

MICHIGAN DEPARTMENT OF COMMUNITY HEALTH

NOTICE OF PROPOSED POLICY

Public Act 280 of 1939, as amended, and consultation guidelines for Medicaid policy provide an opportunity to review proposed changes in Medicaid policies and procedures.

Please review the policy summary and the attached materials that describe the specific changes being proposed. Let us know why you support the change or oppose the change.

Submit your comments to the analyst by the due date specified. Your comments must be received by the due date to be considered for the final policy bulletin.

Thank you for participating in the consultation process.



Director, Program Policy Division  
Bureau of Medicaid Policy and Actuarial Services

<b>Project Number:</b>	0738-DRG	<b>Comments Due:</b>	November 30, 2007	<b>Proposed Effective Date:</b>	January 1, 2008
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**Policy Subject:** Update the DRG Grouper from Version 24.0 to Version 25.0 and rebase hospital DRG weights and rates for 2008.

**Affected Programs:** Medicaid and Children's Special Health Care Services (CSHCS)

**Distribution:** Hospitals, Medicaid Health Plans

**Policy Summary:** This policy will update the DRG Grouper from Version 24.0 to Version 25.0 and will rebase hospital DRG weights and rates for 2008.

# Proposed Policy Draft

## Michigan Department of Community Health Medical Services Administration

**Distribution:** Hospitals, Medicaid Health Plans

**Issued:** December 1, 2007 (Proposed)

**Subject:** Rebasing DRG Rates  
DRG Grouper Update  
Per Diem Rates Update

**Effective:** January 1, 2008 (Proposed)

**Programs Affected:** Medicaid, Children's Special Health Care Services (CSHCS)

Effective January 1, 2008, claims for inpatient hospital admissions reimbursed using the Diagnosis Related Group (DRG) methodology will be processed using the Medicare Grouper Version 25.0. The Michigan Department of Community Health (MDCH) has established its own relative weights, average lengths of stay, and high and low day outlier thresholds for each DRG based on paid claims data taken from Medicaid and CSHCS hospital admissions. The DRG hospital prices and relative weights will be rebased with the following changes:

- Four years of fee for service paid claims data will be used. The base period for inpatient hospital admissions is from September 1, 2002 through August 31, 2006.
- Two years of valid Medicaid Health Plan encounter data will be used. The base period for health plan inpatient hospital admissions is from September 1, 2004 through August 31, 2006. The encounter data will only be used in the calculation of the relative weights.
- Three years of hospital cost report data will be used. The data used to calculate the hospital cost to charge ratios and Indirect Medical Education (IME) adjustors will be taken from hospital cost reports ending between September 1, 2003 and August 31, 2006. The wage data will be drawn from the Centers for Medicare Medicaid Services (CMS) audited wage data as published in the Federal Register and includes the three most recent periods available for hospital cost reports ending between September 1, 2002 and August 31, 2005. Filed wage data will be used for hospitals where audited data are not available. All hospital cost report and wage data are weighted 60% for the most recent period, 24% for the middle period and 16% for the oldest period.
- Hospitals will be grouped by U.S. Census Core Based Statistical Areas (CBSAs) as determined by CMS for the Medicare program for wage data.
- The IME formula used to set medical/surgical hospital, distinct part rehabilitation unit, and rehabilitation hospital prices will be changed by replacing the 0.5005 multiplier with a 0.4290 multiplier. Each hospital's IME adjustor is calculated as follows:

$$1 + [(1 + \text{Interns \& Residents / Beds}) 0.5795 - 1] \times 0.4290$$

- A budget neutrality factor will continue to be included in the hospital price calculation. Hospital prices will be reduced by the percentage necessary so that total aggregate hospital payments using the new hospital prices and DRG relative weights do not exceed the total aggregate hospital payments made using the prior hospital base period data and DRG Grouper relative weights. The estimate will be based on one year's paid claims for the period of September 1, 2005 through August 31, 2006 paid by August 25, 2007. The calculated DRG prices will be deflated by the percentage necessary for the total payments to equal the amount currently paid.

**Hospital Cost Report Data**

Data used to develop the hospital cost to charge ratios and hospital IME adjustors will be taken from filed cost reports submitted to and accepted by MDCH. The most recent data available to MDCH will be used. For the current rebasing, data will be taken from hospital cost reports for fiscal years ending in the following three periods:

- 1 - September 1, 2003 to August 31, 2004
- 2 - September 1, 2004 to August 31, 2005
- 3 - September 1, 2005 to August 31, 2006

Inflation and weighting factors are applied to bring all periods up to a common point in time. The following factors, with inflation derived from the 1<sup>st</sup> Quarter 2007 Global Insight PPS -Type Hospital Market Basket Index, will be used.

<u>Fiscal Year Ending</u>	<u>Cost Inflation Factors</u>	<u>Weighting Factors</u>
9/30/03	1.1605	0.16
12/31/03	1.1504	0.16
3/31/04	1.1409	0.16
6/30/04	1.1272	0.16
9/30/04	1.1121	0.24
12/31/04	1.0964	0.24
3/31/05	1.0818	0.24
6/30/05	1.0675	0.24
9/30/05	1.0523	0.60
12/31/05	1.0369	0.60
3/31/06	1.0230	0.60
6/30/06	1.0103	0.60
8/31/06	1.0000	0.60

Rates will be adjusted by an inflation factor of 1.0405 for the period from August 31, 2006 to January 1, 2008.

**Audited Wage Data**

Salary and wage data used to develop the base and update cost adjustors are taken from the CMS website, public use files. All data were subject to appeal through the hospital's Medicare Fiscal Intermediary. The most recent data available to MDCH will be used. This includes hospital cost report data for fiscal years included in the following three years:

- 1 - September 1, 2002 through August 31, 2003
- 2 - September 1, 2003 through August 31, 2004
- 3 - September 1, 2004 through August 31, 2005

<u>Fiscal Year Ending</u>	<u>Wage Inflation Factors</u>	<u>Weighting Factors</u>
9/30/02	1.1457	0.16
12/31/02	1.1330	0.16
3/31/03	1.1192	0.16
6/30/03	1.1104	0.16
9/30/03	1.1003	0.24
12/31/03	1.0900	0.24
3/31/04	1.0789	0.24
6/30/04	1.0651	0.24
9/30/04	1.0510	0.60
12/31/04	1.0377	0.60
3/31/05	1.0251	0.60
6/30/05	1.0126	0.60
8/31/05	1.0000	0.60

### **Rehabilitation Hospitals and Distinct-Part Units**

Rehabilitation hospitals and distinct-part rehabilitation units per diems will be updated using the same base period, cost report periods, inflation and weighting factors used for the medical/surgical hospitals. Hospitals will be grouped by U.S. Census CBSAs as published in the most recent Federal Register for wage data.

### **Age Categorized DRGs**

MDCH will adjust specific DRGs that were previously age categorized by including alternate weights to maintain consistent and appropriate reimbursement.