

Analysis of Change in Hospital Inpatient Operating Rates and Payments Federal Fiscal Year (FFY) 2006 Rule Compared to FFY 2007 Rule

Report Description

This report shows the changes in Medicare inpatient PPS payment rates and reimbursement related to changes in the FFY 2007 Federal standard amount, hospital wage index, formula for indirect medical education, Medicare dependent hospital policy, and DRG weights. Of particular note, the wage indexes included in this analysis are the final, 100% occupational mix-adjusted values that took effect on October 1, 2006. Also, the expiration of the Section 508 wage index reclassification policy will result in a mid-year change in the wage index for many hospitals. In short, these reports provide a comprehensive profile of several changes that will impact a hospital's Medicare hospital inpatient reimbursement in FFY 2007. These impact reports should supersede any previous impact analysis reports, which were based on CMS' proposed rule.

Data Sources: This analysis utilizes hospital characteristics from Medicare cost reports and inpatient PPS impact files provided as public use files by the Centers for Medicare and Medicaid Services (CMS). Rates and wage indexes are based on the final rules for FFYs 2006 and 2007, as published by CMS in the *Federal Register*. In conducting this analysis, hospital-specific volumes, disproportionate share percentages, and intern and resident to bed ratios are held constant. The case-mix indexes are based on 2005 cases, using the 2006 DRG grouper and weights and the 2007 DRG grouper and weights. The 2007 case-mix value reflects the impact of the first year of the transition to cost-based weights, 20 new DRGs, and changes to 32 other DRGs.

Note that in the Hospital Characteristics section of the report, there may be a difference between the Medicare Cases Billed (adjusted for transfers) in 2006 and 2007. The difference is due to transfer adjustment changes that result from the two different sets of DRG weights.

Wage Index Information: The first section of wage index information shows the permanent and reclassified 2006 wage index areas and values. The second section shows the 2007 permanent and reclassified areas and values. For most hospitals, this is the only information presented. However, for some hospitals, there are three wage index sections if there is a mid-year (April 1) change in the hospital's wage index status. This includes all hospitals that receive to Section 508 wage index reclassifications. It also includes hospitals in CBSAs for which there is a change in the April 1 wage index because one or more Section 508 hospitals reclassified into the CBSA.

The wage index section highlights instances where the 2007 reclassified CBSA is different from the 2006 reclassified CBSA. This information is provided to allow a hospital to verify the change from 2006 to 2007. In addition, if the wage index published by CMS is not the highest value available to the hospital, there is a note identifying the discrepancy.

Federal Data and Hospital Payment Rates: These two sections of the report show the 2006 and 2007 Standard Amounts, the hospital's labor share for each year and the Wage Adjusted Federal Rate for each year. The hospital's DSH and IME adjustments are then applied to derive the federal payment rates that are used to estimate payments for 2006 and 2007. Sole Community Hospitals and Medicare Dependent Hospitals are identified in the Hospital Characteristics section and their hospital-specific payment rates are shown. If the hospital-specific payment rate is more beneficial than the adjusted federal rate, that amount will be shown in this section and used to calculate estimated payments.

Impact Analysis: The estimated 2006 IPPS payment amount reflects the adjusted federal payment amount (or hospital-specific or blended payment amount) shown in the section above multiplied by the 2006 cases and case-mix index.

The IPPS marketbasket is 3.4 percent; however, the update factor for hospitals paid at the federal rate is 3.02 percent due to budget neutrality adjustments. The hospital-specific payment rates were updated by a full marketbasket of 3.4 percent. This analysis assumes that all hospitals submit quality data, therefore, no-one receives a reduction to the marketbasket for quality reporting.

The percentage change due to wage index reflects the impact of all wage index changes between 2006 and 2007, including changes due to updated wage data, the impact of 100% occupational mix adjustment, changes due to reclassifications and changes due to labor share.

The percentage change due to DRG changes was calculated using CMS-provided case-mix indexes for 2005 Medicare claims based on 2006 DRG weights and 2007 DRG weights. The case-mix index is transfer adjusted for hospitals that are paid at the federal rate (transfer adjustments do not apply to hospitals paid at the hospital-specific rate). The percentage impact reflects the changes in weighting methodology and the new/revised DRGs. The new weighting methodology is being phased-in; the 2007 impact is based on one-third cost-based weights and two-thirds charge-based weights.

The remaining changes to payments are due to a reduction to the Indirect Medical Education formula multiplier from 1.37 to 1.32 (a decrease in the percent increase from 5.6 to 5.35) and the improved payments to Medicare Dependent Hospitals (MDHs). The MDH payment improvements include the eligibility for a 2002 base year, an improved blend of hospital-specific (75%) and federal rate (25%), and the elimination of the cap on DSH payments. Not all MDHs benefit from these improvements – if the MDH is paid at the federal rate and has a DSH adjustment that is below the cap, these changes will not impact payments – and most MDHs benefit from some, but not all of these changes.

The estimated 2007 IPPS payments reflect the 2007 adjusted federal payment amount (or hospital-specific or blended payment amount) shown in the section above, multiplied by Medicare cases and case-mix for 2007.