

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

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# Long-term care hospitals (LTCHs) definition

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- 1 Meet Medicare's conditions of participation for acute care hospitals (ACHs)

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- 2 Average length of stay greater than 25 days for certain Medicare cases

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

Does the case meet the LTCH PPS criteria?

Needs to have an immediately preceding ACH discharge and either:

- 3+ days in an intensive care unit; or
- Received prolonged mechanical ventilation in the LTCH

Yes

Paid under the  
LTCH PPS

No

Paid a lower “site-neutral” rate

- For 2018: 50 percent the reduced rate and 50 percent the LTCH PPS rate
- Beginning in 2020: 100 percent the reduced rate

# Medicare's total and per case payments to LTCHS, 2018

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## Totals

# of LTCHs: 374

Medicare spending:  
\$4.2 billion

Cases: ~102,000

## Mean payment per case

All cases: ~\$40,000

Cases meeting LTCH  
PPS criteria: ~\$47,000

# LTCH payment adequacy framework

## Beneficiaries' access to care

- Volume of services
- Supply of providers
- Marginal profit

## Quality of care

- Readmissions
- Mortality
- Standardized infection rates

## Access to capital

- Transaction activity
- All-payer profitability

## Medicare payments and costs

- Cost growth
- Medicare margin

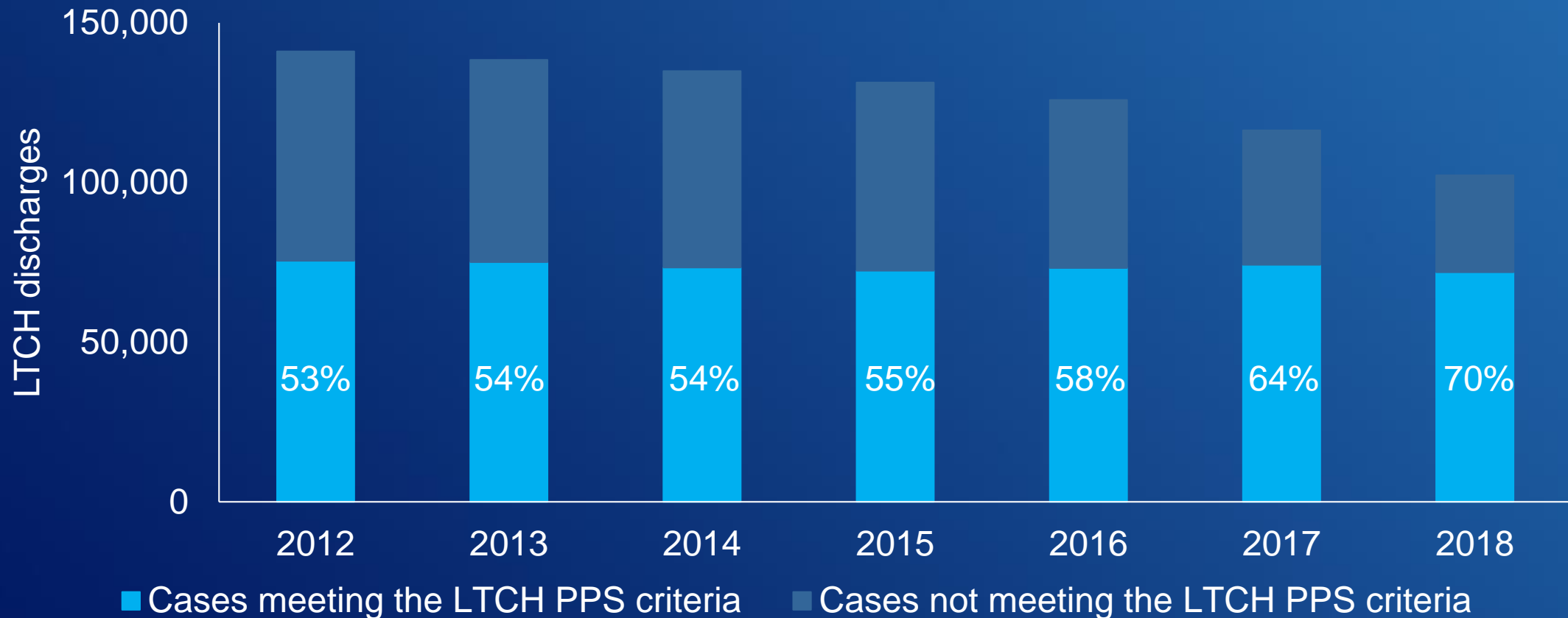
Update recommendation for LTCH PPS

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

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- Expect substantial changes from the implementation of the dual payment-rate structure
- Isolate some analyses to LTCHs with a relatively high share of cases meeting the LTCH PPS criteria
  - A cohort of LTCHs with more than 85 percent of their cases meeting the LTCH PPS criteria in 2018
  - 38 percent of LTCHs
  - 37 percent of Medicare stays

# LTCHs have increased the share of cases that meet the LTCH PPS criteria



# Payment policy changes led to an expected decline in capacity

Supply of LTCHs has decreased since 2012

**6.4 percent** reduction in LTCHs from 2012 (421) through 2017 (394)

**5.1 percent** reduction from 2017 to 2018 (374)

Additional reductions found in 2019

Occupancy rates decreased slightly from 2017 to 2018

From 2012 to 2016, largely unchanged at **66 percent**

Decreased 1 percentage point from **64 percent** in 2017 to **63 percent** in 2018

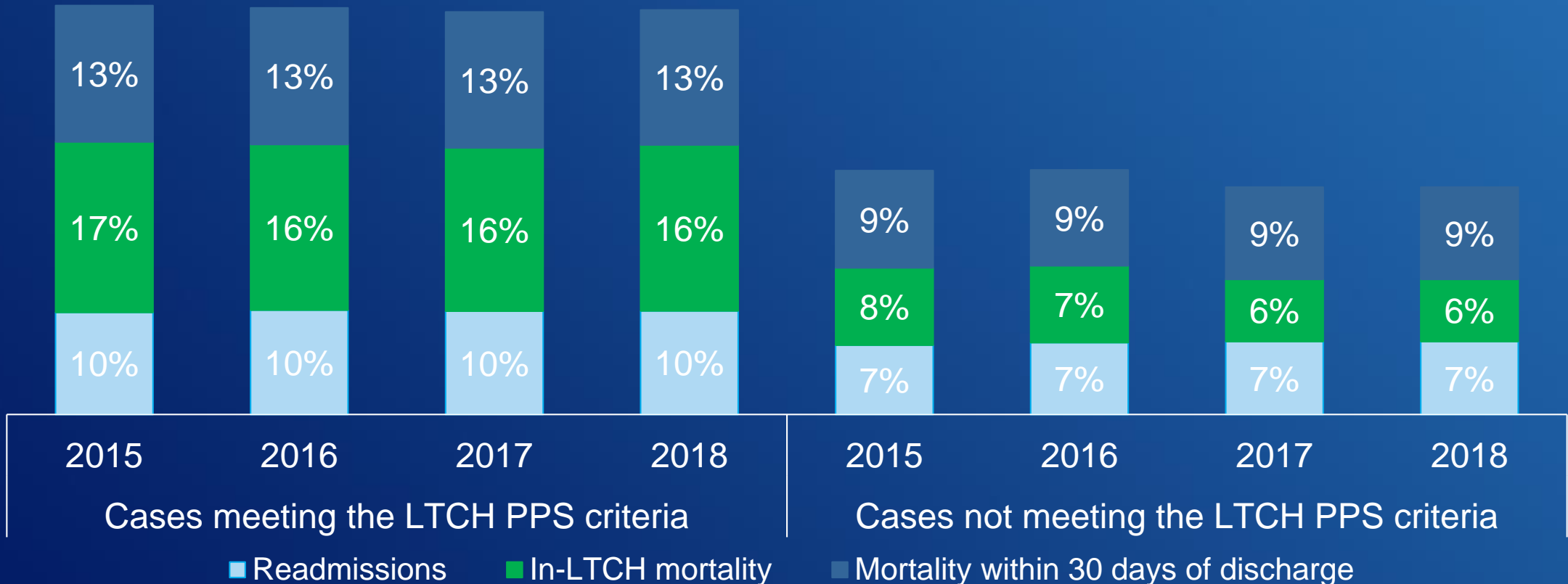
Marginal profit increased from 2017 to 2018

