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

Stephanie Cameron

January 17, 2019

MEDPAC

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: ~$38,000
- Per case payments based on MS-LTC-DRGs, adjusted for:
  - High cost outliers
  - Short-stay outliers (SSO)

Defining the patients most appropriate for LTCH care has been elusive

- LTCH medical staff, administrators, and case managers have been unable to reach consensus on how to define the most appropriate patients for LTCH care
- Some literature has described the chronically critically ill as:
  - Multi-system failure (metabolic, endocrine, physiologic, immunologic, respiratory)
  - Requiring long ACH stays with heavy use of intensive care unit services
  - Being ventilator-dependent with major comorbidities
  - Having septicemia and other complex infections
- Researchers have found ICU days as an indicator of case complexity

MedPAC's March 2014 recommendation to the Congress

- Recommendation:
  - Standard LTCH payment rates be paid only for LTCH patients who:
    - Spent 8+ days in an ICU during the preceding IPPS stay or
    - Received mechanical ventilation for 96+ hours during the preceding IPPS stay
- Rationale:
  - ICU days are positively associated with case complexity
  - Ensures appropriate access to specialty weaning services offered by many LTCHs for beneficiaries requiring prolonged ventilation

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

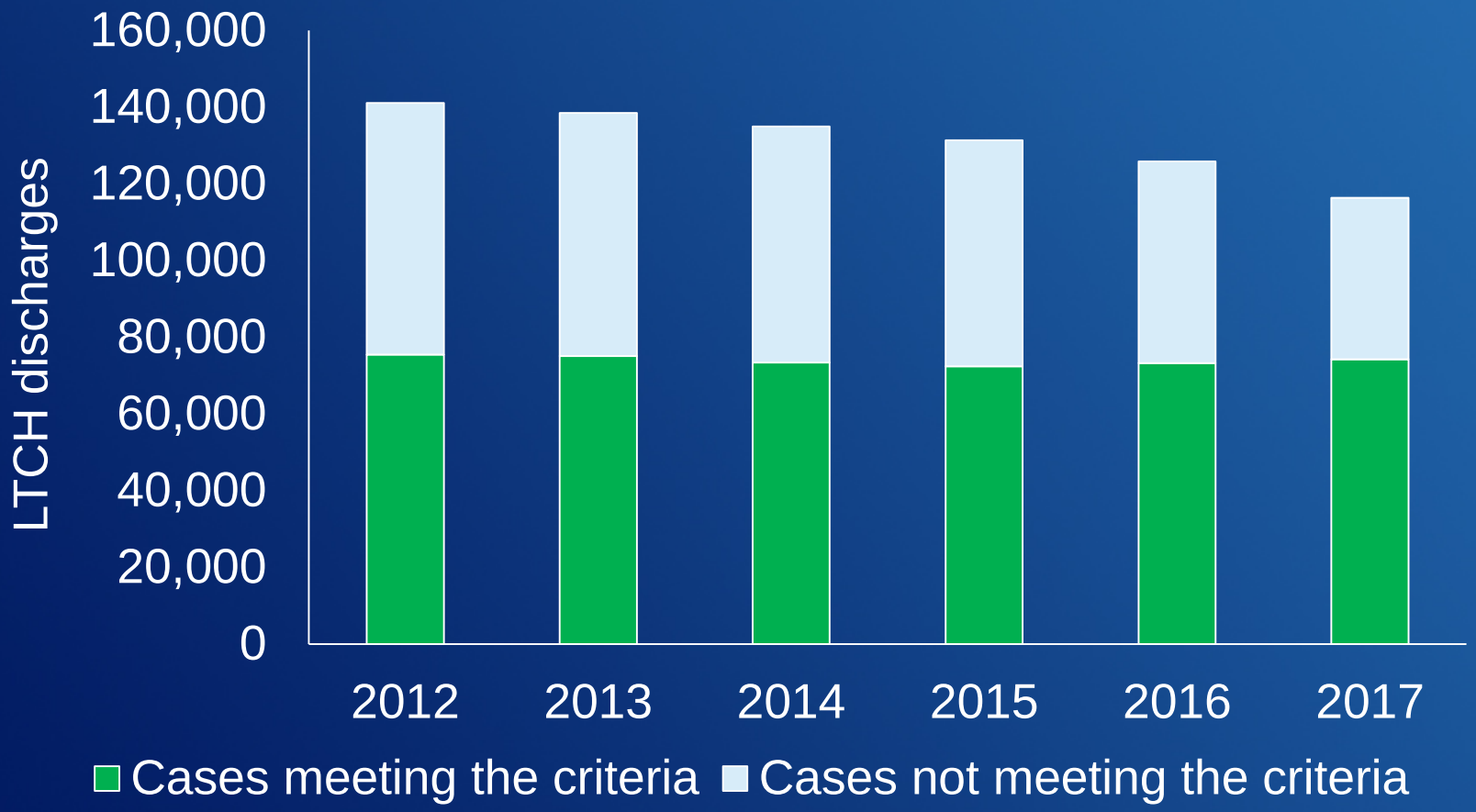
Payment adequacy framework

- 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
- Some analyses focus on LTCHs that have a relatively high share (85 percent or higher) of cases meeting the criteria

