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### NOTICE OF PROPOSED AGENCY ACTION

**SUBJECT:** MassHealth: Payment for Privately Owned Psychiatric Hospital Services effective October 1, 2018

**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 proposed methods and standards for the establishment of rates of payment by contract, effective October 1, 2018, 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 members enrolled with MassHealth'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) an all-inclusive 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 would establish rates that accurately reflect the efficient and economic provision of private psychiatric hospital services. MassHealth proposes to 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 0% increase in annual aggregate expenditures in Rate Year 2019 (RY 2019). The actual change in aggregate expenditures is estimated to be \$0.00; however, it may vary depending on actual utilization of services. Included with this notice are the proposed rates of payment effective October 1, 2018.

#### JUSTIFICATION

Except as specified above, the MassHealth privately owned psychiatric hospital payment methods for RY 2019 are otherwise substantially similar to those for RY 2018. All changes to hospital payment rates and methods are in accordance with state and federal law and are within the range of reasonable payment levels to privately owned psychiatric hospitals.

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For further information, or to comment regarding RY 2019 payment methods and rates, you may contact:

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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, 2018**

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, 2018, 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 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 hospitals' Inpatient Psychiatric Capital Costs per day.

## Adjustment to Base-Year Costs

### (1) Inflation Adjustments

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%; 2013–2014 - 1.571%; 2014–2015 - 1.672%; 2015–2016 - 0.0%; 2016–2017 - 0.0%; and 2017–2018 - 0.0%.

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%; 2013–2014 - 1.4%; 2014–2015 - 1.5%; 2015–2016 - 0.0%; 2016–2017 - 0.0%; and 2017–2018 - 0.0%.

### (2) Other Adjustments

This rate is increased by a factor of 2.295%.

The resulting Inpatient Per Diem rate for privately owned psychiatric hospitals in effect as of October 1, 2018, will be \$626.81.

## 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 \$198.14, which represents the October 2013 median nursing home rate for all nursing home rate categories, as determined by HHS.

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 1.672% between FY13 and FY14. Effective October 1, 2018, the resulting AD Rate is \$257.46.

## 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, 2014. 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, 2014. 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 or successor agency.

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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 Ratio 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.

EOHHS will continue to maintain the following Outpatient Cost-to-Charge Ratio:

Arbour, Inc.	64.8%
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 Lowell Hospital	32.9%
Whittier Pavilion	25.2%