

# Price setting for DRG- based hospital payment



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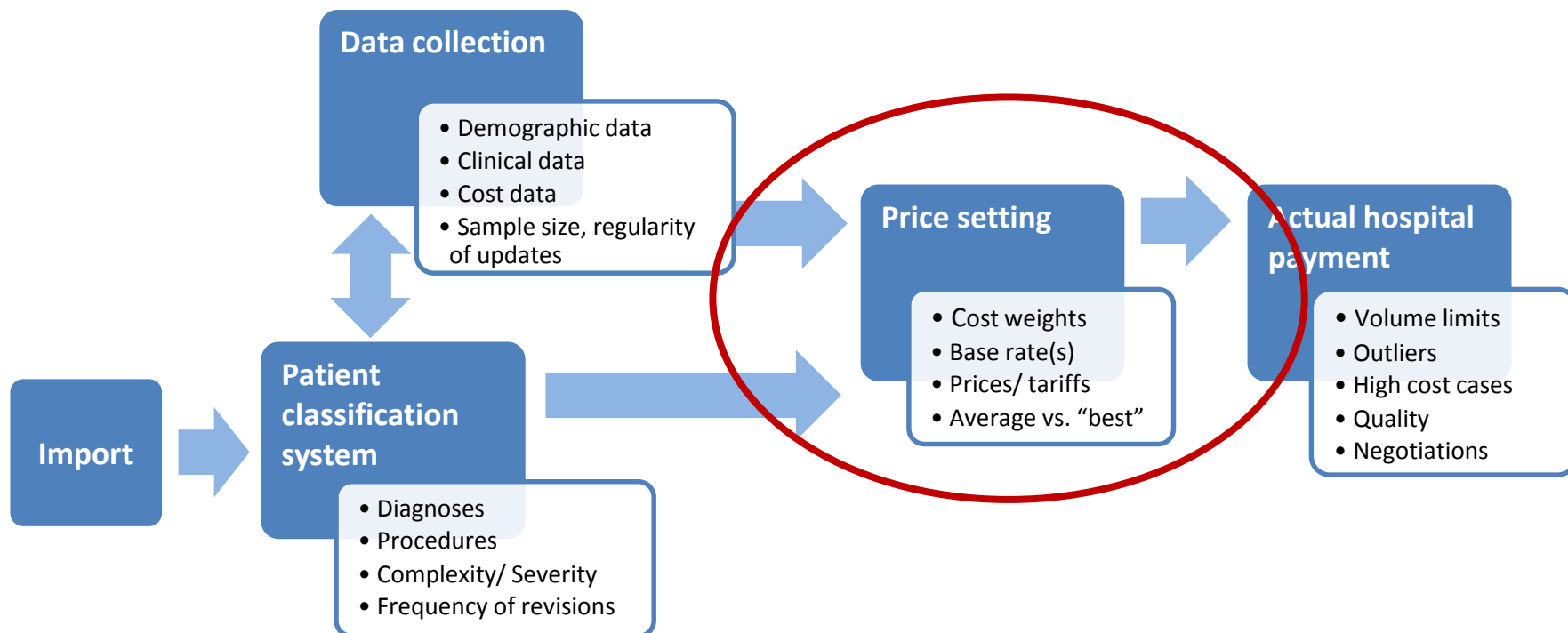
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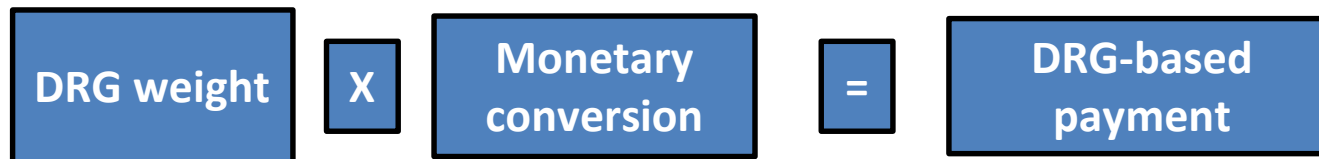


## DRG system building blocks



- Relative adequacy:
  - Avoid underpayment/overpayment for individual DRGs / groups of DRGs
  - Problems with relative adequacy can distort incentives (→ hospitals may focus on profitable DRGs, may close unprofitable departments)
  - Related to quality of cost data
- Absolute adequacy
  - Avoid underpayment → quality problems
  - Avoid overpayment → inefficiencies

# DRG weight and monetary conversion



DRG weight approach	DRG weight (unit)	$\times$	Monetary conversion (unit)	$=$	Hospital payment rate (€)
<b>Relative weight</b>	1.95	<b>X</b>	2000 €	$=$	3900 €
<b>Raw tariff</b>	3000 €	<b>X</b>	1.3	$=$	3900 €
<b>Score</b>	130 points	<b>X</b>	30 €	$=$	3900 €

