Hospital short stay policy issues

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Recap: Hospital short stay issues

- Inpatient admission criteria are ambiguous and open to interpretation
- 1-day inpatient stays are common and paid more than similar outpatient stays
- RACs have focused their audits on appropriateness of 1-day inpatient stays
- In response hospitals have increased use of outpatient observation
- Concern raised about observation's effect on SNF coverage and beneficiary liability for self-administered drugs

Beneficiary characteristics

	Inpatient 1-day stay	All outpatient observation		
		All	<24 hours	24+ hours
Five or more chronic conditions	60%	56%	53%	59%
Anemia	37%	34%	32%	36%
CHF	28%	25%	23%	27%
Median risk score	1.23	1.17	1.12	1.23
Discharge to home health	7%	4%	2%	6%

Note: Data limited to 15 diagnoses most common to outpatient observation stays.
Source: MedPAC analysis of the 2012 inpatient and outpatient hospital claims, the Master Beneficiary Summary file, and the Medicare risk score file.

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Data are preliminary and subject to change.

Analysis of the top 10 percent of hospitals using 1-day inpatient and outpatient observation stays

	1-day inpatient stays	Outpatient observation stays	48+ hour outpatient observation stays
Numerator	1-day inpatient stays	Outpatient observation stays	Outpatient observation stays lasting longer than 48 hours
Denominator	All inpatient and outpatient stays	All inpatient and outpatient stays	All outpatient observation stays
Mean ratio for top 10%	0.12	0.20	0.24
Percent of payments from top 10% of hospitals	26% of 1-day inpatient payments	19% of all outpatient observation payments	1% of long outpatient observation payments
Top 10% hospital characteristics	• Urban • Teaching • For-profit	• Rural with < 50 beds	• < 100 beds and low volume

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Policy issues

- Payment policy: Changes to reduce payment differences between short inpatient and similar outpatient hospital stays
- RACs: Changes to RAC auditing process and rebilling for short stays
- Beneficiary concerns related to observation:
  - SNF 3-day stay threshold
  - Self-administered drugs

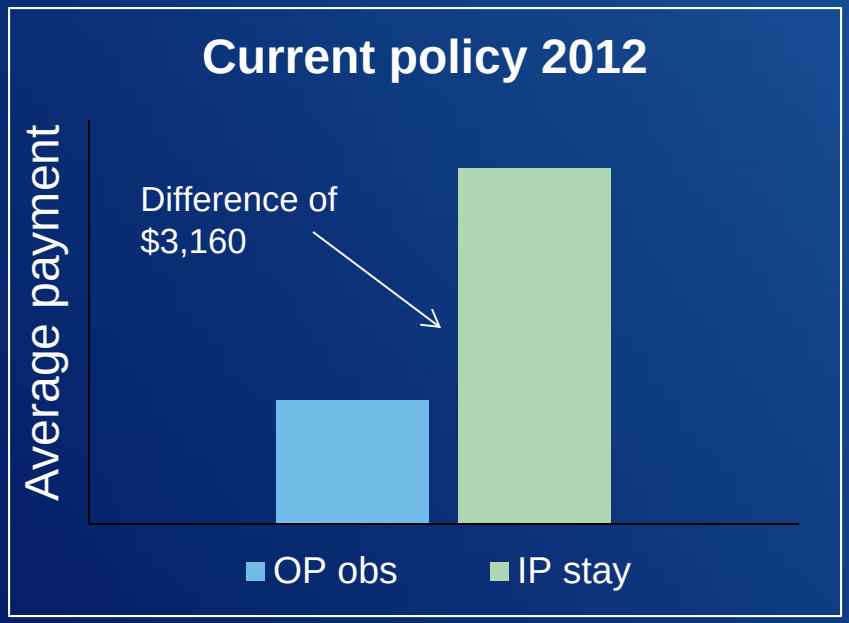
Issue: 1-day stay DRGs

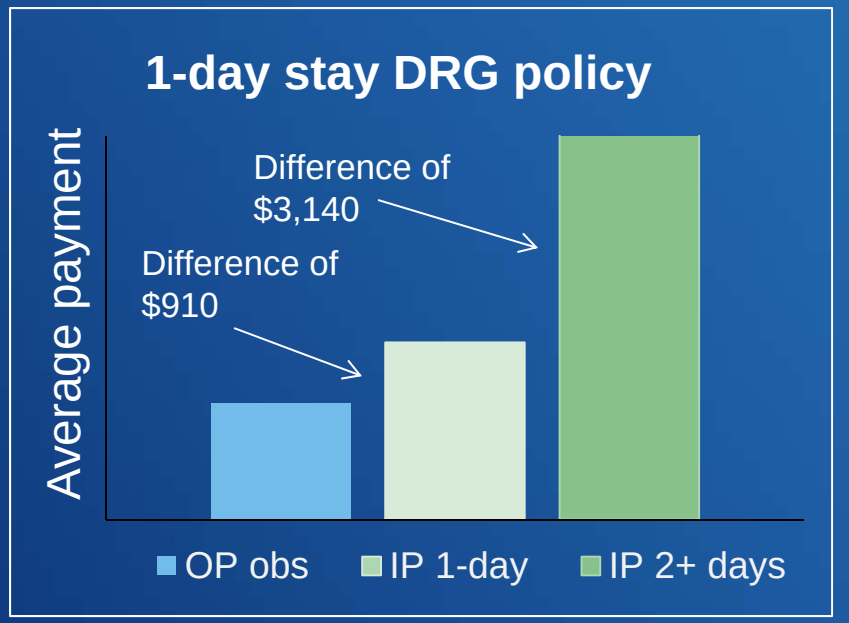
- Goal: Reduce the payment difference between 1-day inpatient stays and similar outpatient stays
- With 1-day stay DRGs, inpatient payment rates decrease for 1-day stays and increase for 2+ day stays
- Payment changes budget neutral in aggregate
- MedPAC simulation of a 1-day stay DRG policy focused on subset of DRGs
  - Took 94 existing DRGs and split each into: a DRG for stays of at least 2 days and a DRG for 1-day stays only
  - Collapsed the 94 1-day stay DRGs into 44

