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Office of Medicaid
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NOTICE OF FINAL AGENCY ACTION

SUBJECT: MassHealth: Payment for Privately Owned Psychiatric Hospital Services effective October 1, 2019

AGENCY: Massachusetts Executive Office of Health and Human Services

SUMMARY OF FINAL ACTION

Pursuant to the provisions of M.G.L. c. 118E, §13A, rates and terms of payment for services rendered by psychiatric hospitals to patients entitled to medical assistance under M.G.L. c. 118E, §1 *et seq.* are established by contract between the MassHealth Program and participating hospitals. This notice describes the methods and standards for the establishment of rates of payment by contract, effective October 1, 2019, between the Executive Office of Health and Human Services (EOHHS) and participating privately owned psychiatric hospitals licensed by the Department of Mental Health (DMH). The contract does not cover services provided to patients enrolled with the MassHealth Primary Care Clinician Plan's behavioral health contractor, or with other MassHealth-contracted managed care entities.

DESCRIPTION OF FINAL METHODS AND STANDARDS

MassHealth pays privately owned psychiatric hospitals using (1) an all-inclusive statewide inpatient per diem rate, (2) an all-inclusive statewide Administrative Day Rate, and (3) a hospital-specific cost-to-charge ratio for outpatient hospital services. The methods and standards described herein would establish rates that accurately reflect the efficient and economic provision of private psychiatric hospital services. The methods and standards described herein are projected to result in a 20.25% increase in annual aggregate expenditures in Rate Year 2020 (RY2020). The actual change in aggregate expenditures is estimated to be \$11.45M; however, it may vary depending on actual utilization of services. Included with this notice are the rates of payment effective October 1, 2019.

JUSTIFICATION

All changes to hospital payment rates and methods described below are in accordance with state and federal law and are within the range of reasonable payment levels to privately owned psychiatric hospitals.

For HRY2020, MassHealth and CHIA conducted a review of hospital-specific Cost-to-Charge Ratios for private psychiatric hospitals in Massachusetts that provide outpatient care. Through this analysis MassHealth and CHIA identified wide variance in ratios applied to determine rates of payment for outpatient services. Three potential drivers of variance in Cost-to-Charge ratios were identified: variation in actual cost to deliver services, variation

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in cost accounting to outpatient services in hospital cost reports, and variation in the ratio applied for new entrants to the hospital program compared to existing participants. Therefore in HRY2020 the Cost-to-Charge ratio applied to all hospitals is being reset at the highest ratio observed among program participants.

To request copies of written comments received regarding RY2020 payment methods and rates, you may contact:

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Or by email: Muriel.Freeman@state.ma.us

STATUTORY AUTHORITY:
M.G.L. c. 118E; 42 USC 1396 *et seq.*

Related Regulations:
42 CFR Part 447

**EXECUTIVE OFFICE OF HEALTH AND HUMAN SERVICES
PSYCHIATRIC HOSPITAL SERVICES
FINAL METHODS AND STANDARDS
FOR RATES EFFECTIVE OCTOBER 1, 2019**

The following sections describe the methods and standards to be utilized by the Executive Office of Health and Human Services (EOHHS) to establish rates of payment by contract, to be effective October 1, 2019, for services rendered by privately owned psychiatric hospitals licensed by DMH to patients with appropriate medical needs.

DESCRIPTION OF METHODS AND STANDARDS

Statewide Standard Psychiatric Per Diem

MassHealth pays privately owned psychiatric hospitals an all-inclusive statewide inpatient per diem rate. The per diem rate of payment is calculated on the basis of three components: Base Year Costs; Inflation Adjustments to Base Year Costs; and Other Adjustments to Base Year Costs.

