

OMFS Update for Inpatient Hospital Services (Effective for discharges occurring on or after December 1, 2008)

1. Data Sources

a. The Medicare FY09 update to the inpatient prospective payment system was published on August 19, 2008 in the Federal Register (Vol. 73 FR 48434) and is entitled “Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2009 Rates; Payments for Graduate Medical Education in Certain Emergency Situations; Changes to Disclosure of Physician Ownership in Hospitals and Physician Self-Referral Rules; Updates to the Long-Term Care Prospective Payment System; Updates to Certain IPPS-Excluded Hospitals; and Collection of Information Regarding Financial Relationships Between Hospitals Final Rules” (CMS-1390-F; CMS-1531-IFC1; CMS-1531-IFC2; CMS-1385-F4). A correction to the final rule was published on October 3, 2008, in the Federal Register (Vol. 73 FR 57541), and is entitled “Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2009 Rates; Payments for Graduate Medical Education in Certain Emergency Situations; Changes to Disclosure of Physician Ownership in Hospitals and Physician Self-Referral Rules; Updates to the Long-Term Care Prospective Payment System; Updates to Certain IPPS-Excluded Hospitals; and Collection of Information Regarding Financial Relationships Between Hospitals; Correction” (CMS-1390-CN; CMS-1531-CN; CMS-1385-CN2). A notice to the final rule was published on October 3, 2008 in the Federal Register (Vol. 73, FR 57888), entitled, “Medicare Program; Hospital Inpatient Prospective Payment Systems and Fiscal Year 2009 Rates: Final Fiscal Year 2009 Wage Indices and Payment Rates Including Implementation of Section 124 of the Medicare Improvement for Patients and Providers Act of 2008; Notice” (CMS-1390-N). These documents are available at <http://www.cms.hhs.gov/AcuteInpatientPPS/>.

b. The factors to determine composite rates are available on the CMS website at <http://www.cms.hhs.gov/AcuteInpatientPPS/>. The public use file used to calculate the composite rates is entitled “Impact file for FY 2009 Final Rule (September 2008)” The file contains wage data posted on the CMS website as of September 2008.

2. Composite Rate Calculation

a. Update to the standardized amount. L.C. 5307.1(g)(1)(A)(i) provides that the annual inflation adjustment for inpatient hospital facility fees shall be determined solely by the estimated increase in the hospital market basket. Thus, in lieu of using the Medicare FY09 rates to determine the updated OMFS amounts, the estimated increase in the hospital market basket was applied to the FY08 OMFS rates.

b. OMFS rate for operating costs

- i. Based on the Medicare Hospital Inpatient Prospective Payment System, all hospitals are paid the same standard rate for operating costs (based on the rate for hospitals located in large urban areas). The FY08 rate was \$ 5,061.73. The estimated increase in the market basket is 3.6%. The FY09 standard rate under the OMFS is \$ 5,243.95 ($\$5,061.73 \times 1.036$).
 - ii. The Medicare Hospital Inpatient Prospective Payment System provides that if a hospital's wage index is less than or equal to 1.0, the labor-related share is .62 of the standard rate. If the wage index is greater than 1.0, the labor-related share is .697. The wage-adjusted standard rate is determined as follows:
 - 1. For discharges occurring on or after December 1, 2008, use post reclass wage, which can be found in the Impact File for IPPS FY 2009 Final Rule:
 - a. If Post Reclass Wage >1.0, wage-adjusted rate = $\$5,243.95 \times (.697 \times \text{Post Reclass Wage} + .303)$
 - b. If Post Reclass Wage ≤1.0, wage-adjusted rate = $\$5,243.95 \times (.62 \times \text{Post Reclass Wage} + .38)$
 - iii. The wage-adjusted operating rate is further adjusted for any additional payments for teaching and serving a disproportionate share of low-income patients.
Adjusted operating rate = wage-adjusted standard rate x (1 + DSHOPG + TCHOP)
- c. OMFS rate for capital-related costs
 - i. The estimated increase in the capital market basket is 1.4%. The FY09 standard capital rate is \$436.22 ($\430.20×1.014).
 - ii. The standard capital is adjusted for the capital geographic adjustment factor, teaching, and for serving low-income patients.
 - iii. For discharges occurring on or after December 1, 2008, use post reclass GAF, which can be found in the Impact File for IPPS FY 2009 Final Rule:
 - 1. Adjusted capital rate = $\$436.22 \times \text{Post Reclass GAF} \times (1 + \text{DSHCPG} + \text{TCHCP})$.
- d. The standard composite rate is the sum of the OMFS rate for operating costs and the OMFS rate for capital-related costs.
- e. Sole community hospitals (PTYPE = 16) receive the higher of the standard composite rate or a composite rate based on a hospital-specific rate for operating costs plus the OMFS rate for capital-related costs. When the hospital-specific composite rate (HSP rate) is higher than the standard composite rate, the amount is shown in italics. The HSP rate is the FY 1982/1987/1996 Hospital Specific Payment (HSP) Rate updated to FY 2009 for SCH providers. It does not reflect the FY 2006 HSP rate for SCH providers. It is anticipated that Medicare will add the updated

