



*Advising the Congress on Medicare issues*

# Adequacy of payments for long-term care hospital services

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# Long-term care hospitals

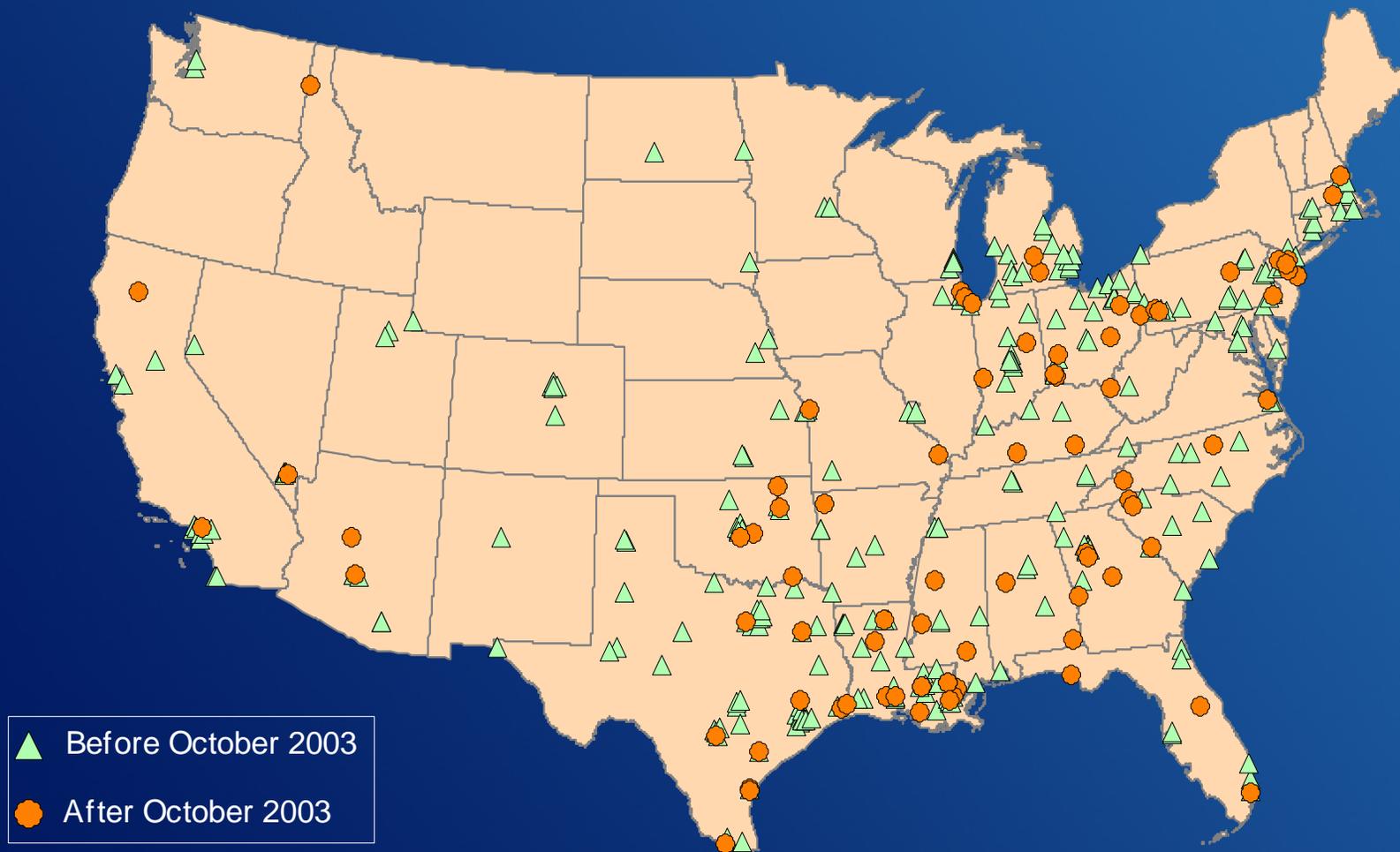
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- Provide hospital-level care for extended periods
- Must have ALOS > 25 days for Medicare patients
- Medicare accounts for ~70% of LTCH patients
- 5 of the top 10 LTC-DRGs are respiratory conditions
- PPS established in 2002
- \$4.5 billion Medicare spending in 2006

