Medicare Severity (MS) DRGs & Their Impact on Medicaid

MMIS 2007
August 14, 2007

Kurt Price
Director, Reimbursement Management

Final Rule – CMS Implements MS-DRGs

- **Implementation:** CMS will go forward with MS-DRGs for FY 2008
- **Transition:** MS-DRGs will use a blended weighting approach for FY 2008 – averaging V24 DRG weights with MS-DRG weights
- **Rate Adjustment:** CMS will implement a "documentation and coding adjustment" adjusting rates downward:
  - 1.2% in FY 2008
  - 1.8% in FYs 2009 and 2010
  - Total 4.8% adjustment in the name of budget neutrality
- Other clinical logic changes from the proposed rule

© Ingenix, Inc.

What are MS-DRGs?

- MS-DRGs apply severity of illness to Medicare patients
- Based on existing CMS DRGs
- Basic approach:
  - Revise the current CC list
    - Categorize diagnoses as MCCs, CCs or non-CCs
  - Consolidate the current CMS DRGs to 335 “base” categories
    - Old CC/No CC splits collapsed
    - Age Splits done away with
    - Other DRG consolidations
  - Create MCC, CC, No CC subdivisions
- 745 final MS-DRGs compared to current 538 (V24)

© Ingenix, Inc.

Categorization of CCs

- Create three initial levels of severity
  - Major CC
  - CC
  - No CC
- Comprehensive analysis of all diagnosis codes to evaluate impact on hospital resource use
  - Clinical
  - Statistical
- Final set of proposed CCs and MCCs

© Ingenix, Inc.

Consolidation to Base DRG Categories

- DRGs pairs with and without CC
- DRGs split based on complicating conditions
- DRGs split based on patient age
- Other low volume DRGs
- Other clinically related DRGs
- **Result:** 538 DRGs reduced to 335 base categories

© Ingenix, Inc.

Identify CC/MCC Subclasses

- Subdivide the base categories into categories based on presence or absence of CCs or MCCs
- Improve predictability and consistency
- Avoid low volume
- Required to create separate group:
  - At least 5% of the patients in the base DRG
  - At least 500 cases
  - At least 20% difference in average charges
  - At least $4,000 difference in average charge

© Ingenix, Inc.

What do MS-DRGs mean for Medicaid?

© Ingenix, Inc.

MS-DRG Concerns for Medicaid Populations

- 50% of states are currently using CMS DRGs and others are sure to follow in the future
- Design Concerns for Applicability
  - Elimination of all age (0-17) splits
  - Other DRG consolidations
  - Non-uniform application of CC/MCC subclasses
- CMS will provide no future updates to V24 DRGs
- Budget Neutrality Concerns
  - At implementation
  - Future behavioral change

© Ingenix, Inc.

Consistent CMS Position on Design Concerns

- “The MS-DRGs were specifically designed for purposes of Medicare hospital inpatient services payment.”
- Among other populations “... pediatric patients are not well-represented in the MedPAR data used in the design of the MS-DRGs.”
- “For this reason, we encourage those who want to use MS-DRGs for patient populations other than Medicare to make the relevant refinements to our system so it better serves the needs of those patients.”

CMS Response to Commenter
CMS IPPS Final Rule FY 2008, pp. 115-6

© Ingenix, Inc.

Reimbursement Impact of MS-DRGs for Medicaid CMI Change by MDC

Top 10 MDCs by State Medicaid Volume

MDC	Description	Med/Proc	% Change CMI
4	Diseases & Disorders Of The Respiratory System	M	7.47%
19	Mental Diseases & Disorders	M	4.31%
5	Diseases & Disorders Of The Circulatory System	M	(1.03%)
6	Diseases & Disorders Of The Digestive System	M	5.82%
1	Diseases & Disorders Of The Nervous System	M	(1.07%)
10	Endocrine, Nutritional & Metabolic Diseases & Disorders	M	6.06%
8	Diseases & Disorders Of The Musculoskeletal System & Conn Tissue	S	8.35%
11	Diseases & Disorders Of The Kidney & Urinary Tract	M	4.85%
5	Diseases & Disorders Of The Circulatory System	P	(1.35%)
6	Diseases & Disorders Of The Digestive System	P	7.79%
Total	**All Medicaid**		**1.58%**

© Ingenix, Inc.

