

*Diagnosis Related Groups (DRGs) and the
Medicare Program: Implications for
Medical Technology*

July 1983

NTIS order #PB84-111525

**DIAGNOSIS RELATED
GROUPS (DRGs) AND THE
MEDICARE PROGRAM:
IMPLICATIONS FOR
MEDICAL TECHNOLOGY**

A TECHNICAL MEMORANDUM

JULY 1983

Recommended Citation:

Diagnosis Related Groups (DRGs) and the Medicare Program: Implications for Medical Technology—A Technical Memorandum (Washington, D.C.: U.S. Congress, Office of Technology Assessment, OTA-TM-H-17, July 1983). This technical memorandum was performed as a part of OTA's assessment of *Medical Technology and Costs of the Medicare Program*.

Library of Congress Catalog Card Number 83-600560

**For sale by the Superintendent of Documents,
U.S. Government Printing Office, Washington, D.C. 20402**

Preface

The increase in the cost of hospital care has been a persistent and growing problem for both the Medicare program and the general public for more than is years. A substantial portion of the increase in hospital costs has been attributed to an increase in the use of new and existing medical technologies.

Congress recently legislated a new prospective per-case payment system for the Medicare program. Hospitals will be paid a specific, predetermined amount for each patient treated, regardless of the number or types of services provided. The amount paid will depend primarily on the Diagnosis Related Group (DRG) into which the patient is classified. The implementation of per-case payment has rested on the availability of an acceptable method of measuring a hospital's case mix. DRGs are just one of several approaches to measuring hospital case mix. Their importance is heightened by their adoption in the new national Medicare prospective payment system.

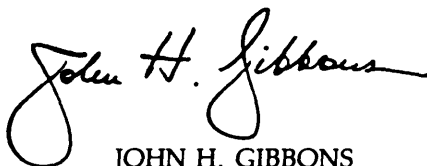
The House Committee on Energy and Commerce and its Subcommittee on Health and the Environment requested that OTA examine DRGs and their implications for use in the Medicare program as part of a larger assessment on ***Medical Technology and Costs of the Medicare Program***.

This technical memorandum presents the results of that examination. It reviews the development of DRGs and compares them to alternative case-mix measures. It examines the validity and reliability of the DRG classification system and the accuracy of DRG coding. It provides examples of proposed and actual uses of DRGs in hospital payment. Finally, and most important, the technical memorandum includes a thorough analysis of the implications for medical technology use and adoption of using DRGs as an integral part of a per-case payment system.

A principal finding is that while DRGs are ready for use in a per case payment system, their implementation needs to be closely monitored, because there is little experience with their use in this context. ***In the long run, the success of DRG payment will rest on its flexibility and aptability to changing costs and technologies.*** Four findings concern this need for periodic adjustment:

1. the requirement for regular reestimation of relative DRG prices implies a need for continued collection of hospital cost and charge data;
2. procedures allowing for the adjustment of DRG rates conditional on a hospital's adoption of a technology maybe important to stimulate adoption of desirable but cost-raising technologies;
3. the DRG adjustment process requires supporting evidence about the effectiveness, risks, and costs of new technologies; and
4. the adjustment process should guard against proliferation of DRGs.

This memorandum was guided by the advisory panel for the OTA assessment on ***Medical Technology and Costs of the Medicare Program***, chaired by Stuart H. Altman. In addition, a large number of persons in the Federal and State Governments and in the health services research field were consulted. Key OTA staff involved in the analysis and writing of the technical memorandum were Judith L. Wagner, Cynthia P. King, and Anne Kesselman Burns.



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