How Charging Practices Can Affect Medicare MS-DRG Payment Rates

Hospital charging practices can affect **MS-DRG relative weights (RWs)** and consequently payment rates.[1]

Although CMS recalibrates MS-DRG classifications and RWs annually, the costs of **new technologies or practice patterns** are not reflected in the MS-DRG RWs until 2 to 3 years after the new practices are implemented.[1-3]

By October 20, the public submits requests to be considered for changes to MS-DRG classifications and RWs, effective FY 2027[2]

In the April publication of the proposed rule, CMS includes the annual MS-DRG RW recalibration, reflecting changes in treatment patterns, technology, and other factors that impact the relative use of hospital resources. The public has 60 days to submit comments on the proposed action[2,4-6]

2- to 3-year data lag; NTAPs fill the gap[3]



2024 CCRs[3]

Cost-to-Charge Ratios (CCRs) measure the extent to which hospitals mark up their costs when setting charges. Lower CCRs represent higher mark ups[7]

2025 Charges[3]

Hospital Charges are converted to costs by applying 2024 CCRs. These costs will then be used to calculate the FY 2027 MS-DRG RWs[3]

On or about August 1, CMS publishes the IPPS final rule, which includes the MS-DRG RWs[3,4]

CCRs from 2024 hospital cost reports	×	**Hospital Charges** reported on 2025 Medicare claim forms	=	**Costs** used to set 2027 **MS-DRG RWs[3]**

Each **MS-DRG RW** reflects the average cost of resources required to provide care for cases under a particular MS-DRG relative to the average cost of resources used to treat cases in all MS-DRGs.[1,8]

- An MS-DRG with weight of 2.0 means that costs were historically twice the average

MS-DRG RWs are used to calculate the Medicare payment per discharge[1,3]:

Payment per Discharge	=	**Hospital Medicare Base Rate*** 2024 average is ~$6,498[9]	×	**MS-DRG RW**	+	**Adjustments†**

CMS, Centers for Medicare & Medicaid Services; **FY**, fiscal year; **IPPS**, Inpatient Prospective Payment System; **MS-DRG**, Medicare Severity Diagnosis Related Group; **NTAPs**, new technology add-on payments.

*A hospital-specific rate divided into labor-related and non-labor shares. The labor-related share is adjusted based on the hospital's location.[3] † Additional payments may be made for hospitals that treat a high percentage of patients with low income (Disproportionate Share Hospital adjustment) or are teaching hospitals (Indirect Medical Education adjustment). Payments can also be increased for unusually costly cases.[3]

Intended for use with payers, formulary committees, or other similar entities for the purposes of population-based drug selection, coverage, and/or reimbursement decision making.

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Appropriate Charging May Affect Kidney Transplantation Payment Rates

Three MS-DRGs exist for kidney transplant based on the need for hemodialysis and the presence of MCCs.[9]

Kidney Transplant MS-DRGs[9]

MS-DRG 650
Kidney transplant with hemodialysis with MCC

MS-DRG 651
Kidney transplant with hemodialysis without MCC

MS-DRG 652
Kidney transplant without hemodialysis

National Average Charges, CCRs, and Costs for MS-DRG 650 in FY 2022

Cost center	Average standardized billed charge[10]	FY 2021 CCR[11,*]	National average cost[10]
Anesthesia	$8,453	0.071	$609
Blood and blood products	$2,486	0.271	$609
Cardiac catheterization	$302	0.100	$31
Cardiology	$1,435	0.094	$123
CT scans	$1,236	0.034	$41
Drugs	$55,190	0.187	$9,934
Emergency room	$67	0.147	$10
Implantable devices	$1,188	0.293	$320
Inhalation therapy	$1,559	0.147	$239
Intensive days	$19,312	0.344	$6,778
Laboratory	$20,790	0.107	$2,121
MRI	$113	0.070	$8
Operating room	$44,318	0.167	$7,091
Other services	$6,812	0.343	$2,316
Radiology	$3,359	0.136	$430
Routine days	$13,477	0.421	$5,620
Supplies & equipment	$5,396	0.297	$1,635
Therapy services	$1,094	0.288	$293
Totals	$186,587	–	$38,207

The average hospital base rate in 2024 was ~$6,498, reflecting the cost of an average inpatient case.[5,9] This average has steadily increased ~2%-4% annually since 2021, while changes to the MS-DRG 650 average payment have been more variable.[9,12-15]

Annual Changes in MS-DRG 650 RW and Payment[9,12-15]

Year	MS-DRG 650 GMLOS	MS-DRG 650 RW	MS-DRG 650 average payment†	MS-DRG 650 annual percent payment change	Average MS-DRG annual percent payment change
2022	6.8	4.5207	$27,758.41	+3.18%	+3.00%
2023	6.6	4.6439	$29,608.30	+6.66%	+3.84%
2024	6.4	4.4975	$29,223.72	-1.30%	+1.91%
2025	6.3	4.6073	$30,520.55	+4.44%	+1.95%

Current charging practices can directly impact future MS-DRG RWs and payments. Therefore, it is crucial to charge accurately to help align payments with costs of current treatments.[1,3]

Contact the Sanofi Market Access Team at transplant@sanofi.com to learn more about **kidney transplant admissions** and the value a **kidney transplant program** may bring to a hospital and health system.

