



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

Room 110 Capitol Building \* P.O. Box 201711 \* Helena, MT 59620-1711 \* (406) 444-2986 \* FAX (406) 444-3036

**Director**  
AMY CARLSON

DATE: September 22, 2014

TO: Members of the Legislative Finance Committee

FROM: Barbara Smith, Operations Manager

RE: Provider Rate Increases

During the June Legislative Finance Committee (LFC) meeting a number of questions arose regarding the implementation of provider rates appropriated to the Department of Public Health and Human Services (DPHHS). To answer these concerns the LFD management met with DPHHS management and determined an approach to explain the process to implement provider rate increases, including the challenges and limitations. This memo will provide a brief overview of how provider rates are calculated.

### BACKGROUND

- Only the basic reimbursement calculations were examined. Exceptions or alternative policies were not included
- All data was pulled from the website of or provided directly from DPHHS
- Rate examples were created from DPHHS models
- References to the provider rate increase are included where possible

The 2013 legislature provided several rate increases, the one with the most interest in follow up was the 2% per year increase provided in HB2.

### Fee-for-Service

Fee-for-service simply means that a fee is established for a certain product or service. Most likely provider rate increases would be incorporated into the fee schedule. For example:

- Foster care rates are fee-for-service calculated on a daily basis. In reviewing rates for FY 2013, FY 2014, and FY 2015, it was clear that the 2% was passed on to the provider
- Medicaid pharmacy dispensing fee for preferred brand-name and generic drugs increased from \$6.40 (FY 2013) to \$6.52 (FY 2014) to \$6.65 (FY2015) or 2% per year
- Medicaid home health services per visit rate was increased from \$70.40(FY 2013) to \$71.74 (FY 2014) to \$73.10 (FY 2015) or 1.9 %per year
- The upper limit for Medicaid personal assistance services per 15-minute unit was increased from \$4.96(FY 2013) to \$5.05(FY 2014) to \$5.41 (FY 2015).This represents a 1.8% increase in FY 2014 and a 7.13% increase for 2015. In addition to the 2% provider rate increase a direct care worker wage increase was appropriated. These providers have individually approved rates that incorporate the provider specific direct care wage increases; the actual percentage increase for providers would be based on that rate.

## Price-Based Reimbursement

In addition to the 2% provider rate increase for nursing facilities, the facilities rates can be modified in three additional ways:

- Direct care worker wage increase similar to the personal assistants in the previous example
- Changes in acuity
- Intergovernmental adjustments

Each are described below:

Nursing facilities are reimbursed under a case mix, price-based system where rates are determined annually, effective each July 1. Each nursing facility receives the same operating per diem rate, which is 80% of the statewide price. The remaining 20% of the rate represents the direct resident care component of the rate. Because a portion of the rate is tied to patient acuity, some of the change in the rate, up or down, could be attributed to a change in acuity level. Below is a snap shot of the per diem rate changes for five randomly selected nursing facilities.

Medicaid Nursing Facility Services							
Provider Rate Changes - Per Diem ONLY							
Location	Facility	FY 2013	FY 2014	% Change	FY 2015	% Change	Biennial Growth
Bigfork	Lakeview Care Center	\$162.39	\$165.70	2.0%	\$168.73	1.8%	3.9%
Ft. Benton	Missouri River Medical	\$163.71	\$165.78	1.3%	\$169.76	2.4%	3.7%
Helena	Apple Rehab/Cooney	\$165.26	\$169.51	2.6%	\$172.05	1.5%	4.1%
Missoula	Riverside Health Care Ctr	\$165.24	\$169.78	2.7%	\$170.07	0.2%	2.9%
Sheridan	Tobacco Root Mtns Care Ctr	\$164.76	\$169.57	2.9%	\$171.70	1.3%	4.2%
	Statewide Average	\$162.66	\$165.90		\$169.00		
			1.99%		1.87%		

Per Diem is not the total reimbursement for nursing facilities. The actual rate for providers for the 2015 biennium is the following formula:

$$\text{Rate} = \text{Per Diem} + \text{Direct Care Worker Wage} + \text{Intergovernmental Transfer}$$

Below shows the table of the actual rates with the additional payments for the five randomly selected facilities. Note that the addition of the direct care component and IGT adds 7 to 13% to the per diem rate.

FY 14 Potential Reimbursement per Medicaid Day						
Location	Facility	Per Diem	Direct Care	IGT	Total	% over PerDiem
Bigfork	Lakeview Care Center	\$165.70	\$3.95	\$8.04	\$177.69	7.2%
Ft. Benton	Missouri River Medical	\$165.78	\$3.95	\$18.08	\$187.81	13.3%
Helena	Apple Rehab/Cooney	\$169.51	\$3.95	\$8.04	\$181.50	7.1%
Missoula	Riverside Health Care Ctr	\$169.78	\$3.95	\$8.04	\$181.77	7.1%
Sheridan	Tobacco Root Mtns Care Ctr	\$171.70	\$3.95	\$17.11	\$192.76	12.3%

Because IGT is dealt with at the end of the fiscal year, we are unable to compare FY 2014 total rates to FY 2015 total rates at this time.

