

**PROPOSED DRG CHANGES  
PER FEDERAL REGISTER OF 4/25/06**



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DATE: June 15, 2006

TO: IRM Business Partners

RE: Proposed Changes to Medicare's DRG System  
Per Federal Register of April 25, 2006

**OVERVIEW**

In the Federal Register of April 25, 2006 CMS proposed some revolutionary changes to DRG reimbursement methodology. The changes are tentatively scheduled to be implemented via a two-step process:

- 2007 - DRG weights based on hospital costs versus current method using charges
- 2008 - Severity adjusted DRGs implemented.

The implementation of severity adjusted DRGs has been discussed at various times in the past few years. It is not a surprising addition to DRG reimbursement methodology. The proposed change for 2007, using hospital costs rather than charges to compute DRG relative rates, is more unexpected. It is particularly interesting that CMS has elected to not use the specific methodology recommended by MedPac to calculate DRGs using costs. Instead CMS has proposed their own version of how cost based calculations will be developed. Details are available in the entire Federal Register of April 25, 2006 at <http://a257.g.akamaitech.net/7/257/2422/01jan20061800/edocket.access.gpo.gov/2006/pdf/06-3629.pdf>

It is unknown if any or all of the proposed changes will come to fruition. CMS did offer the public an opportunity to comment on the proposed changes. The comment period expired on June 12, 2006. CMS is now formulating their responses to comments they received. It is expected there will be a published response by the beginning of August 2006.

Until the final rule is published it is not possible to formulate a specific strategy to address these proposed changes. The purpose of this document is to give a brief overview of some of the proposed changes. IRM will continue to provide updates on this topic.

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**NEW TERMINOLOGY**

**APR DRGs**

“...the term “APR DRGs” means the severity DRG system designed by 3M Health Information Systems that currently is used by the State of Maryland;...” (From page 24011)

“The APR DRG system subdivides the base DRGs by adding four severity of illness subclasses to each DRG. Under the APR DRG system, severity of illness is defined as the extent of physiologic decompensation or organ system loss of function. The underlying clinical principle of APR DRGs is that the severity of illness of a patient is highly dependent on the patient’s underlying problem and that patients with high severity of illness are usually characterized by multiple serious diseases or illnesses.” (From page 24012)

**CMS DRGs**

“The term “CMS DRGs” means the DRG system we currently use under the IPPS...”; (From page 24011)

“The focus of the CMS DRGs is on complexity. Complexity is defined as the relative volume and types of diagnostic, therapeutic, and bed services required for the treatment of a particular illness. Thus, the focus of payment in the CMS DRG system reflects the relative resource use needed by the patient in one DRG group compared to another.” (From page 24012)

**Consolidated Severity-Adjusted DRGs**

“... the term “consolidated severity-adjusted DRGs” means the DRG system based on a consolidated version of the APR DRGs ...In the remainder of this proposed rule, “consolidated severity-adjusted DRGs” refers to the DRG system we have analyzed. (From page 24011)

**HSRV cost center methodology (HSRVcc):**

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“This method involves developing hospital specific charge relative weights at the cost center level to remove the bias introduced by hospital characteristics (that is, teaching, disproportionate share, location, and size, among others) and then scaling the weights to costs using the national cost center charge ratios developed from the cost report data.” (From page 24007)

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**Change in DRG reimbursement methodology**

**I. 2007**

DRG Relative Weight Calculation - HSRV cost center (HSRVcc) methodology

“This method involves

- developing hospital specific charge relative weights at the cost center level to remove the bias introduced by hospital characteristics (that is, teaching, disproportionate share, location, and size, among others) and then
- scaling the weights to costs using the national cost center charge ratios developed from the cost report data.” (from page 24007)

Computing HSRVs for Each Cost Center for Each DRG

An average charge was computed for each provider for each of 10 proposed cost centers. See a portion of Table A, from pages 24009-24020, below.