CT, computed tomography; **EHR**, electronic health record; **GMLOS**, geometric mean length of stay; **MCCs**, major complications or comorbidities; **MRI**, magnetic resonance imaging.

*CCR for FY 2021 IPPS final rule.[1] † This information is provided as a benchmark reference only. There is no official publication of the average hospital base rate.[16] These estimates were calculated using national adjusted operating standardized amounts for a hospital that submitted quality data and is a meaningful EHR user with a wage index greater than 1.[9,12-15]

1. Medicare payment systems. Medicare Learning Network. Accessed October 22, 2024. https://www.cms.gov/Outreach-and-Education/Medicare-Learning-Network-MLN/MLNProducts/html/medicare-payment-systems.html. **2.** McDermott Consulting. CMS releases FY 2023 IPPS final rule. Accessed October 22, 2024. https://www.mcdermottplus.com/wp-content/uploads/2022/08/McDermottPlus-FY2023-IPPS-Final-Rule-Summary-08.04.2022.pdf. **3.** Recalibration of the FY 2025 MS-DRG relative weights. *Fed Regist*. 2024;89(167):69109-69115. **4.** General schedule of rulemaking for Medicare payment systems. CMS. Accessed October 22, 2024. https://www.cms.gov/cms-guide-medical-technology-companies-and-other-interested-parties/payment/rulemaking-schedule. **5.** CMS Medicare Learning Network. Acute care hospital inpatient prospective payment system. Accessed October 22, 2024. https://www.hhs.gov/guidance/sites/default/files/hhs-guidance-documents/acutepaymtsysfctshttextonly.pdf. **6.** Agency information collection activities: proposed collection; comment request. *Fed Regist*. 2023;88(218):78048-78050. **7.** Pickens GT, et al. HCUP cost-to-charge ratio methodologies. US Agency for Healthcare Research and Quality HCUP Methods Series report #2021-05. December 2021. Accessed October 22, 2024. https://hcup-us.ahrq.gov/reports/methods/MS2021-05-CCR-Methodologies.jsp. **8.** Grillis D, et al. Kidney transplantation admissions in the Medicare fee-for-service population. Milliman. April 2024. Accessed October 22, 2024. https://www.milliman.com/en/insight/kidney-transplantation-admissions-medicare-ffs-population. **9.** FY 2024 final rule and correction notice tables. CMS. Accessed October 23, 2024. https://www.cms.gov/medicare/payment/prospective-payment-systems/acute-inpatient-pps/fy-2024-ipps-final-rule-home-page#Tables. **10.** Data on file. Sanofi; 2024. **11.** Recalibration of the FY 2021 MS-DRG relative weights. *Fed Regist*. 2020;85(182):58596-58602. **12.** FY 2021 IPPS final rule and correction notice tables. CMS. Accessed October 23, 2024. https://www.cms.gov/medicare/payment/prospective-payment-systems/acute-inpatient-pps/fy-2021-ipps-final-rule-home-page#Tables. **13.** FY 2022 final rule and correcting amendment tables. CMS. Accessed October 23, 2024. https://www.cms.gov/medicare/payment/prospective-payment-systems/acute-inpatient-pps/fy-2022-ipps-final-rule-home-page#Tables. **14.** FY 2023 final rule and correcting amendment tables. CMS. Accessed October 23, 2024. https://www.cms.gov/medicare/payment/prospective-payment-systems/acute-inpatient-pps/fy-2023-ipps-final-rule-home-page#Tables. **15.** FY 2025 final rule, correction notice and interim final action with comment period. CMS. Accessed October 23, 2024. https://www.cms.gov/medicare/payment/prospective-payment-systems/acute-inpatient-pps/fy-2025-ipps-final-rule-home-page#tables. **16.** Optum. National payment table update. October 2021. Accessed October 24, 2024. https://reskin-o360-elr.optum.com/upload/docs/DRG_2022_Vol_1_National_Payment_Update_Correcting_Amendment.pdf.

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