## Resource Based Relative Value System (RBRVS) <sup>1</sup>

In some services, the 2% is not independent from the overall calculation, but built in to the required calculations. Reimbursement is based on the value of a service relative to all other services. The calculations compare the resources needed for a specific service (office expenses, malpractice insurance, and provider work effort and complexity) to those needed for other services. The fee for each code is determined by multiplying the relative value by a conversion factor with a dollar value. The conversion factor is Montana-specific. The physician based fee can also be adjusted for mid-level practitioners; psychiatrists and optometrists, as well as adjusted for specific policy issues such as family planning, maternity and mental health.

In FY 2014 there was a 2% provider rate increase, and a 3.7% CPI increase. (The CPI increase is required under MCA 53-6-125). The CPI increase is required to be in the conversion factor.

The final adjustments, all 167 pages, for FY 2015 can be viewed at:

[http://medicaidprovider.hhs.mt.gov/pdf/fee\\_schedules/2014/07jul14/rbrvdfs072014.pdf](http://medicaidprovider.hhs.mt.gov/pdf/fee_schedules/2014/07jul14/rbrvdfs072014.pdf)

## Reimbursement Systems for Hospitals

The 2% provider rate was incorporated into outpatient reimbursement system but not the inpatient reimbursement system. Appropriations of the 2% provider rate increase were not specific by service, but rather by groups of services. Montana Medicaid's reimbursement systems include an All Patient Diagnosis Related Groups (DRG) system for inpatient services for some hospitals<sup>2</sup> and Ambulatory Payment Classification (APC) for these same hospitals for outpatient hospital services.

### *Inpatient*

Medical claim variables are passed through an APR-DRG grouper program to determine the appropriate APR-DRG. For each APR-DRG, a relative weight factor that reflects the typical resources consumed is assigned. The relative weight is applied to determine the APR-DRG Base Payment that will be paid for each admit-through-discharge case regardless of the specific services provided or the length of stay.

A hospital can price claims to determine potential reimbursement; however actual pricing is done through the Medicaid claims processing system. The Montana Medicaid Inpatient Pricing Calculator can be found at

[http://medicaidprovider.hhs.mt.gov/pdf/fee\\_schedules/2014/07jul14/aprdrdfs072014.xlsx](http://medicaidprovider.hhs.mt.gov/pdf/fee_schedules/2014/07jul14/aprdrdfs072014.xlsx)

Here is an example of the code "other pneumonia" priced by the calculator for a ten day stay for an individual who is younger than 18 at each severity level.

Inpatient Hospital			
Other Pneumonia, 10 Days, <18 years old			
DRG	Base	Weight	Total
139-1	\$5,175	0.5503	\$2,847.80
139-2	\$5,175	0.8383	\$4,338.20
139-3	\$5,175	1.3026	\$6,740.96
139-4	\$5,175	2.2603	\$11,697.05

### *Outpatient*

Most services in the outpatient hospital setting are paid using the Ambulatory Payment Classification (APC) system developed by Medicare. The Department has adopted Medicare

<sup>1</sup> DPHHS report to legislature 2013

<sup>2</sup> Critical Access Hospitals are reimbursed on a cost based payment method.

definitions and weights for APCs for the most part. Relative weights are adjusted by a conversion factor determined by the Department. In reviewing data from the department's website it appears that the conversion factor had not been adjusted since FY 2008. The table provides a short history of conversion factor rate.

Outpatient Hospital Conversion Factor History			
Fiscal Year	2007	2008	2015
Conversion Factor	47.75	50.61	55.53
Percent Change		6.0%	9.7%

Relative weights can impact the change in payments to a facility. Two examples are provided to illustrate the impact of the relative weight and the conversion factor. Note that the relative weight change and increase in the conversion factor for claims on or after 7/1/2014 compound providing a greater increase in reimbursement.

Outpatient Hospital Fees						
Service	Chest Xray (0260)			Level 4 ER Visit (0616)		
Effective Date	7/1/2012	7/1/2013	7/1/2014	7/1/2012	7/1/2013	7/1/2014
Relative Weight	0.6404	0.6443	0.7891	4.6215	4.8338	6.2738
Conversion Factor	<u>50.61</u>	<u>50.61</u>	<u>55.63</u>	<u>50.61</u>	<u>50.61</u>	<u>55.63</u>
Total Fee	<u>\$32.41</u>	<u>\$32.61</u>	<u>\$43.90</u>	<u>\$233.89</u>	<u>\$244.64</u>	<u>\$349.01</u>
Percent Change		0.6%	34.6%		4.6%	42.7%

## SUMMARY

In summary, this memo report provides a glimpse into the reimbursement systems managed by DPHHS for Medicaid and non-Medicaid services. The complexity of the systems and the relative depth of the service codes do present a challenge in locating the implementation of the provider increase. In light of this information, the committee may wish address what information would be beneficial for legislators when provider rate increases are being discussed in the Health and Human Services subcommittee. If warranted, the LFD staff could provide additional information at the December meeting based on feedback from this report.