

**Third Party Payment and Medicare Crossover Claim Modeling:**

As a result of revisions to the DRG reimbursement system, it was recognized that these changes to the DRG weights and hospital base rates would also affect reimbursement for claims for which Medicaid was not the primary payer. In order to keep overall reimbursement at the same level, the affect of the DRG system changes were modeled for third party and Medicare claims from calendar year 2006 so that any lowered reimbursement in this system could be moved into the DRG system and added to hospital rates.

Since the final hospital rate for each facility was not known at the time of modeling, an interpolation system was determined. All third party and Medicare crossover claims were modeled for payment based on the final DRG weight set and hospital rates representing nine distinct data points. The total reimbursement for each data point was included in the TPL and Medicare interpolation tables labeled "Third Party Liability Interpolation Calculations" and "Medicare Crossover Interpolation Calculations." During the final rate determination, an iterative process was used to determine the budget neutral rate in which at each step the hospital's affect on TPL and crossover payments was determined by interpolating the payments between the two applicable data points. While we recognize that the change in these payments is not strictly linear throughout these ranges, we believe that it is a reasonable estimate of the change in payments based on the volume of payments considered.

For any given hospital rate data point, the New Jersey Medicaid paid amount for each claim was determined under both the present system and the proposed system. This calculation was slightly different for TPL claims and Medicaid crossover claims.

For TPL claims, the paid amount under the present system was determined by first calculating the total Medicaid allowed amount for the claim in the 2008 rate system. The final paid amount was calculated by paying the difference between that allowed amount and the original TPL payment (inflated by 6.8% to represent the TPL payment in 2008 dollars), if any. The paid amount under the proposed system was calculated in the same way, with the allowed amount being equal to the proposed DRG weight multiplied by the hospital rate data point being determined. The final payment amount under the current system was again determined by paying the difference between the allowed amount and the TPL payment (inflated to 2008), if any.

For Medicare crossover claims, the Medicaid payment can still be equal to the difference between the New Jersey allowed amount and the Medicare payment, but it is capped at the Medicare patient responsibility amount (coinsurance plus deductible amounts). As with the TPL calculation, the paid amount was calculated under the present system in 2008 dollars. The original Medicare paid amount was adjusted by 6.8% percent to represent payments in 2008, and the patient responsibility amount was adjusted by 8.8%, the difference in Medicare copay amounts in the two year period between 2005 and 2007. The final Medicaid payment was equal to the minimum of 1) the difference between the allowed amount and the Medicare paid amount, and 2) the patient responsibility. For the proposed system, the allowed amount was calculated using the proposed DRG weights and the hospital rate data point being determined.