



**PHILHEALTH CIRCULAR**  
 No. 2016-0020

**FOR : ALL ACCREDITED AND CONTRACTED HEALTHCARE PROVIDERS**

**SUBJECT : Governing Policies on PhilHealth Costing and Costing Methodology**

**I. RATIONALE**

A significant barrier to effective strategic purchasing is having limited high-quality data to guide policies on benefits development and provider payments, among others. In particular, having insufficient data on the cost of healthcare services has been limiting the Philippine Health Insurance Corporation's (PhilHealth) ability to generate appropriate payment rates, which ultimately influences the robustness of payment and incentive mechanisms. Institutionalizing the appropriate costing of healthcare services is essential to improving the health financing system as we move towards Universal Health Care (UHC).

Appropriate estimates of healthcare costs using high-quality cost data are important for payment rate setting, especially as the Corporation transitions from All Case Rates (ACR) to prospective provider payment, particularly Global Budget (GB) and Diagnosis Related Groups (DRG). Further, evaluating the efficiency and quality of health service provision, as well as setting funding priorities for the Corporation, also requires good costing estimates. These are conditional to a set of factors. First, a rigorous and systematic costing methodology with a standard approach to data gathering is needed. Second, data collected should be sufficient to accurately approximate costs. Critical to these is the active participation and contribution of relevant stakeholders with the full support of the PhilHealth management.

Ultimately, a key component in achieving and sustaining PhilHealth's role in UHC is the development of adequate and responsive benefit rates and provider payment mechanisms that will drive the provision of quality healthcare and ensure financial protection for all Filipinos. With its thrust to become a strategic purchaser of healthcare services, PhilHealth recognizes the importance of good costing practices in achieving UHC. Thus, the PhilHealth Board, per Board Resolution No. 2437 s. 2019, approved the institutionalization of a standard costing framework with the adoption of a robust methodology in costing healthcare services and the development of information technology (IT) solutions to support efforts on costing.

**II. OBJECTIVES**

This PhilHealth Circular aims to establish PhilHealth's governing policies on costing. Specifically, it aims to set the standard methodology of costing healthcare services that will inform provider payment reforms.

**III. SCOPE**

This policy issuance applies to all PhilHealth accredited and contracted healthcare providers.

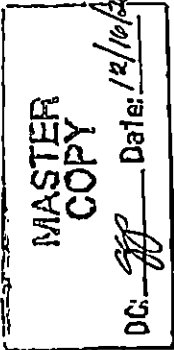
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PHILHEALTH  
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 Head - Designate, RELMS  
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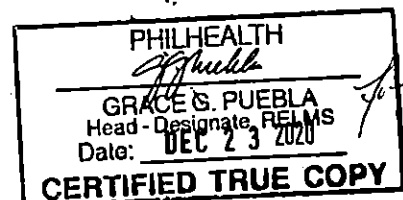
#### IV. DEFINITION OF TERMS

- A. **Bottom-up costing<sup>1</sup>** – an approach also known as “micro costing” that can generate cost estimates of specific resources used to deliver defined services or to treat a type of patient. This is computed by direct measurement of resource use and summing the actual cost of all individual inputs used to treat a particular type of patient.
- B. **Cost center** – a well-defined organization or management unit or entity for which costs are accumulated and to which direct costs are assigned and indirect costs are allocated.
- C. **Cost data** – refers to all data gathered during a costing exercise, which includes financial and statistical data.
- D. **Cost items** – inputs, or resources, to which costs will be assigned.
- E. **Diagnosis-Related Group (DRG)** - a data-driven, patient classification system that groups patient cases, including services received, into standardized case groups according to diagnosis and treatment or procedure received. It combines a clinical logic with an economic logic that classifies hospital cases into groups that are clinically similar and are expected to have similar hospital resource use.
- F. **Direct costs** - cost items that can be attributed directly to a cost center without using any allocation rules.
- G. **Global budget provider payment** – a prospective payment that allocates a fixed amount for a specified period to cover aggregate expenditures to provide an agreed-upon set of services. The budget can be used with flexibility and is not tied to specific line items for input expenses.
- H. **Indirect costs** - cost items that cannot be directly allocated to a cost center but rather are shared by several cost centers.
- I. **Mixed method approach** - use of top-down and bottom-up approaches in the same costing exercise—one as the primary approach, and the other to obtain supplemental information.
- J. **Prospective provider payment** – allocation of resources to a healthcare provider to deliver the covered package of healthcare goods, services, and interventions to the covered population in which rates are set in advance and/or providers are paid before services are delivered.
- K. **Strategic purchasing** – is the continuous search for the best ways to maximize health system performance by determining which interventions should be purchased, from whom these should be purchased, and how to pay for these services. It focuses scarce resources to existing and emerging priorities.
- L. **Top-down costing<sup>2</sup>** – a macro approach to costing that can generate cost estimates for the various cost centers of the facility based on its documented total health expenditure. This will be further converted to average costs of general units of output such as bed-days, discharged patient, or outpatient visits.



