

# A L E R T

March 15, 2016

**TO: All Hospitals, prospective RCOs and other interested stakeholders**

**RE: APR - DRG Payment Methodology**

The Alabama Medicaid Agency (the Agency) will be converting hospital inpatient pricing for fee-for-service recipients from a per diem calculation to a per discharge calculation based on All Patient Refined Diagnosis Related Groups (APR-DRGs) effective October 1, 2016. APR-DRGs are a product of 3M Health Information Systems and are used by many Medicaid agencies for inpatient reimbursement because APR-DRGs are built for a full population, whereas Medicare DRGs are built specifically for the Medicare population. The Agency coordinated a DRG Technical Advisory Group comprised of various stakeholders to develop a set of formulas and pricing parameters designed specifically for the Alabama Medicaid program to calculate the DRG payments for fee-for-service recipients.

To ensure the new system design functions as anticipated, the Agency will begin a parallel testing phase beginning in March 2016. During this time hospitals will continue to bill and be reimbursed using the current fee-for-service method and the parallel data will allow hospitals and the Agency to determine the impact of the APR-DRG methodology.

In March 2016, the Agency will provide hospital specific information that will include state fiscal year 2014 claims (based on date of admission) to allow hospitals to compare actual reimbursement to what would have been received had the APR-DRG system been in place. A second file will be sent with claims paid in the first four months of state fiscal year 2016 (October 2015 through January 2016). In addition, hospital specific files will be generated monthly starting in March and continuing through September 2016 showing example APR-DRG payments on claims paid in the previous month (for example, the March monthly file will contain inpatient claims paid in February).

To help hospitals prepare for the conversion, the Agency will offer training and technical assistance regarding this new hospital inpatient payment method for Regional Care Organizations (RCOs), hospitals and other interested stakeholders beginning March 2016. The training and technical assistance will be provided by the Agency through the planned APR-DRG implementation date of October 1, 2016.

At this time, the Agency intends for the implementation of APR-DRG rates to occur at the same time RCOs go-live and begin accepting full-risk, capitated payments. As a result, Access payments will no longer be distributed on a quarterly basis. Funds previously distributed as Access payments will be distributed through a combination of the new DRG payment and a new per-claim supplemental payment applied in addition to the DRG payment.

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The Agency is requiring RCOs adopt a hospital inpatient payment method that is approved by the Agency and incentivizes cost controls while maintaining access to and quality of care. The APR-DRG payment method is the Agency's preferred payment method for hospital inpatient services, although the Agency may consider other alternative payment methods that are in accordance with all applicable laws and regulations.

APR-DRG related questions or comments can be submitted via e-mail to:  
[RCOData@medicaid.alabama.gov](mailto:RCOData@medicaid.alabama.gov)