



Advising the Congress on Medicare issues

Adequacy of payments for long-term care hospital services

Dana Kelley and Craig Lisk

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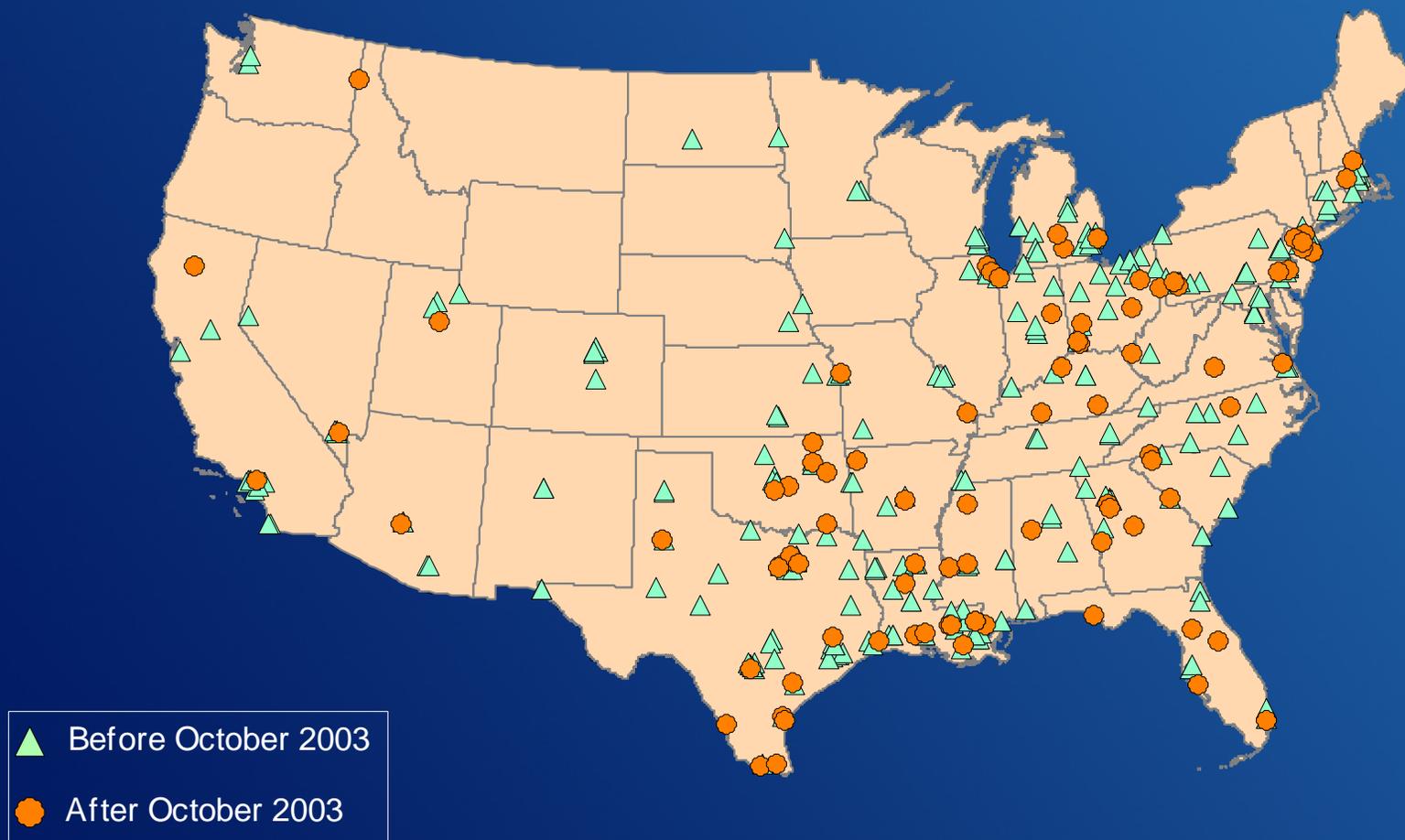
Long-term care hospitals

- Provide hospital-level care for extended periods
- Must have ALOS > 25 days for Medicare patients
- Medicare accounts for ~70% of LTCH patients
- PPS established in 2002
- Adjusted payments for:
 - High cost outliers
 - Short stays
 - Admissions from host hospitals of HWHs and satellites (the 25 percent rule)

