Weight Setting Process:

A New Jersey Medicaid weight set was created using a Medicaid primary payer claim set matching each hospital's cost report period ending in 2003. Because the DRG weights are based on cost derived from the Medicare cost report, it was determined that weights should be calculated using a claim set that matched the most recently available audited cost report time period. After the removal of invalid claims, the hospital FY 2003 claim set consisted of 63,674 claims, which were grouped using the AP-DRG Version 24 grouper. Transfer cases were excluded from the weight setting process, with the exception of DRGs 639-640, which are defined to include transfer cases. The remaining claim set consisted of 62,841 claims. For each DRG, the average cost and standard deviation were calculated, referred to as the raw average cost and raw standard deviation.

For weight setting purposes, claims which exceed the raw average cost plus 1.96 times the standard deviation (the 95th percentile of claims) for that DRG are considered to have reached the high cost threshold. In order to avoid the weight being artificially skewed by extreme cases, cost for these claims is capped at the high cost threshold.

Once high cost cases have been capped, a new average cost is calculated and the raw DRG weight is equal to the average cost of the DRG divided by the average cost of all claims. The average weight of all claims is equal to 1.0000.

This raw weight is checked for stability by calculating the minimum sample size required to have 75% confidence that the true average cost is within 15% of the computed average cost. DRGs for which the number of claims meet or exceed the minimum sample size are considered stable and the weight is used for the final New Jersey Medicaid weight set. These weights are designated by a weight source of "NJ_MK."

For DRGs that are not stable, fallback weights are considered from two sources. A claim set containing New Jersey Medicaid primary payer as well as New Jersey Charity Care claims, also from the time period matching each hospital's 2003 FYE cost report, is used as the primary fallback and the stability of the weight is calculated as described above. DRGs that receive a stable weight from the combined Medicaid and Charity Care set are designed by "NJ_Mix." If no stable weight can be found in either New Jersey claim set, the weight is taken from the New York AP-DRG Version 24 weight set and designated "NY-AP."

In each case where an external weight is considered for inclusion, a statistical t-test is performed to determine if there is an 80% confidence that the external weight is significantly different than the state's true average cost. In this event, the external weight is discarded in favor of the Medicaid primary payer weight, although it was not stable.

Once the external weights have been added to the system, each DRG is assigned a stable weight and a weight source. The average weight of all claims in the set is then calculated. Since the inclusion of external weights changes the overall average weight, an adjustment factor is applied to the weight of all DRGs to normalize the set. For the New Jersey Medicaid weight set, the adjustment factor was approximately 1.000485. This normalized weight is the final DRG weight of the New Jersey Medicaid reimbursement system.