RESDAC
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CMS Payment Systems & Resources for "Costing" Services

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Educational Objectives

- Historical Review of CMS Payment Systems
- Calculating Acute Hospital MS-DRG Payments
- Resources for determining ‘cost’ of services

Inpatient Services

- Acute Stay Hospitals
  - Maryland hospitals (PPS exempt)
- Critical Access Hospitals (PPS exempt)
- Inpatient Rehabilitation Hospitals
- Long-term Care Hospitals
- Psychiatric Hospitals
- Cancer Hospitals (PPS exempt)

Acute Stay Hospitals

- From Medicare inception in 1966 until 1983, hospitals were paid for services based on incurred costs.
- Beginning Fiscal Year (FY) 1984, Medicare implemented the Prospective Payment System (PPS) for Acute Hospital Stays.
- Payment Classification system was the Diagnosis Related Group (DRG).
- Beginning FY 2008 (October 1, 2007) CMS moved to the MS-DRG (Medicare Severity-DRG).

Critical Access Hospitals (CAH)

- Medicare reimburses CAHs based on each hospitals' costs not on a calculated MS-DRG payment. Most critical access hospitals (both inpatient and outpatient care) are paid at 101 percent of reasonable costs.
- CAHs are reimbursed for inpatient, outpatient, laboratory, therapy services and post-acute care in swing beds.
- MS-DRGs are still populated in file.

Inpatient Rehabilitation Hospitals

- Until January 1, 2002, IRFs were PPS exempt
- Beginning January 1, 2002, IRFs began being paid under IRF-PPS
- Payment Classification system is the Case-Mix Group (CMG)
- IRF-PPS does adjust for DSH and IME

Long-Term Care Hospitals

- Until October 1, 2002 LTCHs were PPS exempt.
- Beginning FY 2003, LTCHs began being paid under the LTC-PPS.
- LTC-PPS is similar to the Acute Care Hospital MS-DRG PPS.
- However, LTC-PPS does not provide adjustments for DSH or IME.
- LTC-DRGs are the same classification system as MS-DRGs but the MS-LTC-DRG relative weights are different to account for the variation in cost per discharge because they reflect resource utilization for each diagnosis.

Outpatient Hospital Services

- Originally paid based on allowable incurred costs.
- Outpatient Hospital PPS was implemented on August 1, 2000.
- Payment Classification System is the national Ambulatory Payment Classification (APC).
- HCPCS are reported for classification into an APC.
  - Composite APCs bundle some HCPCS reported.
- However, not all outpatient services are paid on OPPS.

Skilled Nursing Facilities

- Throughout most of the 1980s and 1990s, SNFs were paid on the basis of their costs.
- Effective with cost reporting periods, beginning July 1, 1998, SNF reimbursement came under PPS.
- Payment Classification system is the Resource Utilization Group (RUG-IV).

Home Health Agencies

- Prior to October 2000, HHAs were paid on the basis of incurred average costs per visit.
- HHA PPS began FY 2001 (October 1, 2000).
- Payment Classification system is a case mix system category the Home Health Resource Group (HHRG).
- A HIPPS code is generated corresponding to the HHRG.

Physicians

- The Medicare physician payment system was implemented in 1992.
- Predetermined Physician Fee Schedule for services
- Each service (billed by HCPCS) has a Relative Value Unit (RVU).
- RVUs measure three types of resources: Physician Work, Practice expenses and Professional Liability Insurance.

Physician Fee Schedule Payment Formula (2012)

- 2012 Non-Facility Pricing Amount = [(Work RVU * Work GPCI) + (Transitioned Non-Facility PE RVU * PE GPCI) + (MP RVU * MP GPCI)] * Conversion Factor (CF)
- 2012 Facility Pricing Amount = [(Work RVU * Work GPCI) + (Transitioned Facility PE RVU * PE GPCI) + (MP RVU * MP GPCI)] * CF
- The conversion factor for CY 2012 is $34.0376.

Resources for Payment Systems

- **For more information regarding each of the Inpatient Prospective Payment Systems see the respective CMS websites.**
  - http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/index.html?redirect=/AcuteInpatientPPS/
  - http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/InpatientRehabFacPPS/index.html?redirect=/InpatientRehabFacPPS/
  - http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/LongTermCareHospitalPPS/index.html?redirect=/LongTermCareHospitalPPS/

Resources for Payment Systems

- **Outpatient PPS**
  - http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/HospitalOutpatientPPS/index.html?redirect=/HospitalOutpatientPPS/
- **Skilled Nursing Facilities**
  - http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/SNFPPS/index.html?redirect=/SNFPPS/
- **Home Health Agencies**
  - http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/HomeHealthPPS/index.html?redirect=/HomeHealthPPS/

Acute Inpatient Prospective Payment System

- Determining an Inpatient Prospective Payment System (IPPS) Payment
- Calculating a Hospital Specific MS-DRG Payment

Medicare Severity Diagnosis Related Groups (MS-DRGs)

- MS-DRGs are a patient classification system that describes the types of patients by severity treated by a hospital.
- MS-DRG GROUPER is the software that determines the MS-DRG from data elements reported by the hospital on the UB-04 Claim. Once determined, the MS-DRG code is one of the elements used to determine the price upon which to base the reimbursement to the hospitals under prospective payment.

