



Advising the Congress on Medicare issues

Hospital short stay policy issues

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Outline of today's presentation

- Background
 - One-day inpatient stays: utilization and profitability
 - Recovery Audit Contractors (RAC)
 - Observation stays: utilization and beneficiary liability
 - 2-midnight rule
- Conceptual discussion of policy options

Medicare admission criteria are purposefully flexible

- Technological change has resulted in migration of services to the outpatient setting
- Medicare inpatient admission criteria
 - Relies upon clinical judgment of the physician
 - Time-based definition: patients are expected to need hospital care for 24 hours
- Medicare observation guidance
 - Relies upon clinical judgment of the physician
 - Time based definition: majority less than 48 hours, usually less than 24 hours, in exceptional cases more than 48 hours

One-day inpatient stays are common and more profitable than longer stays

Number of days	Number of stays	Share of all stays	Payment-to-cost ratio
1	1,189,664	13%	1.55
2	1,527,903	16	1.30
3	1,785,826	19	1.10
4	1,247,603	13	1.03
5	891,372	9	0.96
6	655,007	7	0.89
7	496,658	5	0.84
8+	1,640,378	17	0.72

Source: MedPAC analysis of Medicare SAF inpatient claims and Medicare Cost Reports, 2012.

Note: Data exclude critical access hospitals, Maryland hospitals, and beneficiaries with Medicare Advantage in 2012. Payment-to-cost ratios are based on total payments including program payments and cost sharing.

Payment for one-day inpatient stays higher than outpatient observation stays in 2012

MS-DRG	Condition	Average Medicare inpatient payment (one-day stay)	Average Medicare outpatient observation payment	Outpatient payments as a share of inpatient payment (one-day stay)
313	Chest pain	\$3,716	\$1,655	45%
310	Cardiac arrhythmia	3,676	1,420	39
392	Digestive disorders	4,953	1,526	31
312	Syncope & collapse	4,972	1,689	34
641	Disorders of nutrition	4,467	1,341	30
247	Drug eluting stent procedure	13,748	9,921	72