# Medicare spending for LTCH services, 2001-2006



# Distribution of LTCHs, 2006



# Short-stay outlier policy

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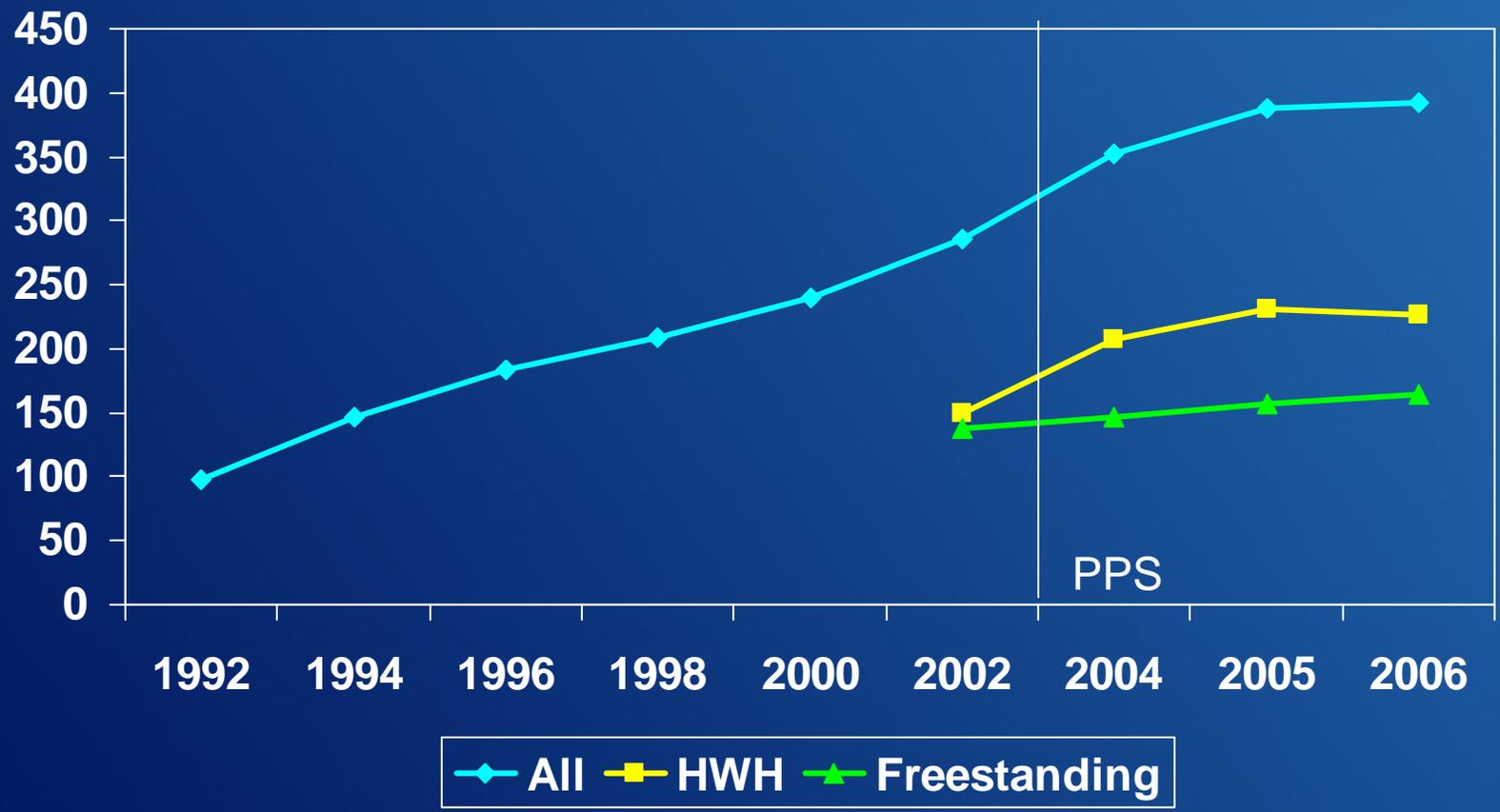
- For patients with short stays, LTCHs paid least of:
  - 100% of costs
  - 120% of LTC-DRG per diem x LOS
  - Full LTC-DRG payment
  - Blend of IPPS amount and 120% of LTC-DRG per diem
- Beginning July 2007, for patients with shortest stays, LTCHs paid least of:
  - 100% of costs
  - 120% of LTCH-DRG per diem x LOS
  - Full LTC-DRG payment
  - IPPS per diem x LOS, capped at full IPPS amount

