Cardiovascular Surgery Hardest Hit by 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 effects on specific hospital operations such as shifts in reimbursement among medical services, major diagnostic categories, etc.

This analysis is based on the preliminary FY2006 MedPAR file that CMS used in promulgating the proposed regulations for FY2008. More than 3,700 short term acute care hospitals were included representing approximately $110 billion in IPPS payments per year. IPPS payment was then computed on a patient-by-patient basis under existing and/or proposed payment regulations for respective fiscal years. 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 by medical service. These medical services were defined by groupings of DRGs and were refined for each fiscal year's DRG definitions. It is important to note that the proposed MS-DRGs for fiscal year 2008 actually cause shifts in utilization among some medical services because of increased specificity among DRGs.

Results shown in the accompanying table were ranked according to changes in total IPPS reimbursement. A 1.9% decrease in payments for cardiovascular surgery would shift more than $339 million to other medical services nationwide. On the other hand, a 4.8% increase in payments for orthopedics would shift more than $556 million to that service. These shifts are the result of the proposed MS-DRGs 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.

Projected Change in IPPS Reimbursement per Discharge by Medical Service

Medical Service	FY2006 Number Disch	FY2006 Reimb / Disch	FY2007 Number Disch	FY2007 Reimb / Disch	FY2007 % Chg	FY2008 Number Disch	FY2008 Reimb / Disch	FY2008 % Chg	FY2008 $ Chg ($ mil)
Cardiovascular Surg	839,876	$21,026	839,876	$20,907	-0.6%	839,876	$20,503	-1.9%	-$339.2
Urology	761,025	$7,153	761,022	$7,387	3.3%	746,599	$7,291	-1.3%	-$178.6
Gynecology	113,512	$6,348	113,512	$6,582	3.7%	96,395	$5,980	-9.1%	-$170.7
Cardiology	1,540,837	$6,212	1,540,837	$6,424	3.4%	1,540,836	$6,373	-0.8%	-$78.4
Oncology	248,741	$9,525	248,741	$9,807	3.0%	248,540	$9,734	-0.7%	-$20.0
Pulmonology	1,645,247	$10,685	1,645,247	$10,744	0.6%	1,645,251	$10,747	0.0%	$4.1
Burns	4,499	$18,147	4,499	$18,169	0.1%	4,499	$19,276	6.1%	$5.0
Vascular Surgery	268,432	$12,357	268,447	$12,670	2.5%	268,381	$12,699	0.2%	$6.9
Neurosurgery	66,585	$18,358	66,444	$18,747	2.1%	66,509	$18,891	0.8%	$10.8
Neurology	705,854	$6,260	705,854	$6,433	2.8%	705,852	$6,464	0.5%	$21.8
Surg for Malignancy	48,902	$10,319	48,902	$10,399	0.8%	81,337	$11,036	6.1%	$47.8
Psychiatry	177,695	$3,916	177,695	$4,404	12.5%	177,694	$4,723	7.2%	$56.6
Medicine	3,030,912	$5,642	3,030,912	$5,928	5.1%	3,027,171	$6,033	1.8%	$293.7
Surgery	775,269	$15,926	775,277	$16,270	2.2%	789,498	$16,037	-1.4%	$389.1
Orthopedics	1,409,325	$8,453	1,409,446	$9,841	16.4%	1,398,273	$10,317	4.8%	$556.0
TOTAL	11,653,416	$9,011	11,653,416	$9,355	3.8%	11,653,416	$9,408	0.6%	$612.1

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. 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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