# Determining DRG weights and conversion (options)

## Cost weights

- Imported cost weights
  - With adjustments based on national cost data
- Calculated based on national cost data
  - Average costs vs. “best practice costs” vs. targeted adjustments
- Negotiations

## Monetary conversion

- Based on national/regional cost data
  - Average costs vs. historical costs + cost increases
  - Adjustments: payer, location, hospital ownership, hospital type
- Negotiations

# Price setting (examples)

	“cost weight“ (varies by DRG)	“base rate“ or adjustment
Relative weight (e.g. Germany)	1.0	€ 3000 (+/-) (varies slightly by state)
Raw tariff (e.g. France)	€ 3000	1.0 (+/-) (varies by region and hospital)
Raw tariff (e.g. England)	£ 3000	1.0 – 1.32 (varies by hospital)
Score (e.g. Austria)	130 points	€ 30

# DRG weights across Europe (2012)

Country	DRG weight (unit)	Applicability of DRG weight
Austria	Score	Nationwide
England	Raw tariff	Nationwide
Estonia	Relative weight	Nationwide
Finland	Relative weight	Nationwide (8 districts), District-specific (5 districts)
France	Raw tariff	Nationwide (separate for public and private hospitals)
Germany	Relative weight	Nationwide
Ireland	(Adapted) Relative weight	Nationwide (separate weights for paediatric hospitals)
Netherlands	Raw tariff	Nationwide (67% of DRGs), hospital-specific (33% of DRGs)
Poland	Score	Nationwide (separate tariffs for emergencies, elective cases, day cases)
Portugal	(Adapted) Relative weight	Nationwide
Spain (Catalonia)	(1) (Adapted) Raw tariff (AP-DRGs); (2) (Imported) Relative weight (CMS-DRGs)	(1) Nationwide (AP-DRGs) (2) Region-wide (CMS-DRGs)
Sweden	Relative weight	Nationwide, country-specific (some districts)

# Monetary conversion across Europe (2012)

Country	Monetary conversion/ adjustment factors	Applicability of conversion rate / adjustment factors
<b>Austria</b>	(Implicit) Point value	Depending on state
<b>England</b>	Market forces factor	Hospital-specific
<b>Estonia</b>	Base rate	Nationwide
<b>Finland</b>	Base rate	Hospital-specific
<b>France</b>	(1) Regional adjustment (2) Transition coefficient (until 2012)	(1) Region-specific (2) Hospital-specific
<b>Germany</b>	Base rate	State-wide
<b>Ireland</b>	Base rates	(1) Specific to one of four hospital peer groups (2) Hospital-specific
<b>Netherlands</b>	Direct (no conversion)	Not applicable
<b>Poland</b>	Point value	Nationwide
<b>Portugal</b>	Base rate	Hospital peer group
<b>Spain</b>	(1) Direct (no conversion)	(1) Not applicable
<b>(Catalonia)</b>	(2) Base rate	(2) Region-wide (CMS-DRGs)
<b>Sweden</b>	Base rate	County-specific



# Negotiated DRG tariffs in the Netherlands

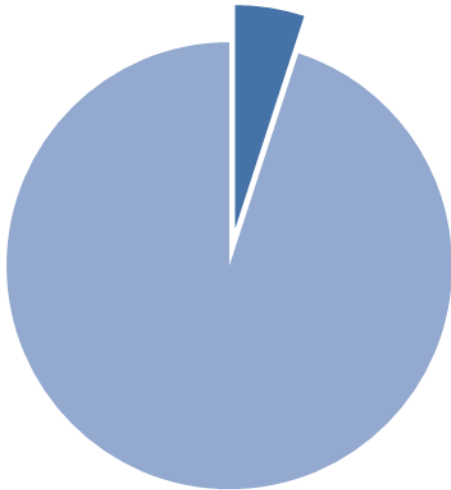
**Table 1 Negotiated prices in 2007 and 2004 for seven list B DBCs at four health insurers**

	2004 price (€)	Minimum 2007 price (€)	Maximum 2007 price (€)	Mean 2007 price (€)	Price increase (%)
Hip replacement	8571	7603	11370	9097	6.3
Knee replacement	10228	9097	13000	10746	5.1
Inguinal hernia repair	2163	1529	3088	2254	4.2
Diabetes	409	385	1027	483	18.1
Tonsillectomy	740	433	1498	800	8.1
Cataract	1317	1044	1599	1381	4.8
Spinal disc herniation	3046	2413	5778	3308	8.6