hospital-specific rate based on FY 2006 costs per discharge to determine the rate that yields the greatest aggregate payment. The OMFS inpatient hospital fee schedule will be updated once Medicare provides the FY 2006 hospital-specific composite rate.

3. Cost-to-charge ratio (CCR) used to determine outlier payments is the sum of the operating and capital cost-to-charge ratios. $CCR = \text{Operating CCR} + \text{Capital CCR}$
4. Hospital-specific outlier factor
 - a. The fixed loss cost outlier threshold is \$ 20,045.
 - b. The fixed loss cost outlier threshold is allocated to operating and capital components and adjusted for geographic location as follows:
 - i. For discharges occurring on or after December 1, 2008, use post reclass wage, which can be found in the Impact File for IPPS FY 2009 Final Rule:
 1. If Post Reclass Wage > 1.0 , operating outlier factor = $\$20,045 \times \text{Operating CCR/CCR} \times (\text{Post Reclass Wage} \times .697 + .303)$
 2. If Post Reclass Wage ≤ 1.0 , operating outlier factor = $\$20,045 \times \text{Operating CCR/CCR} \times (\text{Post Reclass Wage} \times .62 + .38)$
 - ii. For discharges occurring on or after December 1, 2008, use post reclass GAF, which can be found in the Impact File for IPPS FY 2009 Final Rule:
 1. Capital outlier factor = $\$20,045 \times \text{Capital CCR/CCR} \times \text{Post Reclass GAF}$
 - iii. Hospital-specific outlier factor = operating outlier factor + capital outlier factor
5. DRG Relative Weights: Revised DRG relative weights were published on August 19, 2008 in the Federal Register (Vol. 73 FR 48434 at page 48899) as "TABLE 5- - LIST OF MEDICARE SEVERITY-DIAGNOSIS RELATED GROUPS (MS-DRGS), RELATIVE WEIGHTING FACTORS, AND GEOMETRIC AND ARITHMETIC MEAN LENGTH OF STAY". Section 9789.24. Diagnostic Related Groups, Relative Weights, Geometric Mean Length of Stay is revised to reflect these changes effective with discharges occurring on or after December 1, 2008.
6. Maximum Allowable Fees: To determine the standard payment rate, the hospital-specific composite rate would be multiplied by the DRG relative weight and 1.20 multiplier. Additional payments will be made for high cost outlier cases and for certain pass-through costs in accordance with the regulations.
7. Acute Care Transfers: Section 9789.22(i)(2)(A) is amended to conform to Medicare's updates to the qualifying DRGs when an acute care patient is

