

MICHIGAN DEPARTMENT OF COMMUNITY HEALTH

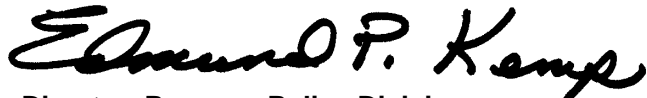
NOTICE OF PROPOSED POLICY

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>	0830-DRG	<b>Comments Due:</b>	November 28, 2008	<b>Proposed Effective Date:</b>	January 1, 2009
------------------------	----------	----------------------	-------------------	---------------------------------	-----------------

**Mail Comments to:** Meghan Sifuentes  
Bureau of Medicaid Policy & Actuarial Services  
Medical Services Administration  
P.O. Box 30479  
Lansing, Michigan 48909-7979

**Telephone Number:** (517) 241-7541

**Fax Number:** (517) 241-5112

**E-mail Address:** sifuentesm@michigan.gov

**Policy Subject:** DRG Grouper Update, DRG Rate Update, Per Diem Rate Update

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

**Distribution:** Hospitals, Medicaid Health Plans

**Policy Summary:** This policy will update the DRG Grouper from Version 25.0 to Version 26.0, will update hospital DRG weights and rates, and will update distinct part rehabilitation unit and rehabilitation hospital per diem rates.

# Proposed Policy Draft

## Michigan Department of Community Health Medical Services Administration

**Distribution:** Hospitals, Medicaid Health Plans

**Issued:** December 1, 2008

**Subject:** DRG Grouper Update  
DRG Rate Update  
Per Diem Rate Update

**Effective:** January 1, 2009

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

### Update of DRG Grouper to Version 26.0

Effective January 1, 2009, claims for inpatient hospital admissions using the Diagnosis Related Group (DRG) methodology will be processed using Medicare DRG Grouper Version 26.0. The Michigan Department of Community Health (MDCH) has established its own relative weights, average lengths of stay, and low- and high-day outlier thresholds for each DRG based on fee for service paid claims data taken from hospital admissions between September 1, 2002 and August 31, 2006. Hospital prices for medical/surgical hospitals reimbursed by DRG have also been updated.

### Cost Data for Medical/Surgical Hospitals

The three-year cost report data (for hospital fiscal years ending between September 1, 2003 and August 31, 2006) used to complete the January 1, 2008 DRG rate rebasing were used to complete the January 1, 2009 DRG rate update. Rates were adjusted by an inflation factor of 1.0771 for the period from August 31, 2006 to December 31, 2008.

### Wage Data for Medical/Surgical Hospitals

Medicare-audited wage data, as published on the Centers for Medicare and Medicaid Services (CMS) website for hospital fiscal years ending between September 1, 2002 and August 31, 2006, were used for the base and updated wage adjustor. The inflation factors are applied for both the rate base and rate update periods covering the periods September 1, 2002 through August 31, 2005 for the base, and September 1, 2003 through August 31, 2006 for the update. The following factors, with inflation derived from the 1st quarter 2008 Global Insight Prospective Payment System (PPS) – Type Hospital Market Basket Index, were used:

Fiscal Year Ending	Wage Inflation Factors	Base Weighting Factors	Update Weighting Factors
9/30/02	1.2378	0.16	-
12/31/02	1.2241	0.16	-
3/31/03	1.2091	0.16	-
6/30/03	1.1996	0.16	-
9/30/03	1.1887	0.24	0.16
12/31/03	1.1776	0.24	0.16
3/31/04	1.1656	0.24	0.16
6/30/04	1.1507	0.24	0.16
9/30/04	1.1354	0.60	0.24

Fiscal Year Ending	Wage Inflation Factors	Base Weighting Factors	Update Weighting Factors
12/31/04	1.1211	0.60	0.24
3/31/05	1.1075	0.60	0.24
6/30/05	1.0940	0.60	0.24
9/30/05	1.0804	0.60	0.60
12/31/05	1.0675	-	0.60
3/31/06	1.0550	-	0.60
6/30/06	1.0440	-	0.60
8/31/06	1.0000	-	0.60

Filed wage data will be used for hospitals where audited data are not available.

### Cost Data for Distinct Part Rehabilitation Units and Rehabilitation Hospitals

The three-year cost report data (for hospital fiscal years ending between September 1, 2003 and August 31, 2006) used to complete the January 1, 2008, per diem rate update were used to complete the January 1, 2009 per diem rate update. Rates were adjusted by an inflation factor of 1.0771 for the period from August 31, 2006 to December 31, 2008.

### Wage Data for Distinct Part Rehabilitation Units and Rehabilitation Hospitals

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

### Indirect Medical Education

The indirect medical education (IME) formula used to set medical/surgical hospital, distinct part rehabilitation unit, and rehabilitation hospital prices will be changed by replacing the 0.4290 multiplier with a 0.3575 multiplier. Each hospital's IME adjustor is calculated as follows:

$$1 + (((1 + \text{Interns \& Residents} / \text{Beds}) 0.5795 - 1] \times 0.3575)$$

Note that the 2009 update is the last year to modify the IME adjustor.

### Budget Neutrality

A budget neutrality factor will be added to the medical/surgical hospital, distinct part rehabilitation unit, and rehabilitation hospital price calculation. Prices will be reduced by the percentage necessary so that total aggregate payments using the new prices do not exceed the total aggregate payments made using the prior base period data. The calculated prices will be deflated by the percentage necessary for the total payments to equate to the amount currently paid.

### Inclusion of Encounter Data

Note that the applied January 1, 2009, update does not include encounter data in rate calculations. MDCH will include encounter data in the rate update effective January 1, 2010. Further information related to the 2010 inclusion of encounter data will be available upon request.