# Hospital Reimbursement Overview

**SFY 2024 - 2025**

February 21, 2024

MaineCare

# Hospitals 101

## Types of Maine Hospitals

- Acute Care (14)
- Critical Access (18)
- Rehabilitation (1)
- Psychiatric (4)

## Public vs Private

- All hospitals are either privately or publicly owned.
- Public hospitals reimbursed by MaineCare are owned and operated by either a municipality or the state.

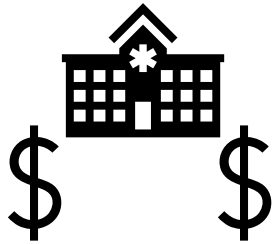
## Service Types

- **Inpatient** services are delivered in the main hospital facility following admission, the patient is considered “hospitalized” and usually stays overnight.
- **Outpatient** services are usually can be delivered in the main hospital facility or at other, off-campus satellite locations. The patient leaves the facility following treatment, usually within 24 hours. Emergency Department services are one type of outpatient care.

# Key Points & Basic Example

Recent MaineCare Rate Reform addressed the "facility" side of hospital reimbursement for Acute Care Hospitals and did not address "professional services" reimbursement.

## Acute Care Hospital



"Facility" side

Payments that go to hospitals for the technical and facility components of costs.

Example service: Outpatient surgery

Example payment: MaineCare pays 109% of Medicare APC* rates for services

Example Billing: Billed on a UB claim form.

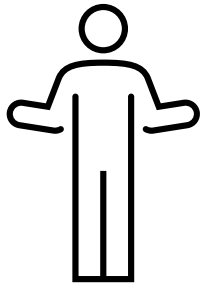
"Professional" side

Payments for the professional care team services that are delivered within hospital settings.

Example service: The surgeon who did the outpatient surgery.

Example payment: Fee schedule + cost settlement. (100% costs for Rural Acute Care hospital)

Example Billing: Billed on a 1500 claim form.



*Ambulatory Payment Classification

# Current Methodology for Acute Care Hospital-Based Professionals

Two steps:

1. When a hospital bills for professional services, the *initial* reimbursement is off a fee-schedule.
2. Using audited cost reports to review costs of the hospital – compared to reimbursement received in Step 1, MaineCare then cost settles professional services at hospital-based sites/practices to a percentage of costs.
    - The percentage of costs varies based on whether the hospital is rural or non-rural, and whether the service is inpatient, outpatient, or Emergency Department.

**MaineCare will reimburse % of reported allowable costs, regardless of how high the costs are, or how much they have grown. There is no cost control.**

# Comparing Current MaineCare Reimbursement for Hospital-Based Professionals to Medicare Payments

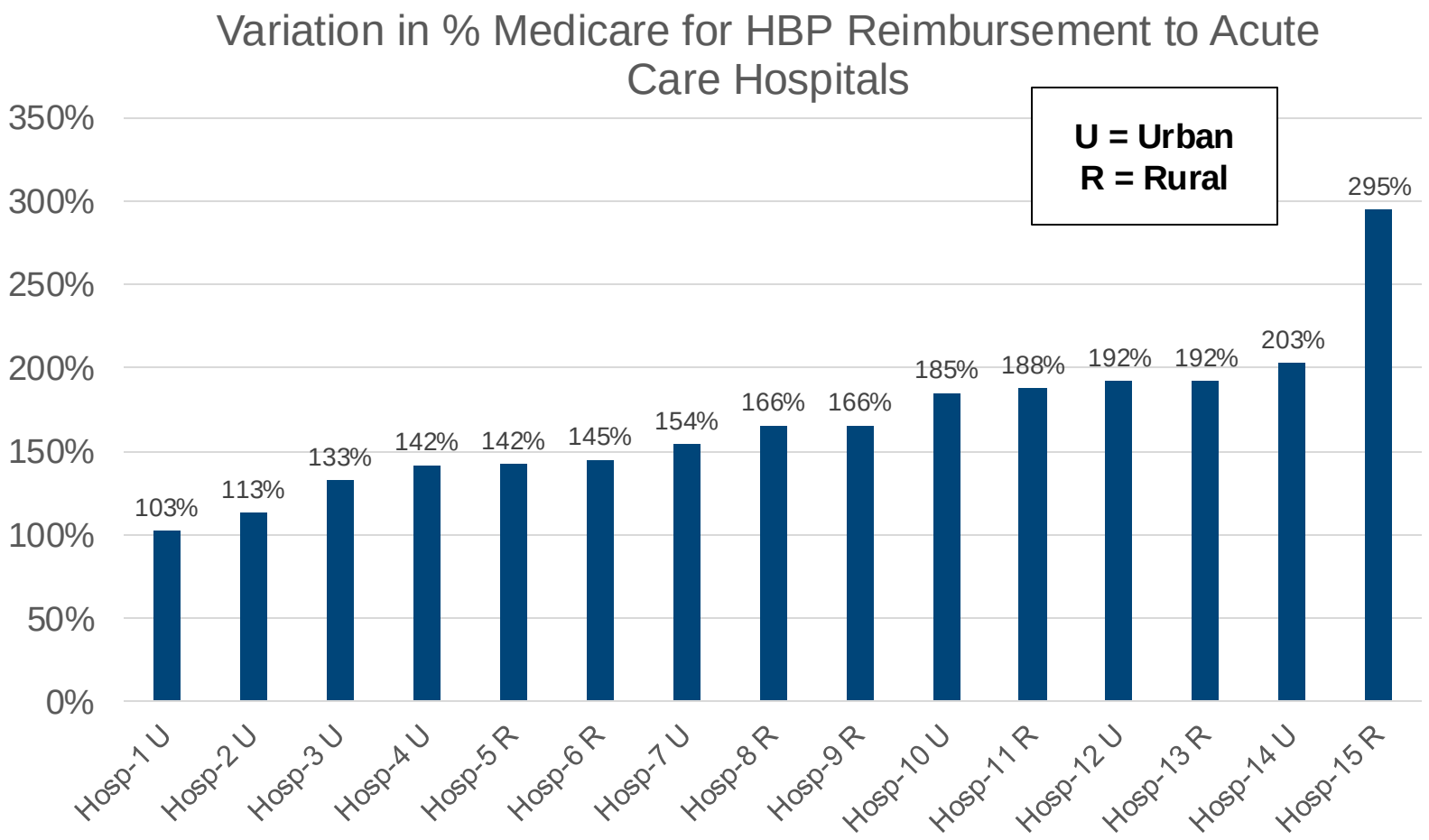
**Is it MaineCare's policy to reimburse hospitals for professional services at 170% of Medicare**?
No, it is not. MaineCare's policy is to reimburse a percentage of the hospital's professional costs: 100% for Rural hospitals, and, depending on the setting (inpatient, Emergency Department, etc), between ~84% and 93% for non-rural hospitals.

