



STATE OF MICHIGAN

DEPARTMENT OF COMMUNITY HEALTH
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JANET OLSZEWSKI
DIRECTOR

October 1, 2009

To: Michigan Medicaid-Enrolled Health Plans
Michigan Medicaid-Enrolled Hospitals

RE: Use of Managed Care Encounters in Diagnosis Related Group (DRG) Rate Update effective January 1, 2010

Effective for admissions on and after January 1, 2010, the Department of Community Health will be implementing the DRG Grouper version 27.0 and updating the DRG rates for inpatient Medical/Surgical hospitals. In accordance with Bulletin MSA 08-57 (*DRG Grouper Update, DRG Rate Update, and Per Diem Rate Update*), Health Plan encounter data for the last two years of the rebasing period was to be included in the 1/1/2010 rate update.

The encounter data was submitted for Hospitals and Health Plans' review during the appeal period beginning June 4, 2009 (date of notification letter) through July 20, 2009. We received over 40 appeals, including 38 from hospitals and four from health plans. The appeals included many of the larger hospital and health plans and accordingly encompassed over 75% of the included Medicaid population.

The review of all appeals revealed the following issues, which are presented in general terms and in such a manner to not implicate any plan or hospital:

- Difficulty matching beneficiary information or dates of service not matching
- Observation cases present
- Missing diagnoses or procedure codes
- Missing claims or too many claims
- Inclusion of claims rejected for payment by health plans

The review indicated substantial improvements in data from prior years. In particular there were substantial improvements in the reporting of surgical procedure codes required for proper grouping of claims, and the reporting of National Provider Identifier (NPI) enabled a higher percentage of provider identification than in prior years.

After reviewing all appeals it became apparent that the encounter claims from the period September 1, 2004 through August 31, 2006 do not include enough applied edits and corrections implemented since we first began reviewing encounters for inclusion in the rates back in 2005.

Therefore, the encounter data will not be included in the DRG rate update effective January 1, 2010. We will, however, continue to pursue the inclusion of encounter data in all upcoming rebasings, including the rehabilitation per diem rebasing effective January 1, 2010 and the DRG rebasing effective January 1, 2011.

To insure inclusion of the encounter data in the 2011 DRG rebasing, we will pull 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 of Fee-for-Service claim data as well as the two years of encounter data.

If you have any questions regarding this matter, please contact this office at (517) 335-5330. Thank you.

Sincerely,

Stephen Fitton, Acting Director
Medical Services Administration