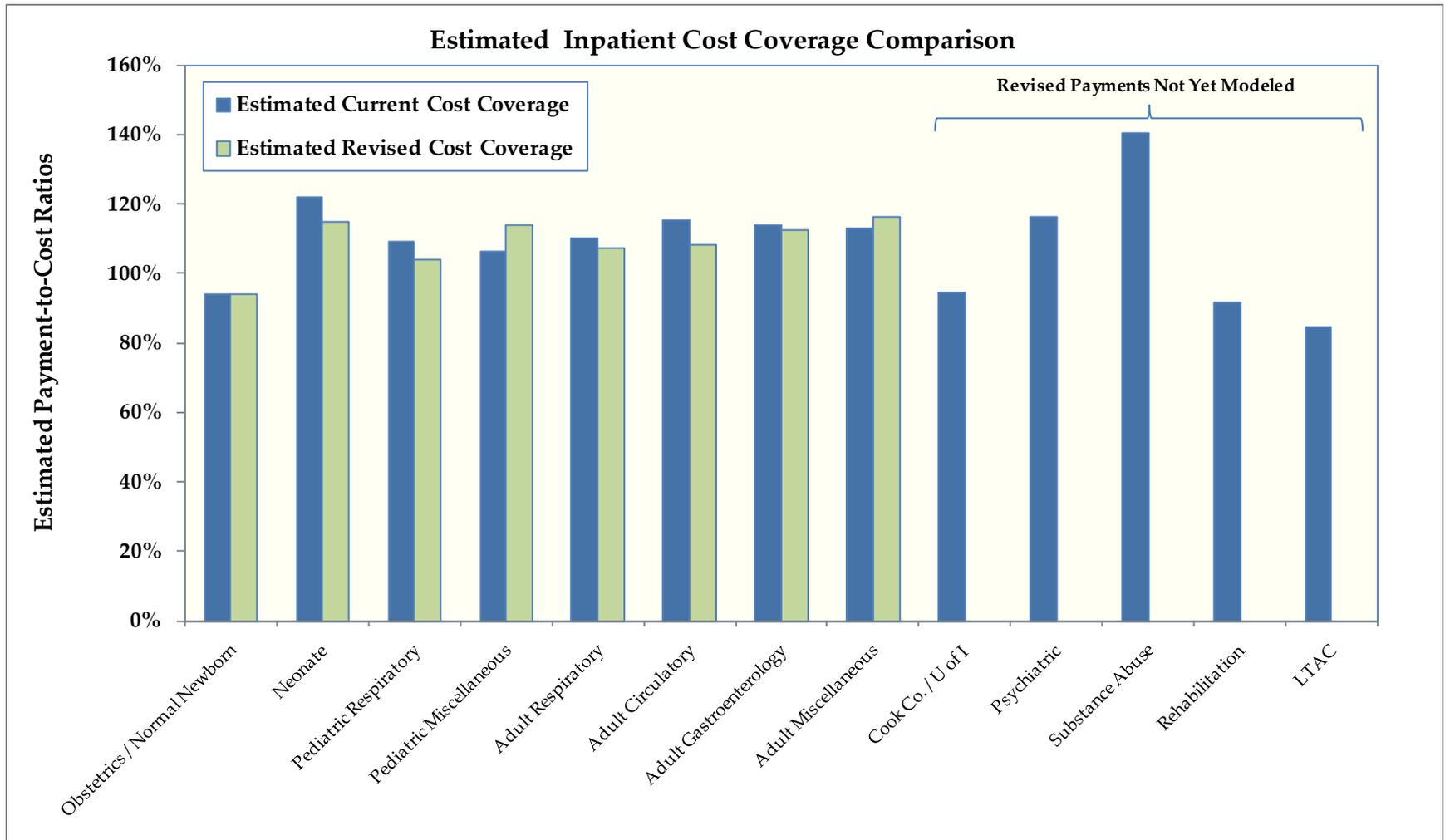
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Preliminary Inpatient Simulation - Results



