

December 29, 2020

Carol Blackford
Director
Hospital and Ambulatory Policy Group
Centers for Medicare and Medicaid Services
U.S. Department of Health and Human Services
7500 Security Boulevard
Baltimore, MD 21244-1850



Re: Implementation of the IPPS Add-on Payment for COVID-19 Patients under the Coronavirus Aid, Relief, and Economic Security Act

Dear Ms. Blackford:

Recently, members of the Rural Hospital Coalition have brought to our attention an issue surrounding implementation of the IPPS add-on payment for COVID-19 patients established under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Below, we provide additional background and an analysis of the issue and its impact as well as potential paths forward.

* * *

Background

Section 3710 of the CARES Act established under the Medicare Hospital Inpatient Prospective Payment System (“IPPS”) for the duration of the public health emergency a 20 percent adjustment to the DRG weighting factor for any discharge of an individual diagnosed with COVID-19. Specifically, Section 3710 requires:

For discharges occurring during the emergency period described in section 1135(g)(1)(B), in the case of a discharge of an individual diagnosed with COVID-19, the Secretary shall increase the weighting factor that would otherwise apply to the diagnosis-related group to which the discharge is assigned by 20 percent. The Secretary shall identify a discharge of such an individual through the use of diagnosis codes, condition codes, or other such means as may be necessary.

To implement Section 3710 of the CARES Act, the Centers for Medicare and Medicaid Services (“CMS”) released in April Change Request (“CR”) 1174 revising the Medicare Claims Processing Manual to reflect the temporary policy. CR 1174 also announces the release of an updated IPPS Pricer software package and requires Medicare Administrative Contractors (MACs) to implement the update in a timely manner. In tandem with the CR, CMS also released a Medicare Learning Network (“MLN”) Matters that announced the policy and the release of the updated IPPS Pricer. However, the MLN Matters also provides the following:

To implement this temporary adjustment, the Pricer software will apply an adjustment factor to increase the Medicare Severity-Diagnosis Related Group (MS-DRG) relative weight that would otherwise be applied by 20 percent when determining IPPS operating payments, which includes the calculation of payments such as for Disproportionate Share Hospitals (DSHs), Indirect Medical Education (IME),

outliers, new technologies, and low-volume hospitals and the hospital specific rates for Sole Community Hospitals (SCHs) and Medicare-Dependent Hospitals (MDHs) for discharges described above.

The CARES Act clearly provides an adjustment to the MS-DRG weight for any hospital discharge of an individual diagnosed with COVID-19 and in CR 1174 and the MLN Matters, CMS indicates the Agency's intent to adjust the MS-DRG weight.

Issue

Since the Spring hospitals, including Sole Community Hospitals ("SCHs") and Medicare Dependent Hospitals ("MDHs"), have been benefiting from the 20 percent adjustment for such discharges. However, it recently came to our attention that although a hospital's "Provider Statistical and Reimbursement" ("PS&R") report reflected the additional payments received as a result of the adjustment established under the CARES Act, the PS&R report did not reflect the hospital's adjusted DRG weights. The results of the PS&R report seem to indicate that in implementing the add-on payment, the IPPS Pricer was adjusting the operating amount (both federal and hospital specific) rather than the MS-DRG relative weight for each applicable discharge.

For SCHs and MDHs potentially eligible for hospital specific payments, adjustment of payments without specific adjustment of MS-DRG relative weights is problematic. To determine final amounts due to a SCH or MDH, Worksheet E, Part A of the Medicare Cost Report compares federal IPPS payments to calculated hospital-specific payments. Hospital specific payments are supplied by the provider's MAC and per the instructions for Worksheet E, Part A of the Medicare Cost Report, are calculated by:

... multiplying the sum of the DRG weights for the period (per the PS&R) by the final per discharge hospital-specific rate for the period.

Under this formula, at cost report settlement hospital specific payments will be lower than intended (and lower than what was received by the hospital) if the adjustment established under the CARES Act is implemented incorrectly in the IPPS Pricer. Such an understatement of hospital specific payments has significant implications for SCHs and MDHs at Medicare cost report settlement as interim hospital specific payments received by SCHs and MDHs are reconciled against those calculated by the MAC at that time. For SCHs and MDHs providing care to individuals diagnosed with COVID-19, an understatement of hospital specific payments will suggest the hospital received overpayments when in fact it did not.

IPPS Pricer

CMS makes available on the Agency's website the IPPS Pricer Cobol Code as text files.¹ An analysis of the text files for the FY2020.2 IPPS Pricer Software Release indicates that the 20 percent adjustment established under the CARES Act is not being applied directly to the MS-DRG weight. Instead, the adjustment is applied as part of the calculation of federal and hospital specific payments.

