

(h) The Base Rates and Conversion Formulas Established by the Department

National Base Rates

Every year Medicare establishes a base rate for facilities providing Medicare services by utilizing technical calculations conducted using state and national data from large databases maintained by the Centers for Medicare and Medicaid Services (CMS). Nationally, for Fiscal Year 2008, the Medicare inpatient operating base rate is \$4,990.60 for labor and supply costs, and a series of additional factors---often varying by region or issue---are used to further enhance the actual reimbursement rate set for a state, region within a state, or for an individual hospital.

Taking a look at the future, CMS has just released a new proposed base rate number of \$5,099 for Fiscal Year 2009.

Montana Inpatient Base Rate = \$7,735

For Montana workers' compensation (WC) calculation purposes, Montana's base rate is established utilizing only some of the technical calculations conducted by the Centers for Medicare and Medicaid Services (CMS). The Department determined that, for the initial implementation of the new fee schedule, it will use the national operating base rate of \$4,990.60 but multiply it by 155 percent, or \$7,735, for hospital reimbursement for Montana. Building in an allowance for inplantables and outliers and the elimination of the wage index is estimated to bring the total rate to approximately 165% of the Medicare reimbursement rate.

Some available state-level studies for other states have identified a cost-shifting of Medicare payments of approximately 16 percent to the commercial sector, but appropriate data to compare Medicare expenditures to commercial insurance expenditures in our state were not available. Rather than put in place an unworkable reimbursement base rate, the Department is using its best projections to avoid problems in the short run, and meanwhile establishing required cost data collection and monitoring to better determine actual costs for the future.

One example of how the Montana base rate of \$7,735 is to be implemented is to look at an MS-DRG medical service weighted at 3.35. The inpatient calculation formula would be \$7,735 base rate times the MS-DRG weight of 3.35, which would result in a MS-DRG reimbursement of \$25,912.

Montana Outpatient Rates

	Hospital	=	\$105
	ASC	=	\$79

Montana hospitals and ASCs provide outpatient services, and have been reimbursed utilizing two different Medicare payment systems until this year, when both were moved to the APC payment system. To be consistent with the reimbursement level set for facility inpatient services, the department has set the APC rate for outpatient hospital services at 165% of Medicare, or a base rate of \$105.00.

Medicare determined that ASC operating costs average 65% of hospital outpatient costs. Nationally, there is some debate regarding the accuracy of this analysis. The department has set the ASC reimbursement rate at 75% of the hospital outpatient base rate, or \$79.00, until the department has sufficient data to determine if this rate is appropriate.