

Early results for FY08 show variation in reimbursement impact among medical services

Changes to the Medicare inpatient prospective payment system (IPPS) by the Centers for Medicare and Medicaid Services (CMS) have significantly changed the way in which hospitals are reimbursed for FY 2008. Major changes include the continued phase-in of relative weights based on hospital-specific costs and new Medicare severity-adjusted DRGs (MS-DRGs). Other changes include the way in which outliers and certain transfers are reimbursed. The regulations redistribute revenues among medical services and may profoundly affect the bottom line for some hospitals.

This analysis is based on an early release of the FY 2008 MedPAR for discharges during the first three quarters. This early release enables a preliminary study of the actual effects of FY 2008 reimbursement changes before the final file becomes available. There were 3,593 short term acute care hospitals included in the study representing more than \$76.0 billion in IPPS reimbursement for the first 9 months of FY2007 and more than \$71.8 billion for the first 9 months of FY2008.

In order to compare DRG-based reporting in FY2007 with MS-DRG-based reporting in FY2008, patients were grouped into medical service categories. These medical services were defined by groupings of DRGs for FY2007 and by groupings of MS-DRGs for FY2008.

Results shown in the accompanying table were ranked according to percentage changes in IPPS reimbursement. A projected 5.2% decrease in reimbursement for cardiovascular surgery has shifted more than \$621 million to other medical services nationwide. On the other hand, a 6.3% increase in reimbursement for orthopedic surgery will shift more than \$579 million to that service. These shifts are the result of the new MS-DRGs that are intended to account more precisely for differences in severity among individual cases and the continued phase-in of relative weights calibrated according to reported hospital costs.

These shifts in reimbursement among medical services mean that a hospital may need to anticipate changes among its medical services even though the net effect on its bottom line may remain relatively unchanged.

Change in IPPS Reimbursement by Medical Service for FY2008 vs FY2007

Medical Service	3Q FY2007			3Q FY2008			\$ Change (\$mil)	Percent Change
	Number Disch	IPPS Reimbursement	Reimb/ Disch	Number Disch	IPPS Reimbursement	Reimb/ Disch		
Psychiatry	136,373	\$525,549,286	\$3,854	138,136	587,758,584	\$4,255	\$62,209,298	11.8%
Medicine	1,953,763	\$11,230,564,432	\$5,748	1,978,159	12,176,998,446	\$6,156	\$946,434,013	8.4%
Pulmonology	1,208,917	\$8,113,301,321	\$6,711	1,277,307	8,760,334,212	\$6,858	\$647,032,890	8.0%
Orthopedic Surgery	834,036	\$9,212,559,771	\$11,046	841,490	9,792,347,596	\$11,637	\$579,787,824	6.3%
Neurosurgery	56,978	\$1,034,302,872	\$18,153	56,626	1,093,112,811	\$19,304	\$58,809,939	5.7%
Neurology	540,827	\$3,078,755,876	\$5,693	550,485	3,252,366,459	\$5,908	\$173,610,583	5.6%
Orthopedics	254,632	\$1,119,395,210	\$4,396	251,877	1,182,452,944	\$4,695	\$63,057,733	5.6%
Urology	588,248	\$3,665,946,106	\$6,232	598,775	3,849,656,413	\$6,429	\$183,710,307	5.0%
Other	17,652	\$109,118,345	\$6,182	16,717	113,077,237	\$6,764	\$3,958,892	3.6%
Surgery	692,337	\$13,980,532,424	\$20,193	694,112	14,339,270,524	\$20,658	\$358,738,099	2.6%
Gynecology	68,063	\$312,848,727	\$4,596	65,021	316,629,081	\$4,870	\$3,780,354	1.2%
Cardiology	1,565,897	\$8,106,688,581	\$5,177	1,529,807	8,141,747,739	\$5,322	\$35,059,158	0.4%
Oncology	186,274	\$1,732,524,070	\$9,301	178,514	1,707,229,903	\$9,564	-\$25,294,166	-1.5%
Vascular Surg	200,333	\$2,378,060,143	\$11,871	185,034	2,256,101,978	\$12,193	-\$121,958,165	-5.1%
Cardiovascular Surg	607,238	\$12,031,971,602	\$19,814	562,944	11,410,465,861	\$20,269	-\$621,505,741	-5.2%
Surgery for Malig	88,433	\$810,374,953	\$9,164	74,997	755,432,730	\$10,073	-\$54,942,224	-6.8%
TOTAL	9,000,000	\$77,442,493,721	\$8,605	9,000,000	79,734,982,517	\$8,859	\$2,292,488,796	3.0%

Source: American Hospital Directory, Inc.

TECHNICAL NOTES:

Data are based on the FY 2007 MedPAR (March file) and an early release of the FY2008 MedPAR for the 9 months ending 6/30/2008. In order to enable comparisons, only the first three quarters of the FY2007 MedPAR were used and data for both periods were extrapolated to 9,000,000 IPPS discharges. (Actual discharges were 8,832,594 for the first three quarters of FY2007 and 8,113,071 for the first three quarters of FY2008.) Only short-term acute care hospitals were included in the study and claims from distinct part units were excluded. IPPS reimbursement as reported from the MedPAR files represents actual DRG/MS-DRG reimbursement (including disproportionate share (DSH) and teaching (IME) adjustments, but excluding patient deductibles and coinsurance).

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