

Insights to Coding and Data Quality

Medi-Cal planning to use DRGs in mid-2013

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The California Department of Health Care Services (DHCS) announced some time ago that California statutes, which added Section 14105.28 to the Welfare and Institutions Code, October 2010, mandated the design and implementation of a new payment methodology for hospital inpatient services provided to Medi-Cal beneficiaries based upon **diagnosis-related groups (DRGs)**.

After some delays the new date for implementation is now July 1, 2013. Per the DHCS Web site [effective July 1, 2013], indicates that this new DRG payment methodology will replace the previous payment methods of negotiated rates for contract hospitals. Contract negotiations are handled by the Office of the Selective Provider Contracting Program (SPCP) housed within DHCS (previously negotiated by the California Medical Assistance Commission (CMAC)), and also replace the cost-based reimbursement methodology of non-contract hospitals; both of which utilize a per diem type of payment methodology

The DRG-based payment method will be phased in over a three-year period, with the changes fully implemented in the fourth year, similar to what Medicare does with major payment changes. Claims will be paid using the DRG payment method, but some hospitals will see transition DRG-base prices higher or lower than they would have been without the transition. In the first year of the transition, the intention is that average payments per stay for an individual hospital will increase or decrease by no more than five percent relative to what they otherwise would have been. In the second year the range would widen to plus or minus 10% and in the third year to 15%.

The new DRG method will apply to all inpatient hospital fee-for-service claims except the following:

- Psychiatric stays, regardless of whether they are in a distinct-part unit or not.
- Rehabilitation stays (See Medi-Cal; FAQ on Web site1).
- Managed care stays (See Medi-Cal; FAQ on Web site1).
- Administrative days (See Medi-Cal; FAQ on Web site1). • Other services as may be determined by DHCS (none are currently proposed).

DHCS plans to use APR-DRG (All-Patient Refined Diagnostic Related Groups) relative weights calculated from the Nationwide Inpatient Sample. An analysis found very close correlation between the national weights and a set of weights calculated specifically from Medi-Cal fee-for-service data. The national weights are updated annually by 3M Health Information Systems.

APR-DRGs were chosen because they are suitable for use with a Medicaid population, especially with regard to neonatal, pediatric and obstetric care, and because they incorporate sophisticated clinical logic to capture the differences in comorbidities and complications that can significantly affect hospital resource use.

MS-DRGs – the algorithm now used by Medicare – were designed for a Medicare population using only Medicare claims. In Medicare, fewer than one percent of stays are for obstetrics, pediatrics, and newborn care. In the Medi-Cal fee-for-service population, these categories represent about two-thirds of all stays.

For more information visit the DHCS Web site: <<http://www.dhcs.ca.gov/provgovpart/Pages/DRG.aspx>>.

Resource

1<<http://www.dhcs.ca.gov/provgovpart/Documents/DRG/Live%20Files/CADRGFAQSEPT2012.pdf>>

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