Teaching Hospitals Receive a Boost In Case Mix Index Under New MS-DRGs

Changes to the Medicare inpatient prospective payment system (IPPS) by the Centers for Medicare and Medicaid Services (CMS) will significantly affect how hospitals are reimbursed for FY 2008. These changes include the continued phase-in of relative weights based on hospital-specific costs and new Medicare severity-adjusted DRGs (MS-DRGs). The new regulations redistribute revenues among medical services and may 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 FY 2006 MedPAR file that CMS used in promulgating the final regulations for FY 2008. There are 3,451 short term acute care hospitals included representing more than $109 billion in IPPS payments per year. IPPS payment was computed on a patient-by-patient basis according to corresponding regulations for the fiscal years studied. Each component of reimbursement was included in calculating payment: the respective DRG definitions, relative weights, hospital blended rates, 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)	% Chg (CMI)
Non-Teaching	2,402	$44,828	1.4033	$45,571	1.4000	1.7%	-0.2%
Teaching 0-99	814	$37,227	1.5813	$37,927	1.5821	1.9%	0.1%
Teaching 100+	235	$25,754	1.7625	$26,101	1.7699	1.3%	0.4%
Total	3,451	$107,809	1.5223	$109,599	1.5221	1.7%	0.0%

The preceding table shows that the case mix index (CMI) is greater for teaching hospitals versus non-teaching hospitals. It further shows that the CMI increased for teaching hospitals while decreasing for non-teaching hospitals. The higher CMI is likely due to the types of cases treated since teaching hospitals generally admit more severely ill patients. The increase in CMI for

teaching hospitals is likely due to new MS-DRGs that account more precisely for severity of illness.

Changes in CMI, however, are not proportionate to the projected changes in IPPS payment. This discrepancy is affected by several components of payment, but most significantly by payment for outliers. Because MS-DRGs introduce more categories for higher levels of severity, some patients that qualified as outliers prior to FY 2008 are classified into higher weighted MS-DRGs but are not qualified for outlier payment. The number of outlier cases is projected to decrease 5.0% and total outlier payment is projected to decrease 10.1% from FY 2007 to FY 2008 due to regulatory changes.

This shift in outlier payment contributes to the disproportionate change in IPPS payment for large teaching programs that have the highest levels of severity under MS-DRGs. The shift is an indication that CMS may need to focus further on the equity of payment for the costliest cases.

TECHNICAL NOTES:
Data are based on the FY2006 MedPAR, March 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 2/28/2007. This is the same file used by CMS in promulgating the final 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. No adjustments were made to the data to account for inflation between the periods and no adjustments were made to disregard the "behavioral offset" proposed by CMS for FY2008.

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