The PPCAL202 text file, at lines 122600 through 124800 (2700-COVID-DRG-ADJ), indicates that the variable COVID-ADJ is set at 1.2 based on date of discharge and the presence of a designated ICD-10-CM diagnosis code indicating COVID-19 infection. Presence of a designated diagnosis code is identified by the variables DIAG-COVID1-FLAG and DIAG-COVID2-FLAG which are created by the logic at 123600-123700. (See Appendix A)

¹ <https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/Acute-Inpatient-Files-for-Download-Items/Annual-Software-Release>

Application of the COVID-ADJ occurs in three places in the PPCAL202 text file; none of which are used to calculate an adjusted MS-DRG weight. At lines 156800 through 157700 (3300-CALC-OPER-FSP-AMT), it is used in the calculation of the operating federal specific portion (H-OPER-FSP). (See Appendix B) The COVID-ADJ is then used twice in the calculation of the hospital specific portion at lines 188300 through 200600 (CALC-ADDITIONAL-HSP). (See Appendix C)

The formula used to calculate the operating federal specific portion (FSP) is:

$$\text{H-OPER-FSP-PART ROUNDED} = ((\text{H-NAT-PCT} * (\text{H-NAT-LABOR} * \text{H-WAGE-INDEX} + \text{H-NAT-NONLABOR} * \text{H-OPER-COLA})) * \text{H-DRG-WT} * \text{HLD-MID-ADJ-FACT} * \text{COVID-ADJ})$$

For certain cases, such as those discharges that are transferred to another acute care hospital or those discharges subject to the Medicare post-acute care transfer policy a DRG weight fraction (H-DRG-WT-FRCTN) is calculated and the operating FSP is multiplied by this fraction.

The two formulas used to calculate the hospital specific portion are:

$$\begin{aligned} 193700 \quad & \text{COMPUTE H-HSP-RATE ROUNDED} = \\ 193800 \quad & \text{H-FAC-SPEC-RATE} * \text{H-UPDATE-FACTOR} * \text{H-DRG-WT} * \text{COVID-ADJ}. \end{aligned}$$

And:

$$\begin{aligned} 195800 \quad & \text{COMPUTE H-FSP-RATE ROUNDED} = \\ 195900 \quad & ((\text{H-NAT-PCT} * (\text{H-NAT-LABOR} * \text{H-WAGE-INDEX} + \\ 196000 \quad & \text{H-NAT-NONLABOR} * \text{H-OPER-COLA})) * \text{H-DRG-WT-FRCTN} * \\ 196100 \quad & \text{HLD-MID-ADJ-FACT} * \text{COVID-ADJ}) * \\ 196200 \quad & (1 + \text{H-OPER-IME-TEACH} + (\text{H-OPER-DSH} * .25)) \end{aligned}$$

In the FY2020.2 IPPS Pricer Software Release, the only direct adjustment to the MS-DRG weight is for transfer cases. As a result, the total DRG weight and total DRG weight fraction reported on the PS&R will not reflect the 20 percent adjustment established under the CARES Act. Additionally, the total DRG weight utilized by MACs to calculate allowed hospital specific payments for Medicare Cost Report Worksheet E, Part A will be lower than it should, yielding hospital specific payments that are too low and suggesting that certain SCHs and MDHs received overpayments when in fact they did not.

Potential Solutions

The methods employed in the FY2020.2 IPPS Pricer Software Release produce the same results as direct adjustment of the MS-DRG weight, such that the only effect of the current methods is on reconciliation of hospital specific payments and federal payments at cost report settlement.

To address our concerns regarding how the current methods will impact SCHs and MDHs at cost report settlement, we propose two potential solutions.

1. Modify the IPPS Pricer to include a variable for a COVID adjusted MS-DRG weight and revise the instructions for Worksheet E, Part A of the Medicare Cost Report to instruct MACs to utilize the sum of the COVID adjusted DRG weights when calculating hospital specific payments for Worksheet E, Part A for cost reporting periods including the discharge of Medicare inpatients diagnosed with COVID-19 during the public health emergency.

Under option 1, the new variable for COVID adjusted MS-DRG weight would be the product of the MS-DRG weight and the COVID adjustment that is currently included in the IPPS Pricer. The adjusted MS-DRG weight or the COVID adjustment factor could be added as a field in the IPPS Pricer or could be used for reporting purposes only. Regardless of approach, hospitals should, at a minimum, be able to request a total COVID adjusted DRG weight for their Medicare provider number.

In addition to this adjustment, the instructions for Worksheet E, Part A of the Medicare Cost Report must be revised to instruct MACs to utilize the sum of the COVID adjusted DRG weights when calculating hospital specific payments for Worksheet E, Part A for cost reporting periods including the discharge of Medicare inpatients diagnosed with COVID-19 during the public health emergency.

