Report in Brief
Date: July 2022
Report No. A-05-19-00019

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

The Reduced Outlier Threshold Applied to Transfer Claims Did Not Significantly Increase Medicare Payments to Hospitals

Why OIG Did This Audit

The Medicare program pays hospitals for inpatient hospital services based on a Medicare severity diagnosis-related group (DRG) rate per discharge. To protect hospitals from excessive losses due to unusually high-cost cases, the Medicare program supplements the DRG rate payment by making outlier payments. To avoid giving hospitals an incentive to transfer patients to another health care setting early in a patient's stay, while still receiving the full DRG rate, Congress established the transfer policy. Medicare payment for transfer claims differs from Medicare payment for discharge claims in two ways. First, under the transfer policy, CMS uses a graduated per diem rate payment (transfer rate payment), which is less than the full DRG rate payment, to pay a hospital that transfers an inpatient to another health care setting. Second, CMS decreases the outlier threshold (reduced outlier threshold) applied to determine the eligibility for, and the amount of, outlier payments for transfer claims.

Our objective was to assess the financial impact that Medicare's transfer policy and reduced outlier threshold have on Medicare total payments for transfer claims compared with what hospitals would have been paid if the beneficiary had been discharged instead of transferred.

How OIG Did This Audit

During fiscal years 2011 through 2017, Medicare paid approximately $776 million in outlier payments for transfer claims. We reviewed 5,303 transfer claims with outlier payments totaling $66 million from 30 hospitals. Specifically, using Medicare claim data and information obtained from CMS for the 7-year period, we calculated DRG rate amounts and outlier payment amounts without applying the transfer policy for these 5,303 transfer claims, and we compared the results with the actual payments that Medicare made for these transfer claims.

What OIG Found

Medicare's reduced outlier threshold for transfer claims did not have a significant impact on the total Medicare payments to the 30 hospitals we audited. Of the 5,303 transfer claims, the total Medicare payments for 3,668 transfer claims were less than what Medicare would have paid the hospitals if they had discharged the beneficiaries. However, the total Medicare payments for the remaining 1,635 transfer claims were $2.9 million more than what Medicare would have paid the hospitals if they had discharged the beneficiaries. Specifically, under the transfer policy, Medicare decreased DRG rate payments by $10.8 million but, because of the reduced outlier threshold, Medicare increased outlier payments by $13.7 million, resulting in a net increase of $2.9 million in total Medicare payments compared to what hospitals would have been paid if they had discharged the beneficiaries.

The $2.9 million net increase in total Medicare payments for these 1,635 transfer claims occurred because the outlier payment increase using the reduced outlier threshold was greater than the DRG payment decrease under the transfer policy.

What OIG Recommends

Medicare's reduced outlier threshold for transfer claims does not have a significant enough impact for us to recommend a policy change. Therefore, we do not have any recommendations.