

Medicare funding and reimbursement



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31 March Medicare Funding and Reimbursement Medicare Funding and Reimbursement Operating payment to be paid to the hospital

The operating payment to be paid to the hospital is calculated as follows:

$$\text{Operating Cost} = (\text{DRG Relative Weight} \times ((\text{Labor Related Large Urban Standardized Amount} \times \text{San Francisco CBSA Wage Index}) + (\text{Nonlabor Related National Large Urban Standardized Amount} \times \text{Cost of Living Adjustment}))) \times 1 + \text{IME} + \text{DSH})$$

Substituting values yields the following results:

$$\text{Operating Cost} = (0.6419 \times ((\$3397.52 \times 1.5419) + (\$1,476.97 \times 1))) \times 1 + 0.0744 + 0.1413$$

$$\text{Operating cost} = (0.6419 \times (\$5238.64 + \$1,476)) \times 1.2157 = \$4,310.13 \times 1.2157 = \$5,239.82$$

Therefore, the operating payment to be paid to the hospital is \$5,239.82

2. Capital Cost Payment to be Made to the Hospital

The capital cost payment to be paid to the hospital is calculated as follows:

$$\text{Capital Cost} = ((\text{DRG Relative Weight} \times \text{Federal Capital Rate} \times \text{Large Urban Add-On} \times \text{Geographic Cost Adjustment Factor} \times \text{COLA}) \times (1 + \text{IME} + \text{DSH}))$$

Substituting values yields the following results:

$$\text{Capital cost} = (0.6419 \times \$427.03 \times 1.03 \times 1.3452 \times 1) \times (1 + 0.0243 + 0.0631) = \$283.67 \times 1.0874 = \$308.46$$

Therefore, the capital cost payment to be paid to the hospital is \$308.46

3. Outlier Payments to which the hospital is eligible

The operating costs and capital costs will first have to be calculated as follows:

$$\text{Operating Costs} = \text{Billed Charges} \times \text{Operating Cost to Charge Ratio}$$

$$\text{Operating costs} = \$125,000 \times 0.38 = \$47,500$$

Capital Costs = Billed Charges × Capital Cost to Charge Ratio

Capital costs = \$125,000 × 0.04 = \$5,000

The Operating and Capital Threshold will then need to be determined and is calculated as follows:

Step 1

Operating CCR to Total CCR = Operating CCR / (Operating CCR + Capital CCR)

Operating CCR to Total CCR = 0.38 / (0.38 + 0.04) = 0.38 / 0.42 = 0.9048

Step 2

Capital CCR to Total CCR = Capital CCR / (Operating CCR + Capital CCR)

Capital CCR to Total CCR = 0.04 / (0.38 + 0.04) = 0.04 / 0.42 = 0.0952

Step 3

Operating Outlier Threshold = ((Fixed Loss Threshold × ((Labor related portion × San Francisco CBSA Wage Index) + Nonlabor related portion)) × Operating CCR to Total) + Federal Payment with IME and DSH

Operating Outlier Threshold = ((\$24,485 × ((0.697 × 1.5419) + 0.303)) × 0.9048) + \$5,239.83 = \$35,761.53

Step 4

Capital Outlier Threshold = (Fixed Loss Threshold × Geographic Adj. Factor × Large Urban Add-On × Capital CCR to Total CCR) + Federal Payment with IME and DSH

Capital Outlier Threshold = \$24,485 × 1.3452 × 1.03 × 0.0952 + \$308.46 = \$3538.15

It must be noted that the fixed loss threshold for FY 2008, 2009, 2010 and 2011 were \$22,185, \$20,045, \$23,140 and \$23,075 respectively. The figures provided in the example have been used in the calculations.

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The Operating and Capital Outlier Payment Amount is therefore calculated using the following steps

(i) Determine if Total Costs are Greater Than Combined Threshold = (if (operating costs + Capital costs) > (operating threshold + capital threshold))

. If this is true then continue to (ii)

Operating costs + capital costs = \$47, 500 + \$5, 000 = \$52, 500

Operating threshold + capital threshold = \$35, 761. 53 + \$3538. 15 = \$39, 299. 68

Implies Total costs > combined threshold so we move to (ii)

(ii) Operating Outlier Payment = (Operating Costs - Operating Outlier Threshold) × Marginal Cost Factor

Operating Outlier Payment = (\$47, 500 - \$35, 761. 53) × 0. 8 = \$9, 390. 77

(iii) Capital Outlier Payment = (Capital Costs - Capital Outlier Threshold) × Marginal Cost Factor

Capital Outlier Payment = (\$5, 000 - \$3, 538. 15) × 0. 8 = \$1, 169. 48

The Cost Outlier payments that the hospital will be eligible for is: Operating Outlier Payment + Capital Outlier Payment = \$9, 390. 77 + \$1, 169. 48 = \$10, 560. 25

4. Total Payment to the Hospital

Operating Payment + Capital Payment + Outlier Payment = \$5, 259. 83 + \$308. 46 + \$10, 560. 25 = \$16, 128. 54

5. Skilled Nursing Facility Payment

The payment for the skilled nursing facility (SNF) is calculated as follows:

SNF base rate = 70% adjusted by area wages (hospital wage index) + 30% non-labor related portion (base adjusted for geographical factors x RUG weight). The nursing rate of \$151 as per (Medpac 2008) will be used in the

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calculation.