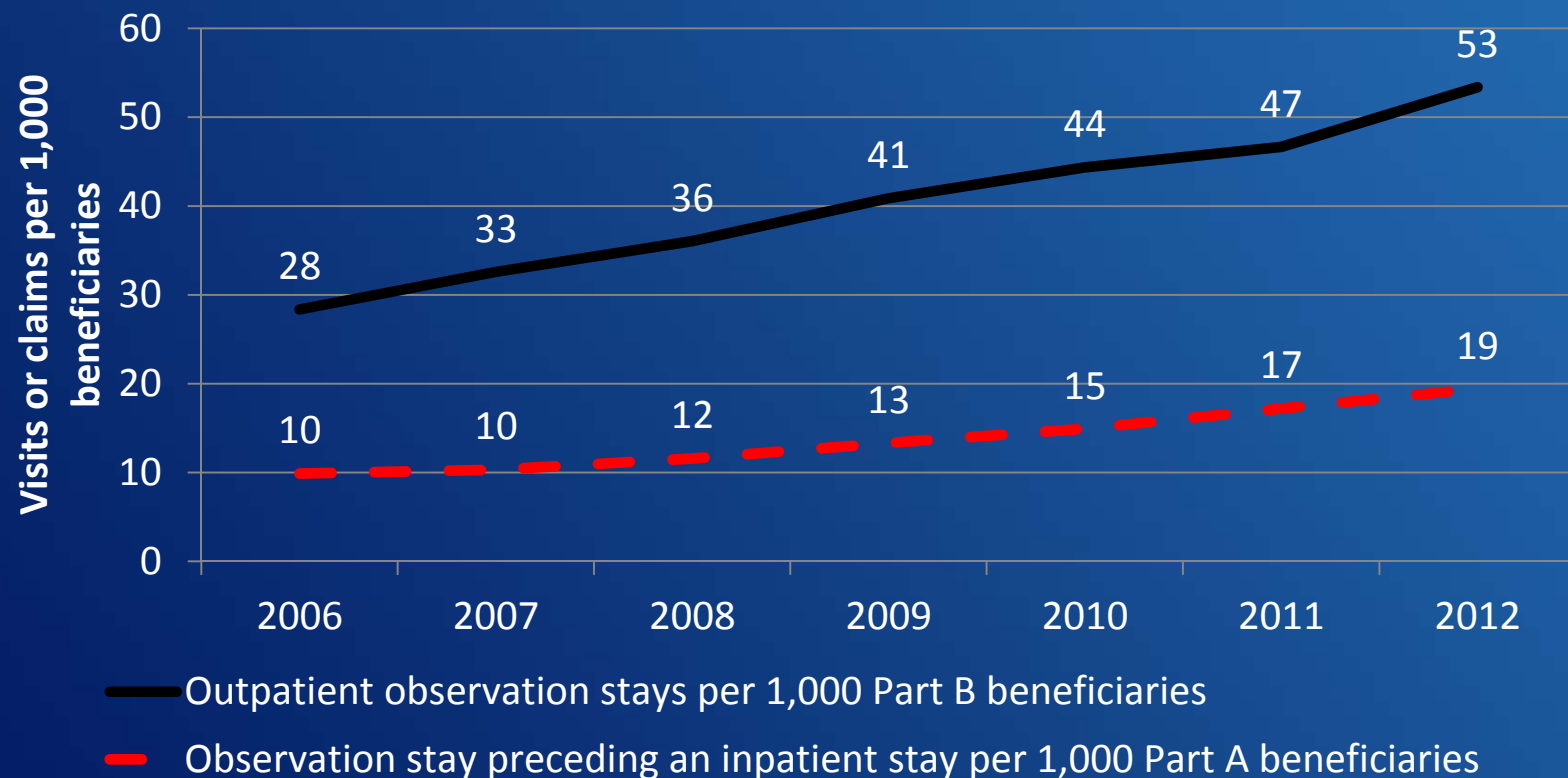
Source: MedPAC analysis of SAF inpatient hospital claims and outpatient hospital claims.

Note: Payments reflect actual program payments (including IME and DSH add-ons) and beneficiary cost-sharing. The outpatient observation data are for claims that qualified for payment of composite APC 8002 or 8003. Outpatient claims for drug eluting stent procedures (MS-DRG 247) reflect outpatient surgical claims for one-day stays rather than observation stays. The bundle of services covered by the inpatient payments and outpatient payments are not entirely comparable (e.g., due to the inpatient 72-hour rule and outpatient not covering self-administered drugs).

Medicare Recovery Audit Contractor (RAC) program targeted short inpatient stays

- Description
 - 3-year window to review claims
 - Paid on a contingency fee basis
- Auditors target short inpatient stays
 - 87 percent of all payment denial dollars were for inpatient claims
 - Short inpatient stays account for many of the top denials
 - 71 percent of all medical necessity denial dollars were for one-day stays
- Concerns about the program
 - High hospital appeals rate: 45 percent of inpatient denials in 2012
 - Appeals process slow and ties up hospital revenue
 - Appeals backlog increased four-fold from 2012 to 2013
 - Administrative burden to hospitals
 - RAC 3-year claim review window out of sync with the 1-year window in which hospital are allowed to rebill claims (Medicare rebilling policy)

Observation stays utilization increased rapidly from 2006 to 2012



Source: MedPAC analysis of SAF inpatient and outpatient hospital claims

Observation stays are somewhat concentrated by diagnosis

- Most common observation diagnoses
 - Chest pain accounts for 23 percent of observation stays
 - 15 most common observation diagnoses account for 44 percent of stays
- Overlap between most common diagnoses of observation stays and one-day inpatient stays
 - Chest pain diagnoses the most common for both
 - 7 diagnoses on the top-15 lists of both types of stays
- Overlap with RAC denials

