



Advising the Congress on Medicare issues

Hospital short stay policy issues

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Recap from three previous sessions

- Admissions decision depends on clinical judgement
- One-day inpatient stays are profitable and paid more than similar outpatient stays
- Recovery Audit Contractors (RACs) have focused their audits on appropriateness of 1-day inpatient stays
- Hospitals' increased use of outpatient observation
- Beneficiaries may face higher liability due to observation's effect on skilled nursing facility (SNF) coverage and self-administered drugs
- Beneficiaries occasionally unaware of their observation status and how this may affect them

Payment cliff and new RAC rules

1. Payment cliff existing between similar inpatient and outpatient stays

- Payment policy options:
 - IPPS one-day MS-DRGs
 - Site-neutral payments
 - New payment system between IPPS and OPSS
- Inpatient DRG recalibration process
 - Unlikely to eliminate the cliff
 - Could shrink or expand cliff depending on shifts in cases for a given DRG

2. New RAC rules released by CMS

Concerns with the Medicare RAC program

- Adds to hospital administrative burden
- RACs not sufficiently held accountable for their auditing determinations
- Hospitals unable to rebill RAC-denied claims, because RAC 3-year look-back period misaligned with 1-year Medicare rebilling period

3-day hospital stay requirement for SNF coverage

- A small group of beneficiaries incur high out-of-pocket costs, because their 3-day hospital stay did not include 3 full inpatient days
- Time spent in outpatient care, such as observation, does not currently count toward the 3-day requirement
- Coverage requirement related to defining the SNF benefit as strictly a post-acute care benefit, as opposed to a long-term care benefit
- Any change to the requirements for SNF coverage would expand the Medicare benefit

Beneficiary notification of outpatient observation status

- Medicare currently does not require hospitals to notify beneficiaries of their outpatient observation status
- Medicare beneficiaries and beneficiary advocates often cite this lack of notification as a source of confusion for beneficiary SNF eligibility and cost sharing liability
- Four states now have laws requiring hospitals to inform patients about their status in observation

Coverage of self-administered drugs (SADs)

- Beneficiaries who receive outpatient observation services for an extended period may require some of their oral medications that they would normally take at home
- Oral drugs and certain other drugs that are usually self-administered are not covered by Medicare for hospital outpatients, including those in observation
- Some hospitals reportedly do not charge beneficiaries for SADs while others contend that they must charge beneficiaries for SADs
- For hospitals that do bill beneficiaries for SADs, they bill at full charges, which is substantially higher than the cost of providing the drug

Future policy development

- Hospital-related
 - Extend hospital post-acute care transfer policy to hospice transfers
- SNF-related
 - Recover \$4.5 billion 2011 SNF overpayments
 - Explore nursing facility churning penalty