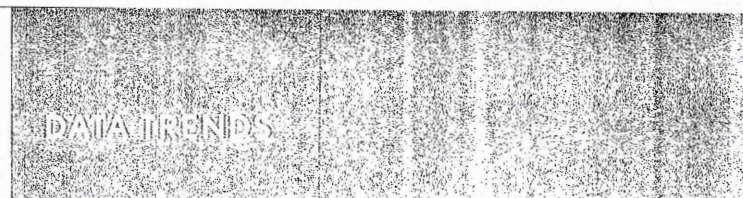


# EXHIBIT 18(e)

# supply costs dominate high-cost DRGs

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## supply costs dominate high-cost DRGs

The analysis for this article was provided by Ingenix. For more information, send an e-mail to [inform@ingenix.com](mailto:inform@ingenix.com).

DRG assignment is a primary factor in determining hospital payment for inpatient services provided to Medicare beneficiaries. An analysis of the percentage of the total costs of certain DRGs that is consumed by supplies shows the importance of tracking and managing medical/surgical supply utilization.

The focus of the analysis is on major diagnostic classification 5, which consists of DRGs indicating patients with circulatory system problems as their principal diagnosis. DRGs in MDC 5 were ranked according to relative weight (indicated by

insurance factors assigned to each DRG to reflect the relative cost of care under the DRG) and divided into quartiles. Quartile one comprises only medical procedures, quartile two is largely medical, quartile three is primarily surgical, and quartile four comprises only surgical procedures. The relative weight of each DRG was multiplied by the hospital's base rate to determine the payment received for the care provided. Costs were computed using hospital-specific cost report information to transform DRG-level charges into an estimate of cost for each discharge.

Not surprisingly, the results show the average length-of-stay and average severity increase with the intensity of the quartiles. Quartiles two and three are fairly similar in terms of these two measures, yet they are vastly different in terms of costs and charges.

Also, the average cost and charge for DRGs in quartile three are roughly 50 percent higher than in quartile two, which is also not surprising, given that quartile three costs are largely driven by medical/surgical supplies.

It's particularly revealing to look at the top three DRGs in quartiles three and four in terms of medical/surgical supply costs as a percentage of total cost. In the case of DRGs 118 and 116 in quartile three, medical/surgical supply costs represent close to half of the entire cost for the DRG. Similarly, in quartile four, total costs for DRGs 515, 514, and 115 are consumed primarily by medical supplies.

These findings underscore the importance for hospitals of tackling the challenge of rising medical supply expenses by constantly seeking new ways to reduce supply costs, better manage their inventories, and distribute supplies more smoothly and efficiently. ■

### NATIONAL UTILIZATION INDICATORS

	Quartile 1	Quartile 2	Quartile 3	Quartile 4
Percentage of Total Discharges	23%	42%	25%	11%
Average Length of Stay	2.79	4.81	4.86	9.26
Average Severity	0.56	1.06	1.31	2.15

### NATIONAL AVERAGES FOR CHARGE, COST, AND PAYMENT, BY QUARTILE

	Quartile 1	Quartile 2	Quartile 3	Quartile 4
Average Total Charge	\$9,746	\$17,061	\$33,943	\$79,592
Average Total Cost	\$4,070	\$7,105	\$14,079	\$33,178
Average Payment	\$2,517	\$4,997	\$10,722	\$26,602

### TOP 3 DRGs WITH HIGH MEDICAL/SURGICAL SUPPLY COSTS

	DRG	DRG Description	% Total DRG Cost
Quartile 3	118	Cardiac Pacemaker Device Replacement	51%
	116	Other Permanent Cardiac Pacemaker Implant	49%
	111	Major Cardiovascular Procedures w/o CC	40%
Quartile 4	515	Cardiac Defibrillator Implant w/o Cardiac Cath	70%
	514	Cardiac Defibrillator Implant w Cardiac Cath (no longer valid)	61%
	115	Permanent Cardiac Pacemaker Implant with AMI/HR/Shock or AICD Lead OR Generator	47%