

CMS Announces Contractors to Study Reform of the Hospital Inpatient Prospective Payment System (IPPS)

The final IPPS rule for 2007 referenced two studies that CMS will undertake to inform the 2008 IPPS rulemaking. The following summarizes the status and the scope of these studies as of September 8, 2006.

Charge Compression Study

CMS has awarded a one-year contract to RTI International to study methods of improving estimates of the cost of Medicare inpatient hospital discharges used in constructing the DRG relative weights. The DRG relative weights are a key determinant of the amount Medicare pays for an inpatient hospital stay under the inpatient hospital prospective payment system (IPPS). The RTI contract will focus on methods of improving the accuracy of the adjustment of charges to cost to account for the fact that hospitals tend to markup high cost items to a lesser extent than they markup low cost items, a phenomenon known as charge compression. The study will also examine how charge compression interacts with other potential variables in the construction of the DRG relative weights, such as the number of cost centers included and whether hospital-specific relative values are used.

Evaluation of DRG Classification Systems

CMS has also awarded a contract to the RAND Corporation to evaluate alternative severity-adjusted DRG classifications systems. The systems to be evaluated are all variants of the Yale severity of illness system developed under contract with CMS in 1989. Among many evaluation criteria, RAND will assess:

- The variation in the level of resource use, and the resulting improvement in homogeneity within DRGs.
- The manageability of a system as shown by the number of classification groups, how it is understood by hospitals, physicians, and beneficiaries, and how it is the same or differs from classifications in the current DRG system.
- How each system can be modified to capture new technologies and merge them into the basic DRG structure as needed.
- The availability of each system's clinical logic in the public domain.

Although the evaluation contract is for one year, CMS expects the contractor's work to inform deliberations about the FY 2008 proposed IPPS rule. At least 2 years of MedPAR data for inpatient hospital stays paid under the IPPS will be analyzed by next year's proposed rule. An additional 2 years of data may be analyzed for at least some of the systems by the time a final report is completed