

Assessing payment adequacy and updating payments: Long-term care hospital services

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Long-term care hospitals (LTCHs)

- Meet Medicare's conditions of participation for acute care hospitals (ACH) and have an average length of stay (ALOS) greater than 25 days for certain Medicare cases
- Medicare spending: \$4.5 billion in 2017
 - Cases: ~116,000
 - Mean payment per case (all cases): ~\$38,000
 - Mean payment per case (meeting criteria): ~\$46,000
 - Mean payment per case (not meeting criteria): ~\$24,000
- Per case payments based on MS-LTC-DRGs, adjusted for:
 - High cost outliers
 - Short-stay outliers (SSO)

The Pathway for SGR Reform Act of 2013 establishes a dual-payment rate structure for LTCHs

- Cases that meet the criteria:
 - Have an immediately preceding acute care hospital (ACH) discharge and either:
 - 3+ days in an intensive care unit of a referring ACH; or
 - Received prolonged mechanical ventilation in the LTCH
 - Are paid under the LTCH PPS
- Cases that do not meet criteria:
 - Are paid a lower “site-neutral” rate
 - The “site-neutral” rate is being phased in over four years
 - These cases are currently paid a blended rate, 50 percent the reduced rate and 50 percent the LTCH standard payment

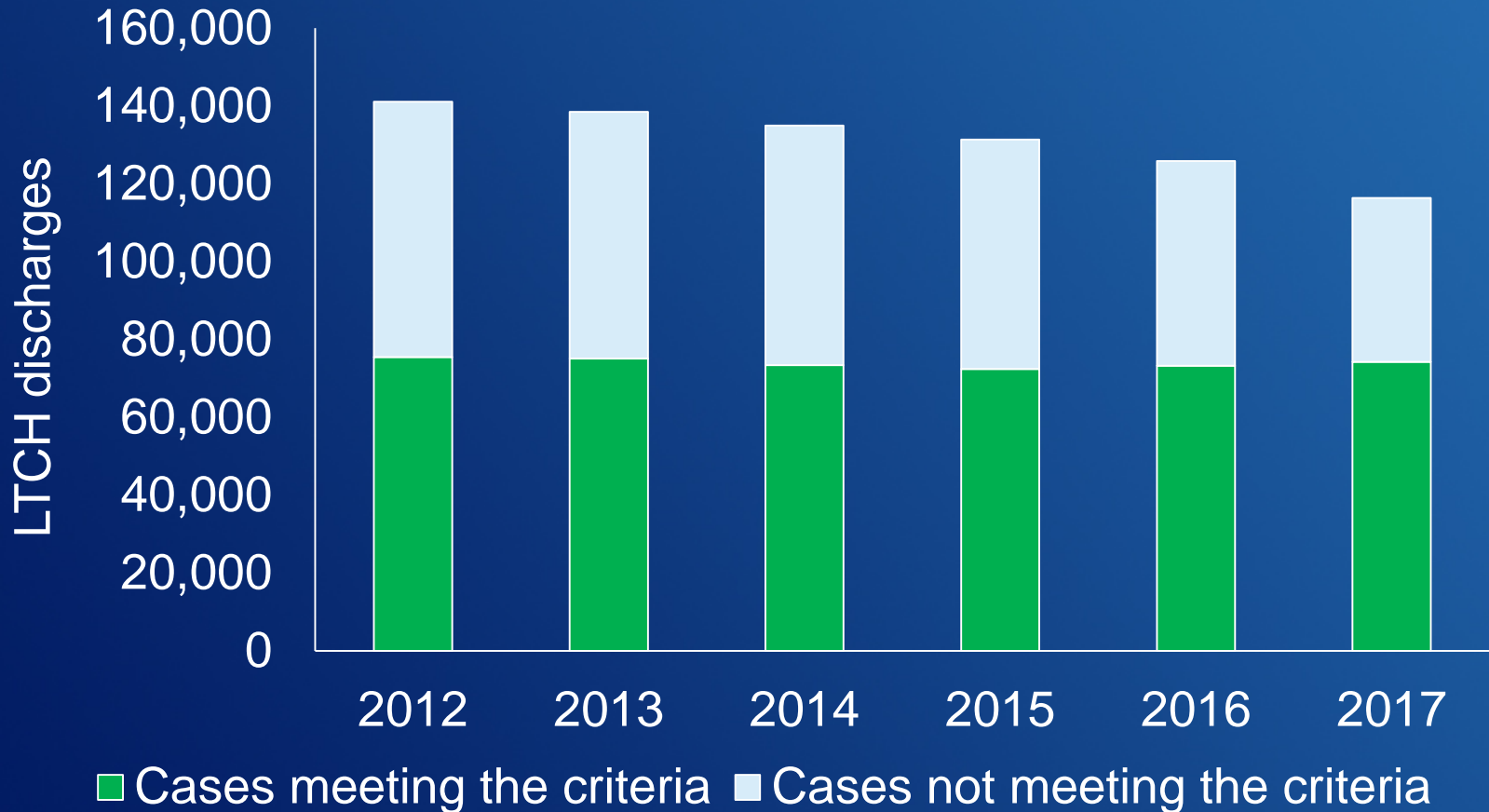
Payment adequacy framework

- Access
 - Volume of services
 - Supply of providers
 - Marginal profit
- Quality
- Access to capital
- Medicare's payments and costs

Assessing payment adequacy in LTCHs under the dual-payment rate structure

- Expect substantial changes from the implementation of the dual-payment rate structure
 - Financial disincentive to treat Medicare cases not meeting the criteria is strong
 - Extent to which LTCHs alter admission patterns toward cases meeting the criteria will determine financial performance under Medicare
- Some LTCHs have dramatically altered admission patterns
 - Consistent with the goals of the dual-payment rate structure
- Isolate some analyses to LTCHs that have a relatively “high share” of cases meeting the criteria
 - Defined as 85 percent or higher

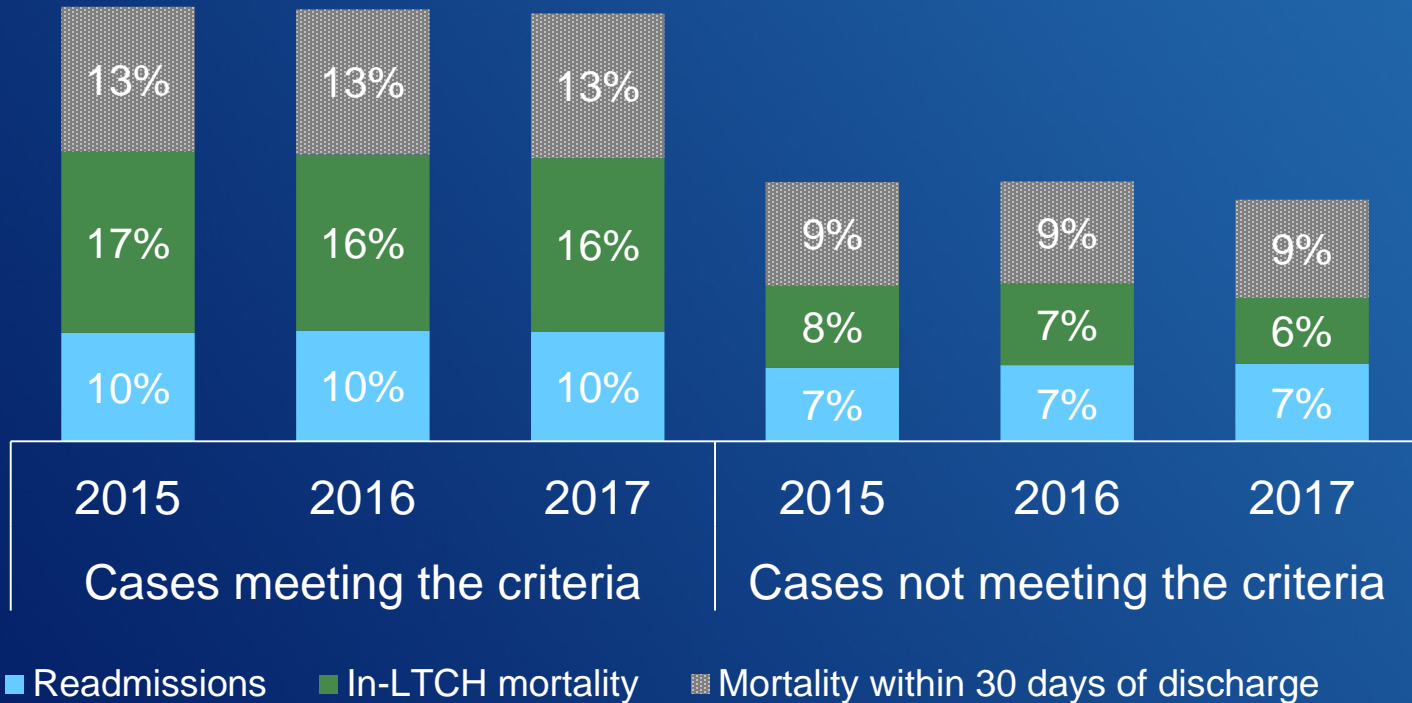
LTCHs have increased the share of beneficiaries that meet the criteria