<b>Charge Line Items Included in Ten Cost Center Charge Groups</b>	
<b>Cost Center</b>	<b>MedPar Charge Description</b>
Routine Days	Private Room Charges Semi Private Room Charges Ward Charges
Intensive Days	Intensive Care Charges Coronary Care Charges
Drugs	Pharmacy Charges
Supplies & Equipment	Medical/Surgical Supply Charges Durable Medical Equipment Charges Used Durable Medical Charges
Therapeutic Service	Physical Therapy Charges Occupational Therapy Charges Speech Pathology Charges Inhalation Therapy Charges
Operating Room	Operating Room Charges Anesthesia Charges
Cardiology	Cardiology Charges
Laboratory	Laboratory Charges
Radiology	Radiology Charges MRI Charges Lithotripsy Charges

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Other Services & Charges	Other Services Blood Charges Blood Administration Charges Outpatient Services Charges Emergency Room Charges Ambulance Charges ESRD Revenue Setting Charges Clinic Visit Charges
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**II. 2008**

Severity of illness

“In conjunction with analyzing MedPAC’s relative weight recommendations, we looked at refining the current DRG system to better recognize severity of illness. Starting with the APR DRG GROUPER used by MedPAC in its analysis, we studied Medicare claims data. Based on this analysis, we developed a consolidated severity-adjusted DRG GROUPER that we believe could be a better alternative for recognizing severity of illness among the Medicare population” (From page 24006)

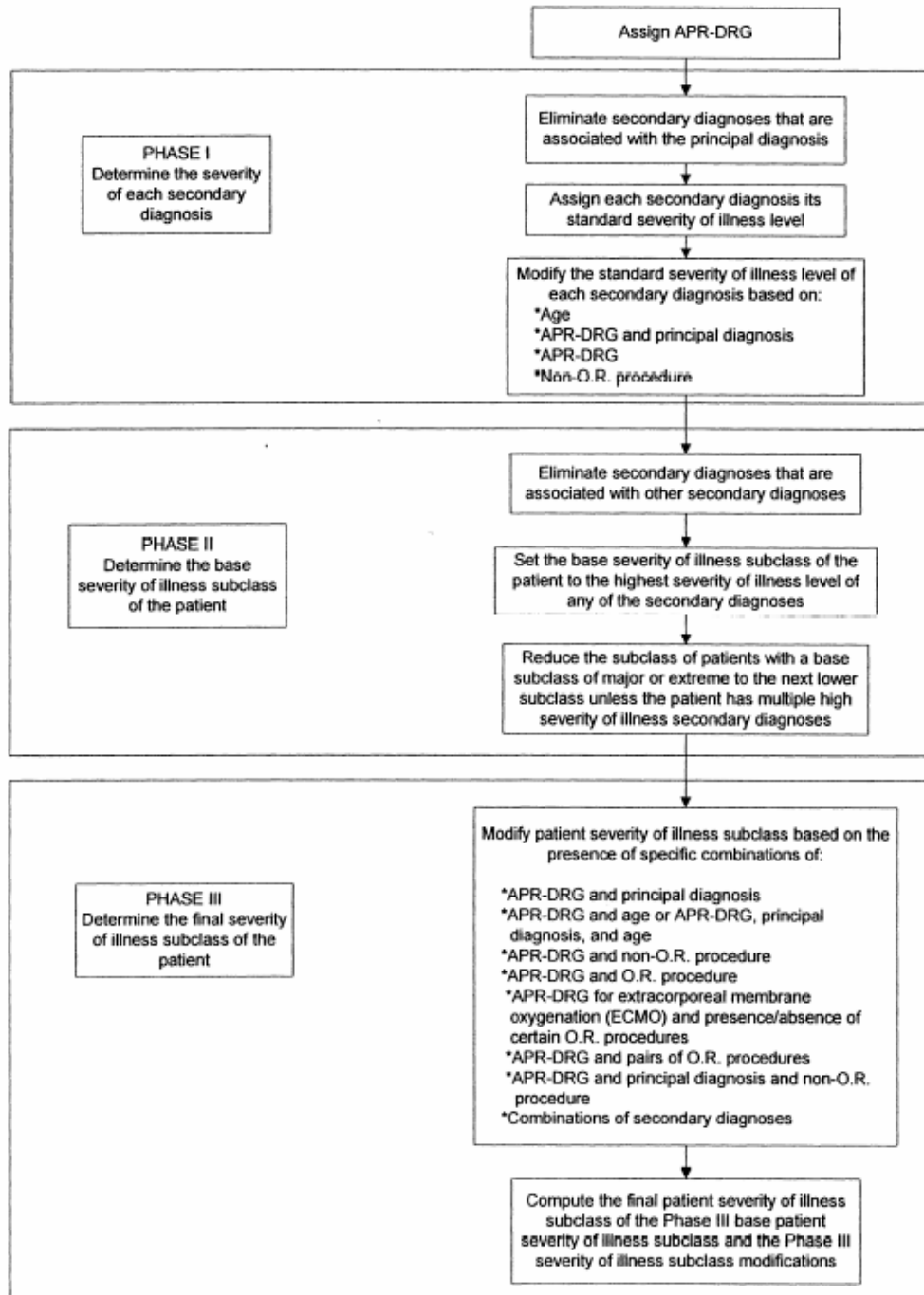
Currently there are 527 DRGs. It is anticipated there will be 861 severity adjusted DRGs.

