

STATE OF CONNECTICUT HOSPITAL PAYMENT MODERNIZATION ISSUE PAPER — OUTLIER POLICY AND APPROACH

Issue Description:	Following the July 28, 2014 meeting among the Connecticut Department of Social Services (DSS), Hospitals, and the Connecticut Hospital Association (CHA) — it was proposed by CHA that the project eliminate the outlier policy and approach.
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Revision Date:	August 19, 2014
Status:	Draft

Background

The proposed All Patient Refined Diagnosis Related Groups (APR-DRG) methodology initial implementation included a provision to pay additional amounts for cases that were significant outliers — where costs are far above those envisioned in the development of the case-rates. CHA has requested the elimination of this approach, but believes this decision should be revisited in future years. CHA believes that the added complexity of developing these policies during year one of a revenue neutral implementation will not yield sufficient value to warrant diverting attention from other aspects of system development.

Considerations

To this project team's knowledge all implementations of DRG-based payment systems include a provision for additional payment when a case-rate is far below the cost to cover an unusually expensive case. Mercer thinks that the request from CHA is largely based on the premise of revenue neutrality, which does to some extent make the calculation of these amounts less relevant. Mercer also understands that the current approach with per-case reconciliation has no special policies for these types of outlier cases.

The goal of the project, and the name of the project, is Hospital Payment Modernization — and the team is charged with developing modernized “methods of payment” within a revenue neutral framework. By definition, the decision to retain revenue neutrality limits DSS's ability to affect equity among hospitals, however the model being developed is intended to improve the recognition of acuity and the accuracy of payment — to that end the project team believes that an outlier policy is integral to a modernized payment system.

From an administrative complexity perspective, the project team's work has envisioned this policy and the modeling has anticipated it. There is no additional programming or time to be saved by the team eliminating the inclusion of an outlier system. Mercer has assumed the hospitals will be familiar with the concept of outlier reimbursement based on Medicare and other payers' payment policies.

The guiding principles for the project include the following:

- Maintain long-term commitment to goals of improved accuracy, predictability, equity, timeliness, and transparency of hospital payments for all Medicaid beneficiaries in the State of Connecticut — however; expedite short-term focus on technology and mechanics of payment.
- Focus on **method** of payment, not **level** of payment:
 - Project modeling will be based on state budget neutrality.
 - Initial implementation will target revenue neutrality for each hospital.
- Overarching policy direction of consistency with industry standard payment practices and specifically Medicare payment policy.
- Develop the most robust and comprehensive system possible while allowing flexibility to handle exceptions in an equitable and efficient manner.

These guiding principles support the inclusion of an outlier policy.

Recommendation

Although Mercer does not support elimination of the outlier policy and approach, the specifications surrounding the definition of outliers and the number and proportion of outliers has not been finalized. Discussions with the hospitals and CHA could provide a pathway to minimize any perceived undesirable impacts of the outlier policy while remaining true to payment modernization and providing meaningful financial protection from unpredictably high cost cases.