Other indicators of access

- Supply has decreased since 2012
 - 7 percent reduction in LTCHs from 2012 through 2017
 - 4.1 percent reduction from 2016 to 2017
 - Additional reductions expected in 2018
- Occupancy rates decreased from 2016 to 2017
 - From 2012 to 2016 largely unchanged at 66 percent
 - Decreased to 64 percent in 2017
- Marginal profit remains strong
 - 14 percent across all LTCHs
 - 16 percent for LTCHs with a high share of cases meeting the criteria

Quality: Gross indicators remained stable



Note: "Cases meeting the criteria" refer to Medicare discharges that meet the criteria specified in the Pathway for SGR Reform Act of 2013 to qualify for payment under the LTCH PPS. "Cases not meeting the criteria" refer to Medicare discharges that do not meet the criteria specified in the Pathway for SGR Reform Act of 2013. Results are preliminary and subject to change.

Source: MedPAC analysis of Medicare Provider Analysis and Review and enrollment data from CMS.

CMS risk-adjusted quality measures

- Rate of new or worsening pressure ulcers:
 - 1.3 percent
- 30-day unplanned readmissions:
 - 25 percent
 - Differs from MedPAC's unadjusted rate because of differences in methodology
- Catheter-associated urinary tract infection:
 - Lower than expected after adjusting for risk factors
- Central-line associated bloodstream infection:
 - Lower than expected after adjusting for risk factors

Note: Results are preliminary and subject to change.
Source: CMS LTCH Compare website.

Access to capital: Implementation of the dual-payment rate structure limits availability

- Limited access to capital
- Industry consolidation
 - Many closures have been strategic in nature
- Total all-payer margin has decreased
 - All LTCHs: 0.2 percent in 2017, down from 3.1 percent in 2016
 - LTCHs with a high share of patients meeting the criteria: 4.2 percent in 2017, down from 5.4 percent in 2016

Note: Results are preliminary and subject to change.
Source: MedPAC analysis of Medicare cost report data from CMS.

Cost growth varied by share of cases meeting the criteria

| | Share of Medicare payments | Average growth per year 2012-2015 | 2015-2016 | 2016-2017 |
|--|----------------------------|-----------------------------------|-----------|-----------|
| All LTCHs | 100% | ~2% | 1.3% | -1.1% |
| LTCHs with > 85% of cases meeting the criteria | 28% | ~2% | 5.4% | 5.6% |

- LTCHs with a high share of cases meeting the criteria had robust cost growth resulting from an almost 30 percentage point increase in the share of cases meeting the criteria from 2015 to 2017

LTCH Medicare margins, 2017

| | % of cases | Medicare margin |
|---|------------|-----------------|
| All LTCHs | 100% | -2.2% |
| For-profit | 87 | -0.3 |
| Nonprofit | 12 | -13.0 |
| LTCHs with >85% of cases meeting the criteria | 23% | 4.6% |
| For profit | 87 | 6.5 |
| Nonprofit | 13 | -6.9 |

Note: Government-owned LTCHs are not shown. Percentages may not sum to 100% due to rounding. Results are preliminary and subject to change. The margins reflect current law policies.

Source: MedPAC analysis of Medicare cost report data from CMS.

High- and low-margin LTCHs, 2017

| | High-margin LTCHs | Low-margin LTCHs |
|--|----------------------|---------------------|
| Aggregate margin | 13.7 | -29.1 |
| Share of Medicare cases meeting the criteria | 71% | 55% |
| Mean total discharges (all payer) | 473 | 415 |
| Occupancy rate | 71% | 54% |
| Standardized cost per discharge | \$27,646 | \$35,999 |
| Medicare payment per discharge | \$38,102 | \$30,295 |
| Medicare HCO payment per discharge | \$2,886 | \$5,258 |
| Mean case mix index (non-SSOs) | 1.23 | 1.11 |
| For-profit | 96% | 60% |

Note: HCO (high-cost outlier). LTCHs that filed valid cost reports in both 2016 and 2017. Government-owned facilities are excluded from this analysis. Results are preliminary and subject to change.

Source: MedPAC analysis of Medicare cost report and MedPAR data from CMS.

Summary

- Access:
 - Occupancy decreased
 - Supply and volume decreased
 - Marginal profit decreased slightly (from 16% to 14%)
- Quality: Stable across most measures
- Access to capital: Limited
- Medicare's payments and cost for LTCHs with a high share of cases meeting the criteria
 - 2017 margin: 4.6%

Note The margins reflect current law policies. Results are preliminary and subject to change.
Source: MedPAC analysis of Medicare cost report and MedPAR data from CMS.