Effects of simulated 1-day stay DRG policy

- Hospitals with an above average prevalence of 1-day stays within these DRGs will see a revenue decrease; other hospitals will see a revenue increase or no change
- Impact on hospital revenues are modest across hospital categories and most hospitals individually
- Effect on incentives is mixed
  - Reduces but does not eliminate payment cliff between outpatient and 1-day inpatient stay
  - Creates new payment cliff between 1-day and 2-day inpatient stays

Effect of simulated 1-day stay DRG policy for selected medical DRGs





Note: OP obs (outpatient observation), IP (inpatient). Chart includes results from a simulation of a 1-day stay DRG policy. Displayed in the chart is the weighted average payment rate for the 10 medical DRGs with the most 1-day inpatient stays that are also common to outpatient observation. Similar outpatient observation claims are identified by using a crosswalk process to link outpatient claims to MS-DRGs. Average payment includes add-on payments such as IME and DSH.
Source: MedPAC analysis of Medicare claims and cost report data.

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Issue: Targeted RAC reviews of short stays

- RAC reviews of hospitals' short inpatient stays widespread
- Hospital appeals of audit determinations overwhelming appeals process
- Administrative burden on hospitals result from widespread audits and the appeals process
- Variation in hospitals' use of 1-day inpatient stays suggests opportunity may exist to target RAC audits: top 10 percent of hospitals accounted for 26 percent of payments for 1-day stays in 2012

Issue: Targeted RAC reviews of short stays

- Policy option: Target reviews of inpatient appropriateness on hospitals with highest rate of short stay admissions (e.g., top 10 percent)

- Budgetary effect: Increase program spending
  - Targeted reviews likely to result in lower aggregate recoveries
  - Magnitude of aggregate recoveries under a targeted approach unclear

Issue: Rebilling timeframe

- RACs review claims up to 3 years after discharge date
- Hospitals permitted to rebill denied inpatient claims as outpatient claims up to 1 year after discharge date
- RACs commonly deny claims after rebilling window
  - RACs audit oldest claims first to preserve claim audit eligibility
  - 75 percent of denials occurred after rebilling window (CMS)

- Policy option: Allow hospitals to rebill denied inpatient claims as outpatient claims within some period after the RAC notice of denial or shorten RAC look-back period for review of short hospital stays
- Budgetary effect: Increase program spending

Issue: Performance-based RAC compensation

- RACs receive a contingency fee based on dollars they recover (ranging from 9% to 12.5% of recovery)
- Contingency fee incentivizes RACs to target high-dollar claims even if significant odds of overturn
- RACs must return fee if their recovery is overturned on appeal
- RACs face no penalty for high overturn rate

- Policy option: Modify RAC contingency fees to be based in-part on the RAC's overturn rate
- Budgetary effect: Increase program spending

Issue: SNF 3-day stay policy and observation

- Intent of SNF 3-day policy was to define the SNF benefit as a post-acute care, not a long-term care, benefit
- Dynamics of the SNF 3-day policy
  - Requires a preceding 3-day inpatient hospital stay
  - Time in observation status not counted towards 3-day threshold
- Concerns about interaction between SNF 3-day policy and observation
  - 100,000 stays in 2012 were for 3 or more days, including observation and inpatient time, but the beneficiary did not qualify for the SNF benefit
  - 11,000 of those stays were discharged to a SNF without SNF coverage

SNF 3-day stay policy option

- Policy option: Three components
  - Retain the 3-day threshold
  - Count time spent in outpatient observation status towards the threshold
  - Require at least 1 of the 3 days to be an inpatient day
- Budgetary effects: Increase program spending due to expanding eligibility for the SNF benefit

Examples of policies that could be considered as offsets to RAC and SNF 3-day policy options

- Hospital-related offsets
  - Extend hospital post-acute care transfer policy to hospice transfers
  - IPPS base rate adjustment
- SNF-related offsets
  - Benefit redesign policy: Increase beneficiary liability
    - Part A deductible
    - SNF co-payments
  - SNF payment policy: Reduce SNF payments
    - Recover 2011 SNF overpayments
    - Explore a penalty for nursing facilities that inappropriately re-certify their long-term residents
    - Adjust the SNF base payment rate

Issue: Self-administered drugs

- Medicare's hospital payment systems cover self-administered drugs (SADs) for inpatients but not generally for outpatients
- Hospitals bill outpatient beneficiaries for SADs at full charges
- Beneficiaries pay out-of-pocket and may be able to submit claim to Part D for limited payment
- SAD charges are common for observation patients
  - For claims with SAD charges, average SAD charges were $209 and average SAD costs were $43 (2012)

Issue: Self-administered drugs (cont'd)

- Anecdotally, some hospitals reportedly do not charge beneficiaries for SADs
- Other hospitals indicate SAD charges are a source of patient dissatisfaction, but they believe they are required to charge for SADs due to laws prohibiting beneficiary inducements

- Policy option: Permit hospitals to waive charges for SADs for beneficiaries receiving outpatient observation

Issues for discussion

- Feedback on policy options
  - 1-day stay DRGs
  - RAC changes
  - SNF 3-day policy and observation
  - Self-administered drugs
- Questions