<sup>1</sup> Costing of Health Services for Provider Payment: A Practical Manual. (2014, October 19). Retrieved July 22, 2020, from <https://www.jointlearningnetwork.org/resources/costing-of-health-services-for-provider-payment-a-practical-manual/>

<sup>2</sup> Ibid



## V. POLICY STATEMENTS

PhilHealth shall abide by the following policies on PhilHealth costing methodology:

### A. Costing perspective

The costing perspective shall be that of PhilHealth as the national strategic purchaser of healthcare services, commodities, and other cost items pertinent to patient care.

### B. Participation of healthcare providers

Regular selection and participation in the national costing of healthcare services of all accredited and/or contracted general, specialty and/or apex hospitals; primary care facilities; and specialty clinics, such as ambulatory surgical clinics, diagnostic clinics, treatment center, dialysis center, and birthing clinics; shall be based on a representative sample of these facility types in consideration of their cooperativeness, their efficiency in data recording and on the presence of a functional health information system.

### C. Cost centers

The cost will be collected from cost centers and based on the level of organization, department, service, and patient. Cost centers shall be categorized into the following:

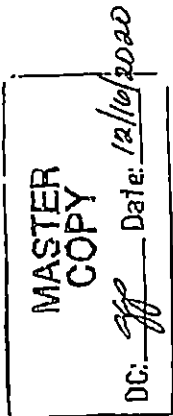
1. Ancillary or clinical support - are those that do not directly provide services but rather, support direct service cost centers through ancillary services, such as pharmacy, imaging, and laboratory.
2. Medical or clinical - are those that provide direct patient care, such as intensive care, surgery, internal medicine, pediatrics, and OB-Gyne.
3. Administrative - are those that assist both the ancillary and medical service cost centers, such as finance, billing, security, and dietary.

### D. Cost items

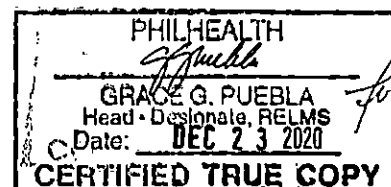
The cost items define which costs to include in costing. This shall include all cost items that may be relevant to the prevailing provider payment mechanism of the Corporation, such as personal services (PS), maintenance and other operating expenses (MOOE), and capital expenses (CAPEX).

### E. Costing methodology<sup>3</sup>

A mixed method approach using two cost accounting methods (i.e. top-down and bottom-up approach) shall be used to estimate the costs of providing healthcare services. The main method that will be used is the top-down approach. Bottom-up costing will be used to validate cost estimates. This methodology adopted by PhilHealth is intended for the standardization of costing of healthcare services and is not designed for any specific research purposes.



<sup>3</sup> Costing of Health Services for Provider Payment: A Practical Manual. (2014, October 19). Retrieved July 22, 2020, from <https://www.jointlearningnetwork.org/resources/costing-of-health-services-for-provider-payment-a-practical-manual/>



**F. Data collection and submission**

PhilHealth shall develop a computerized or automated costing system and provide training to participating HCPs on data collection and submission. HCPs shall conduct data collection and submit the data to PhilHealth through the automated costing system. Data submitted by HCPs shall not include patient identifiers and shall be subject to quality, reliability, and accuracy standards defined by PhilHealth.

External controls shall be applied to participating HCPs, which may involve on-site verification of the compliance with the guidelines for data submission, among others.

**G. Data processing and management**

Data processing involves data cleaning and validation. Missing, inconsistent and incomplete data will be rectified by follow-up queries to HCPs to the extent permitted by timelines and resources, and availability and cooperation of HCPs.

The Benefits Development and Research Department (BDRD), in coordination with relevant offices, shall oversee the important processes and activities pertinent to data management. The HCPs shall save all data and required information in a secure file repository set up by PhilHealth in accordance with the Data Privacy Act of 2012.

**H. Data analysis and reporting**

Data analysis occurs after the data have been processed, cleaned, and validated. This involves data modeling, among others, with the goal of generating useful information to inform policy decisions on provider payment reforms.

Cost estimates shall be analyzed according to the classification of healthcare providers licensed by the Department of Health<sup>4</sup> and accredited by PhilHealth.<sup>5</sup>

**I. Policy review**

Regular policy review shall be conducted as needed in collaboration with relevant stakeholders and technical representatives in the Corporation.

**VI. DATE OF EFFECTIVITY**

This PhilHealth Circular shall take effect after fifteen (15) days of complete publication in a newspaper of general circulation and shall thereafter be deposited with the National Administrative Register, University of the Philippines Law Center.

*[Signature]*  
**ATTY. DANTE A. GERRAN, CPA**  
President and Chief Executive Officer (PCO)

Date signed: 12/16/2020

Governing Policies on PhilHealth Costing and Costing Methodology

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<sup>4</sup> DOH Administrative Order 2012-0012  
<sup>5</sup> PhilHealth Circular No. 054, s.2012



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