



# Alaska Inpatient Hospital Diagnosis Related Groups (DRG) Reimbursement Methodology

July 23, 2020



**MYERS AND  
STAUFFER** LC  
CERTIFIED PUBLIC ACCOUNTANTS

# Meeting Logistics

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# Agenda

- Introductions
  - Department of Health and Social Services (DHSS)
  - Myers and Stauffer
- Project Background
- Overview of Project
- Overview of DRG Payment Methodology
- Q&A/Discussion

# MEET THE PRESENTERS

## DHSS

Marcey Bish, Executive Director

## Myers and Stauffer

Tim Guarrant, Member

Joe Gamis, Senior Manager

Margaret King, Health Care Senior Consultant

# Project Background

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- Move from a cost-based per diem payment system to an equitable and sustainable payment methodology that:
  - Promotes Quality
  - Is Patient Centered
  - Is Fair to Providers
  - Is Fiscally Responsible
- Ensure access to care for Alaskans who may require additional resources



# Project Plan and Timeline

- Project Start: January 2020
- Modeling impact of DRG methodology: Summer/Fall 2020
- Rule and SPA changes: Late 2020
- Provider Training: Early 2021
- Claims Processing System Testing: Spring 2021
- Estimated Project End: Late Spring 2021
- Estimated Implementation Date: July 1, 2021
  
- Stakeholders will be asked to participate throughout the project

# Progress to Date

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1. Evaluated Existing Inpatient Hospital Reimbursement System and Related Regulatory Support.
2. Conducted Research of Other State DRG Reimbursement Methodologies.
3. Prepared DRG Payment Methodology Research and Analysis.
4. Obtained Cost Reports from CMS Database and Medicaid Claims Data from DHSS for Rate Modeling Process.
5. Conducted Claims Data Analysis and Calculated Estimated Claim Cost. Performed Preliminary Claim Grouping in DRG Groupers. Modeled baseline DRG parameters.
6. Initiated Stakeholder Communications.



# DRG OVERVIEW

The background is a teal-tinted collage of financial and medical-related items. It includes a stack of coins, a calculator, a ruler, a syringe, and a document with dates and numbers. The overall theme is healthcare and financial management.

# What are DRGs? (Diagnosis Related Groups)

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- System of inpatient classification based on the characteristics of an inpatient stay.
- Developed in 1970s as epidemiological/analytical tool.
- Adapted to a payment system by New Jersey in late 1970s.
- Adopted for payment by Medicare Part A in 1983.

# DRG Classification Systems

- Inpatient stays are assigned to a DRG based on information such as diagnosis codes, patient age and gender, surgical procedures, and birthweight (neonates).
  - Cases grouping to the same DRG have similar clinical characteristics and consume similar resources.
- Inpatient stays are assigned to a DRG through a DRG grouper classification system. DRG groupers in the U.S.:
  - All Patient Refined DRG (APR-DRG) grouper
  - Medicare Severity DRG (MS-DRG) grouper
  - Tricare grouper (U.S. Department of Defense Military Health System)

# DRG Classification Systems

- APR-DRG: Specifically designed for all patient populations.
  - 1,322 DRGs (330 base DRGs with 4 subclasses for severity of illness)
- MS-DRG: Developed for CMS. Designed for and based on data from the Medicare population.
  - 761 DRGs
- Tricare DRG: Based on MS-DRG grouping logic and functionality, with added neonate, pediatric, and substance abuse DRGs.
  - 829 DRGs

# DRG Classification Systems

	MS-DRGs v37	Tricare DRGs v37	APR-DRGs v37
<b>Developer</b>	3M for CMS	3M for DoD	3M
<b>Patient Population</b>	Medicare fee-for-service	Adapted from MS-DRGs	All patient population
<b>Clinical Focus for Annual Updates</b>	Medicare population. Little to no focus on OB, newborns, pediatrics (0.4% of Medicare stays)	Clinical updates follow Medicare	All patient population, including obstetrics, newborns, and pediatrics
<b>Number of DRGs</b>	761	829	1,322 (330 base DRGs & 4 subclasses)
<b>Newborn DRGs</b>	7	31	112
<b>Obstetric DRGs</b>	23	23	44
<b>Mental Health</b>	9 (75% in one DRG)	Same as Medicare	48
<b>Severity of Illness Structure</b>	Base DRGs separated into pairs or triplets based on complications or comorbidities (CCs), cases with CCs, or cases with major complications or comorbidities (MCCs)	Same as Medicare	Each base DRG has 4 severities of illness (SOI): minor, moderate, major, extreme. SOI varies depending on base DRG, interaction of comorbidities, and patient age.

