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To: Chief Financial Officers and Designated Interested Parties

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

Date: April 2, 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 clarify my memorandum of December 1, 2006, 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) Medicare HMOs and Medicaid MCOs have been granted a 4% differential by the HSCRC and may also earn a prompt pay discount. 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, it should pay 96% of deductibles and co-pays less any GME discount applicable. When a Medicare HMO or a Medicaid MCO is the secondary payer to a commercial third party payer, total reimbursement to the hospital is limited to billed charges less the 4% differential granted by the HSCRC and any prompt pay discount earned. (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.

SECONDARY PAYER EXAMPLES - REVISEDMedicare Primary Payer\*

	Calculation of MCO Responsibility	Payments to Hospital
Billed Charges	\$10,000	
Maximum Payment to Hospital - 96% of Billed Charges	\$9,600	
Medicare Pays		\$9,048
Co-Pays & Deductables not paid by Medicare	\$952	
Responsibility of Medicare/Medicaid MCO	\$552	
Medicare/Medicaid MCO Payment	0.97	\$535
Total Payments to Hospital (not including 3% GME payment)		\$9,583
3% GME payment made directly to the Hospital by Medicare/Medicaid		\$17
Total Payments to Hospital		\$9,600

\* Assumptions - Medicare/Medicaid Differential \$4% & GME 3% - Medicare/Medicaid MCO does not earn prompt pay discount

Commercial Payer Primary Payer\*\*

	Calculation of MCO Responsibility	Payments to Hospital
Billed Charges	\$10,000	\$10,000
Maximum Payment to Hospital - 96% of Billed Charges	\$9,600	
Commercial Payer Pays		\$9,000
Co-Pays & Deductables not paid by Commercial Payer	\$1,000	
Responsibility of Medicare/ Medicaid MCO	\$600	
Medicare/Medicaid MCO Payment - 97%	\$582	\$582
3% GME payment made directly to the Hospital by Medicare/Medicaid		\$18
Total Payments to Hospital		\$9,600

\*\* Assumptions - Medicare/Medicaid Differential \$4% & 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 - 96% of Billed Charges less Prompt Pay Discount	\$9,420	
Commercial Payer Pays		\$8,820
Co-Pays & Deductables not paid by Commercial Payer	\$1,000	
Responsibility of Medicare/ Medicaid MCO	\$600	
Medicare/Medicaid MCO Payment - 97%	\$582	\$582
3% GME payment made directly to the Hospital by Medicare/Medicaid		\$18
Total Payments to Hospital		\$9,420

\*\*\* Assumptions - Medicare/Medicaid Differential \$4% & GME 3% - Commercial Payer earns Prompt Pay Discount Medicare/Medicaid MCO does not.

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