

Prospective Payment—Ambulatory Patient Groups (APGs) and Resource Utilization Groups (RUGs)

Encouraged by the successful implementation of a prospective payment system for hospital inpatient services which operates on a per admission basis with rates determined by patients’ predicted resource needs according to their classifications in diagnosis related groups (DRGs), there are two proposed recommendations to provide for similar, one-year-long consultations for transitioning to prospective payment systems for nursing home services and outpatient services. The prospective payment system for nursing home services is to operate on a per diem basis with rates determined by residents’ predicted resource needs according to their clinical characteristics and corresponding classifications in resource utilization groups (RUGs). The prospective payment system for outpatient services is to operate on a per visit basis with rates determined by patients’ predicted resource needs according to their clinical characteristics and corresponding classifications in ambulatory patient groups (APGs).

<u>Goals of DRGs, APGs, and RUGs</u>	<u>DRG, APG, and RUG Reimbursement</u>	<u>Cost-Based Reimbursement</u>
<i>Prospective and Predictable</i>	Price for a defined service is known in advance.	Retrospective and unpredictable. Price for a defined service is unknown until retroactively settled.
<i>Equitable and Rational</i>	Providers receive the same reimbursement for the same service.	Providers receive more or less than their peers for reasons that are unknown and based on provider reported costs.
<i>Promote Provider Efficiency</i>	Price-based. Provides an incentive for efficiency combined with opportunity to improve margins (whether through reduced losses or increased profits).	Cost-based. No incentive to manage or reduce costs since payment is based on provider costs.
<i>Administrative Efficiency</i>	Motivation to settle reimbursement dwindles as the volume of cost-based business is reduced.	Administrative burden. Cost settlement requires a disproportionate share of administrative costs based on volume of business.
<i>Sound Business Practice</i>	Consistent with current business practices.	Outdated. Fewer and fewer payers continue to settle reimbursement to cost. Medicare, most state governments, and most commercial payers employ prospective payment systems for these services.