2. Modify Worksheet E, Part A of the Medicare Cost Report to include a new line 48.01 where amounts paid related to the 20 percent adjustment established under the CARES ACT are reported separately by the MAC. Revise instructions for Worksheet E, Part A line 49 of the Medicare Cost Report to instruct MACs to compare line 47 to the sum of lines 48 and 48.01.

Under option 2, Medicare Cost Report Worksheet E, Part A would be revised to include a new subline. Accordingly, the instruction for Worksheet E, Part A would be revised. No changes to the IPPS Pricer would be made. To implement option 2, MACs would need to be able to isolate payments made specific to the 20 percent adjustment established under the CARES Act. Based on our review of the IPPS Pricer, it is unclear whether MACs would have access to such data.

* * *

Thank you for your review of this issue. Please contact me at 202.204.1452 or jmroth@mcdermottplus.com if you have any questions.

Sincerely,

Jessica Roth

Appendix A – PPCAL202 Code Creating the COVID-DRG-ADJ

122600*****
122700 2700-COVID-DRG-ADJ.
122800*****
122900* ADJUSTMENT TO DRG WEIGHT PER COVID-19 DIAGNOSIS
123000* + 20% INCREASE TO OPERATING DRG PAYMENTS
123100*-----*
123200
123300 MOVE 1 TO IDX-COVID.
123400 MOVE 1.0 TO COVID-ADJ.
123500
123600 PERFORM 10000-COVID19-FLAG THRU 10000-EXIT
123700 VARYING IDX-COVID FROM 1 BY 1 UNTIL IDX-COVID > 25.
123800
123900 IF (B-DISCHARGE-DATE > 20200126 AND
124000 B-DISCHARGE-DATE < 20200401)
124100 IF DIAG-COVID1-FLAG = 'Y'
124200 MOVE 1.2 TO COVID-ADJ.
124300
124400 IF B-DISCHARGE-DATE > 20200331
124500 IF DIAG-COVID2-FLAG = 'Y'
124600 MOVE 1.2 TO COVID-ADJ.
124700
124800 2700-EXIT. EXIT.

Appendix B – PPCAL202 Code for the Operating FSP Calculation

156800 3300-CALC-OPER-FSP-AMT.
156900*****
157000* OPERATING FSP CALCULATION *
157100*****
157200
157300 COMPUTE H-OPER-FSP-PART ROUNDED =
157400 ((H-NAT-PCT * (H-NAT-LABOR * H-WAGE-INDEX +
157500 H-NAT-NONLABOR * H-OPER-COLA)) * H-DRG-WT *
157600 HLD-MID-ADJ-FACT * **COVID-ADJ**)
157700 ON SIZE ERROR MOVE 0 TO H-OPER-FSP-PART.

Appendix C – PPCAL202 Code for the Hospital Specific Portion Calculation

188300 3450-CALC-ADDITIONAL-HSP.
188400*****
188500*-----*
188600* OBRA 89 CALCULATE ADDITIONAL HSP PAYMENT FOR SOLE COMMUNITY
188700* AND ESSENTIAL ACCESS COMMUNITY HOSPITALS (EACH)
188800* NOW REIMBURSED WITH 100% NATIONAL FEDERAL RATES
188900*-----*
189000*** GET THE RBN UPDATING FACTOR
189100
189200****YEARCHANGE 2019.0 *****
189300 MOVE 0.997190 TO H-BUDG-NUTR190.
189400
189500****YEARCHANGE 2020.0 *****
189600 MOVE 0.996859 TO H-BUDG-NUTR200.
189700
189800
189900*** GET THE MARKET BASKET UPDATE FACTOR
190000****YEARCHANGE 2019.0 *****
190100 MOVE 1.01350 TO H-UPDATE-190.
190200
190300****YEARCHANGE 2020.0 *****
190400 MOVE 1.02600 TO H-UPDATE-200.
190500
190600*** APPLY APPROPRIATE MARKET BASKET UPDATE FACTOR PER PSF FLAGS
190700****YEARCHANGE 2020.0 *****
190800 IF P-NEW-CBSA-HOSP-QUAL-IND = '1' AND
190900 P-EHR-REDUC-IND = ''
191000 MOVE 1.02600 TO H-UPDATE-200.
191100
191200****YEARCHANGE 2020.0 *****
191300 IF P-NEW-CBSA-HOSP-QUAL-IND = '1' AND
191400 P-EHR-REDUC-IND = 'Y'
191500 MOVE 1.00350 TO H-UPDATE-200.
191600
191700****YEARCHANGE 2020.0 *****
191800 IF P-NEW-CBSA-HOSP-QUAL-IND NOT = '1' AND
191900 P-EHR-REDUC-IND = ''
192000 MOVE 1.01850 TO H-UPDATE-200.
192100
192200****YEARCHANGE 2020.0 *****
192300 IF P-NEW-CBSA-HOSP-QUAL-IND NOT = '1' AND
192400 P-EHR-REDUC-IND = 'Y'
192500 MOVE 0.99600 TO H-UPDATE-200.
192600
192700
192800****YEARCHANGE 2020.0 *****
192900
193000 COMPUTE H-UPDATE-FACTOR ROUNDED =

