How Hospitals Are Paid

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3 Major Payers

- Commercial Insurance
- Medicaid
- Medicare

Commercial Insurance

Commercial Insurance

- Hospitals have one chargemaster
- Commercial insurers negotiate hospital payments through contract
  - Fee for Service– set rate per service or reference-based pricing
  - Capitated– patient per patient per month
  - Episode/bundled payments
- Medicaid Advantage works like commercial insurance

Commercial Insurance: Age Rating Bronze Plans for 64 year-olds

Lamoille County, VT	Lewis County, NY	Franklin County, ME
Population: 26,060	Population: 26,548	Population: 30,828
$807-$906	$501-846	$1137-$1322

Medicaid

Medicaid

- Fee for Service
- All Payer Model prospective payments
  - Prospective per member per month payment to the ACO
  - The per member per month ACO payments are derived from the estimated Medicaid fee-for-service expenditure for the attributed population for Medicare Parts A and B services
  - Monthly fixed payments in advance of services being performed

Medicaid: Other Funding

Disproportionate Share Hospital (DSH) payments

- Vermont: $23M
- New Hampshire: $213M

GME Payments

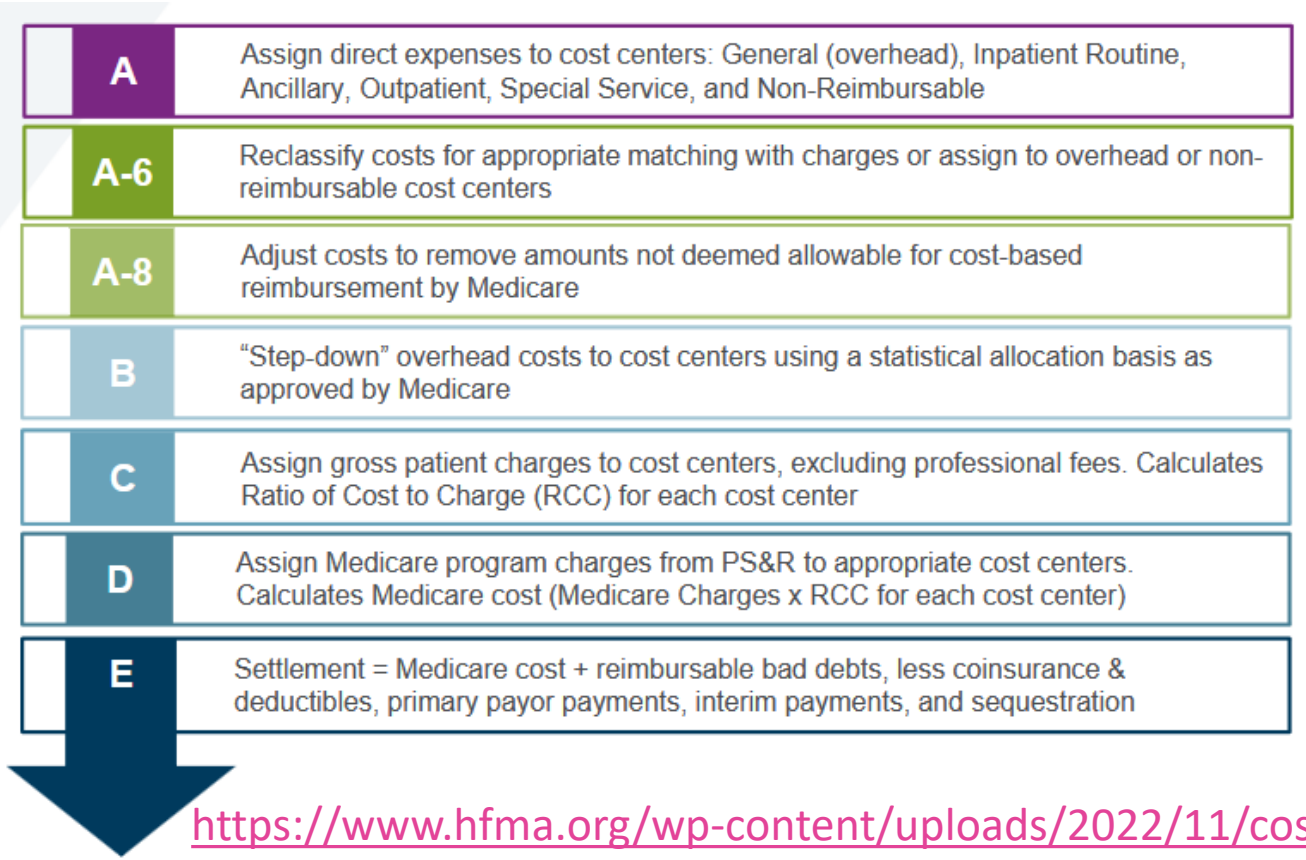
State Directed Payments: significant funding through Medicaid MCO– other states do this, Vermont does not