discharged to a post-acute care provider, which were published on August 19, 2008 in the Federal Register (Vol. 73 FR 48434) and is entitled “Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2009 Rates; Payments for Graduate Medical Education in Certain Emergency Situations; Changes to Disclosure of Physician Ownership in Hospitals and Physician Self-Referral Rules; Updates to the Long-Term Care Prospective Payment System; Updates to Certain IPPS-Excluded Hospitals; and Collection of Information Regarding Financial Relationships Between Hospitals Final Rules” (CMS-1390-F; CMS-1531-IFC1; CMS-1531-IFC2; CMS-1385-F4). This document is available at <http://www.cms.hhs.gov/AcuteInpatientPPS/>. Table 5 lists how the transfer policy will apply when an acute care patient in a particular DRG is discharged to a post-acute care provider.

8. Section 9789.22(i)(2)(B) is amended to conform to Medicare’s updates to DRGs subject to payment under this subsection which are indicated with a “yes”, in the “FY09 Final Rule Special Pay DRG” column, listed in Table 5, which was published on August 19, 2008 in the Federal Register (Vol. 73 FR 48434) and is entitled “Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2009 Rates; Payments for Graduate Medical Education in Certain Emergency Situations; Changes to Disclosure of Physician Ownership in Hospitals and Physician Self-Referral Rules; Updates to the Long-Term Care Prospective Payment System; Updates to Certain IPPS-Excluded Hospitals; and Collection of Information Regarding Financial Relationships Between Hospitals Final Rules” (CMS-1390-F; CMS-1531-IFC1; CMS-1531-IFC2; CMS-1385-F4). This document is available at <http://www.cms.hhs.gov/AcuteInpatientPPS/>.
9. Section 9789.22 is further amended by Order of the Acting Administrative Director as described in paragraph 10, below. In particular, the subsections which reference the Federal Register or Code of Federal Regulations are amended to incorporate by reference the Federal Register, August 19, 2008 in the Federal Register (Vol. 73 FR 48434) and is entitled “Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2009 Rates; Payments for Graduate Medical Education in Certain Emergency Situations; Changes to Disclosure of Physician Ownership in Hospitals and Physician Self-Referral Rules; Updates to the Long-Term Care Prospective Payment System; Updates to Certain IPPS-Excluded Hospitals; and Collection of Information Regarding Financial Relationships Between Hospitals Final Rules” (CMS-1390-F; CMS-1531-IFC1; CMS-1531-IFC2; CMS-1385-F4), the correction to the final rule published on October 3, 2008, in the Federal Register (Vol. 73 FR 57541), and is entitled “Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2009 Rates; Payments for Graduate Medical Education in Certain Emergency Situations; Changes to Disclosure of Physician Ownership in Hospitals and Physician Self-Referral Rules; Updates to the Long-Term Care Prospective Payment System; Updates to Certain IPPS-Excluded Hospitals; and Collection of Information Regarding Financial Relationships

Between Hospitals; Correction” (CMS-1390-CN; CMS-1531-CN; CMS-1385-CN2), and the notice to the final rule published on October 3, 2008 in the Federal Register (Vol. 73, FR 57888), entitled, “Medicare Program; Hospital Inpatient Prospective Payment Systems and Fiscal Year 2009 Rates: Final Fiscal Year 2009 Wage Indices and Payment Rates Including Implementation of Section 124 of the Medicare Improvement for Patients and Providers Act of 2008; Notice” (CMS-1390-N), to be applied to discharges occurring on or after December 1, 2008.

10. Pursuant to Labor Code section 5307.1(g)(2), the Acting Administrative Director of the Division of Workers’ Compensation orders that to the extent references to the Federal Register or Code of Federal Regulations are made in any sections starting from section 9789.20 through 9789.24 of Title 8 of the California Code of Regulations, said section is hereby amended to incorporate by reference the applicable Federal Register final rule (including correction notices and revisions) and Federal Regulations in effect as of the date the Order becomes effective, to be applied to discharges occurring on or after December 1, 2008.