

AHCCCS Inpatient Hospital Payment Methodology

This legislation provides AHCCCS with the authority to consider modifying its current inpatient per diem payment methodology to a Diagnosis-Related Group (DRG) payment methodology.

How does AHCCCS currently pay for inpatient hospital services?

Under current State law, AHCCCS reimburses hospitals for inpatient services in accordance with a “tiered per diem” methodology, meaning that, inpatient hospital payments are based on the number of inpatient days a member remains in the hospital, in addition to several other factors. Thus, hospitals are actually paid more the longer a patient is inpatient to their facility.

What is a DRG payment methodology?

DRG payments are based on patients’ diagnoses, rather than the number of inpatient days that an individual is kept in a hospital. DRG payments work almost like “building blocks” in determining a hospital’s reimbursement. Inpatient billing codes are grouped together based on diagnosis. An established reimbursement rate is then assigned to that set of DRG codes. If during the hospital stay to treat the initial diagnosis, the patient incurs a complication or must be treated for another diagnosis, then additional groups of DRG codes may be added to the original DRG payment.

Why is AHCCCS considering a change from the current tiered per diem payment methodology to a DRG payment methodology?

AHCCCS has been working to identify opportunities to improve patient safety and health outcomes amongst its members and therefore reduce its costs. The Agency believes that the current tiered per diem methodology is inconsistent with this goal. This legislation provides AHCCCS with the authority to explore whether the DRG payment methodology is aligned with the Agency’s focus on improving patient care, and if deemed consistent with this goal, move forward with implementation.

Is the DRG payment methodology currently in use amongst other payors?

Yes. Medicare currently reimburses hospitals for inpatient services in accordance with the DRG methodology. Many state Medicaid programs and commercial health plans have adopted versions of this methodology as well.

When would a change in the AHCCCS inpatient payment methodology be implemented?

AHCCCS has just begun to explore this payment methodology. Over the next few months, the Agency will be working with technical experts and stakeholders to research the feasibility of adopting a DRG payment methodology for an effective date of October 1, 2013.

The statutory language has been drafted to provide the agency with the flexibility to adopt the new methodology if it chooses, provided the new methodology is consistent with federal law. Conversely, if it is determined that it would not be feasible to adopt a DRG payment methodology, the Agency would be able to retain its current payment methodology without having to seek additional legislation.