Medicare

Medicare: Critical Access Hospitals

- 8 hospitals in VT
- Allowable cost plus 1% minus 2% (sequestration cuts of 2013)
  - Equals 99% of allowable cost
  - Minus deductible
- Year-end cost settlement

https://www.cms.gov/files/document/mln006400-information-critical-access-hospitals.pdf



https://www.hfma.org/wp-content/uploads/2022/11/cost-report-concepts.pdf#page=6&zoom=auto,599,-269

Medicare: PPS Hospitals

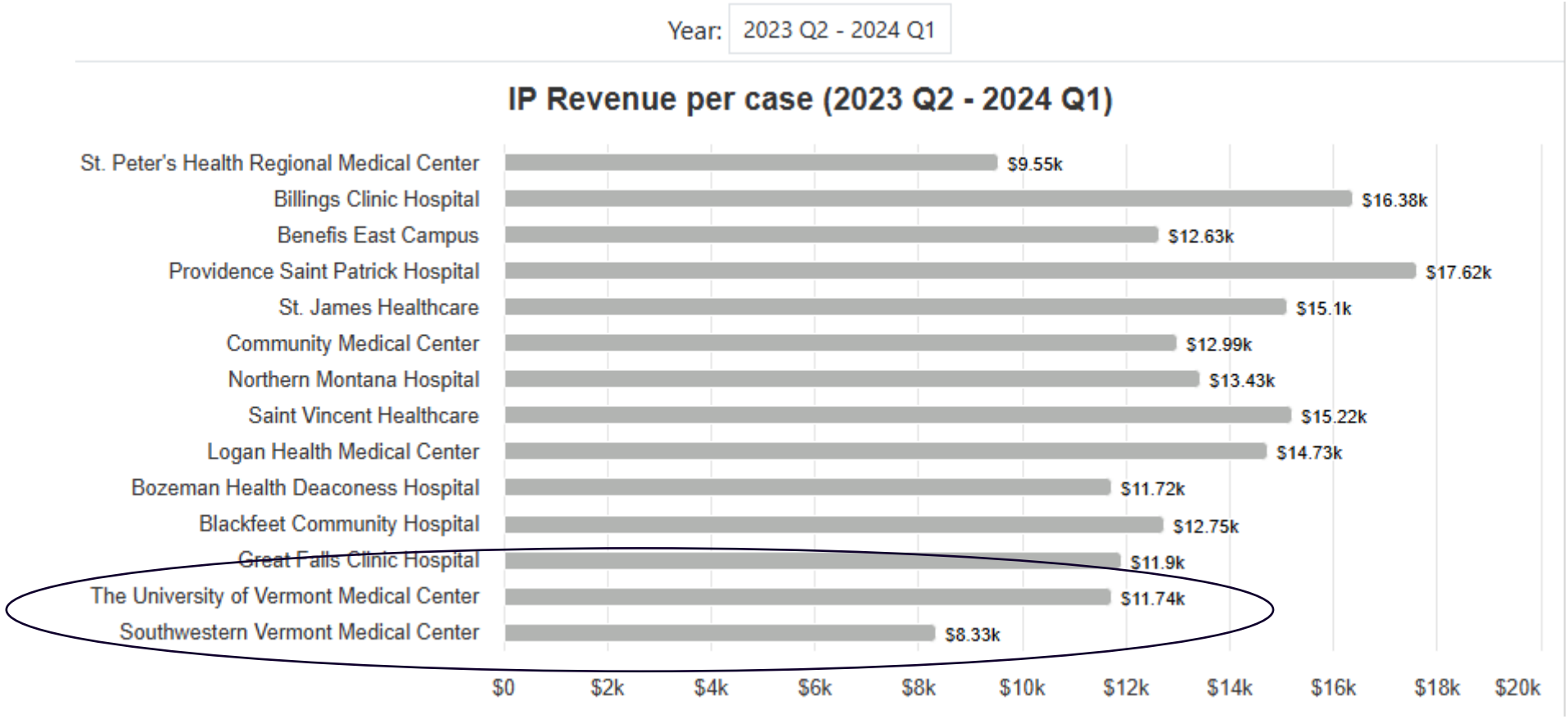
- 5 hospitals in VT and 1 academic medical center
- Paid per discharge– not for individual items
- Base rate
  - Labor-related share– adjusted by wage index of area
  - Nonlabor share– adjusted by a cost-of-living adjustment factor
- Each case categorized into a diagnosis-related group (DRG)– payment weight assigned based on the average resources used to treat patient
- Physicians paid separately under the physician fee schedule
- Additional adjustments:
  - Residency program
  - High-percentage of low-income patients