# Price setting to reduce impact on budgets: Introduction of DRG-based payment in Germany

Hospital Budget 2002

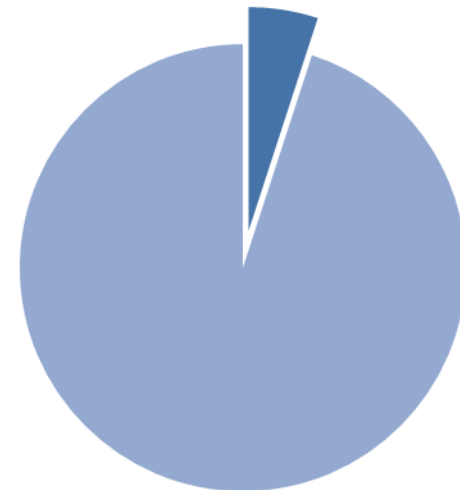
**100 Million Euros**



Reimbursement unit = per diem

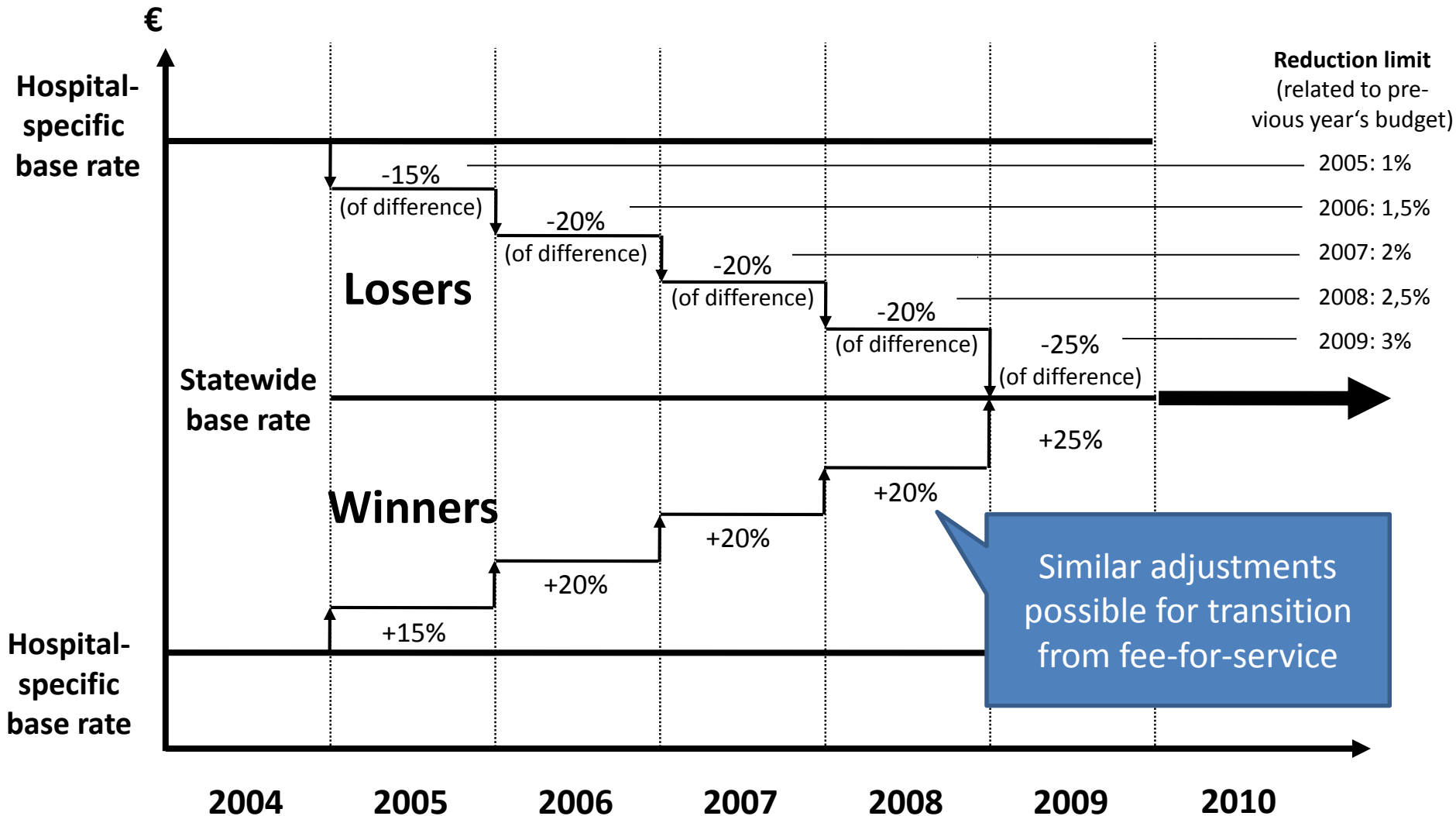
Hospital Budget 2004

**100 Million Euros**



Reimbursement unit = case (DRG)

# Price setting to reduce impact on budgets: Introduction of DRG-based payment in Germany



- Price setting has to assure relative and absolute adequacy of payment.
- DRG weights can be imported with DRG system, adjusted using national data, calculated based on national data, negotiated...
- Monetary conversion can be based on average costs, historical costs, best-practice costs with regional or hospital specific adjustments
- The ability to determine adequate prices depends strongly on the quality and reliability of cost data from hospitals.
- An extended transition period can smooth the impact of the introduction on hospital budgets.

Thank you very much for  
your time and attention!

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