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To: Chief Financial Officers and Designated Interested Parties

From: Dennis Phelps, Assoc. Director, Audit & Compliance

Date: May 25, 2007

Re: **Governmental Payers and Sub-Contractors of Governmental Payers as Secondary Payers in the Maryland All Payer Rate Setting System**

The purpose of this memorandum is to correct and clarify my memorandum of April 2, 2007, which defined the payment responsibilities of Medicare, Medicaid, and Medicaid MCOs as secondary payers in Maryland.

After investigating the issue, ascertaining the specific policies of the governmental payers and their sub-contractors, and consulting with former Commission staff who were involved with the terms of the original Medicare waiver agreement, staff has determined the following:

1) When Medicare waived its reimbursement principles, it did not waive its principles related to coordination of benefits. Therefore, when Medicare is the secondary payer, because of the principles associated with coordination of benefits, total reimbursement to the hospital is limited to 94% of billed charges. (Although somewhat similar, coordination of benefits is not a coverage issue because the services must be covered to be included in the coordination of benefits decision);

2) Because of the waiver agreement, coordination of benefits also applies to Medicaid. Medicaid, by statute, is always considered secondary payer to any other payer including Medicare. Therefore, when Medicaid is the secondary payer, total reimbursement to the hospital is limited to 94% of billed charges; and

3) Coordination of benefits also applies to Medicare HMOs and Medicaid MCOs because their reimbursement is based on Medicare and Medicaid reimbursement.

Therefore, when a Medicare HMO or a Medicaid MCO is the secondary payer to Medicare or to a commercial payer, total payment to the hospital is also limited to 94% of billed charges. The HMO/MCO should pay 100% of deductibles and co-pays less any prompt payment discount earned, limited to 94% of billed charges, less applicable GME discount.(GME discounts should not be utilized in the determination of the reimbursement limit, since the GME discount is just an alternative method of paying GME costs to the hospital without including them in the capitation rate.)

The HSCRC's mark-up formula will be adjusted so that the hospital receives its approved revenue when the appropriate differentials and discounts are taken.

5/15/07

SECONARY PAYER EXAMPLES - REVISED

Medicare Primary Payer*

	Calculation of MCO Responsibility	Payments to Hospital
Billed Charges	$10,000	
Maximum Payment to Hospital - 94% of Billed Charges	$9,400	
Co-Pays & Deductables not paid by Medicare	$1,000	
Medicare Pays		$8,400
Responsiblity of Medicare/Medicaid MCO	$1,000	
Medicare/Medicaid MCO Payment	0.97	$970
Total Payments to Hospital (not including 3% GME payment)		$9,370
3% GME payment made directly to the Hospital by Medicare/Medicaid		$30
Total Payments to Hospital		$9,400

* Assumptions - MedicareHMO/Medicaid MCO - 3% GME discount HMO/MCO does not earn prompt pay discount

Commercial Payer Primary Payer**

	Calculation of MCO Responsibility	Payments to Hospital
Billed Charges	$10,000	$10,000
Commercial Payer Responsible for 90%	$9,000	
Maximum Payment to Hospital - 94% of Billed Charges	$9,400	
Co-Pays & Deductables not paid by Commercial Payer	$1,000	
Commercial Payer Pays		$9,000
Responsibility of Medicare/ Medicaid MCO	$400	
Medicare/Medicaid MCO Payment - 97%		$388
3% GME payment made directly to the Hospital by Medicare/Medicaid		$12
Total Payments to Hospital		$9,400

** Assumptions - Medicare HMO/Medicaid MCO GME 3% - Neither Commercial Payer nor Medicare/Medicaid MCO earns prompt pay discount.

Commercial Payer Primary Payer***

	Calculation of MCO Responsibility	Payments to Hospital
Billed Charges	$10,000	$10,000
Commercial Payer Responsible for 90%	$9,000	
Prompt Pay Discount Earned by Commercial Payer	$180	
Maximum Payment to Hospital - 94% of Billed Charges less Prompt Pay Discount	$9,220	
Commercial Payer Pays		$8,820
Co-Pays & Deductables not paid by Commercial Payer	$1,000	
Responsibility of Medicare/ Medicaid MCO	$400	
Medicare/Medicaid MCO Payment - 97%		$388
3% GME payment made directly to the Hospital by Medicare/Medicaid		$12
Total Payments to Hospital		$9,220

*** Assumptions - Medicare HMO/Medicaid MCO GME 3% - Commercial Payer earns Prompt Pay Discount Medicare/Medicaid MCO does not.

IF MCO EARNS PROMPT PAY DISCOUNT, ITS PAYMENTTO THE HOSPITAL IS REDUCED BY 2%.