- (1) Base Year Costs:** Base year costs are calculated using the FY 2018 Massachusetts Hospital Cost Reports. Base year costs are equivalent to the total Patient Service Expense Including Capital. Per diem rates for each hospital were calculated by dividing each hospital's base year costs by the hospital's total base year bed days. The base year cost component of the statewide inpatient per diem rate for all hospitals was calculated by taking the average of all individual hospital's calculated per diem rate.
- (2) Inflation Adjustment to Base Year Costs:** The average base year rate is further updated to account for inflation from the base year. Inflationary adjustment factor provided by the Center for Health Information and Analysis (CHIA) for the period 2018 – 2020 is 5.644%.
- (3) Other Adjustments to Base Year Costs:** The Inflation Adjusted Base Year Costs are further adjusted to account for additional programmatic requirements of Inpatient Psychiatric Hospitals contributing to additional hospital operating costs. These programmatic requirements include core clinical competencies related to managed SUD, medical comorbidities, and severe behavioral presentation. These other adjustments account for an additional 14.606% increase over inflation adjusted base costs. The resulting Inpatient Per Diem rate for privately owned psychiatric hospitals in effect as of October 1, 2019, is \$941.10.

Administrative Days

In rare instances MassHealth pays psychiatric hospitals for Administrative Days using an Administrative Day Per Diem Rate (AD Rate). The AD Rate is an all-inclusive daily rate paid for each Administrative Day. Payments for Administrative Days are made on a per diem basis, using an Administratively Necessary Day Per Diem Rate (AND Rate) to maintain the ongoing provision of appropriate clinical care until the date of discharge. The AND Rate is an all-inclusive daily rate and represents payment in full for all Administratively Necessary Days in all Psychiatric Hospitals. The AND rate is only applied following clinical case review between an inpatient psychiatric hospital and MassHealth to determine that:

1. Clinical disposition calls for discharge.

2. Barriers to discharge have been addressed and the discharge plan is ready to be executed.

3. Date of discharge has been defined.

Effective October 1, 2019, the resulting AND Rate is set at 75% of the Statewide Standard Psychiatric Per Diem which equates to \$705.825.

Payment for Outpatient Services

MassHealth pays private psychiatric hospitals for Outpatient Services using an Outpatient Cost-to-Charge Ratio. The Outpatient Cost-to-Charge Ratio is a fixed percentage that is applied to a hospital's Usual and Customary Charges for Outpatient Services. Payment for a particular Outpatient Service shall be equal to the product of the Cost-to-Charge Ratio times the hospital's Usual and Customary Charge for the Outpatient Service in effect on July 1, 2018 and as reported to the Center for Health Information and Analysis.

This ratio is 64.8% and will be applied uniformly to all facilities.

The Outpatient Cost-to-Charge Ratios are as follows:

Arbour, Inc.	64.8%
Bournewood Hospital	64.8%
Haverhill Pavilion	64.8%
Hospital for Behavioral Health Medicine	64.8%
HRI Hospital, Inc.	64.8%
McLean Hospital	64.8%
Fuller Hospital	64.8%
Pembroke Hospital	64.8%
Southcoast Behavioral Health	64.8%
TaraVista Behavioral Health Hospital	64.8%
Walden Behavioral Health Hospital	64.8%
Westborough Behavioral Health Care Hospital	64.8%

Quality Performance Incentive Payment

Psychiatric hospitals may qualify for performance-based quality incentive payments. Incentive payments will be determined using the following factors:

1. **Baseline.** Baselines for psychiatric hospitals are calculated by taking average performance of qualifying hospitals using the Centers for Medicare and Medicaid Inpatient Psychiatric Facility Quality Reporting (IPFQR) for CY2017.
2. **Achievement Threshold.** The threshold for psychiatric hospitals is calculated by taking median performance of qualifying hospitals using the Centers for Medicare and Medicaid Inpatient Psychiatric Facility Quality Reporting (IPFQR) for CY2018.
3. **Performance Measurement.** Performance for psychiatric hospitals is measured by achievement of the threshold or improvement upon baseline for the IPFQR measure and compliance with reporting requirements for other measures.
4. **Payment.** Payment to psychiatric hospitals will be proportional to the performance measurement outcome.