

Method

State Medicaid Cost Savings Template

DRG Code (may vary by state)	# of Claims	Total Cost (State and Federal)	Cost Per Claim
386- Extreme Immaturity*			
387 ¹ - Prematurity with Major Problems	(X ₁)		(C ₁)
388- Prematurity without Major Problems	(X ₂)		(C ₂)
389- Full Term Neonate with Major Problems			
390- Neonate with Other Significant Problems			
391- Normal Newborn			

To calculate the annual Medicaid savings, take DRG 387 and DRG 388 (Prematurity with Major Problems and Prematurity without Major Problems) claims reduced by 8 percent multiplied by additional cost per claim.

*Note: Extremely immature babies account for approximately 2 percent of Medicaid claims and more than 50 percent of the cost of childbirth. Preconception health and many other factors play a significant role here, which is why DRG 386 is not included in the calculation.

DRG 387: X₁ claims -8% is a reduction in Y₁ claims; Y₁ x (C₁ (Cost DRG 387) – (Cost DRG391)) = **Cost savings1**

DRG 388: X₂ claims -8% is a reduction in Y₂ claims; Y₂ x (C₂ (Cost DRG 388) – (Cost DRG391)) = **Cost savings2**

$$\text{Total Medicaid Cost Savings} = \text{Cost savings1} + \text{Cost savings2}$$

Total U.S. Medicaid Savingsⁱⁱ

To determine the U.S. figure, the Texas Health and Human Services Commission (HHSC) first calculated the proportion of savings compared to total Medicaid expenditures for Texas:

- \$3.6 million/\$31.9 billion = 0.011%

HHSC then applied that percentage to the entire national expenditure for Medicaid:

- 0.011% x \$456.8 billion = \$51.6 million

The approximate savings nationwide for an 8 percent reduction in preterm births is about \$51.6 million. This represents both state and federal dollars.



Methodology for Estimating Medicaid Cost-Saving from 8% Decrease in Preterm Birth

Method Applied

Texas Medicaid Facts

- More than 55 percent (225,000) of all births in Texas are paid by Medicaid.
- Medicaid currently spends more than \$2.2 billion per year in birth and delivery-related services for mothers and infants through the infant's first year of life (\$22 billion total program services costs in 2010).
- Medicaid costs related to infant care are growing almost 10 percent per year.

Methodology for Estimating Texas's Medicaid Cost-Saving from 8% Decrease in Preterm Birth, for 2014 and 2015. *Note: The facts and figures in this document were taken directly from the methodology provided by the HHSC. The number of claims is based on two years of data.*

DRG Code	# of Claims	Total Cost	Cost Per Claim*
386- Extreme Immaturity	4,507	\$285.1 million	\$63,245
387- Prematurity with Major Problems	3,332	\$63.5 million	\$19,059
388- Prematurity without Major Problems	6,461	\$25.9 million	\$4,019
389- Full Term Neonate with Major Problems	6,836	\$40.8 million	\$5,962
390- Neonate with Other Significant Problems	20,539	\$26.6 million	\$1,295
391- Normal Newborn	125,304	\$51.4 million	\$410

*The figures represent the total Medicaid cost (state and federal funds) for claims related to newborn care during the first year of life. The total cost figures above are based on paid claims and do not represent unduplicated births/infants; however, cost per claim can be used as an approximation for cost per infant according to the Health and Human Services Commission's Center for Strategic Decision Support. If the infant has to stay in the hospital longer than 30 days, multiple claims may be generated. In addition, if an infant is discharged from the hospital and later readmitted, multiple claims will be generated.

To calculate the Medicaid savings, take DRG 387 and DRG 388 (Prematurity with Major Problems and Prematurity without Major Problems) claims reduced by 8% multiplied by additional cost per claim.

Texas:

TX DRG 387: 3,332 claims -8% is a reduction by 267 claims; 267 x (\$19,059-\$410) per claim = \$4,979,283

TX DRG 388: 6,461 claims – 8% is a reduction by 517 claims; 517 x (\$4,019-\$410) per claim = \$1,865,853

**Total Savings = \$6.9 million over 2 years
\$3.5 million over 1 year**

ⁱ For FY2008, CMS revised their DRG codes so DRG 387 is now DRG 791, and DRG 388 is now DRG 792.

ⁱⁱ The facts, figures, and methodology were taken directly from the "Methodology for Estimating Medicaid Cost-Saving (All Funds) from 8% Decrease in Preterm Birth for the United States" document from the Texas Health and Human Services Commission (HHSC).