Teaching Hospitals Would Receive More Under Proposed IPPS Regulations

Proposed changes to the Medicare inpatient prospective payment system (IPPS) by the Centers for Medicare and Medicaid Services (CMS) would significantly affect how hospitals are reimbursed for FY2008. These changes include the continued phase-in of relative weights based on hospital-specific costs and new Medicare severity-adjusted DRGs (MS-DRGs). The regulations would redistribute revenues among medical services and profoundly affect the bottom line for many hospitals.

The Medicare IPPS pays hospitals on the basis of pre-determined rates. The system includes numerous technical adjustments based on factors such as local area wage differences, a hospital's indigent caseload, and whether a hospital has a teaching program. The system also allows additional payment for cases that are unusually costly, referred to as "outlier" cases.

The complexity of the IPPS makes it difficult to gauge the effects of changes to a particular component of the payment system. Some components are patient-specific, some are hospital-specific, and some are interrelated with other components. It is also difficult to measure the effects for particular types of hospitals such as those with a teaching program versus those without.

This analysis is based on the preliminary FY2006 MedPAR file that CMS used in promulgating the proposed regulations for FY2008. There are 3,473 short term acute care hospitals included representing approximately $107 billion in IPPS payments per year. IPPS payment was then computed on a patient-by-patient basis under existing regulations for FY2007and proposed payment regulations for FY2008. Each component of reimbursement was included in calculating payment: the respective DRG definitions, relative weights, hospital blended rate, capital payments, outlier payments, DSH adjustments, IME adjustments, transfer adjustments, etc.

The resulting computations of IPPS payment were then summarized for teaching versus non-teaching hospitals. Teaching hospitals were further categorized based on those with 0-99 interns and residents versus those with 100 or more.

Projected IPPS Payment for Teaching vs. Non-Teaching Hospitals

		FY2007		FY2008		
Teaching Status	Number Hospitals	IPPS Payment ($ million)	CMI	IPPS Payment ($ million)	CMI	% Chg (Pmt)
Non-Teaching	2,421	$44,705	1.4041	$44,738	1.3973	0.1%
Teaching 0-99	809	$36,521	1.5782	$36,739	1.5814	0.6%
Teaching 100+	243	$26,065	1.7602	$26,312	1.7756	0.9%
Total	3,473	$107,290	1.5217	$107,789	1.5220	0.5%

The proposed rules for FY2008 do not include provisions for increasing IME payments to teaching hospitals. In fact, total IME payments have consistently remained at 5.3% of total IPPS payments for both periods studied. The higher increases projected for teaching hospitals are most likely due to the types of cases treated. Teaching hospitals generally admit more severely

ill patients and the proposed MS-DRGs plus the phase-in of cost based relative weights may more reliably allocate payment based on severity of illness.

The preceding table shows that the case mix index (CMI) for teaching hospitals is greater for teaching hospitals versus non-teaching hospitals. It also shows that the CMI is higher for those teaching hospitals with larger teaching programs (i.e. those with 100 or more interns and residents). It also shows a slight decline in CMI for non-teaching hospitals versus slight increases for teaching hospitals from FY2007 to FY2008.

TECHNICAL NOTES:
Data are based on the FY2006 MedPAR, December file. This is a file of 100% of all Medicare fee-for-service claims representing discharges during the 12 months ending September 30, 2006 and billed as of 12/31/2006. This is the same file used by CMS in promulgating the proposed IPPS regulations for FY2008. Only short-term acute care hospitals were included and hospitals were excluded if they did not have sufficient data to project IPPS for the periods studied. Hospitals in Maryland and Indian Health Service hospitals were also excluded since they are not covered under the IPPS. Hospitals were also excluded if their teaching status could not be determined from cost report information. No adjustments were made to the data to account for inflation among the periods and no adjustments were made to disregard the "behavioral offset" proposed by CMS for FY2008.

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