Medicare spending for LTCH services, 2001-2007



Distribution of LTCHs, 2007

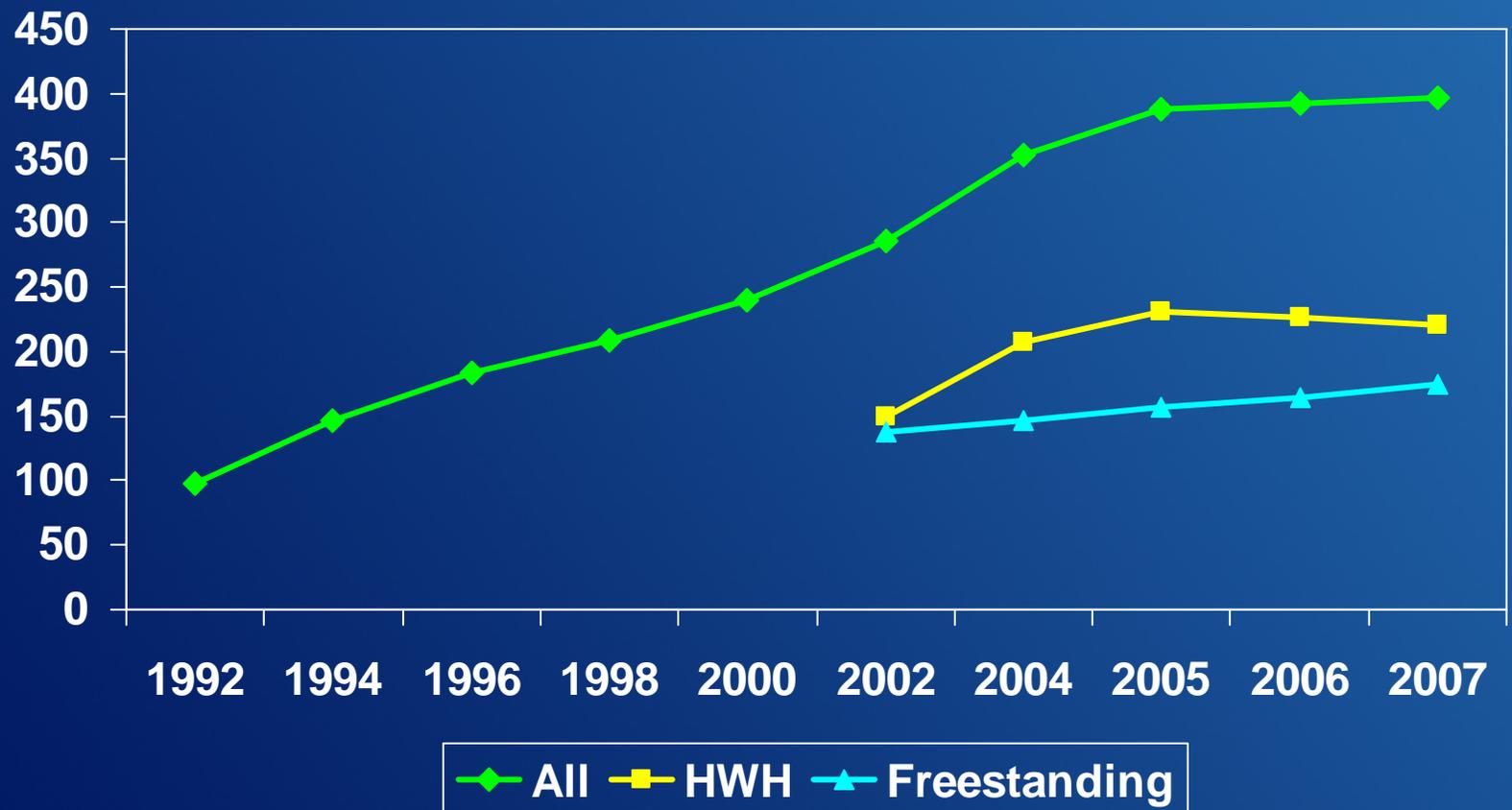


MMSEA changes to LTCH policies

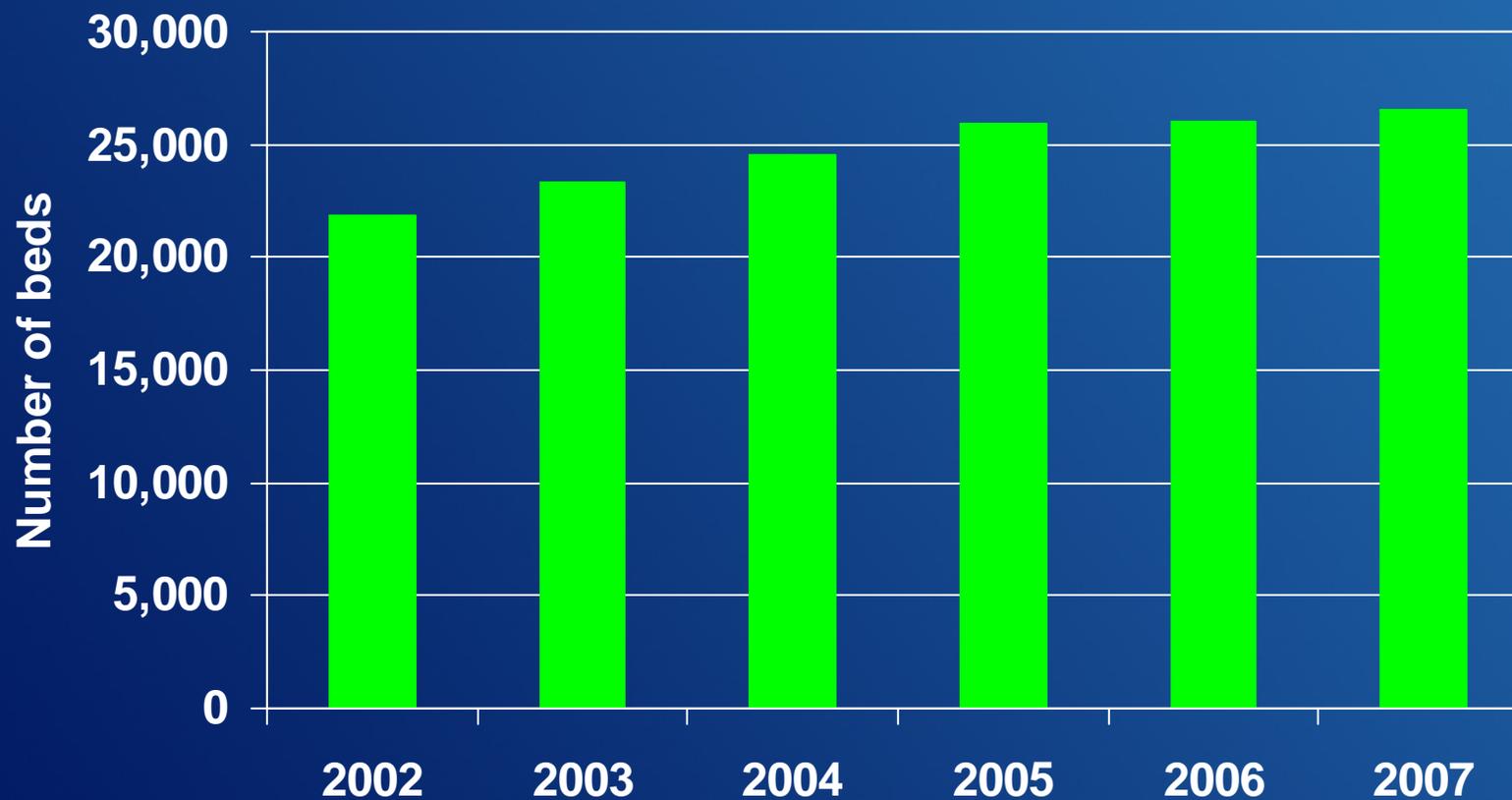
For 3 years:

- Limits new beds and facilities
- Rolls back phase-in of 25 percent rule for HWHs and satellites to 50 percent
- Prohibits application of 25 percent rule to freestanding LTCHs
- Prohibits further reduction of payments for cases with the shortest lengths of stay