TABLE B.—COMPARISON OF THE CMS DRG SYSTEM AND THE APR DRG SYSTEM

Element	CMS DRG system	APR DRG system
Number of base DRGs .....	367 .....	314.
Total number of DRGs .....	526 .....	1,258.
Number of CC (severity) subclasses .....	2 .....	4.
Multiple CCs recognized .....	No .....	Yes.
CC assignment specific to base DRG .....	No .....	Yes.
Logic of CC subdivision .....	Presence or absence .....	18-step process.
Logic of MDC assignment .....	Principal diagnosis .....	Principal diagnosis with rerouting.
Death used in DRG definitions .....	Yes .....	No.
Data requirements .....	Hospital claims .....	Hospital claims.

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**Diagram--Three Phase Process for Determining Patient Severity of Illness**



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**Table I.--Payment Impact from HSRVcc and Consolidated  
Severity-Adjusted DRGs by Selected High Volume DRGs**

CMS DRG V23.0	CMS DRG Description	Number of Cases	Percent Change in Relative Weight Due to HSRVcc	Percent Change in Discharge Weighted Average Weight Due to Consolidated Severity-Adjusted DRGs	Total Impact All Changes
556	PERCUTANEOUS CARDIOVASC PROC W NON-DRUG-ELUTING STENT W/O MAJ CV DX	46,504	-30.7%	13.6%	-21.2%
558	PERCUTANEOUS CARDIOVASCULAR PROC W DRUG-ELUTING STENT W/O MAJ CV DX	143,345	-30.0%	-4.1%	-32.9%
125	CIRCULATORY DISORDERS EXCEPT AMI, W CARD CATH W/O COMPLEX DIAG	89,477	-24.5%	4.2%	-21.3%
124	CIRCULATORY DISORDERS EXCEPT AMI, W CARD CATH & COMPLEX DIAG	121,084	-17.2%	-3.0%	-19.7%
515	CARDIAC DEFIBRILLATOR IMPLANT W/O CARDIAC CATH	41,538	-15.7%	7.3%	-9.6%
104	CARDIAC VALVE & OTHER MAJOR CARDIOTHORACIC PROC W CARDIAC CATH	19,406	-11.7%	-5.8%	-16.8%
552	OTHER PERMANENT CARDIAC PACEMAKER IMPLANT W/O MAJOR CV DX	80,278	-11.5%	0.7%	-10.9%
548	CORONARY BYPASS W CARDIAC CATH W/O MAJOR CV DX	32,049	-11.0%	5.0%	-6.6%
497	SPINAL FUSION EXCEPT CERVICAL W CC	25,377	-10.6%	0.3%	-10.3%
547	CORONARY BYPASS W CARDIAC CATH W MAJOR CV DX	32,904	-10.1%	1.4%	-8.8%
551	PERMANENT CARDIAC PACEMAKER IMPL W MAJ CV DX OR AICD LEAD OR GNRTR	53,848	-9.7%	-7.9%	-16.8%
143	CHEST PAIN	226,146	-9.3%	4.6%	-5.1%
105	CARDIAC VALVE & OTHER MAJOR CARDIOTHORACIC PROC W/O CARDIAC CATH	29,187	-7.7%	-1.4%	-9.0%
553	OTHER VASCULAR PROCEDURES W CC W MAJOR CV DX	35,359	-6.4%	0.0%	-6.5%
113	AMPUTATION FOR CIRC SYSTEM DISORDERS EXCEPT UPPER LIMB & TOE	33,421	-5.2%	-4.0%	-9.0%
076	OTHER RESP SYSTEM O.R. PROCEDURES W CC	43,449	-5.1%	-21.4%	-25.5%
554	OTHER VASCULAR PROCEDURES W CC W/O MAJOR CV DX	69,135	-4.8%	3.6%	-1.4%
550	CORONARY BYPASS W/O CARDIAC CATH W/O MAJOR CV DX	33,339	-4.3%	3.8%	-0.6%
415	O.R. PROCEDURE FOR INFECTIOUS & PARASITIC DISEASES	45,356	-4.2%	-9.6%	-13.4%
545	REVISION OF HIP OR KNEE REPLACEMENT	39,252	-4.2%	-3.6%	-7.7%
493	LAPAROSCOPIC CHOLECYSTECTOMY W/O C.D.E. W CC	57,743	-2.9%	1.3%	-1.6%
544	MAJOR JOINT REPLACEMENT OR REATTACHMENT OF LOWER EXTREMITY	390,658	-2.9%	2.3%	-0.7%