Implications for beneficiary liability

- Beneficiary liability less in observation than inpatient
 - Median for one-day inpatient stays = \$1,156 (2012)
 - Median for one-day outpatient observation = \$282 (2012)
- Supplemental coverage may insulate 85 percent of FFS beneficiaries from full liability
- Beneficiaries are at greater risk of not qualifying for SNF coverage and those discharged to a SNF may face higher financial liability (13,000 stays in 2012)
- Self-administered drugs not covered by Part B for hospital outpatients

CMS's 2-midnight rule alters admission criteria and generates concern

- Description
 - Instructs auditors not to review stays crossing 2-midnights for inpatient appropriateness, unless evidence of gaming
 - Stays of less than 2-midnights presumed appropriate for outpatient, with certain exceptions
- Concerns about the 2-midnight rule
 - Uncertainty of the Medicare admission criteria
 - Requirement for additional physician documentation
 - Incentive to increase length of stay to cross 2-midnights
 - Incentive to place more beneficiaries in observation initially
 - Hospitals concerned one-day inpatient stays now risk denial
 - RACs may remain focused on one-day inpatient stays

Payment policy implications

- Concern about admission appropriateness is driven by payment differences between short inpatient and outpatient stays
- Addressing this solely through regulatory actions like the 2-midnight rule and RACs may not be optimal
- Policy changes to reduce payment differences may be warranted
- Commission could explore options to reduce payments for short inpatient stays in a budget-neutral manner

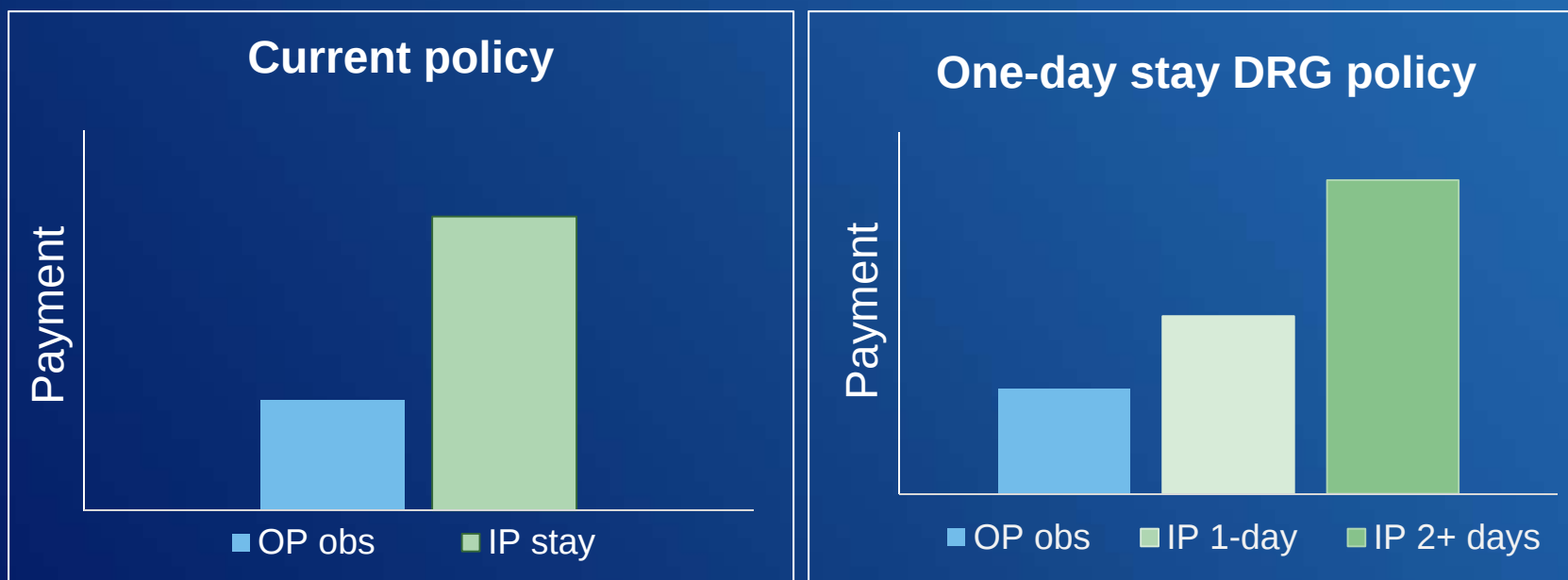
Key policy decisions

- How would a short stay policy be designed?
 - Which DRGs?
 - How would payments be structured?
- What kind of auditing would be needed?
- Any changes to related policies?
 - Observation days and SNF coverage rules?
 - Rebilling policy?