# 25 percent rule

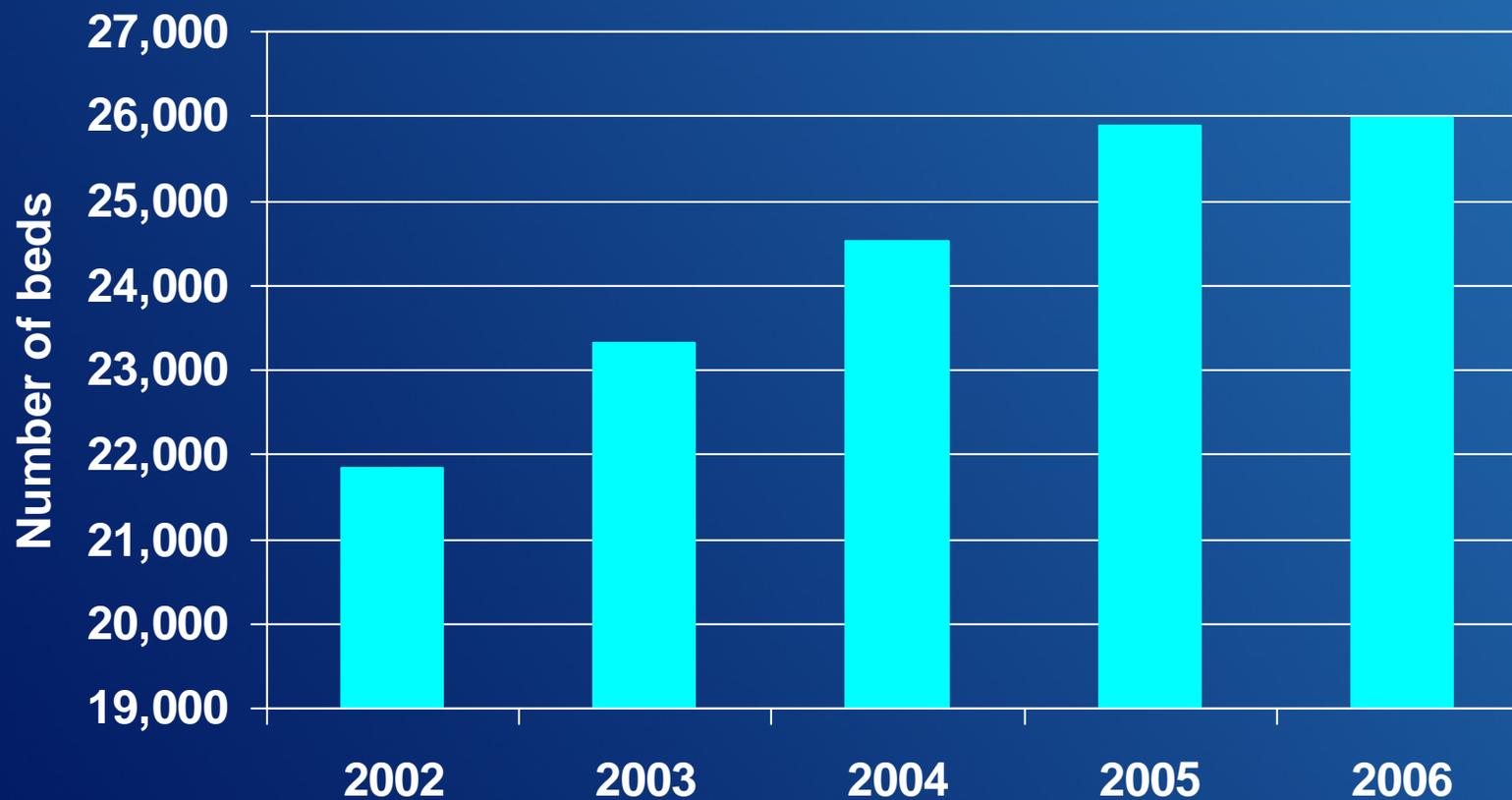
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- Caps the proportion of patients admitted from a HWH's or satellite's host hospital at 25%
  - Once 25% threshold is reached, payment for cases admitted from host hospital is the lesser of LTC-DRG rate and IPPS rate
- Beginning July 2007, caps the proportion of patients admitted to a freestanding LTCH from any one acute care hospital
  - 3-year phase-in; RY 2008 threshold = 75%

# Growth in the number of LTCHs has leveled



## Growth in the number of LTCH beds has leveled



## LTCH cases per 1,000 FFS beneficiaries, 2001-2006



## Quality measures have improved, 2004-2006

	2004	2005	2006	Avg. ann. change 2004-2006
Death in LTCH	12.8	12.3	11.1	-6.9%
Death within 30 days of LTCH discharge	22.8	22.6	22.1	-1.5%
Readmission to acute care hospital	11.5	11.9	10.13	-6.1%

Note: Rates are proportion of total cases, adjusted to reflect 2001 case mix.

Source: MedPAC analysis of MedPAR data from CMS.

