

March 6, 2013

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Dear Hospital Administrator:

RE: Medicaid Hospital Reimbursement Reform Initiative Announcement

Over the course of the next several months the Michigan Department of Community Health (MDCH) will embark on a process to evaluate the current reimbursement structure for hospitals that serve Michigan Medicaid beneficiaries. The current system is complex and was developed incrementally, and successfully, to sustain and increase payments to hospitals during a period of limited State revenues. If a Medicaid Expansion is adopted by the State on January 1, 2014, as recommended by Governor Snyder, the hospital system will see significant increases in federal revenues and substantial reductions in uncompensated care, thus making now an opportune time to pursue Medicaid hospital reimbursement reform with the goal of establishing a modern and cohesive reimbursement policy.

The Michigan Medicaid hospital reimbursement system will be examined and alternatives discussed in a formal project setting. MDCH has established a Hospital Reimbursement Technical Workgroup (technical workgroup), comprised of representatives from hospitals, the Michigan Health & Hospital Association, and other stakeholders and state staff to review the current system and make recommendations to the Hospital Reimbursement Steering Committee (steering committee). Participation on the technical workgroup is limited to only those individuals invited to participate and selections were based on our desire to have broad and diverse representation while also keeping the size of the group to a manageable number. Participants have been selected and invitations to those individuals targeted for participation on the technical workgroup will be sent in the near future. The steering committee will review and act upon the recommendations made by the technical workgroup. Once final decisions have been made, MDCH staff will begin the formal policy promulgation process and seek federal approval of the desired changes.

The Hospital Reimbursement Reform Initiative will be governed by five guiding principles as MDCH evaluates the current system and considers options to modernize reimbursement to hospitals that provide inpatient and outpatient services to Michigan Medicaid beneficiaries. These guiding principles are as follows:

1. More predictability
2. Less volatility
3. Efficiency
4. Cost Effectiveness
5. Simplicity

The Hospital Reimbursement Reform Initiative is a major project and must be completed in a very short period of time. MDCH has developed the following draft schedule in an effort to ensure changes can be made in time for a January 1, 2014 effective date:

- March 2013: MDCH announces Hospital Reimbursement Reform Initiative
- March – May 2013: MDCH staff hosts the technical workgroup
- April – June 2013: MDCH staff models impacts of reimbursement options discussed by the technical workgroup
- May – June 2013: the technical workgroup makes recommendations to the steering committee

- May – June 2013: the steering committee reviews and acts upon the technical workgroup's recommendations
- June 2013: MDCH staff completes software/systems request changes and draft state plan amendments
- July – December 2013: MDCH staff promulgates policy and completes final calculations
- August – December 2013: MDCH staff secures federal approvals
- January 2014: MDCH begins phased implementation

The current intent is to examine the following areas of Medicaid hospital reimbursement. It may not be possible to gain consensus or have sufficient resources to make changes to all of the identified areas on January 1, 2014; however, our goal is to evaluate the following components of the current system with the focus of moving toward a more modern and cohesive system.

Statewide Medical/Surgical Rate with Appropriate Adjustments

Under the current system, hospitals are reimbursed a hospital-specific operating rate for the provision of services in the inpatient acute care hospital setting. MDCH and the technical workgroup will evaluate a new reimbursement system that uses a statewide rate with appropriate adjustments.

Outlier Reimbursement Modification

Under the current system, MDCH expends a considerable amount on inpatient admissions that qualify as outlier cases. MDCH and the technical workgroup will evaluate a new reimbursement system that examines the outlier thresholds and the method by which hospitals are reimbursed for inpatient admissions that qualify as outlier cases.

Inpatient Capital Reimbursement

Under the current system, hospitals are reimbursed a cost-based capital payment for the provision of services in the inpatient acute care hospital setting; however, for out of network hospitals, the Medicaid Health Maintenance Organizations (HMO) currently reimburse capital using a prospective rate based on estimated costs. MDCH and the technical workgroup will evaluate a new reimbursement system that provides hospitals with a prospective capital rate.

Outpatient Prospective Payment System (OPPS)

Under the current system, hospitals are reimbursed a percentage of the rate Medicare pays to hospitals for services in the outpatient hospital setting absent an adjustment for geographic wage variation. MDCH and the technical workgroup will consider modifying the OPPS to include an adjustment for geographic wage variation.

Pool Payments

Under the current system, in addition to service-specific rate payments, MDCH reimburses hospitals through a variety of pools for inpatient and outpatient services provided to Medicaid beneficiaries. MDCH and the technical workgroup will examine the various pools and pool payments and consider alternatives to the current system.

We are committed to providing all interested stakeholders the opportunity to participate in this process, even if not chosen for the technical workgroup, by creating a new e-mailbox that will be dedicated to this initiative. We encourage you to submit comments, questions or suggestions to MDCHHospitalReform@michigan.gov. The e-mail box will be monitored regularly, and submitted comments will be considered during the decision making process.

We thank you for your dedication to serving Michigan's most vulnerable population and for your interest in Michigan Medicaid reimbursement. More information will be made available in the near future. You may contact Jason Jorkasky at jorkaskyj@michigan.gov or 517-335-0215 if you have questions regarding this letter.

Sincerely,



James K. Haveman
Director



Stephen Fitton, Director
Medical Services Administration

cc: Richard Miles Jason Jorkasky
 Brian Keisling Steve Ireland
 Sue Moran Sherri Gensterblum
 Karen Parker