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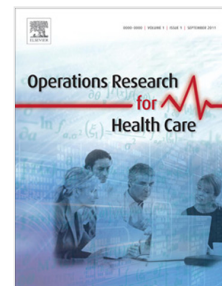
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DRG System Design: A Financial Risk Perspective

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Abstract

A prospective hospital payment system induces a substantial financial risk for the provider that not only increases incentives for cost efficiency. If financial risk is not bounded at an equal level for all DRGs and patient cases, hospitals have incentives to minimize their risk level as well. This paper investigates its consequences and proposes a DRG-System redesign encompassing a fair (or risk-adjusted) compensation. We adjust the price of the provider such that the risk of a financial loss is bounded similar to the Value-at-Risk (VaR). By focussing on the risk-transfer relation we are able to understand the induced basic strategies of risk mitigation for providers: The induced incentives reinforces the objectives in the DRG system to streamline processes in order to control its costs and hence stimulates specialized health clinics, while general providers offering basic services are likely to be more exposed to make losses.

Keywords: Risk premium in service industry, health economics, coherent risk measures, applied probability

JEL: C11, C23, D24, I18

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