

NOTICE OF PROPOSED AGENCY ACTION

SUBJECT: MassHealth: Payment for Privately Owned Psychiatric Hospital Services

AGENCY: Massachusetts Executive Office of Health and Human Services

SUMMARY OF PROPOSED 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, 2013 between the Executive Office of Health and Human Services (HHS) and participating privately owned psychiatric hospitals licensed by the Department of Mental Health. The contract does not cover services provided to patients enrolled with Mass Health's Primary Care Clinician Plan's behavioral health contractor, or with other MassHealth-contracted managed care entities.

DESCRIPTION OF PROPOSED METHODS AND STANDARDS

MassHealth pays privately owned psychiatric hospitals using (1) a comprehensive statewide inpatient per diem rate covering both routine and ancillary services, (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 establish rates that accurately reflect the efficient and economic provision of private psychiatric hospital services. MassHealth will update the inpatient per diem and administrative day rates as further described herein. The proposed methods and standards described herein are projected to result in a 1.566% increase in annual aggregate expenditures in RY 2014. However, the actual change in aggregate expenditures may vary depending on actual utilization of services.

Included with this notice are the rates of payment effective October 1, 2013. For further information, or to comment regarding RY2014 payment methods and rates, you may contact:

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Comments received by 5 p.m. on September 24, 2013 will be considered.

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

PROPOSED METHODS AND STANDARDS

FOR RATES EFFECTIVE October 1, 2013

The following sections describe the methods and standards to be utilized by the Executive Office of Health and Human Services (HHS) to establish rates of payment by contract, to be effective October 1, 2013, 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 a comprehensive statewide inpatient per diem rate covering both routine and ancillary services, calculated using the FY 2008 HCF-403 cost reports. Base year operating standards were computed in the following three categories: (1) Standard for Inpatient Overhead Costs; (2) Standard for Inpatient Direct Routine Costs; and (3) Standard for Inpatient Direct Ancillary Costs. The methods used to calculate each of these standards are detailed below. The statewide inpatient per diem consists of the sum of the adjusted base year operating standards, and the adjusted base year capital standard.

Determination of Base Year Operating Standards

- (1) The Standard for Inpatient Psychiatric Overhead Costs was based on the cost per day of the median licensed bed day. All hospitals were ranked from highest to lowest with respect to their cost per day; a cumulative frequency of licensed bed days for the hospitals was produced. The overhead cost standard was established at the cost per day corresponding to the position on the cumulative frequency of days that represent 50% of the total number of licensed bed days.
- (2) The Standard for Inpatient Psychiatric Direct Routine Costs was based on the cost per day of the median licensed bed day. All hospitals were ranked from highest to lowest with respect to their cost per day; a cumulative frequency of licensed bed days for the hospitals was produced. The routine cost standard was established at the cost per day corresponding to the position on the cumulative frequency of days that represent 50% of the total number of licensed bed days.
- (3) The Standard for Inpatient Psychiatric Direct Ancillary Costs was based on the cost per day of the median licensed bed day. All hospitals were ranked from highest to lowest with respect to their cost per day; a cumulative frequency of licensed bed days for the hospitals was produced. The direct ancillary cost standard was established at the cost per day corresponding to the position on the cumulative frequency of days that represent 50% of the total number of licensed bed days.

Determination of Base Year Capital Standard

Each Hospital's base year capital costs consist of each hospital's actual Base Year patient care capital requirement for historical depreciation for building and fixed equipment, reasonable interest expenses, amortization, leases, and rental of facilities. The standard for Inpatient Psychiatric Capital Cost is the median of all the hospital's Inpatient Psychiatric Capital Costs Per day.

Adjustment to Base Year Costs

The Standards for Operating costs (i.e., Overhead Costs, Direct Routine Costs, and Direct Ancillary Costs) are updated using a composite index comprised of two cost categories: labor and non-labor. The inflation proxy for the labor cost category is the Massachusetts Consumer Price Index. The inflation proxy for the non-labor cost category is the non-labor portion of the CMS market basket for hospitals. The update factors for operating costs used in the rate calculation are 2008-2009 - 1.459%; 2012-2013 - 1.775% and 2013-2014 - 1.571%.

The CMS Capital Input Price Index adjusts the base year capital cost to determine the capital amount. The update factors for capital costs used in the rate calculation are 2008-2009 - 1.2%, 2012-2013 - 1.2% and 2013-2014 - 1.4%.

Effective October 1, 2012, the Inpatient Per Diem rate will be updated by 1.566%. The resulting Inpatient Per Diem rate for privately owned psychiatric hospitals is \$602.70.

Administrative Days

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.

The AD Rate is a base per diem payment and an ancillary add-on. The base per diem payment is \$142.11, which represents the January 2003 nursing home rate for all nursing home rate categories, as determined by the Division of Health Care Finance and Policy.

The ancillary add-on is based on the ratio of ancillary charges to routine charges, calculated for Medicaid/Medicare Part B eligible patients on AD status, using MassHealth paid claims for the period October 1, 1997, to September 30, 1998. These ratios are 0.278 and 0.382 respectively. The resulting AD rate (base and ancillary) was updated by 2.2670% between FY03 and FY04, using 1.723% between FY 04 and FY 05, 2.548% between FY 05 and FY 06, 1.853% between FY 06 and FY 07, 1.968% between FY 07 and FY 08, 2.244% between FY 08 and FY 09, 1.775% between FY 12 and FY13 and 1.571% between FY13 and FY14.

Effective October 1, 2013, the resulting AD rate is \$212.68.

Payment for Outpatient Services

MassHealth pays private psychiatric hospitals for Outpatient Services using a hospital-specific 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, based on charges filed with the Division of Health Care Finance and Policy as of July 1, 2012. 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 as of July 1, 2012. Any such payment shall not exceed the hospital's Usual and Customary Charge derived from historical cost and charge information filed with the Division of Health Care Finance and Policy. For any newly operating psychiatric hospital outpatient department for which historical cost and charge information used to establish standard MassHealth outpatient psychiatric hospital rates is not available, MassHealth pays using the median of the cost-to-charge ratios for the other private psychiatric hospitals in Massachusetts that provide outpatient care.

The Cost-to-Charge Ratio for a specific hospital is calculated by dividing its outpatient costs (Schedule XVIII) by its outpatient service revenue (Schedule VI), as derived from the HCFP-403.

HHS will continue to maintain the following outpatient-to-cost ratios:

Arbour, Inc.	64.8%
Baldpate Hospital	N/A
Bournewood Hospital	21.8%
HRI Hospital, Inc.	16.8%
McLean Hospital	63.8%
UHS of Fuller, Inc.	13.9%
UHS of Westwood Pembroke Inc., d/b/a Pembroke Hospital	32.9%
UHS of Westwood Pembroke Inc., d/b/a Westwood Lodge Hospital	32.9%
Walden Behavioral Care	N/A
Whittier Pavilion	25.2%