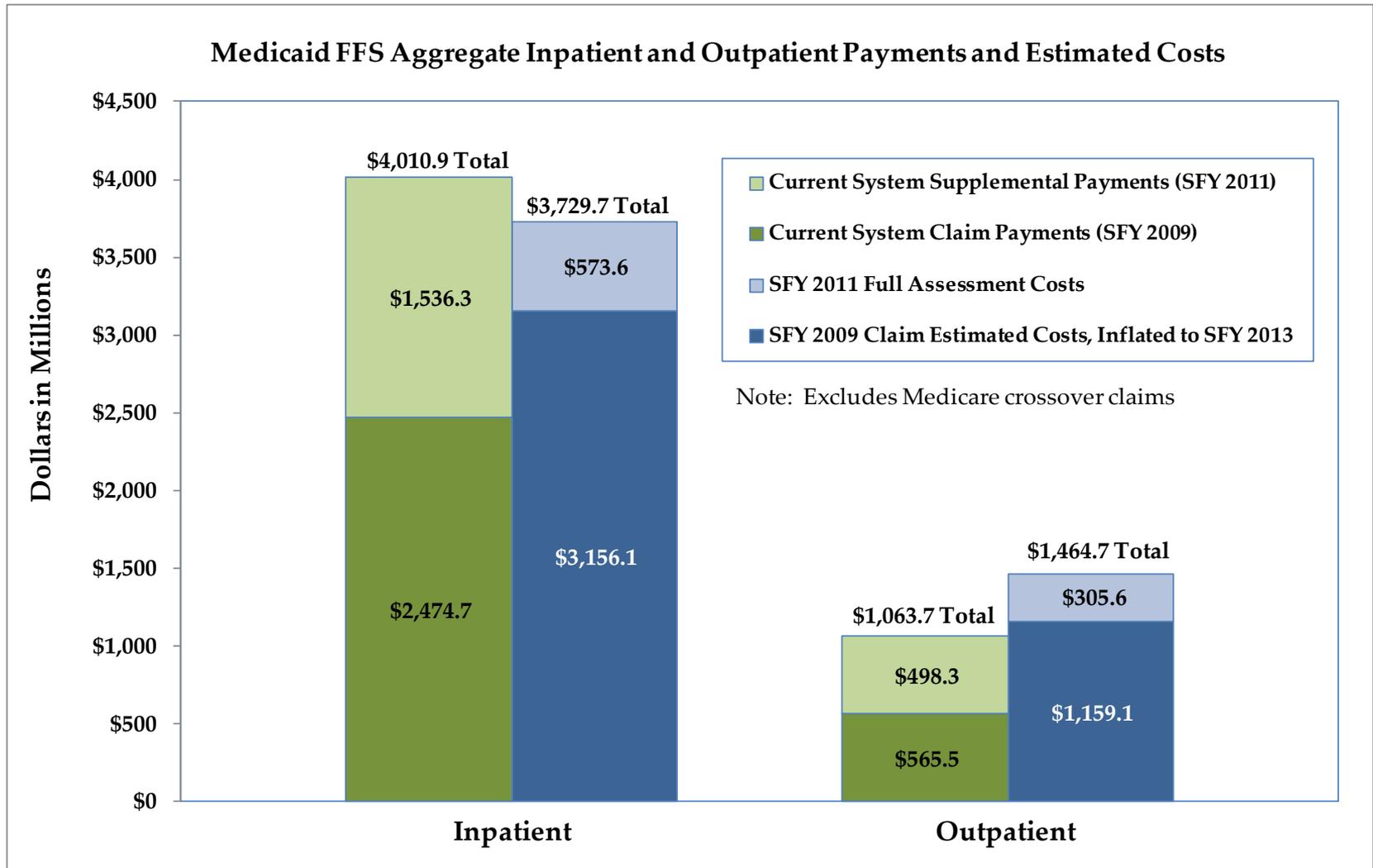
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Preliminary Inpatient Simulation - Results



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Preliminary IP/OP Simulation - Results



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Other Considerations – Specialty Care

Options for Psychiatric Services

- Replicate Medicare model – per diem based on MS-DRG assignment, with various adjustments
 - Facility-specific cost per diem
 - Statewide average, acuity adjusted per diem with optional length of stay step downs
 - Peer group, acuity adjusted per diem with optional length of stay step downs
- * For preliminary simulation, assumed payments and method did not change

Secondary Considerations

- For Medicare model, need to calculate APR-DRG weights, replicating Medicare's approach, or x-walk MS-DRG assignments to APR-DRG assignments
- Consider replicating Medicare adjustments if Medicare model is adopted
- For non-Medicare per diem, adjustments for geographic wage differences and medical education differences
- Separate policy depending on designation as a Distinct Part Unit
- Impact of possible transition to proper step down placement, community, LTC, etc..

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Other Considerations – Specialty Care

Options for Rehabilitation Services

- Replicate Medicare model – per discharge based on Medicare Case-Mix Group (CMG) assignment, with various adjustments
 - Facility-specific cost per diem
 - Statewide average, acuity adjusted per diem with optional length of stay step downs
 - Peer group, acuity adjusted per diem with optional length of stay step downs
- * For preliminary simulation, assumed payments and method did not change

Secondary Considerations

- For Medicare model, need to x-walk CMG assignments to APR-DRG assignments
- Consider replicating Medicare adjustments if Medicare model is adopted
- For non-Medicare per diem, adjustments for geographic wage differences and medical education differences
- Separate policy depending on designation as a Distinct Part Unit
- Impact of possible transition to proper step down placement, community, LTC, etc..

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Other Considerations – Specialty Care

Options for Long-Term Acute Care Services

- Replicate Medicare model – per discharge based on MS-DRG assignment with different relative weights, with various adjustments
- Facility-specific cost per diem
- Statewide average, acuity adjusted per diem with optional length of stay step downs
- Peer group, acuity adjusted per diem with optional length of stay step downs
- Pay according to current nursing facility payment methodology, with adjustments

* For preliminary simulation, assumed payments and method did not change

Secondary Considerations

- For Medicare model, need either adopt MS-DRGs, or x-walk MS-DRG assignments to APR-DRG assignments
- Consider adopting Medicare weights
- Consider replicating Medicare adjustments if Medicare model is adopted
- For non-Medicare model, consider adjustments for geographic wage differences and medical education differences

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Other Design Considerations

Consideration	Discussion
Payments for Designated Critical Access Hospitals (Federally recognized class)	<ul style="list-style-type: none">• TBD• For purposes of preliminary simulation, we assumed payments and methods did not change
Coding and Documentation Adjustment	<ul style="list-style-type: none">• Determine real case-mix rate of increase by analyzing historical trends, and establish adjustment factor for increases that exceed a factor of that trend• No adjustment incorporated into preliminary simulation
Frequency of rebasing and updating	<ul style="list-style-type: none">• TBD

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Next Steps

- Outpatient data integrity cross check with Illinois Hospital Association
- Outpatient fiscal simulation, including analysis of 3M national weights for EAPGs
- Distribution of facility-specific cost data

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