

Inpatient Prospective Payment System: To Reform or Refine?

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- Historical context
- Implications
- What's Changed
- Recent Proposals
- Reform or Refine?

Back in 1983.....

- M*A*S*H was preparing to say 'Goodbye'
- Dynasty was in full swing
- Cabbage Patch Doll frenzy
- Flashdance created a fashion craze
- Madonna was the Queen of video
- Reagan was President

AND

- Medicare implements Inpatient Prospective Payment System
 - Used cost-based DRG weights
 - Moves to charge-based weights for FY 1986



- Lower growth in spending
- Simplify payments
 - Previously paid on cost-basis using cost reports
- More predictable payments
 - For hospitals and government
- Reward efficiency
- From micromanagement to macromanagement
- Establish government as “prudent purchaser”

DRG Basics

- 500+ Diagnosis Related Groups
- Based on clinical similarities and costliness

Calculation: (Standard Base Payment) x (Wage Index) x DRG relative weight

- DRG weight reflects relative costliness of discharges within grouping... charges proxy for cost
- Adjustments made for
 - Outlier cases
 - Disproportionate share hospitals
 - Teaching facilities
 - New technology

Implications

- Spending slowdown and hospitals made money
 - Growth down to 7.0% (1983-2002)
- Incentive to adopt cost saving technologies
- Disincentives to adopt new, expensive technologies
- Incentive to discharge patients to other settings
- Other payers adopt PPS-type systems

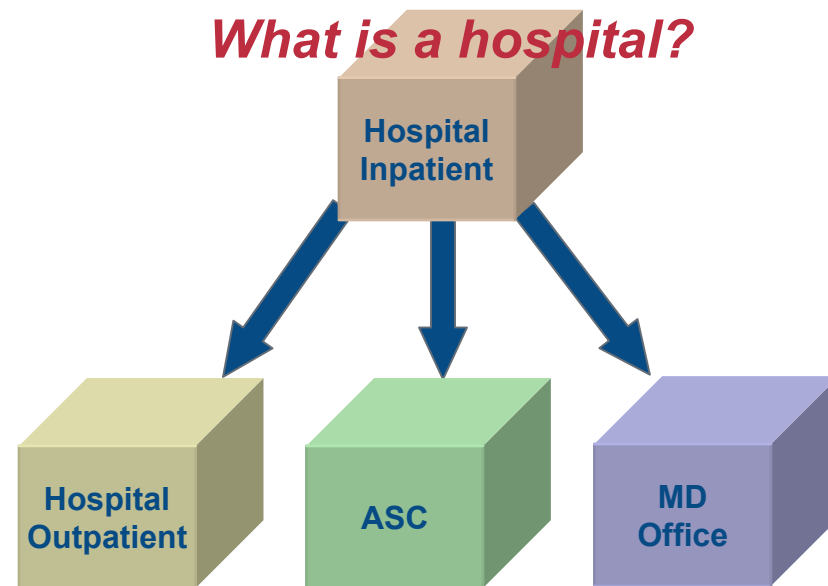
Major Shifts Since M*A*S*H, Dynasty, and Reagan



- Cerebrovascular disease – neurovascular coiling
- Carotid & coronary artery disease – stenting
- Women's health – endometrial ablation; fibroid embolization
- Orthopedics – laparoscopic joint replacements

Sites of Service

What is a hospital?



- Medicare Modernization Act of 2003
 - MedPAC study on physician-owned specialty hospitals
 - Moratorium on physician-owned specialty hospitals
- 2005 MedPAC Report Findings
 - Unbalanced and inaccurate inpatient payment system
 - Over/under payment of services creates incentives for patient selection
 - Improving accuracy of system will make competition & payment more equitable between community and specialty hospitals

Proposed IPPS Reform

MedPAC Recommendations

- ① Use HRVs to Calc. Relative Weight** Use hospital-specific relative values (HRVs) rather than national average relative values to weight payments

- ② Use Refined DRGs** Use all patient refined DRGs (e.g., APR-DRGs) to adjust for differences in severity of illness and cost across patients

- ③ Rely on cost data** Base DRG relative weights costs of providing care rather than average charges

- ④ Modify Outlier Policy** Adjust DRG relative weights to reflect differences in frequency of outliers across patient categories

Core Principals

- ✓ Payment reflecting cost of care
- ✓ Accurate and timely data
- ✓ Accommodate new medical technology
 - ✓ Quicker updates
 - ✓ Improved coding system
- ✓ Minimize gaming incentives
 - ✓ Patient selection
 - ✓ Site-of-service
- ✓ Simple to administer and use



REFINE...
FOR NOW

QUESTIONS?