Source: 3M Health Information Systems (2020). Used with permission.

# DRG Groupers in Medicaid



## APR-DRG (28 States)

AZ, CA, CO, CT, DC, FL, IL, IN,  
LA\*, MD, MA, MI, MN, MS, MT,  
NE, NJ, NY, ND, OH, PA, RI, SC,  
TX, VA, WA, WI, WY

\* Announced

## MS-DRG (13 States)

IA, KS, KY, ME, NH, NM, NC, OK,  
OR, SD, UT, VT, WV

## Tricare (1 State)

GA

## Non DRG\* (9 States)

AL, AK, AR, DE, HI, ID, MO, NV,  
TN

\* Cost, per diem, or other

# DRG Payment System

- In a DRG payment system, payment is based on patient acuity rather than the length of stay.
- Each DRG receives a relative weight value based on resource utilization relative to other DRGs.
  - An inpatient stay with a relative weight of 1.0 represents average resource consumption.
- Example low, average, and high weight DRGs:

DRG	Description	Relative Weight
310-2	INTERVERTEBRAL DISC EXCISION & DECOMPRESSION	1.0823
621-4	NEONATE BWT 2000-2499G W MAJOR ANOMALY	6.9958
002-3	HEART &/OR LUNG TRANSPLANT	11.4800

# DRG Payment System

- **Typical components of a DRG payment system**
  - DRG base rate
  - DRG relative weights
  - Outlier payments
  - Add-on payments (i.e., graduate medical education)
  - Transfer payment adjustment
- **Other DRG payment policies**
  - Policy adjustors – adjust payment for specific types of care or patients, e.g., neonates, behavioral health, pediatric,
  - Partial stay eligibility
  - Interim claim policy
  - Outpatient bundling
  - Performance payments for quality

The background is a teal-tinted collage of financial and medical-related items. It includes a stack of coins, a calculator, a ruler, a syringe, and a document with dates and numbers. The text 'DRG PAYMENT EXAMPLES' is centered in white, bold, sans-serif font.

# DRG PAYMENT EXAMPLES

# DRG Payment Examples

- Example DRG payment formula\*

STEP 1	(C)	=	(A)	x	(B)
	DRG Base Payment		DRG Base Rate		DRG Relative Weight
	\$12,562.50	=	\$5,000.00	x	2.5125

STEP 2	(F)	=	(C)	+	(D)	+	(E)
	Total DRG Payment		DRG Base Payment		Outlier Payment (if applicable)		Add-on Payments (e.g., GME, capital)
	\$15,687.50	=	\$12,562.50	+	\$2,675.00	+	\$450.00

\*Non-transfer inpatient stay

# DRG Payment Examples

## Outlier Payments

- DRG payment systems typically include outlier payments for extremely complex and costly cases.
- Payments are made when the length of the stay (“day outlier”) or cost of the stay (“cost outlier”) exceeds a predetermined threshold.
- Example cost outlier payment formula

\$300,000	Total charges
X <u>.4500</u>	Cost-to-charge ratio
135,000	Estimated costs incurred by provider
- <u>37,000</u>	Outlier threshold determined by the state*
\$ 98,000	Costs above threshold
x <u>80%</u>	Outlier marginal cost factor – determined by state
\$ 78,400	Outlier reimbursement
+ <u>12,000</u>	DRG base payment
\$ 90,400	Total reimbursement of case

\*(DRG base payment [12,000] + Fixed-loss [25,000])

