CMS PROPOSES PAYMENT AND POLICY CHANGES FOR ACUTE CARE HOSPITAL SERVICES TO INPATIENTS

The Centers for Medicare & Medicaid Services (CMS) today issued a notice of proposed rulemaking that would begin the transition to the first significant revision of the Inpatient Prospective Payment System (IPPS) since its implementation in 1983. When fully implemented, which is planned to occur by fiscal year (FY) 2008 and potentially earlier, the revised IPPS would improve the accuracy of payment rates for inpatient stays by basing the weights assigned to Diagnosis Related Groups (DRGs) on hospital costs rather than charges, and adjusting the DRGs for patient severity.

The estimated market basket increase of 3.4 percent in FY 2007 would increase payments to acute care hospitals by $3.3 billion. Over 1000 hospitals in rural areas would see an average increase of 6.7 percent.

“The hospital payment reforms we are proposing today will mean payments for hospital inpatient services will more accurately reflect the costs of providing the services,” said CMS Administrator Mark B. McClellan, M.D., Ph.D. “We are taking important steps to make payments fairer to hospitals and to assure beneficiary access to services in the most appropriate setting.”

“This proposed rule will be shaped by the public comment process,” Dr. McClellan added. “We look forward to comprehensive feedback from hospitals, suppliers, and other stakeholders that will help to refine and improve the final version of the rule.”

The proposed changes reflect recommendations from the Medicare Payment Advisory Commission (MedPAC), and respond to some Congressional concerns that the existing system may create incentives for certain hospitals to “cherry-pick” more profitable cases. The reforms will significantly affect payments to specialty hospitals – hospitals that typically are owned, in whole or in significant part, by physicians who serve as referral sources. The growth in specialty hospitals has been slowed temporarily by statute or regulation since the Medicare Modernization Act was signed in December 2003.

CMS is considering a two-step process of transformation. The first step, set out in the proposed rule, would assign weights to DRGs based on hospital costs, rather than hospital charges. This would eliminate biases in the current DRG system arising from the differential markup hospitals assign for ancillary services among the DRGs. The new DRG weights would go into effect October 1, 2006.

A second step, currently scheduled for FY 2008, would replace the current 526 DRGs with either the proposed 861 consolidated severity-adjusted DRGs or an alternative severity adjusted DRG system developed in response to the public comments CMS is soliciting on this issue. CMS is also considering ways of improving recognition of severity in the current DRG system by FY 2007. When the two steps are fully implemented, hospitals can expect more accurate payment for their services.

CMS is proposing to increase the outlier threshold for FY 2007 to $25,530, up from $23,600 in 2006. This proposed increase is based on data suggesting a consistent pattern of inflation in hospital charges which affect hospital cost-to-charge ratios used in determining eligibility for outlier payment. The proposed FY 2007 threshold is expected to keep aggregate hospital outlier payments within the target of 5.1 percent of total payments under the IPPS.

In addition to accurate payment for existing technologies, CMS is committed to ensuring that Medicare beneficiaries have rapid access to new technologies by providing for temporary add-on payments for appropriate technologies. In order to be eligible for additional reimbursement, a product must be:

1. New – that is, less than two to three years old;

2. Expensive – that is, it must meet a defined cost threshold in relation to the underlying DRG; and

3. A substantial clinical improvement for the Medicare patient population.

CMS has received three applications for new technology add-on payments in FY 2007. CMS is soliciting comments on whether these technologies meet the criteria for the temporary add-on payments. CMS is also proposing to continue new technology payments for two of the three technologies that were approved for payment in FY 2006.

The proposed rule will be published in the April 25, 2006 *Federal Register*. Comments will be accepted until June 12, 2006, and a final rule will be published later this year.

The display copy can be viewed at
http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/cms1488p.pdf.
For general federal hospital information, go to the Hospital Center page at
http://www.cms.hhs.gov/center/hospital.asp.