



**DIXON HUGHES** PLLC  
Certified Public Accountants and Advisors

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## **CMS ISSUES FY 2008 HOSPITAL INPATIENT FINAL RULE**

CMS is pulling the trigger on implementing perhaps the most significant changes to the hospital inpatient PPS system since it was introduced in 1983. Medicare Severity DRGs (MS-DRGs) will replace the current CMS DRGs beginning October 1, 2007. This transition, combined with the continued phase-in of cost-based DRG weights, could result in significant changes in Medicare payments to individual hospitals. Because of the limited lead time prior to implementation, providers must react quickly to ensure they have an understanding of the potential impact, and are equipped to capture and document the information necessary to receive proper reimbursement.

The FY 2008 Final Rule was first posted online by CMS on August 1, and was formally published in the August 22 Federal Register. Contact Dixon Hughes at [info@dixon-hughes.com](mailto:info@dixon-hughes.com) if you need a copy of the applicable sections of the Federal Register.

The new MS-DRGs are a result of CMS's efforts to better recognize severity of illness in Medicare patients. The change will increase the overall number of DRGs from 538 to 745 effective in FY 2008. Beginning October 1 all Medicare cases will be assigned to an MS-DRG. However, CMS is transitioning the change during FY 2008 by applying a 50 percent weighting factor based on CMS DRGs and 50 percent from the new MS-DRGs. Beginning in FY 2009 the relative weights will be based entirely on MS-DRGs.

In the FY 2008 IPPS Proposed Rule published in April, CMS indicated MS-DRGs might be a one-year fix until a better system is further developed. However, in the Final Rule CMS states "...we believe it is likely that the MS-DRGs will be the system that Medicare uses permanently for the IPPS." In general, the expected overall result from MS-DRGs is payments increases for large urban and teaching hospitals, and payment decreases for rural and small hospitals.

The most controversial element of MS-DRGs is a 1.2 percent payment cut in FY 2008 to account for expected coding adjustments. CMS also expects to make similar cuts of 1.8 percent in both FY 2009 and FY 2010. CMS originally proposed making 2.4 percent cuts in both FY 2008 and FY 2009, but adjusted the cuts because of the transition period in fully implementing MS-DRGs. Although many in the healthcare industry have questioned the likelihood of

significant coding adjustments, it is important for providers to examine their coding process to make sure that their Medicare patients will be properly grouped under MS-DRGs.

### **FY 2008 Final Rule—By the Numbers**

	<b>FY 2007 Final</b>	<b>FY 2008 Final</b>
Labor-related standardized operating amount (wage index > 1, full update)	\$3,397.52	\$ 3,459.66
Nonlabor-related standardized operating amount (wage index > 1, full update)	1,476.97	1,503.98
Labor-related standardized operating amount (wage index <= 1, full update)	3,022.18	3,077.46
Nonlabor-related standardized operating amount (wage index <= 1, full update)	1,852.31	1,886.18
Capital standard federal rate	427.03	423.34

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