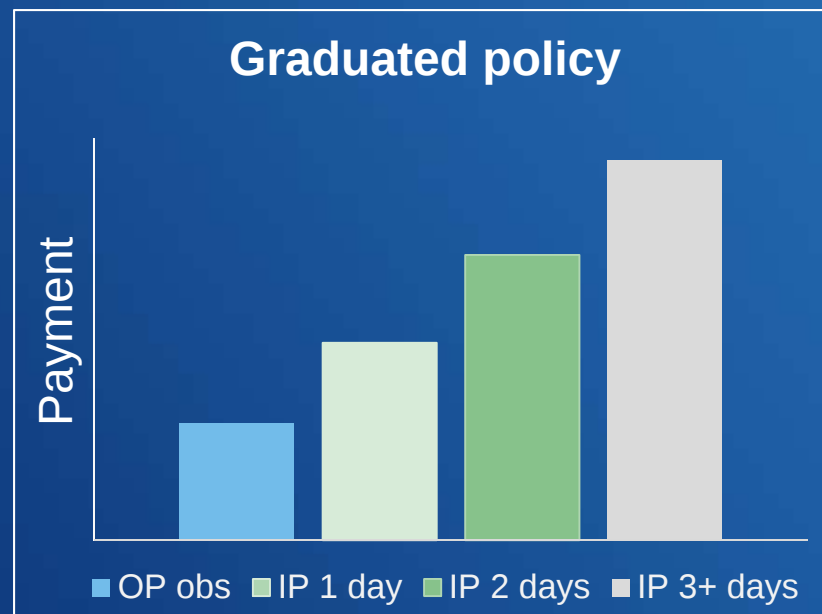
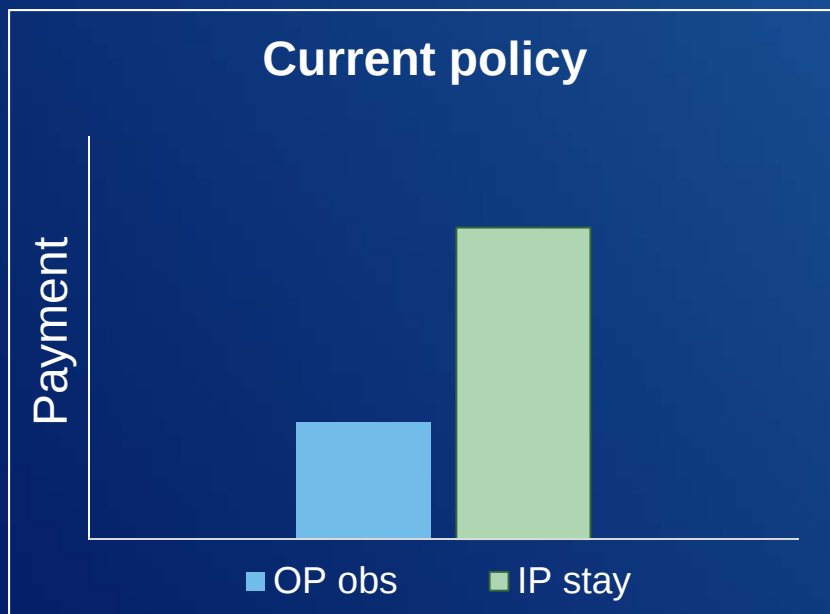
Which DRGs would a short stay policy apply to?

