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To Whom it May Concern:

I am pleased to respond to your inquiry concerning the Admission Charge which the Commission has instituted in all Maryland hospitals.

The Commission believes that its legislative mandate requires that the charges for hospital services are to be based upon the costs of those services. This method of developing hospital charges is at variance with historical charging practices. For example, most hospitals have used the daily medical-surgical room-rate as an income source for offsetting charity care, bad debts, and charges discounted below costs for other hospital services.

The establishment of an admission charge is one aspect of the Commission's efforts to have patients pay the cost of the services they receive. Since the admissions charge is an alternative method of charging for costs traditionally included in the daily patient care rates, it would be well to begin by discussing the customary way of developing the costs of the daily patient care centers.

All hospitals have a substantial amount of "overhead" expenses. These include patient accounting, management, data processing, medical records, and a variety of other cost centers. Standard accounting techniques allow for the allocation (or distribution) of overhead costs to the areas of the hospital which bill for services, the emergency room, the laboratory, and the daily patient care areas being examples.

Thus, if the medical records department of a hospital costs \$1,200,000 to operate, it may well turn out that standard accounting techniques would allocate \$800,000 of these costs to the medical-surgical, pediatrics, and obstetrics wards and the remaining costs of \$400,000 to the outpatient departments.

If the hospital had 80,000 patient days the hospital would then have medical record expenses of \$10.00 per patient day (\$800,000 allocated costs/80,000 patient days). This \$10.00 would be a part of the daily patient care rates; in particular, it would be included in the daily charges made to patients in the medical-surgical wards.

Basically then, if one patient received 15 days of inpatient care, he would, in this example, pay \$150 for the cost of medical records. Similarly, if a second patient received 5 days of inpatient care, he would pay \$50 for medical records expenses. The question then becomes -- is this method of charging fair to both patients? Clearly, the answer depends upon what medical records departments do. If, for example, members of this department went each day to develop the patient's record, it would seem fair that patients pay in proportion to the number of days of their care. On the other hand, if the medical records departments worked primarily at the patient's admission (recording basic data) and at the patient's discharge (routinely organizing charts and records prepared by the physicians and nursing staff) then it would appear fairest to charge each patient the same amount for the costs of medical records. In this latter case, the costs of medical records would be a one-time charge. If, for example, the Hospital with 80,000 patient days had 10,000 admissions, then the medical records charge for each patient should be the \$800,000 allocated costs/10,000 admissions = \$80.00 per admission. And, of course, the room rate would be lowered \$10.00 per day.

After serious consideration, the Commission decided that three cost centers--medical records, social services, and medical staff administration--should be charged on a one-time basis rather than including them in the room rate. Thus, the Commission's charging system produces a lower room rate but includes an admissions charge.

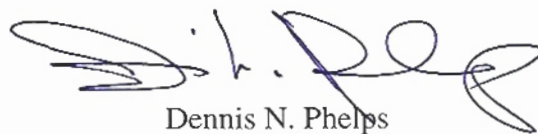
The admissions charge is thus an alternate to a higher room rate, not an additional levy on patients. In no case should the admissions charge be regarded as an ancillary charge.

The Commission's intention is to charge patients equitably, basing such charges on the reasonable cost of the services provided. The admission charge represents one such step in this direction.

In conclusion, the Admission Charge is a rate for hospital services rendered and is approved by the Commission. Please note that Maryland law enacted in 1993 (Attachment) makes it very clear that insurers shall pay hospitals for hospital services rendered on the basis of the rates approved by the Commission.

If you have any additional questions, please contact me at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. N. Phelps", with a large, stylized flourish extending to the right.

Dennis N. Phelps
Associate Director, Audit & Compliance