**Why is the Department explaining its reimbursement in terms of a percentage of Medicare, then?**
Sources like CMS, RAND and NASHP often use Medicare reimbursement as a benchmark when discussing hospital reimbursement because it provides a standardized, widely understood baseline to compare reimbursement both from Medicaid and from commercial payers for the same services.
This allows for easy identification of price variation across hospitals and payer sources.

On average, MaineCare's reimbursement through the fee schedule + cost settlements equates to hospitals being paid over 170% of the Medicare for their professional services. **The percentage of Medicare by individual hospital varies from 100% to almost 300% of Medicare!**

**For further comparison**:
- MaineCare pays 109% of Medicare for hospital outpatient facility costs.
- MaineCare pays independent practices 100% of Medicare for primary care, and 72.4% for other professional services.
- CMS uses 80% of Medicare as a benchmark for reasonable Medicaid payments, applying scrutiny to proposed rate reductions only if proposed reimbursement is below this benchmark for certain services.

# There is wide cost variation across hospitals, resulting in reimbursement that varies from about 100% to almost 300% of Medicare




- Higher **percentage** of cost reimbursement does not automatically equal higher **reimbursement**
- While urban hospitals receive less than 100% of cost (~84-93% by service), some urban hospitals still are amongst the highest cost/ receive the most as a percentage of Medicare (around 200%)

# Current Methodology for Hospital-Based Professionals

**Current:**

| Type of Hospital | Professional Cost Settlement |
|---|---|
| Acute Care (Non-Critical Access) Hospitals | |
| • Non Rural | • 93.3% of inpatient **costs**<br>• 93.4% of Emergency Department **costs**<br>• 83.8% of other (non ED) Outpatient **costs** |
| • Rural | • 100% of **costs** |

**Proposed:**

Same as above, except reimbursement is capped, in Year 1 of the transition, at 160% of Medicare for the hospital in aggregate.

# High Level Summary of Hospital Reimbursement Methodology FY 2025

| | Acute Care "Rural" | Acute Care non "Rural"** | Rehabilitation | Critical Access | Private Psychiatric |
|---|---|---|---|---|---|
| **Inpatient** | DRG* discharge rates include:<br>•Facility costs<br>•Capital costs<br>•GME costs<br><br>Outlier payments available | DRG discharge rates include:<br>•Facility costs<br>•Capital costs<br>•GME costs<br><br>Outlier payments available | DRG discharge rates include:<br>•Facility costs<br>•Capital costs<br>•GME costs<br><br>Outlier payments available | Facility Costs settled at **104.5%** of allowable costs | • Federal prohibition on payment for adults.<br>• Children or adults with legal guardians, negotiated rate between **85%-100%** of charges |
| | Professional costs settled at **100%** | Professional costs settled at **93.3%** | Professional costs settled at **93.3%** | Professional costs settled at **100%** | |
| **Outpatient** | • Professional costs settled at **100%** | • Professional costs settled at **83.8%**<br>• ED settled at **93.4%** | • Professional costs settled at **83.8%** | • Professional costs settled at **100%** | • Cost settled at **117%** |
| | • Facility - **109%** of Medicare APC and outlier payments | • Facility - **109%** of Medicare APC and outlier payments | • Facility - **109%** of Medicare APC and outlier payments | • Facility costs settled at **104.5%** of allowable costs | |

## Supplemental Payments

- Not subject to cost settlement
- Not tied to current provision of services
- With exception of $600K VBP sub-pool, not related to value of care

*DRG = Diagnosis Related Groups, or how some rates are categorized

**Fee schedules differ by inclusion of facility costs

Dotted orange outline denotes recent change in methodology

# Acute Care Hospitals

Most services provided by Acute Care Hospitals are paid using the Prospective Payment System (PPS) methodology, meaning set payment amounts are assigned to certain services based on classifications which represent the time and resources associated with providing that service.

## Inpatient

For inpatient facility services, the base rate is multiplied by the Medicare Severity Diagnosis-Related Group (MS-DRG) relative weight for each claim.

## Outpatient

Ambulatory Payment Classification (APC) payments are made when the member receives services in an outpatient setting. MaineCare reimburses 109% of the Medicare APC.

## Key Changes of SFY25 Rate Reform

- Established standard methodology for all Acute Care Hospitals.
- Ended cost settlement for capital costs and GME
- Transitioned from hospital-specific base rates to a standard base rate by peer group
- Established GME add-on for teaching hospitals
- Updates Medicare DRG Relative Weights annually.
- Increased APC reimbursement from 83.7% to 109%