https://www.cms.gov/cms-guide-medical-technology-companies-and-other-interested-parties/payment/ipps

Hypothetical patient at Generic Hospital in San Francisco, CA, DRG 482, HIP & FEMUR PROCEDURES EXCEPT MAJOR JOINT W/O CC/MCC (2001) [19]:8	
Description	**Value**
Average length of stay	3.8[20]
Large urban labor-related rate	$2,809.18
Large urban non-labor-related	$1,141.85
Wage index	1.4193
Standard Federal Rate: labor * wage index + non-labor rate	$5,128.92
DRG relative weight (RW) factor	1.8128
Weighted payment: Standard Federal Rate * DRG RW	$9,297.71
Disproportionate Share Payment (DSH)	0.1413
Indirect medical education (IME)	0.0744
Total cost outlier reimbursement	$0
Total operating payment: Weighted payment * (1 + IME + DSH)	$11,303.23

https://oig.hhs.gov/oei/reports/oei-09-00-00200.pdf

Medicare at VT Hospitals Compared to Reference-Based Pricing States: Montana



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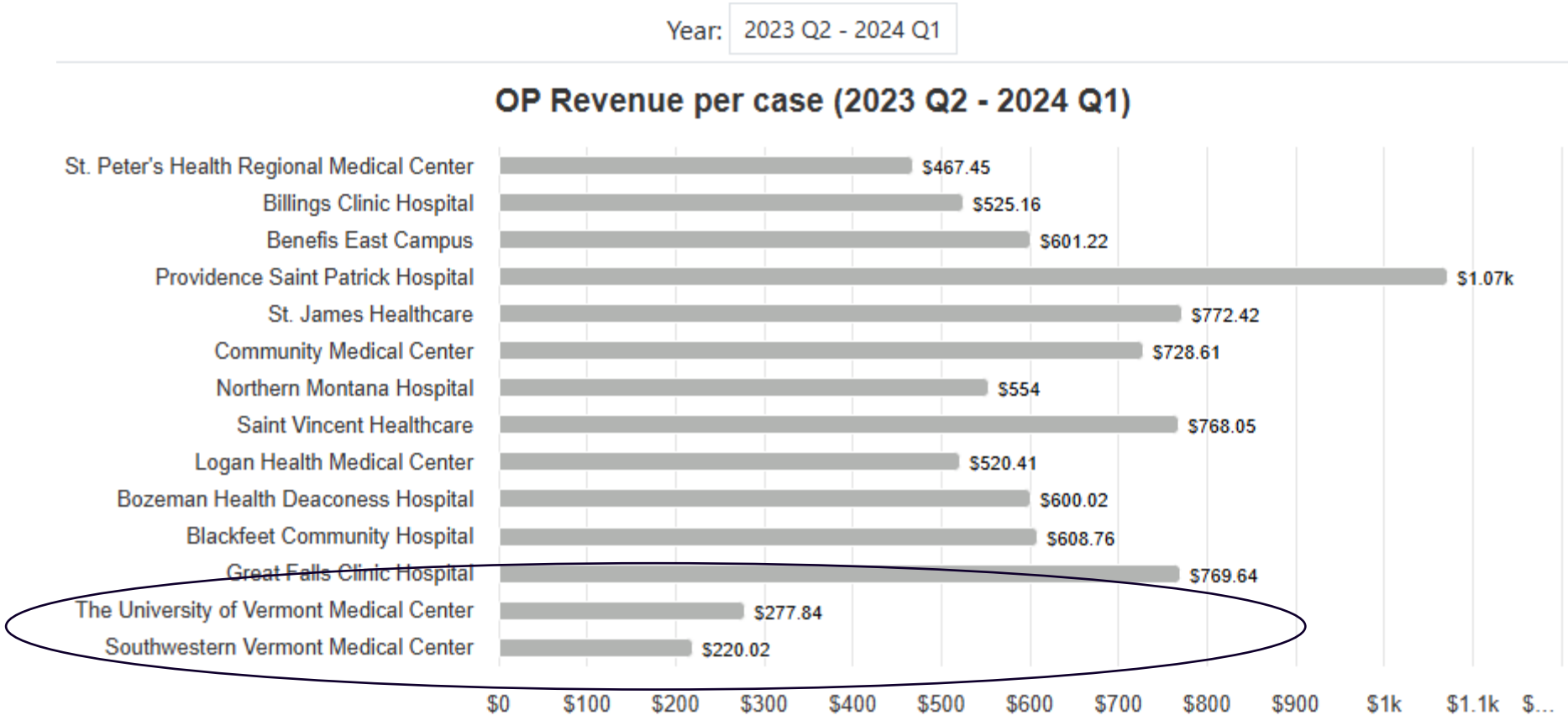
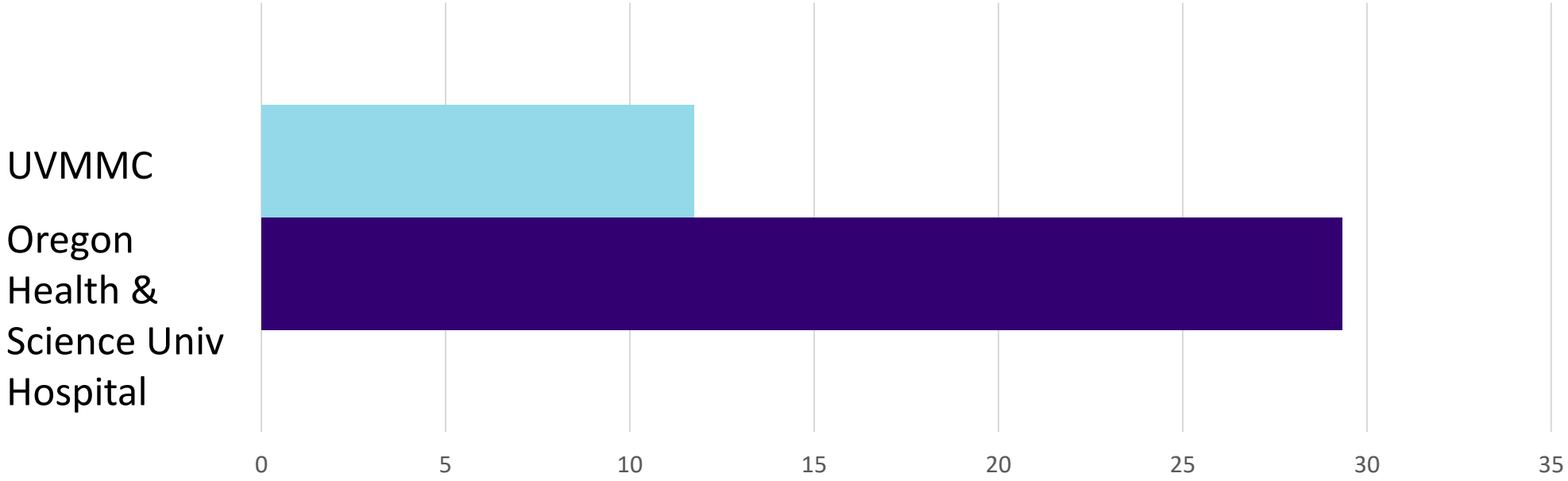