**16 percent** across all LTCHs, up from 14 percent in 2017

**18 percent** for LTCHs with a high share of cases meeting the LTCH PPS criteria



# Quality: Gross indicators remained stable



Note: "Cases meeting the LTCH PPS 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 LTCH PPS criteria" refer to Medicare discharges that do not meet the criteria specified in the Pathway for SGR Reform Act of 2013. Measures are not adjusted for differences in patient severity. 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 remained stable

Catheter-associated urinary tract infection

Central line-associated bloodstream infection

Methicillin-resistant Staphylococcus aureus infection

Clostridium difficile infection



Lower than expected after adjusting for risk factors

# Access to capital: Industry contraction reduces the need for capital

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- Limited access to capital
- All-payer margin improved in 2018
  - All LTCHs: **2.2 percent** in 2018, up from 0.2 percent in 2017
  - LTCHs with a high share of patients meeting the LTCH criteria: **4.5 percent** in 2018, up 1.0 percentage point in 2017

# Cost growth varied by share of cases meeting the LTCH PPS criteria

	Share of Medicare payments	Average growth per year		
		2012-2015	2015-2017	2017-2018
All LTCHs	100%	~2%	0.9%	2.7%
LTCHs with a high share of cases meeting the LTCH PPS criteria in 2018	43	~2	3.6	1.0

- Differences in cost growth reflect LTCH's adaptation to payment system changes

# Aggregate LTCH Medicare margins increased in 2018

	Medicare margin	
	2017	2018
All LTCHs	-2.2%	-0.5%
For profit	-1.9	1.3
Nonprofit	-13.6	-11.7
LTCHs with a high share of cases meeting the LTCH PPS criteria in 2018	2.7	4.7
For profit	4.3	6.2
Nonprofit	-8.4	-5.6

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.

# In 2018, high-margin LTCHs had a higher share of cases meeting the LTCH PPS criteria

Characteristics	High-margin quartile	Low-margin quartile
Mean Medicare margin	16.6%	-30.3%
Mean total stays per facility (all payers)	488	412
Medicare patient share	62%	56%
Occupancy rate	70%	53%
Mean Medicare case-mix index	1.25	1.14
Mean Medicare standardized cost per discharge	\$26,837	\$39,373
Share of Medicare cases meeting the LTCH PPS criteria	73%	60%
Share of LTCHs that are for profit	91	69

Note: High-margin-quartile LTCHs were in the top 25 percent of the distribution of Medicare margins. Low-margin-quartile LTCHs were in the bottom 25 percent of the distribution of Medicare margins. Standardized costs have been adjusted for differences in case mix and area wages. Results are preliminary and subject to change.

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

# Summary of LTCH payment adequacy indicators, 2018

Beneficiaries' access to care	Quality of care	Access to capital	Medicare payments and costs
<ul style="list-style-type: none"><li>➤ Share of cases meeting criteria increased</li><li>➤ Supply decreased</li><li>➤ Occupancy decreased slightly</li><li>➤ Marginal profit increased</li></ul>	<ul style="list-style-type: none"><li>➤ No change in readmission and mortality rates</li><li>➤ Infection rates lower than expected</li></ul>	<ul style="list-style-type: none"><li>➤ Industry contraction reduced the need for capital</li><li>➤ All-payer margin increased</li></ul>	<ul style="list-style-type: none"><li>➤ Medicare margin for LTCHs with a high share of cases meeting the LTCH PPS criteria increased to 4.7 percent</li></ul>
Mixed, as expected given changes in payment structure	Positive	Mixed, as expected given changes in payment structure	Positive