After 20 days Mrs. Anderson will have to pay \$128 per day in 2008 (CMS 2007).

Number of days spent in SNF: 30

Number of days allowed: 21

Difference (days to be paid for) 9

Payment to be made by Mrs. Anderson: $\$128 \times 10 = \$1,280$

Medicare Pays: $(20 \times \$151.74) + 10 \times (\$151 - \$128) = \$3034.80 + \$230 = \3264.80

Total payment for SNF is $\$1,280 + \$3,264.80 = \$4,544.80$

Part B

Calculation of Physician reimbursement for all three types of physician and the out of pocket payments that Mrs. Anderson will be responsible for:

The table below shows the rates

Categories

RVU

Geographic Cost Index

Product

Conversion Factor

Work

27.45

1.092

29.98

Practice Expense

43.05

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1. 743

75. 04

Malpractice

10. 32

0. 543

5. 60

Total

110. 62

64. 43

The payment rate is calculated by multiplying the total product value by the conversion factor. That is:

$$110.62 \times 64.43 = \$7,127.25.$$

Participating Physician Reimbursement

In terms of Participating Physician who accept assignment on each and every case the Physician bills Medicare and the patient 100% of the Medicare approved fee which is \$125,000 in this case. Medicare will pay 80% which is equivalent to \$100,000 and the patient will pay 20% which equals \$25,000.

Non-participation Physician Who Accepts Assignment on a Case by Case Basis

In terms of a Non-participating Physician who accepts assignment on a case by case basis Medicare and the patient will be billed for 95% of the Medicare approved fee of \$125,000. 95% is represented by \$118,750. Medicare will pay 80% of \$118,750 which is equal to \$95,000 and the patient will pay 20% which is equal to \$23,750.

Non-Participating Physicians Who Does Not Accept Assignment

With respect to Non-participating Physicians who do not accept assignment

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the patient is billed for 115% of the Medicare approved fee of \$125, 000. This 115% is equal to \$143, 750. The patient makes the entire payment and Medicare reimburses 80% of the approved fee for non-participating physicians. Therefore, Medicare would pay 80% of \$118, 750 which is equal to \$95, 000 and the patient will bear the difference between what was paid to the Non-participating Physician which is \$143, 750 minus \$95, 000, which is equal to \$48, 750.

References

Medpac. (2008). Skilled Nursing Facility Payment System. Retrieved: http://www.medpac.gov/documents/MedPAC_Payment_Basics_08_SNF.pdf. Last accessed 31 Mar 2011

Centers for Medicare & Medicaid Services. (2007). Medicare Coverage of Skilled Nursing Facility Care. <http://www.medicare.gov/publications/pubs/pdf/10153.pdf>

Centers for Medicare & Medicaid Services. (2010). Fact Sheet: Acute Care Hospital Inpatient Prospective Payment System. Retrieved: <http://www.cms.gov/MLNProducts/downloads/AcutePaymntSysfctsht.pdf>. Last accessed 31 Mar 2011

Appendix

Table of Operating Values Used in Calculation

DRG 072 Relative Weight

0. 6419

Labor-related

\$3397. 52

Nonlabor-related

\$1, 476. 97

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San Francisco CBSA Wage Index

1. 5419

Cost of Living Adjustment (COLA)

1

IME Operating Adjustment Factor

0. 0744

DSH Operating Adjustment Factor

0. 1413

Labor Related Portion

0. 697

Nonlabor Related Portion

0. 303

Operating Cost to Charge Ratio

0. 38

Table above was used to calculate operating payments and costs

Table of Capital Values Used In Calculation

DRG 072 Relative Weight

0. 6419

Federal Capital Rate

\$427. 03

Large Urban Add on

1. 03

San Francisco CBSA GAF

1. 3452

Cost of Living Adjustment

1

IME Operating Adjustment Factor

0. 0243

DSH Operating Adjustment Factor

0. 0631

Capital Cost to Charge Ratio

0. 04

Table above was used to calculate capital payments and costs

Other Factors

Bill Covered Charges

\$125, 000

Fixed Loss Outlier Threshold

\$24, 485

Marginal Cost Factor

0. 8

Table above was used to calculate operating and capital costs used in calculating outlier payments