# DRG Payment Examples

## Transfer Payments

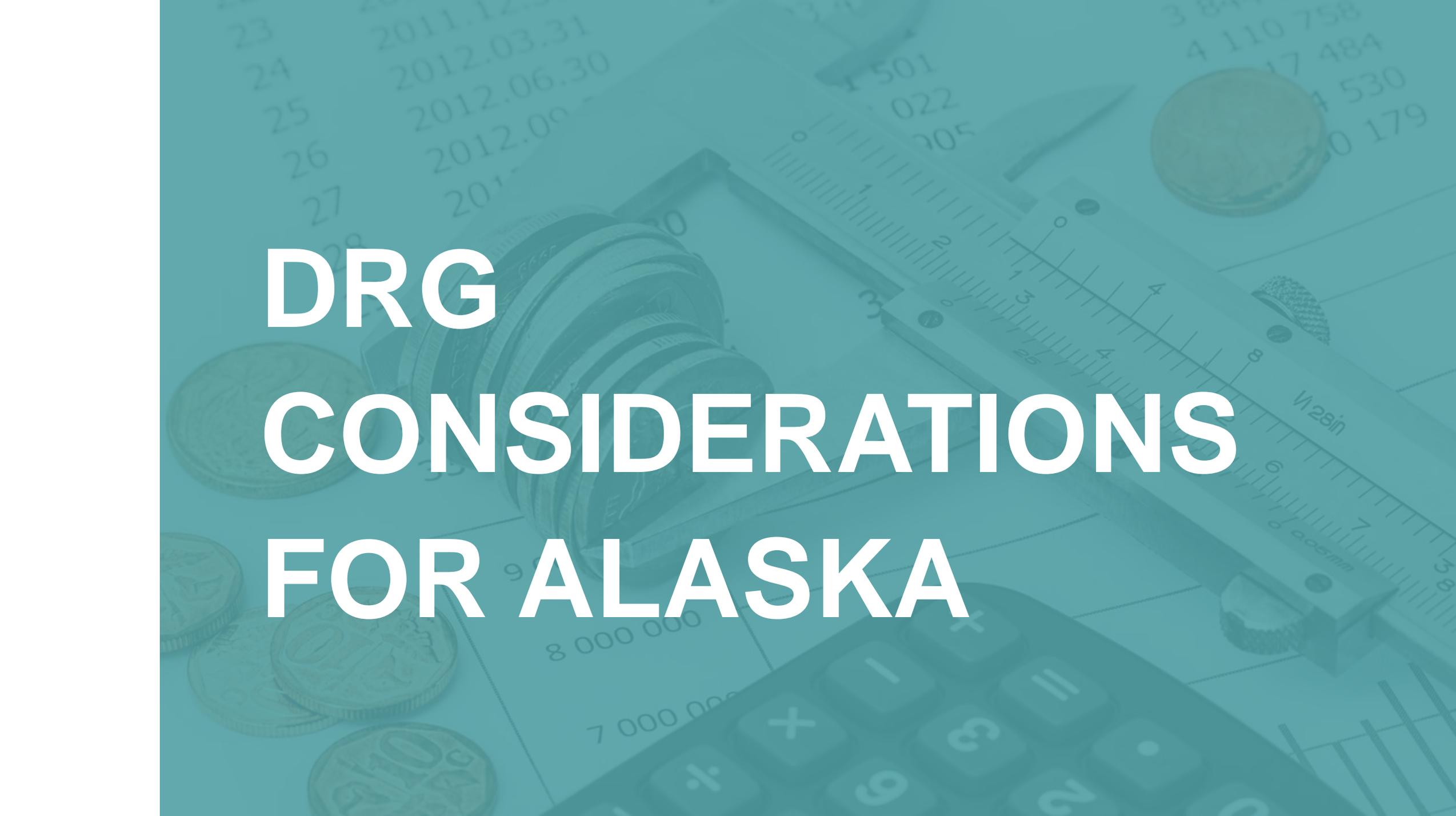
- DRG payment systems typically reduce payments for inpatient claims involving patient transfers between facilities because a transfer stay does not represent a full episode of care.
- Generally, DRG payments to the transferring hospital are prorated by dividing the actual length of stay for the case by the average length of stay (ALOS) for the assigned DRG. For example:

### ASSUMPTIONS

\$12,000.00	DRG base payment ( <i>base rate x relative weight</i> )
001-2	APR-DRG number
8.20	DRG average length of stay (ALOS)
5	Actual length of stay

### CALCULATION

\$12,000.00	DRG base payment
÷ 8.20	DRG ALOS
\$ 1,463.41	Prorated daily payment
x 6	Actual length of stay + 1
\$ 8,780.49	DRG transfer payment

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# DRG CONSIDERATIONS FOR ALASKA

# DRG Considerations for Alaska

#	Considerations	#	Considerations
1	DRG Grouper	9	Interim Claims
2	DRG Grouper Version	10	Outpatient Bundling
3	DRG Base Rates	11	Charge Limit
4	DRG Relative Weights	12	Documentation and Coding Adjustment
5	Policy Adjustors	13	Quality Components
6	Outlier Payment Methodology	14	Excluded Hospitals
7	Transfer Payment Policy	15	Excluded Services
8	Partial Stay Eligibility Policy	16	Transition Strategy

# QUESTIONS/DISCUSSION & CONTACT INFORMATION



**MARCEY BISH, EXECUTIVE DIRECTOR**  
marcey.bish@alaska.gov



**TIM GUERRANT, MEMBER**  
tguerrant@mslc.com