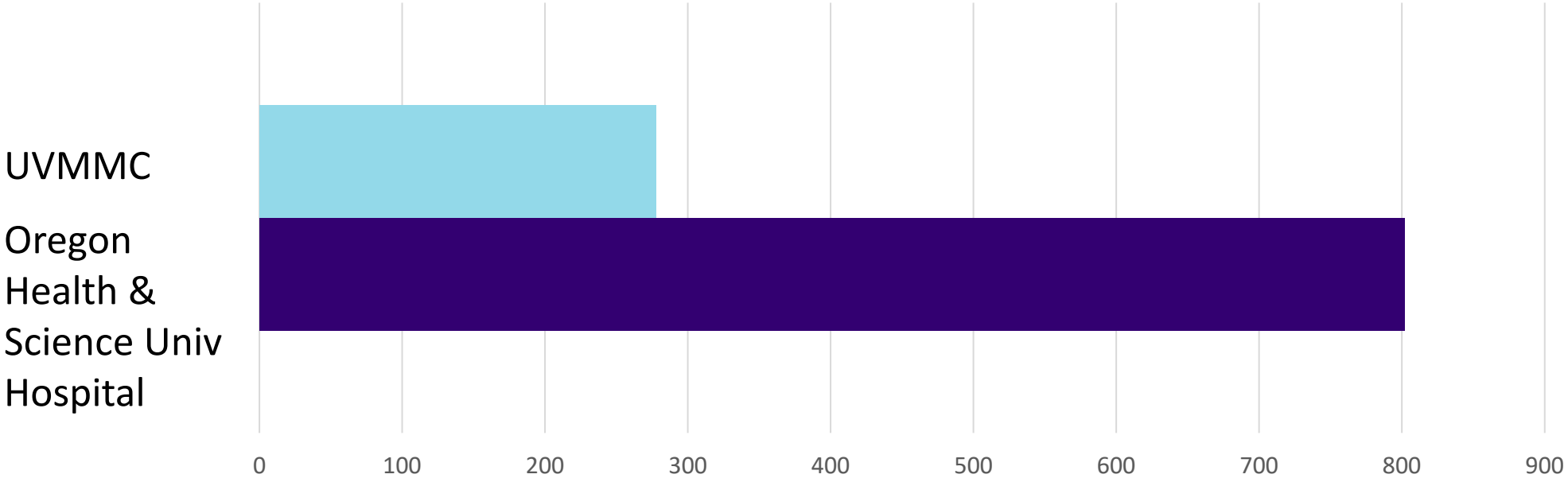
Medicare at VT Hospitals Compared to Reference-Based Pricing States: Oregon

- 30 out of 33 Oregon hospitals have higher Medicare reimbursement per inpatient case than UVMMC



Medicare at VT Hospitals Compared to Reference-Based Pricing States: Oregon

- 32 out of 33 Oregon hospitals have higher Medicare reimbursement per outpatient case than UVMMC



Medicare Conclusions

- Evidence of significantly different Medicare payment amounts vary by hospital across the country
- To avoid reduction in access to care, Vermont needs to implement reference-based pricing precisely

Thank you

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