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September 24, 2008

MEMORANDUM

ACS M08-14

TO: Medicaid Participating Critical Access Hospitals (CAH)

FROM: Kenneth S. Fink, MD, MGA, MPH, Med-QUEST Division Administrator

SUBJECT: DEPARTMENT OF HUMAN SERVICES (DHS), MED-QUEST DIVISION (MQD) MEDICAID CRITICAL ACCESS HOSPITAL INPATIENT ACUTE AND LONG TERM CARE PAYMENTS

To improve the coordination and integration of care for Medicaid's aged, blind, and/or disabled (ABD) population, the Med-QUEST Division (MQD) is implementing QUEST Expanded Access (QExA), a Medicaid managed care program, beginning February 1, 2009. The two health plans for QExA are 'Ohana Health Plan and Evercare. QExA will have no impact on the total reimbursement received by Critical Access Hospitals (CAHs) for services delivered to Medicaid recipients.

The MQD will continue to be responsible for computing payment rates for CAHs, and will coordinate with the health plans who will make the payments for inpatient acute care and long-term care services, interim payments, and adjustments. In QExA, the following payment process will occur.

Summary of QExA Payment Process for Critical Access Hospitals

The payment process for critical access hospitals (CAHs) in the QUEST Expanded Access (QExA) program related to Inpatient Acute Care and Long-Term Care will closely parallel the current payment process in the fee-for-service system. Payments will be made on an interim rate basis by the health plans subject to a cost settlement based on the CAHs annual cost reports. Settlement will be effected through modification of the subsequent year interim rate.

The payment process will include the following steps:

1. Establishment of the Interim Payment Rate. The Med-QUEST Division (MQD) will establish the inpatient acute care and long-term care interim payment rates for each CAH in the same manner that interim rates are currently established in the fee-for-service system, based on the most recently-available as filed cost report with trend factors applied to estimate cost for the payment year. Any prior settlement amounts will be incorporated into the next fiscal year interim payment rates established by MQD. MQD will advise the health plans and CAHs of the interim rates for each CAH for each year (including the partial first year) of the QExA program. MQD will provide both parties with the following components regarding the interim rates: total days, total cost, per diem rates based on days and cost, applicable inflationary factor and applicable audit adjustment factor.

2. Payment of the Interim Rate. Payment to the CAHs will be made by the health plans from funds provided by MQD in the capitation payments. Yearly adjustments must be done by actuaries to adjust capitation rates to the QExA health plans. These adjustments will be based on timely cost report data from CAHs and encounter data from health plans.

3. Annual Cost Determination. One hundred and fifty days after the end of the CAH fiscal year (typically ended 6/30) the CAHs will submit cost reports to the MQD contractor that will separately break out the costs for providing service to QExA patients. The MQD contractor will need to finalize the review of the cost reports within six months of receiving the documents. This process will be similar to the current method of separately reporting costs of the ABD populations. Further information regarding the filing of cost reports immediately before and after implementation of QExA will be provided in the near future.

4. Cost Reconciliation. Cost reconciliations will be calculated by MQD, or a contractor of MQD.

5. Cost Settlement. Cost settlement will not be handled through payment by MQD to the CAHs (or payment by CAHs to MQD). Instead, the reconciliation amount will be settled through an adjustment (up or down) to the interim payment rate for the next State fiscal year that is determined by MQD in accordance with step 1 above. For reconciliation purposes, the first health plan payments after the implementation of the new interim payment rate will be considered to be the settlement payments of the balance due the CAH for the prior period(s) cost settlement. All other health plan payments will then be considered current period interim payments. If the first year settlement indicates a balance is due to the program, the recoupment will be reconciled from the first health plan payments as well. This will be measured, for reconciliation purposes, as the difference between the first health plan payments after the implementation of the new interim payment rate and the calculated payments that would have been made without the decrease in interim payment rate.

The following hypothetical example illustrates this process. Assume that in year 1 a CAH's costs for serving QExA patients (as determined by the reconciliation process) are $1 million; that the health plan payment amount for year 1 was $900,000. Assume that the reconciliation calculation is completed in the middle of year 2. Assume that, based on historical costs and trend factors; MQD calculates the interim payment for year 3 for the CAH as $1.1 million. Based on these figures, the interim rate for year 3 (initially calculated as $1.1 million) would be adjusted upward by ($100,000 settlement amount) to $1.2 million. The first $100,000 paid to the CAH by the health plan will be reconciled as payment for settlement of year 1 and the remaining year 3 payments will be reconciled as health plan payment for year 3.

Should you have any questions or concerns please contact Reuben Shimazu, Financial Risk and Reimbursement Manager, at (808) 692-7983 or email to rshimazu@medicaid.dhs.state.hi.us.