Hospital Specific Impact of Payment Changes in the Inpatient PPS Proposed Rule Sources and Notes

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The primary sources for all hospital-specific data are the CMS FY 2008 proposed PPS payment impact file (corrected version released May 16, 2007) and the CMS final rule PPS payment impact file for FY 2007. These files are available for download at www.cms.hhs.gov/AcuteInpatientPPS/FFD/list.asp#TopOfPage . This data is supplemented by Moran Company analysis of data from Medicare Cost Reports and the FY 2006 MedPAR file.

PHS Indian hospitals, hospitals in Maryland, and hospitals in Puerto Rico are excluded. Only hospitals paid under Medicare's inpatient prospective payment system are included. For example, Critical Access Hospitals are not included in this analysis. Hospitals must have appeared on both the FY 2007 and FY2008 impact file to be included in this analysis.

Outlier payments are not included. For all analyses, the hospital type (e.g. Sole Community Hospital, etc.) is held constant as it appeared in the FY 2007 final payment impact file.

The operating standardized amount as published in corrections to the FY 2008 proposed rule reflects the 2.4% "behavioral offset". In order to estimate the impact of this proposed change, new rates that exclude the offset were calculated based on rate processes described by CMS on page 622 of the display copy of the Notice of Proposed Rule Making.

Changes to the system for calculating DRG weights and classifying patients will also affect capital payments by a similar percentage (including the behavioral offset). This analysis only considers operating payments.

FY2008 payment figures before application of the behavioral offset were adjusted for budget neutrality.

A description of each payment scenario follows.

Estimated FY 2007 Operating Payment

- This scenario estimates payment under FY 2007 policies applied to a claims experience held constant across all other scenarios (FY 2006 MedPAR). This scenario uses payment variables from the FY 2007 impact file and final rule including:
    - FY 2007 standardized amount
    - FY 2007 wage index
    - FY 2007 IME adjustment (5.35)

- In order to isolate the impact of only changes in policy, other variables are taken from the FY 2008 impact file including:
    - v24 Case Mix Index (this represents a 1/3 cost-2/3 charge-based blend applied to the current DRG classification system)
    - Intern and resident to bed ratio
    - DSH percentage

Impact of Proposed FY 2008 Changes
Update, Wage Index, and Changes in IME Adjustment

- This scenario isolates the impact of routine annual changes to payment using payment variables from the FY 2008 proposed payment impact file and proposed rule including:
    - FY 2008 standardized amount adjusted upward as described above to remove the impact of the behavioral offset which is considered separately below. This amount incorporates the impact of the annual market basket update.
    - FY 2008 proposed wage index
    - FY 2008 IME adjustment (5.5)
    - v24 Case Mix Index (this represents a 1/3 cost-2/3 charge-based blend applied to the current DRG classification system)
    - Intern and resident to bed ratio
    - DSH percentage

The dollar figure (and percent change as applicable) represents the change in payment from moving from the payment scenario directly above to this scenario.

Move from 1/3 Cost to 2/3 Cost-based Weights

This scenario isolates the impact of the continued transition to cost-based weights holding all other variables constant as in the scenario directly above. This transition is reflected in the analysis by using a case mix index calculated by the Moran Company using Medicare Cost Report data from HCRIS and claims experience from 2006 MedPAR. This analysis uses the methodology described in the proposed rule for calculating charge and cost-based weights but uses the v24 GROUPER that reflects the current DRG classification system.

The dollar figure (and percent change as applicable) represents the change in payment from moving from the payment scenario directly above to this scenario.

Move from Current DRGs to MS-DRGs

This scenario isolates the impact of the move from current DRGs to Medicare Severity-adjusted DRGs (MS-DRGs) holding all other variables constant as in the scenario directly above. This transition is captured by using the v25 case mix index provided on the FY 2008 proposed payment impact file.

The dollar figure (and percent change as applicable) represents the change in payment from moving from the payment scenario directly above to this scenario.

"Behavioral Offset" for Expected Coding Changes Due to Move to MS-DRGs

This scenario isolates the impact of the 2.4% behavioral offset in FY 2008.

The dollar figure (and percent change as applicable) represents the change in payment from moving from the payment scenario directly above to this scenario.

Estimated FY 2008 Operating Payment

This figure represents all proposed FY 2008 payment policies applied to FY 2006 claims experience.

- This scenario uses payment variables from the FY 2008 proposed impact file and final rule including:
    - Standardized amount (reflects the impact of the 2.4% behavioral offset).
    - Wage index
    - IME adjustment (5.5)
    - v25 Case Mix Index (this represents a 2/3 cost-1/3 charge-based blend applied to the MS-DRG classification system)
    - Intern and resident to bed ratio
    - DSH percentage

The dollar figure represents total payment. The percent change (as applicable) represents to the total percent change in payment moving from estimated FY 2007 to proposed FY 2008 total payment.