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193100      (H-UPDATE-190 *
193200      H-UPDATE-200 *
193300      H-BUDG-NUTR190 *
193400      H-BUDG-NUTR200 *
193500      HLD-MID-ADJ-FACT).
193600
193700      COMPUTE H-HSP-RATE ROUNDED =
193800      H-FAC-SPEC-RATE * H-UPDATE-FACTOR * H-DRG-WT * COVID-ADJ.
193900*****
194000*
194100*      IF P-NEW-CBSA-HOSP-QUAL-IND = '1'
194200*      COMPUTE H-HSP-RATE ROUNDED =
194300*      (H-FAC-SPEC-RATE * 1) * H-UPDATE-FACTOR
194400*      ELSE
194500*      COMPUTE H-HSP-RATE ROUNDED =
194600*      ((H-FAC-SPEC-RATE / 1.036) * 1.016) * H-UPDATE-FACTOR.
194700*
194800*****
194900*****YEARCHANGE 2011.0 *****
195000***      OUTLIER OFFSETS NO LONGER USED IN HSP COMPARISON
195100***      WE NOW USE THE ACTUAL OPERATING OUTLIER PAYMENT
195200***      IN THE HSP COMPARISON
195300
195400*****YEARCHANGE 2014.0 *XXXXXX*****
195500*      THE HSP BUCKET FOR SCH *****
195600*      ADDED UNCOMPENSATED CARE TO COMPARISON FOR 2014 *****
195700*****
195800      COMPUTE H-FSP-RATE ROUNDED =
195900      ((H-NAT-PCT * (H-NAT-LABOR * H-WAGE-INDEX +
196000      H-NAT-NONLABOR * H-OPER-COLA)) * H-DRG-WT-FRCTN *
196100      HLD-MID-ADJ-FACT * COVID-ADJ) *
196200      (1 + H-OPER-IME-TEACH + (H-OPER-DSH * .25))
196300      +
196400      H-OPER-OUTLIER-PART
196500      ON SIZE ERROR MOVE 0 TO H-FSP-RATE.
196600
196700*****
196800***      INCLUDE UNCOMPENSATED CARE PER CLAIM IN HSP
196900***      CHOICE
197000
197100      IF H-HSP-RATE > (H-FSP-RATE + WK-UNCOMP-CARE-AMOUNT)
197200      COMPUTE H-OPER-HSP-PART ROUNDED =
197300      (H-HSP-RATE - (H-FSP-RATE + WK-UNCOMP-CARE-AMOUNT))
197400      ON SIZE ERROR MOVE 0 TO H-OPER-HSP-PART
197500      ELSE
197600      MOVE 0 TO H-OPER-HSP-PART.
197700
197800*****
197900***      YEARCHANGE TURNING MDH BACK ON *****
198000*****

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198100*** GET THE MDH REBASE
198200
198300 IF H-HSP-RATE > (H-FSP-RATE + WK-UNCOMP-CARE-AMOUNT)
198400 IF P-NEW-PROVIDER-TYPE = '14' OR '15'
198500 COMPUTE H-OPER-HSP-PART ROUNDED =
198600 (H-HSP-RATE - (H-FSP-RATE + WK-UNCOMP-CARE-AMOUNT)) * .75
198700 ON SIZE ERROR MOVE 0 TO H-OPER-HSP-PART.
198800
198900*****
199000*** TRANSITIONAL PAYMENT FOR FORMER MDHS *
199100*****
199200
199300*** HSP PAYMENT FOR CLAIMS BETWEEN 10/01/2016 - 09/30/2017
199400
199500* IF B-FORMER-MDH-PROVIDERS AND
199600* (B-DISCHARGE-DATE > 20160930 AND
199700* B-DISCHARGE-DATE < 20171001)
199800* IF H-HSP-RATE > (H-FSP-RATE + WK-UNCOMP-CARE-AMOUNT)
199900* COMPUTE H-OPER-HSP-PART ROUNDED =
200000* ((H-HSP-RATE - (H-FSP-RATE +
200100* WK-UNCOMP-CARE-AMOUNT))* 0.75)*(1 / 3)
200200* ON SIZE ERROR MOVE 0 TO H-OPER-HSP-PART
200300* END-IF
200400* END-IF.
200500
200600 3450-EXIT. EXIT.

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