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110	MAJOR CARDIOVASCULAR PROCEDURES W CC	52,666	-1.9%	-7.4%	-9.2%
542	TRACH W MV 96+ HRS OR PDX EXC FACE, MOUTH & NECK W/O MAJ O.R.	21,746	-1.7%	-2.8%	-4.5%
541	ECMO OR TRACH W MV 96+ HRS OR PDX EXC FACE, MOUTH & NECK W MAJ O.R.	20,057	-0.9%	-4.8%	-5.7%
075	MAJOR CHEST PROCEDURES	40,981	0.6%	-0.5%	0.0%
127	HEART FAILURE & SHOCK	643,152	2.3%	0.0%	2.3%
210	HIP & FEMUR PROCEDURES EXCEPT MAJOR JOINT AGE >17 W CC	121,589	2.3%	1.2%	3.5%
148	MAJOR SMALL & LARGE BOWEL PROCEDURES W CC	123,920	2.8%	-0.9%	1.9%
014	INTRACRANIAL HEMORRHAGE OR CEREBRAL INFARCTION	218,843	3.2%	2.1%	5.4%
138	CARDIAC ARRHYTHMIA & CONDUCTION DISORDERS W CC	191,190	3.4%	0.2%	3.6%
188	OTHER DIGESTIVE SYSTEM DIAGNOSES AGE >17 W CC	83,529	3.9%	-0.7%	3.1%
144	OTHER CIRCULATORY SYSTEM DIAGNOSES W CC	89,800	4.1%	-4.5%	-0.6%
416	SEPTICEMIA AGE >17	219,432	4.1%	3.9%	8.2%
154	STOMACH, ESOPHAGEAL & DUODENAL PROCEDURES AGE >17 W CC	26,084	4.8%	-5.0%	-0.4%
079	RESPIRATORY INFECTIONS & INFLAMMATIONS AGE >17 W CC	158,343	4.9%	-0.8%	4.1%
121	CIRCULATORY DISORDERS W AMI & MAJOR COMP, DISCHARGED ALIVE	145,585	5.5%	-4.7%	0.5%
182	ESOPHAGITIS, GASTROENT & MISC DIGEST DISORDERS AGE >17 W CC	268,783	6.0%	1.8%	8.0%
316	RENAL FAILURE	165,381	7.3%	0.9%	8.3%
320	KIDNEY & URINARY TRACT INFECTIONS AGE >17 W CC	202,931	9.4%	2.5%	12.1%
296	NUTRITIONAL & MISC METABOLIC DISORDERS AGE >17 W CC	233,665	9.5%	1.1%	10.7%
475	RESPIRATORY SYSTEM DIAGNOSIS WITH VENTILATOR SUPPORT	106,477	9.6%	-2.6%	6.7%
089	SIMPLE PNEUMONIA & PLEURISY AGE >17 W CC	508,703	9.7%	0.8%	10.6%
088	CHRONIC OBSTRUCTIVE PULMONARY DISEASE	382,490	10.2%	0.5%	10.8%
174	G.I. HEMORRHAGE W CC	248,699	12.1%	-1.5%	10.4%
087	PULMONARY EDEMA & RESPIRATORY FAILURE	76,364	12.4%	3.6%	16.4%
277	CELLULITIS AGE >17 W CC	101,476	13.3%	2.9%	16.6%

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