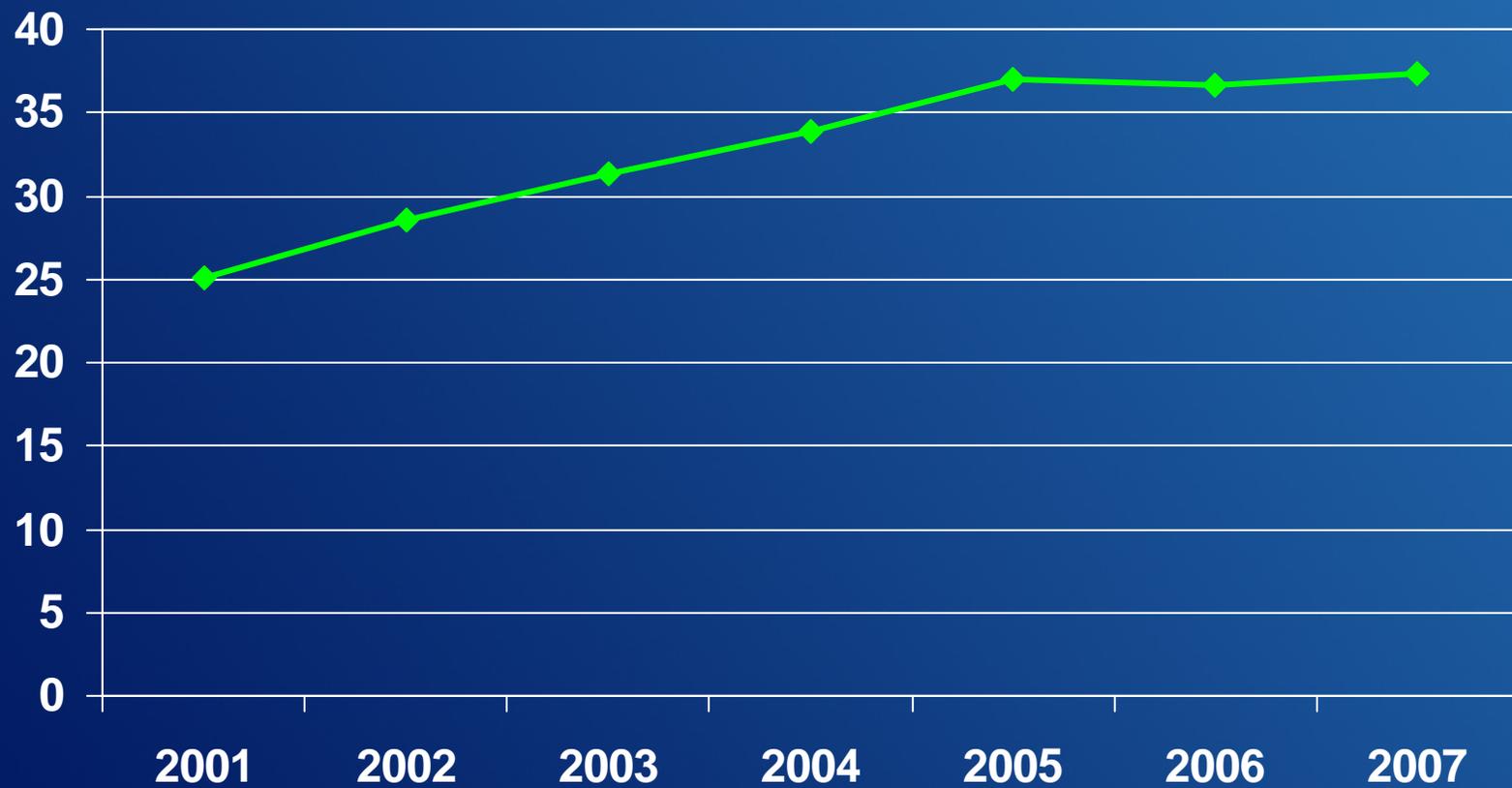
Growth in the number of LTCHs has leveled