Reimbursement Impact of MS-DRGs for Medicaid DRG Weight Changes for MDC 4 (Medical)

Top 10 DRGs in MDC 4 (Medical) by State Medicaid Volume

DRG	Description	MS Weight	V24 Weight	% Change
98	BRONCHITIS & ASTHMA AGE 0-17	0.6529	0.5870	11.22%
91	SIMPLE PNEUMONIA & PLEURISY AGE 0-17	0.9102	0.5598	62.60%
88	CHRONIC OBSTRUCTIVE PULMONARY DISEASE	0.8962	0.8878	0.95%
89	SIMPLE PNEUMONIA & PLEURISY AGE >17 W CC	1.0275	1.0376	(0.98%)
566	RESPIRATORY SYSTEM DIAGNOSIS WITH VENTILATOR SUPPORT < 96 HOURS	2.2484	2.3355	(3.73%)
565	RESPIRATORY SYSTEM DIAGNOSIS WITH VENTILATOR SUPPORT 96+ HOURS	5.1335	5.2430	(2.09%)
97	BRONCHITIS & ASTHMA AGE >17 W/O CC	0.6061	0.5429	11.64%
79	RESPIRATORY INFECTIONS & INFLAMMATIONS AGE >17 W CC	1.6733	1.6268	2.86%
96	BRONCHITIS & ASTHMA AGE >17 W CC	0.7293	0.7350	(0.77%)
87	PULMONARY EDEMA & RESPIRATORY FAILURE	1.3728	1.3838	(0.79%)

© Ingenix, Inc.

Pediatric Reimbursement Impact for Medicaid

- CMS eliminated all age splits (0-17)
- Examined state databases
  - 1.4 million pediatric (age 0-17) Medicaid claims
- Estimated reimbursement impact for Medicaid changing from V24 CMS DRGs to MS-DRGs:
  - 31% increase in reimbursement for claims for 0-17 age admits within an "Age 0-17" DRG
  - Over a 5% increase in all claims for 0-17 age admits (regardless of DRG)

© Ingenix, Inc.

MS-DRG Impact on Pediatric Cases (Medicaid) Weight Changes for Top V24 Age 0-17 DRGs

DRG	DESCRIPTION	MDC	Med/ Proc	MS Weight	V24 Weight	% Change
98	BRONCHITIS & ASTHMA AGE 0-17	4	M	0.6529	0.5870	11.2%
91	SIMPLE PNEUMONIA & PLEURISY AGE 0-17	4	M	0.9102	0.5598	62.6%
184	ESOPHAGITIS, GASTROENT & MISC DIGEST DISORDERS AGE 0-17	6	M	0.7114	0.6192	14.9%
298	NUTRITIONAL & MISC METABOLIC DISORDERS AGE 0-17	10	M	0.7121	0.5753	23.8%
279	CELLULITIS AGE 0-17	9	M	0.7901	0.7922	-0.3%
322	KIDNEY & URINARY TRACT INFECTIONS AGE 0-17	11	M	0.7941	0.6160	28.9%
26	SEIZURE & HEADACHE AGE 0-17	1	M	0.8584	1.0076	-14.8%
422	VIRAL ILLNESS & FEVER OF UNKNOWN ORIGIN AGE 0-17	18	M	0.7534	0.6176	22.0%
70	OTITIS MEDIA & URI AGE 0-17	3	M	0.6243	0.3579	74.4%
396	RED BLOOD CELL DISORDERS AGE 0-17	16	M	0.7835	0.6654	17.8%

© Ingenix, Inc.

Medicaid Severity-Adjusted DRG Alternatives?

More Applicable to Medicaid

Consistent with Familiar CMS DRG Structure

© Ingenix, Inc.

All-Payer Severity-Adjusted DRGs (APS-DRGs)

- Among alternative "All-Payer" DRG models
  - Severity-adjusted DRGs
  - Designed to apply to a broader (non-Medicare) population
- APS-DRGs are:
  - Designed to place a uniform layer of severity adjustment on top of CMS DRGs
  - Consistent with the well-known and industry-accepted CMS foundation
  - Annually updated to incorporate CMS enhancements and updates to DRGs and CCs

APS-DRGs Deviations from MS-DRGs

- With the implementation of MS-DRGs
  - APS-DRGs will continue to be consistent with the CMS structure
  - FY 2008 APS-DRGs based on CMS' Final Rule for MS-DRGs
- BUT ... APS-DRGs will incorporate design deviations to maintain applicability to all-payer populations:
  - **Uniform three-level severity** applied to all Base DRGs
  - Analysis of **DRG consolidations** and reversal where appropriate
  - Analysis and consideration of **pediatric (0-17) age splits** for all Base DRGs where statistically appropriate
  - Maintain its alternative newborn and neonatal model (MDC 15) and other **enhancements for the all-payer population**

APS-DRGs for Medicaid

- APS-DRGs provide a severity-adjusted DRG alternative:
  - Reinstates age and other clinical splits where appropriate for Medicaid
  - Consistently applies three levels of severity across all DRGs
- APS-DRGs will undoubtedly improve the accuracy and fairness of payments for treating Medicaid patients compared to MS-DRGs
- APS-DRGs offer a more appropriate system for Medicaid, while maintaining consistency with the familiar CMS structure
  - Yielding less disruption and increased acceptability to hospitals
  - Consistent with MITA objectives for utilizing industry standards, interoperability among government agencies, and commercial off-the-shelf (COTS) software
- Future APS-DRG analyses using Medicaid data will quantify reimbursement performance compared to other Medicaid severity-adjusted DRG alternatives

INGENIX®

Kurt Price
Director, Reimbursement Management
Ingenix Business Solutions

(360) 357-6901
kurt.price@ingenix.com
www.ingenix.com