Alaska Inpatient Hospital
Diagnosis Related Groups (DRG)
Reimbursement Methodology

July 23, 2020
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  o Last Name
  o Your Organization

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Agenda

• Introductions
  o Department of Health and Social Services (DHSS)
  o Myers and Stauffer

• Project Background

• Overview of Project

• Overview of DRG Payment Methodology

• Q&A/Discussion
MEET THE PRESENTERS

DHSS

Marcy Bish, Executive Director

Myers and Stauffer

Tim Guerrant, Member
Joe Gamis, Senior Manager
Margaret King, Health Care Senior Consultant
Project Background

• Move from a cost-based per diem payment system to an equitable and sustainable payment methodology that:
  
  o Promotes Quality
  o Is Patient Centered
  o Is Fair to Providers
  o Is Fiscally Responsible

  o 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

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.
6. Initiated Stakeholder Communications.
DRG OVERVIEW
What are DRGs? (Diagnosis Related Groups)

- 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.
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

All information for version 37 of the groupers. Does not include un-groupable DRGs.
## DRG Classification Systems

<table>
<thead>
<tr>
<th>Developer</th>
<th>MS-DRGs v37</th>
<th>Tricare DRGs v37</th>
<th>APR-DRGs v37</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient Population</td>
<td>Medicare fee-for-service</td>
<td>Adapted from MS-DRGs</td>
<td>All patient population</td>
</tr>
<tr>
<td>Clinical Focus for Annual Updates</td>
<td>Medicare population. Little to no focus on OB, newborns, pediatrics (0.4% of Medicare stays)</td>
<td>Clinical updates follow Medicare</td>
<td>All patient population, including obstetrics, newborns, and pediatrics</td>
</tr>
<tr>
<td>Number of DRGs</td>
<td>761</td>
<td>829</td>
<td>1,322 (330 base DRGs &amp; 4 subclasses)</td>
</tr>
<tr>
<td>Newborn DRGs</td>
<td>7</td>
<td>31</td>
<td>112</td>
</tr>
<tr>
<td>Obstetric DRGs</td>
<td>23</td>
<td>23</td>
<td>44</td>
</tr>
<tr>
<td>Mental Health</td>
<td>9 (75% in one DRG)</td>
<td>Same as Medicare</td>
<td>48</td>
</tr>
<tr>
<td>Severity of Illness Structure</td>
<td>Base DRGs separated into pairs or triplets based on complications or comorbidities (CCs), cases with CCs, or cases with major complications or comorbidities (MCCs)</td>
<td>Same as Medicare</td>
<td>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.</td>
</tr>
</tbody>
</table>

# 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

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:

<table>
<thead>
<tr>
<th>DRG</th>
<th>Description</th>
<th>Relative Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>310-2</td>
<td>INTERVERTEBRAL DISC EXCISION &amp; DECOMPRESSION</td>
<td>1.0823</td>
</tr>
<tr>
<td>621-4</td>
<td>NEONATE BWT 2000-2499G W MAJOR ANOMALY</td>
<td>6.9958</td>
</tr>
<tr>
<td>002-3</td>
<td>HEART &amp;/OR LUNG TRANSPLANT</td>
<td>11.4800</td>
</tr>
</tbody>
</table>

APR-DRG version 37 national weights
DRG Payment System

• Typical components of a DRG payment system
  o DRG base rate
  o DRG relative weights
  o Outlier payments
  o Add-on payments (i.e., graduate medical education)
  o Transfer payment adjustment

• Other DRG payment policies
  o Policy adjustors – adjust payment for specific types of care or patients, e.g., neonates, behavioral health, pediatric,
  o Partial stay eligibility
  o Interim claim policy
  o Outpatient bundling
  o Performance payments for quality
DRG PAYMENT EXAMPLES
# DRG Payment Examples

- Example DRG payment formula*

<table>
<thead>
<tr>
<th>STEP 1</th>
<th>DRG Base Payment</th>
<th>=</th>
<th>DRG Base Rate</th>
<th>x</th>
<th>DRG Relative Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$12,562.50</td>
<td>=</td>
<td>$5,000.00</td>
<td>x</td>
<td>2.5125</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>STEP 2</th>
<th>Total DRG Payment</th>
<th>=</th>
<th>DRG Base Payment</th>
<th>+</th>
<th>Outlier Payment (if applicable)</th>
<th>+</th>
<th>Add-on Payments (e.g., GME, capital)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$15,687.50</td>
<td>=</td>
<td>$12,562.50</td>
<td>+</td>
<td>$2,675.00</td>
<td>+</td>
<td>$450.00</td>
</tr>
</tbody>
</table>

*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

\[
\begin{align*}
\text{Total charges} & \quad = \text{Total charges} \\
\times & \quad \times \text{Cost-to-charge ratio} \\
\text{Costs above threshold} & \quad = \text{Estimated costs incurred by provider} - \text{Outlier threshold determined by the state} \\
\times & \quad \times \text{Outlier marginal cost factor – determined by state} \\
\text{Outlier reimbursement} & \quad = \text{Costs above threshold} \\
+ & \quad + \text{DRG base payment} \\
\text{Total reimbursement of case} & \quad = \text{Outlier reimbursement} \\
\end{align*}
\]

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

<table>
<thead>
<tr>
<th>ASSUMPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,000.00 DRG base payment ((base \ rate \times \ relative \ weight))</td>
</tr>
<tr>
<td>001-2 APR-DRG number</td>
</tr>
<tr>
<td>8.20 DRG average length of stay (ALOS)</td>
</tr>
<tr>
<td>5 Actual length of stay</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CALCULATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,000.00 DRG base payment</td>
</tr>
<tr>
<td>$1,463.41 Prorated daily payment</td>
</tr>
<tr>
<td>$8,780.49 DRG transfer payment</td>
</tr>
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DRG CONSIDERATIONS FOR ALASKA
## DRG Considerations for Alaska

<table>
<thead>
<tr>
<th>#</th>
<th>Considerations</th>
<th>#</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DRG Grouper</td>
<td>9</td>
<td>Interim Claims</td>
</tr>
<tr>
<td>2</td>
<td>DRG Grouper Version</td>
<td>10</td>
<td>Outpatient Bundling</td>
</tr>
<tr>
<td>3</td>
<td>DRG Base Rates</td>
<td>11</td>
<td>Charge Limit</td>
</tr>
<tr>
<td>4</td>
<td>DRG Relative Weights</td>
<td>12</td>
<td>Documentation and Coding Adjustment</td>
</tr>
<tr>
<td>5</td>
<td>Policy Adjustors</td>
<td>13</td>
<td>Quality Components</td>
</tr>
<tr>
<td>6</td>
<td>Outlier Payment Methodology</td>
<td>14</td>
<td>Excluded Hospitals</td>
</tr>
<tr>
<td>7</td>
<td>Transfer Payment Policy</td>
<td>15</td>
<td>Excluded Services</td>
</tr>
<tr>
<td>8</td>
<td>Partial Stay Eligibility Policy</td>
<td>16</td>
<td>Transition Strategy</td>
</tr>
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QUESTIONS/DISCUSSION & CONTACT INFORMATION

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