# Patient safety indicators (PSIs) are mixed

	2004	2005	2006	Change 2005-2006
Decubitus ulcer	112.1	149.1	163.6	9.7%
Infection due to medical care	23.5	27.0	27.8	2.7%
Postoperative PE or DVT	45.1	46.4	42.1	-9.4%
Postoperative sepsis	107.6	98.6	88.9	-9.9%

Note: Risk-adjusted rates per 1,000 eligible discharges. PE (pulmonary embolism); DVT (deep vein thrombosis)

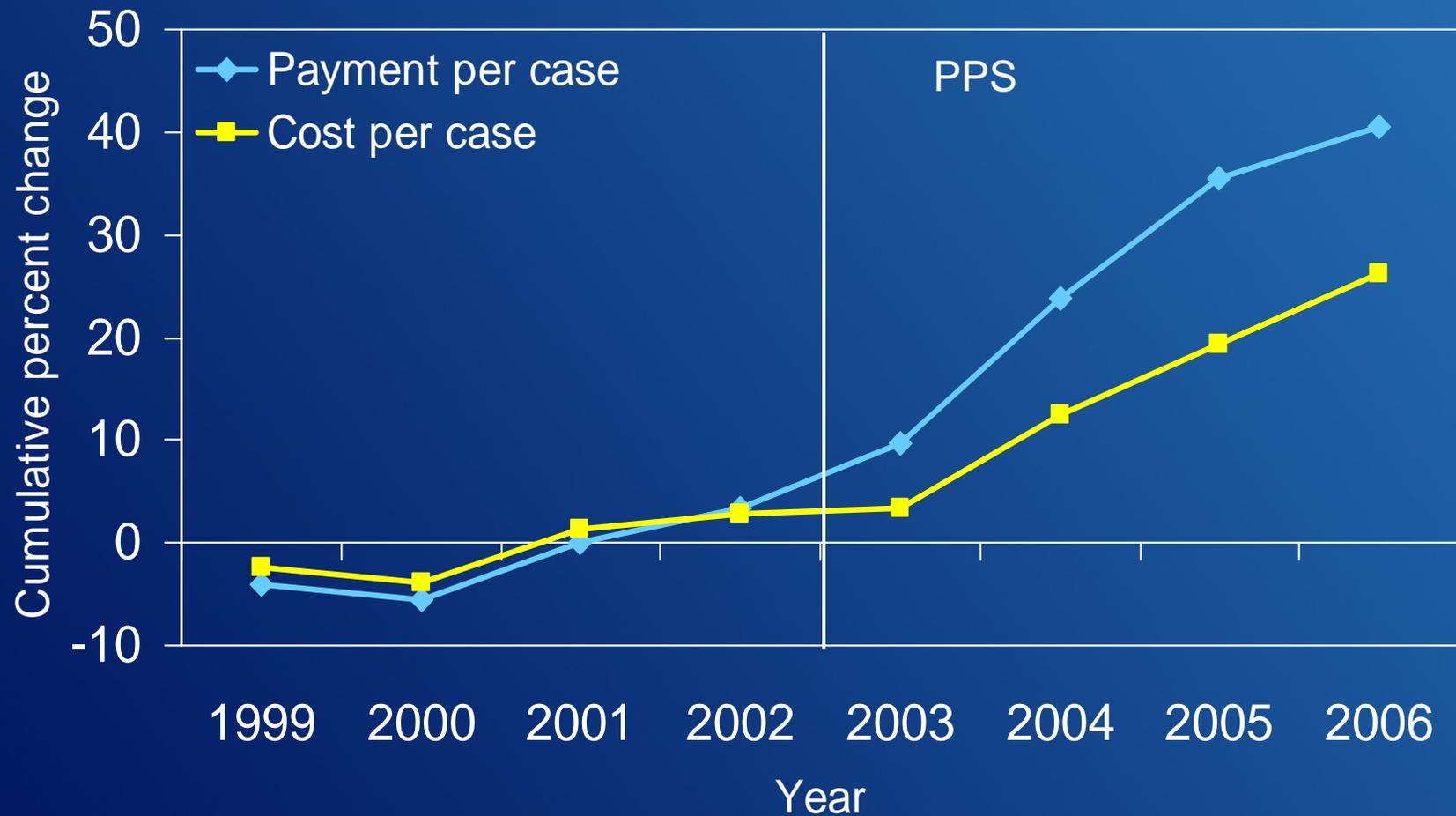
Source: MedPAC analysis of MedPAR data from CMS.

# Access to capital

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- Majority of LTCHs are for profit
- About two-thirds of for-profits owned by 2 chains
- Private equity firms invested in industry
- LTCH firms are increasingly diversified
- Lenders may be concerned about changes to Medicare's payment policies

# Comparison of changes in LTCHs' payments and costs per case, 1999-2006



# Policy changes for modeling 2008 margins

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- Increases in payment
  - Update in 2008
  - MS-LTC-DRG case-mix coding improvements
- Decreases in payment
  - DRG weight changes 2007
  - Change in short-stay outlier policy in 2007
  - Changes to high-cost outliers in 2008
  - Additional changes to short-stay outlier policy in 2008
  - Implementation of 25% rule (2007-2009)

# Summary

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- Supply stabilizing after rapid growth
- Beneficiary use fairly steady
- Some improvements in quality
- Future access to capital uncertain
- Payment policies implemented in 2007 and 2008 projected to reduce payments