- Subset of DRGs
 - Could focus on DRGs where inpatient/outpatient substitution is an issue; other DRGs unaffected
 - Process would be needed to select and update DRGs
- All DRGs
 - Could focus on all DRGs since short stays are profitable across DRGs
 - DRG selection process would not needed

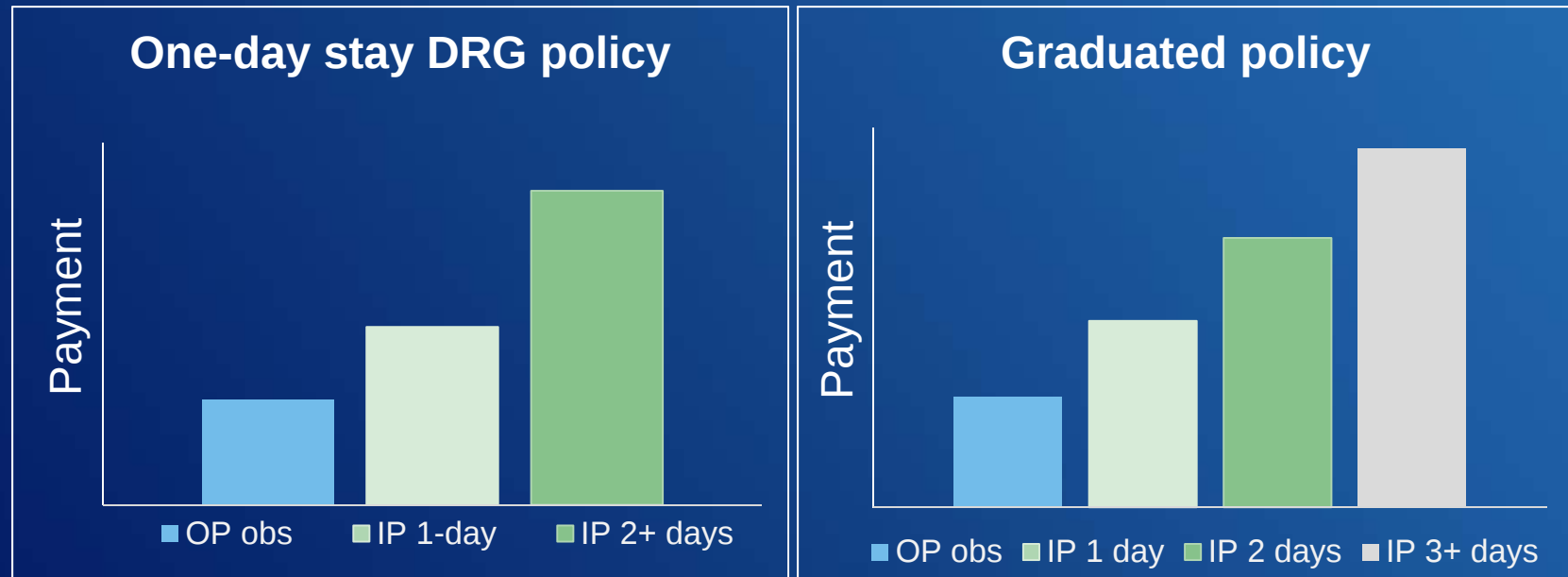
How should the policy be structured: one-day stay DRGs?



How should the policy be structured: graduated policy?



Comparing one-day stay DRG and graduated policies



Potential approaches to short stay payment

- One-day stay DRGs
- Graduated payment for short stays
- Site neutral approach across inpatient and outpatient
- Low cost outlier approach capping profit per case

What type of auditing would be needed with a short stay policy?

- 2-midnight rule's audit focus on one-day stays would not be consistent with a short-stay policy
- Role of auditors should be consistent with short-stay policy's incentives. For example:
 - ***One-day stay DRGs:*** Limited auditing to deter clustering at two-day stays, potentially focused on a subset of providers with the most clustering
 - ***Graduated approach:*** Limited auditing focused on providers with aberrant patterns

Should changes to related policies be considered?

- Should observation time count toward the SNF 3-day hospital stay threshold? Budget offset?
- Should the timeframe in which a hospital can rebill for a denied inpatient claim as outpatient be consistent with the timeframe for RAC review?

Issues for discussion

- Feedback on:
 - policy options
 - directions for future work
- Question about analysis