Growth in the number of LTCH beds has leveled



LTCH cases per 10,000 FFS beneficiaries, 2001-2007



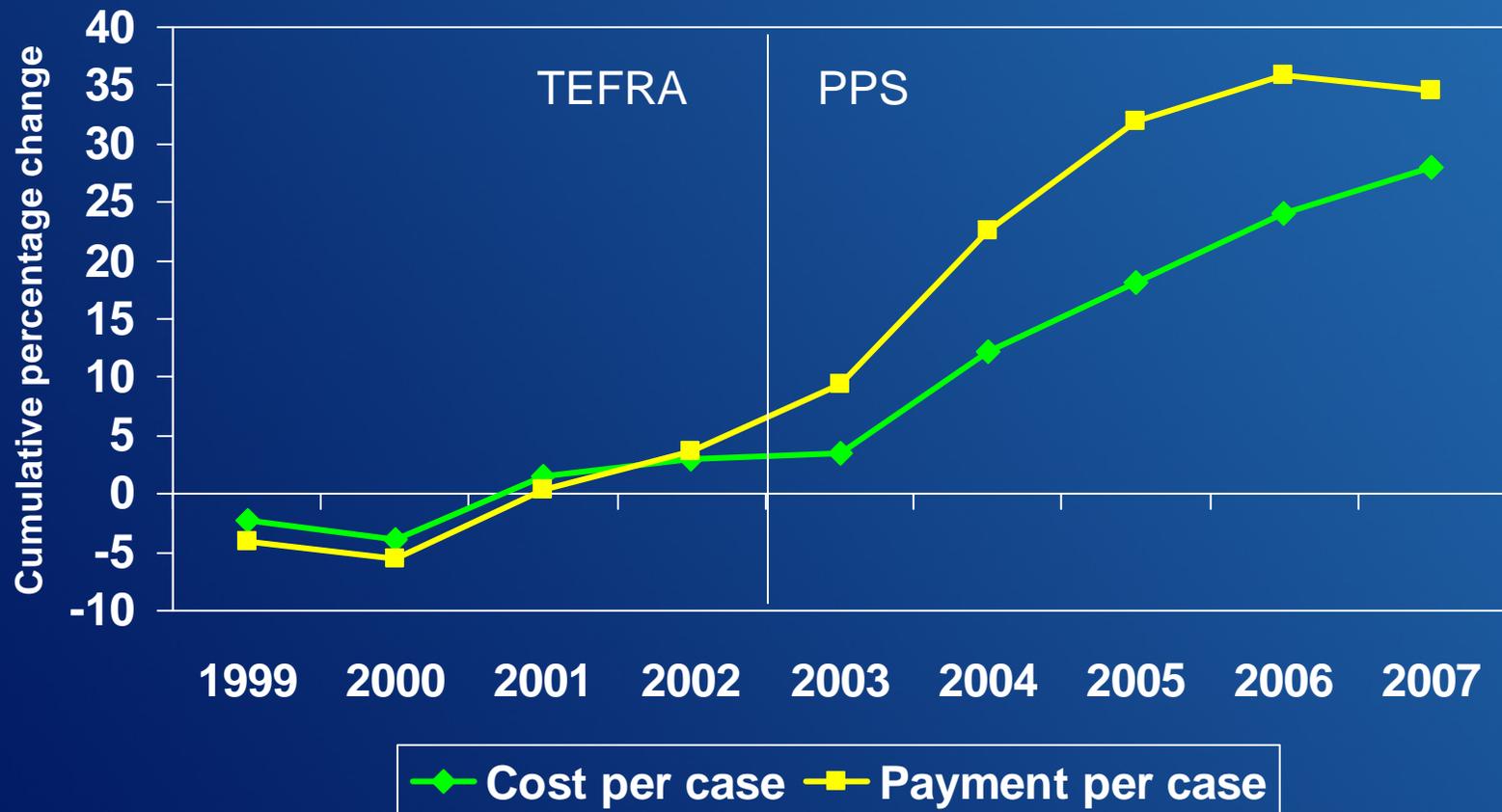
Quality

- Readmission rates stable or declining for each of the top 15 LTCH diagnoses
- Rates of death in the LTCH and death within 30 days of discharge declining for most of the top diagnoses

Access to capital has tightened

- Considerable slowdown in lending that reflects turmoil in financial markets, not the adequacy of Medicare payments
- Capital expected to remain tight; expensive to acquire, with more restrictive terms
- Impact will likely vary across the industry
- 3-year moratorium on new beds and facilities reduces the need for capital

Cumulative change in LTCHs' payments and costs per case, 1999-2007



Summary

- Supply stabilizing after rapid growth
- Beneficiary use fairly steady
- Quality: generally positive
- Access to capital not a reliable indicator of Medicare payment adequacy
- Without behavior changes, cost growth expected to outpace payment growth in 2008 & 2009