

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

Project Number:	0944-DRG	Comments Due:	November 28, 2009	Proposed Effective Date:	January 1, 2010
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Policy Subject: Diagnosis Related Group (DRG) Grouper Update, DRG Rate Update, and Per Diem Rate Rebase

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 26.0 to Version 27.0, will update hospital DRG weights and rates, and will rebase 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, 2009

Subject: Diagnosis Related Group (DRG) Grouper Update, DRG Rate Update and Per Diem Rate Rebasing

Effective: January 1, 2010

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

Update of DRG Grouper to Version 27.0

Effective January 1, 2010, claims for inpatient hospital admissions using the DRG methodology will be processed using Medicare DRG Grouper Version 27.0. 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 (FFS) 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, 2010 DRG rate update. Rates were adjusted by an inflation factor of 1.0708 for the period from August 31, 2006 to December 31, 2009.

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 (FYE) between September 1, 2002 and August 31, 2007, 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, 2004 through August 31, 2007, for the update. The following factors, with inflation derived from the 1st quarter 2009, Data Resources, Inc., PPS-Type Hospital Market Basket Index, were used:

FYE	Wage Inflation Factors	Base Weighting Factors	Update Weighting Factors
9/30/02	1.2385	0.16	-
12/31/02	1.2248	0.16	-
3/31/03	1.2098	0.16	-
6/30/03	1.2003	0.16	-
9/30/03	1.1894	0.24	-
12/31/03	1.1783	0.24	-
3/31/04	1.1663	0.24	-
6/30/04	1.1514	0.24	-
9/30/04	1.1361	0.60	0.16
12/31/04	1.1217	0.60	0.16

FYE	Wage Inflation Factors	Base Weighting Factors	Update Weighting Factors
3/31/05	1.1081	0.60	0.16
6/30/05	1.0946	0.60	0.16
9/30/05	1.0811	-	0.24
12/31/05	1.0685	-	0.24
3/31/06	1.0560	-	0.24
6/30/06	1.0449	-	0.24
9/30/06	1.0352	-	0.60
12/31/06	1.0253	-	0.60
3/31/07	1.0146	-	0.60
6/30/07	1.0089	-	0.60
8/31/07	1.0000	-	0.60

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

Distinct Part Rehabilitation Units and Rehabilitation Hospitals

Effective January 1, 2010, the per diem rates for distinct part rehabilitation units and rehabilitation hospitals are rebased. Per diems were calculated based in part on FFS paid claims data taken from hospital admissions between September 1, 2004 and August 31, 2008, and paid by August 2009. Per diems were also calculated based in part on encounter paid claims data taken from hospital admissions between September 1, 2006 and August 31, 2008, and received by MDCH by August 2009.

Wage Data for Distinct Part Rehabilitation Units and Rehabilitation Hospitals

Distinct part rehabilitation units and rehabilitation hospitals were rebased using the same wage data criteria indicated above to update medical/surgical hospital prices and the DRG Groupers.

Cost Data for Distinct Part Rehabilitation Units and Rehabilitation Hospitals

Cost report data used to rebase distinct part rehabilitation units and rehabilitation hospitals were taken from hospital cost reports for fiscal years ending between September 1, 2005 and August 31, 2008.

Inflation and weighting factors were applied to bring all periods to a common point in time. The following factors, with inflation derived from the 2nd quarter 2009, Data Resources, Inc., PPS-Type Hospital Market Basket Index will be used:

FYE	Cost Inflation Factors	Weighting Factors
9/30/05	1.1490	0.16
12/31/05	1.1321	0.16
3/31/06	1.1170	0.16
6/30/06	1.1032	0.16
9/30/06	1.0921	0.24
12/31/06	1.0845	0.24
3/31/07	1.0766	0.24
6/30/07	1.0676	0.24
9/30/07	1.0583	0.60
12/31/07	1.0466	0.60
3/31/08	1.0327	0.60

FYE	Cost Inflation Factors	Weighting Factors
6/30/08	1.0171	0.60
8/31/08	1.0000	0.60

Rates were adjusted by an inflation factor of 1.0118 for the period from August 31, 2008 to December 31, 2009.

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 in DRG Rate Calculations

Note that the applied January 1, 2010 update does not include encounter data in DRG rate calculations. Encounter data was submitted for Hospitals' and Health Plans' review, resulting in over 40 appeals. After reviewing all appeals it was noted that the encounter claims from the period September 1, 2004 through August 31, 2006, do not include all applied edits and corrections implemented since the initial review of encounters for inclusion in DRG rates in 2005. Therefore, the encounter data is not included in the DRG rate update effective January 1, 2010. To insure inclusion of the encounter data in the fiscal year 2011 DRG rebasing, MDCH will gather the first year claims of the base period (September 1, 2007 through August 31, 2008) and submit the data to hospitals and health plans for review no later than January 31, 2010. This will enable sufficient time and resources to remedy all outstanding issues prior to the subsequent data pull of the second year of the base period (September 1, 2008 through August 31, 2009). It is expected that sufficient data will be available to use two years FFS claim data as well as two years of encounter data.