Medicare Severity Diagnosis Related Groups (MS-DRGs)

- **MS-DRG GROUPER software uses the following data elements to determine the MS-DRG**
  - Principal Diagnosis (ICD-9-CM)
  - Secondary Diagnoses
  - Principal Procedure (ICD-9-CM)
  - Secondary Procedures
  - Sex
  - Patient Discharge Status

MS-DRG Payment

- **Medicare calculates hospital specific MS-DRG prices for Operating and Capital Costs.**
  - **Base payment rate comprised of a standardized amount. The standardized amount is divided into labor and non-labor shares.**
  - **The labor-related share is adjusted by a wage index applicable to the hospital location.**
  - **The non-labor related share will be adjusted for Cost of Living in Alaska and Hawaii.**
  - **Base payment multiplied by the MS-DRG Weight.**

MS-DRG Payment

- Further add-ons are made to the IPPS payment for:
  - Hospitals that serve a disproportionate share of low-income patients (DSH adjustment)
  - Approved teaching hospitals that incur indirect costs of medical education (IME adjustment)

Calculating Hospital Specific MS-DRG Payments

Calculations:

- IPPS Operating Payment:
- [(Standardized Labor Share x Operating Wage Index) + (Standardized Non-Labor Share x Operating COLA Adjustment for Hospitals Located in Alaska and Hawaii)] x (1 + Operating IME + Operating DSH Adjustment Factor) x (MS-DRG Weight)

Calculating Hospital Specific MS-DRG Payments

Calculations:

- IPPS Capital Payment:

- (Standard Federal Rate) x (GAF) x (Capital COLA Adjustment for Hospitals Located in Alaska and Hawaii) x (1 + DSH Adjustment Factor + IME Adjustment Factor) x (MS-DRG Weight)

Calculating Hospital Specific MS-DRG Payments

Calculations:

- Hospital Specific MS-DRG Payment:

- IPPS Operating Payment + IPPS Capital Payment

Pass Thru Amounts

- Costs not included in PPS Payments
  - The direct costs of medical education for interns and residents is paid on a per resident payment amount.
  - The following costs are paid on a reasonable cost basis:
    - Hospital Bad Debt
    - Heart, liver, lung, and kidney acquisition costs

Outlier Payments

- Medicare also evaluates each hospitalization to determine whether it is eligible for additional payments as an outlier case.
- The combined operating and capital costs of a case must exceed the fixed loss outlier threshold to qualify for an outlier payment.

Outlier Payments

- The following CMS website provides an example of how to calculate an Outlier Payment
  - http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/outlier.html

Resources for Payment Systems

- CMS makes available PPS pricing information needed for providers who wish to do any of the following:
- Predict payment for services they plan to provide, or
- Calculate the payment they will receive for a particular claim (in order to accurately post accounts receivable), or
- Validate that they have received correct payment for a claim upon receipt of their Medicare remittance advice.
- Providers (and researchers) can download free maintained versions of Personal Computer (PC) Pricers that are made available on the CMS web site.
- http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/PCPricer/index.html?redirect=/PCPricer/01_overview.asp

Resources for Payment Systems

- PC PRICER requires specific “bill” information
- Provider number, Patient ID, DRG, Admission and Discharge Dates
- Returns information such as LOS, Total Operating and Capital Amounts, Outlier amounts, DSH and IME amounts

Resources for Payment Systems

- **CMS develops fee schedules for physicians, ambulance services, clinical laboratory services, and durable medical equipment, prosthetics, orthotics, and supplies.**

- http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/FeeScheduleGenInfo/index.html?redirect=/FeeScheduleGenInfo/
  - Physician Fee Schedule
  - Clinical Lab Fee Schedule
  - Durable Medical Equipment Fee Schedule
  - Ambulance Fee Schedule

Resources for Payment Systems

- CMS Resource to calculate Physician payments: http://www.cms.gov/apps/physician-fee-schedule/overview.aspx
- Allows you to search pricing amounts, various payment policy indicators, RVUs, and GPCIs by a single procedure code, a range and a list of procedure codes.
- Allows you to search for the nation, a specific carrier, or a specific carrier locality. Each page has associated Help/Hint available to complete your selections.

Summary

- Depending on study objectives, it is important to not only understand the payment system, but the TIMING of the implementation of the payment system.
- CMS provides downloadable files and programs which provides information on costs of services covered by Medicare.