LTCHs have increased the share of beneficiaries that meet the criteria



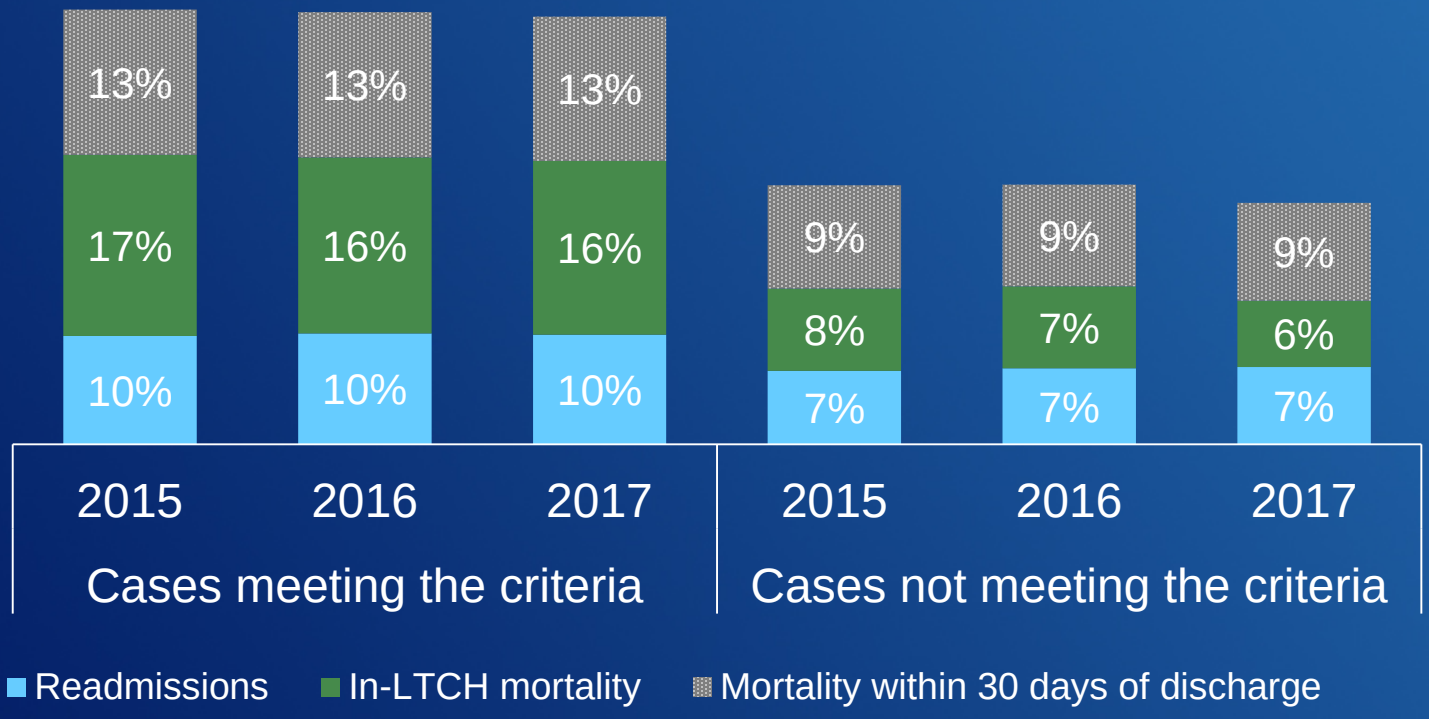
Note: Results are preliminary and subject to change.
Source: MedPAC analysis of Medicare claims data.

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
- 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

Results are preliminary and subject to change.

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.

MEDPAC

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.

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.

Projected 2019 Medicare margin for LTCHs with a high share of cases meeting the criteria

	Medicare margin
2017	4.6%
2019	1.2%

- Cost growth is expected to be higher than increases in payment

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.

MEDPAC

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%
  - 2019 projected margin : 1.2%

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.