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## Fact Sheet

### Medi-Cal Diagnosis Related Group (DRG) Payment Method Update for Fiscal Year (FY) 2015-16

*The following information assumes the reader is familiar with the DRG payment method for hospital inpatient services provided to fee-for-service clients. For background and more information, go to the Department of Health Care Services (DHCS) DRG webpage at [www.dhcs.ca.gov/provgovpart/Pages/DRG](http://www.dhcs.ca.gov/provgovpart/Pages/DRG), especially the sub-folder for FY 2015-16 pricing resources and the Provider Training PPT (Monthly Series) under Provider Education and Bulletins.*

*A training on the July 1 update will be held June 11 9:30-11:00 and repeated June 15 9:30-11:00. Invitations will be sent to everyone on the DRG listserve. To sign up for listserve, send an email to [drq@dhcs.ca.gov](mailto:drq@dhcs.ca.gov).*

- **Effective date.** Dates of admission on or after July 1, 2015. This is Year 3 of DRG payment.
- **DRG base rate.** Each hospital has a hospital-specific base rate. When multiplied by the DRG relative weight (including any applicable policy adjusters), the result is the DRG base payment.
  - **Transition hospitals.** The base rate shown in the accompanying letter is the same as the rate that each hospital was advised of in July 2013. FY 2015-16 is the final year of the three-year transition period. Effective July 1, 2016, each hospital will be paid using a statewide rate adjusted for wage areas.
  - **Non-transition hospitals.** The base rate shown in the accompanying letter is the same as FY 2014-15, that is, \$6,289. Each hospital's rate is adjusted for local area wages, similar to the model used by Medicare. The wage area index value will be the Medicare wage area index value for that hospital multiplied by 0.9797. (The adjustment retains the relative positions of index values within California while removing the impact of index value changes between California and the rest of the country.)
  - **Remote rural hospitals.** For FY 2015-16, all hospitals designated as remote rural – both transition and non-transition – will be paid using a base rate 20% higher than it otherwise would have been. This supports access to care for clients in rural areas while maintaining the efficiency incentives of a DRG payment method. The remote rural base rate (used for non-transition hospitals) will be \$12,768, up from \$10,640 in FY 2014-15.
  - **Hospital characteristics.** Information such as base rate transition status and remote rural status are shown on the hospital characteristics tab in the FY 2015-16 DRG Pricing Calculator on the DHCS DRG webpage.
- **DRG grouper version.** DHCS will update to V.32 of All Patient Refined Diagnosis Related Groups (APR-DRGs). The grouping logic of V.32 is identical to V.31. Hospitals are not required to put the

APR-DRG on the claim or to purchase APR-DRG software. Hospitals that choose to buy the software can find the input settings used by DHCS in the FY 2015-16 Frequently Asked Questions on the DHCS DRG webpage.

- **DRG relative weights.** Most DRG relative weights will change slightly as DHCS adopts a new and more accurate method of calculating weights. The HSRV (hospital specific relative values) weights are calculated from a national all-payer dataset of 15 million discharges. The HSRV method controls for differences in charge levels among hospitals.
- **Policy adjustors.** For certain care categories, DHCS uses explicit “policy adjustors” to increase the relative weight used to calculate payment. Policy adjustors typically apply to services where Medicaid has a significant share of the market and therefore affects access to care. For FY 2015-16, a new policy adjustor of 1.06 will be applied to obstetrics stays. This adjustor, combined with higher relative weights for obstetrics under the HSRV method, is expected to result in a 15% increase in payment rates for obstetrics. The policy adjustors for neonates (i.e., sick newborns) and pediatrics are unchanged.
- **Cost outlier threshold.** Cost outlier thresholds will increase to reflect continued inflation in hospital charges. (For purposes of outlier calculations, hospital cost is estimated as claim charges times the hospital-specific cost-to-charge ratio (CCR).) The Tier 1 outlier threshold will increase from \$42,040 to \$45,000 while the Tier 2 threshold will increase from \$131,375 to \$145,000.
- **Cost-to-charge ratios.** The CCR for each hospital has been updated to reflect the value shown in the hospital’s most recent cost report as accepted by the DHCS Audits and Investigations Division. Please note that CCRs may be subject to adjustment after audit.
- **Other aspects of the payment method.** Other aspects – such as the pricing logic, outlier marginal cost percentages, average length of stay benchmarks used in pricing transfer stays, and interim payment – are unchanged.

*This fact sheet does not supersede applicable statutes, regulations and policy documents, including the California Medicaid State Plan.*