

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

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December 19, 2014

# Long-term care hospitals

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- Meet Medicare's conditions of participation for ACHs and have Medicare ALOS > 25 days
- Medicare spending: \$5.5 billion in 2013
  - Cases: ~138,000
  - Mean payment per case: ~\$40,100
- Per case payments based on:
  - MS-LTC-DRGs, adjusted for:
    - High cost outliers
    - Short-stay outliers (SSO)

# Recent changes to LTCH payment policy

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- The Pathway for SGR Reform Act of 2013 establishes “site-neutral” payments for LTCHs, beginning FY 2016
  - Higher LTCH payments allowed for cases with immediately preceding ACH discharge and either:
    - 3+ ICU days in referring ACH; or
    - principal LTCH diagnosis of prolonged mechanical ventilation
  - All other LTCH cases paid lower of IPPS-based rate or costs
- LTCHs cannot have more 50% of discharges paid at the site-neutral rate, beginning FY 2020
- Required ALOS of 25+ days excludes:
  - Cases paid based on the site-neutral rate
  - MA cases
- Moratorium on new LTCHs from April 2014 through September 2017

# Previous MedPAC recommendation on LTCH reform

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- Establishes criteria for chronically critically ill (CCI) patients, beginning FY 2016
  - Higher LTCH payments for cases with 8+ ICU days in ACH;
    - Exception: Cases with prolonged mechanical ventilation in IPPS
  - All other LTCH cases paid IPPS-based rate
- Redistribute savings to increase inpatient outlier payments for CCI cases in IPPS hospitals

# Payment adequacy framework

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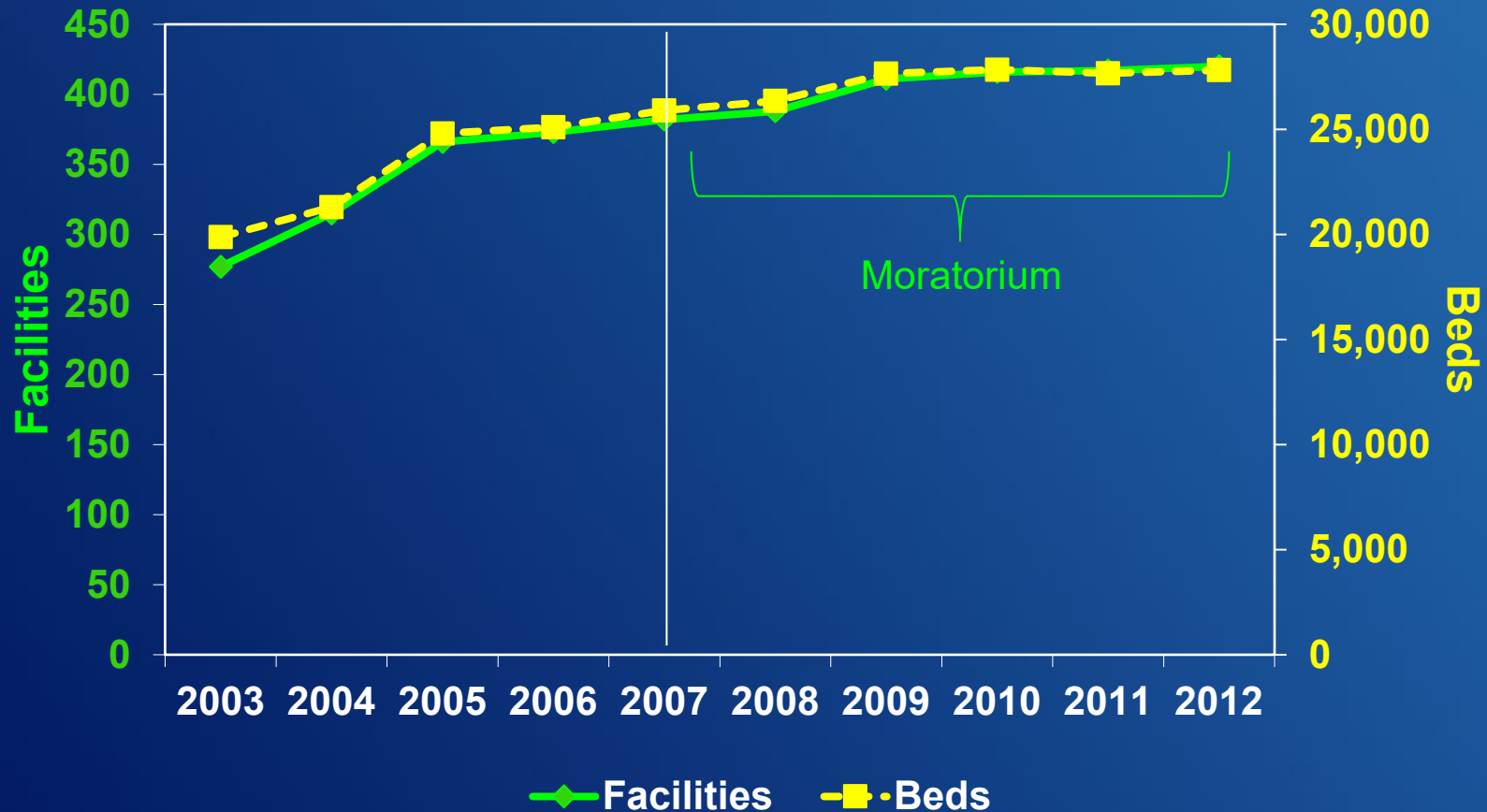
- Access
  - Supply of providers
  - Volume of services
- Quality
- Access to capital
- Payments and costs

# LTCH use varies widely

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- LTCHs are located in 45 states and in about 265 counties nationwide
  - About 40 percent of FFS beneficiaries live in counties without LTCHs
- Beneficiary use of LTCHs varies dramatically by county
  - Median: 6 days per 100 FFS beneficiaries
  - 90<sup>th</sup> percentile: 23 days per 100 FFS beneficiaries
    - Accounts for  $\frac{1}{3}$  of all LTCH FFS days
    - Almost  $\frac{3}{4}$  of counties in the top 90<sup>th</sup> percentile of days per FFS beneficiary concentrated in three states

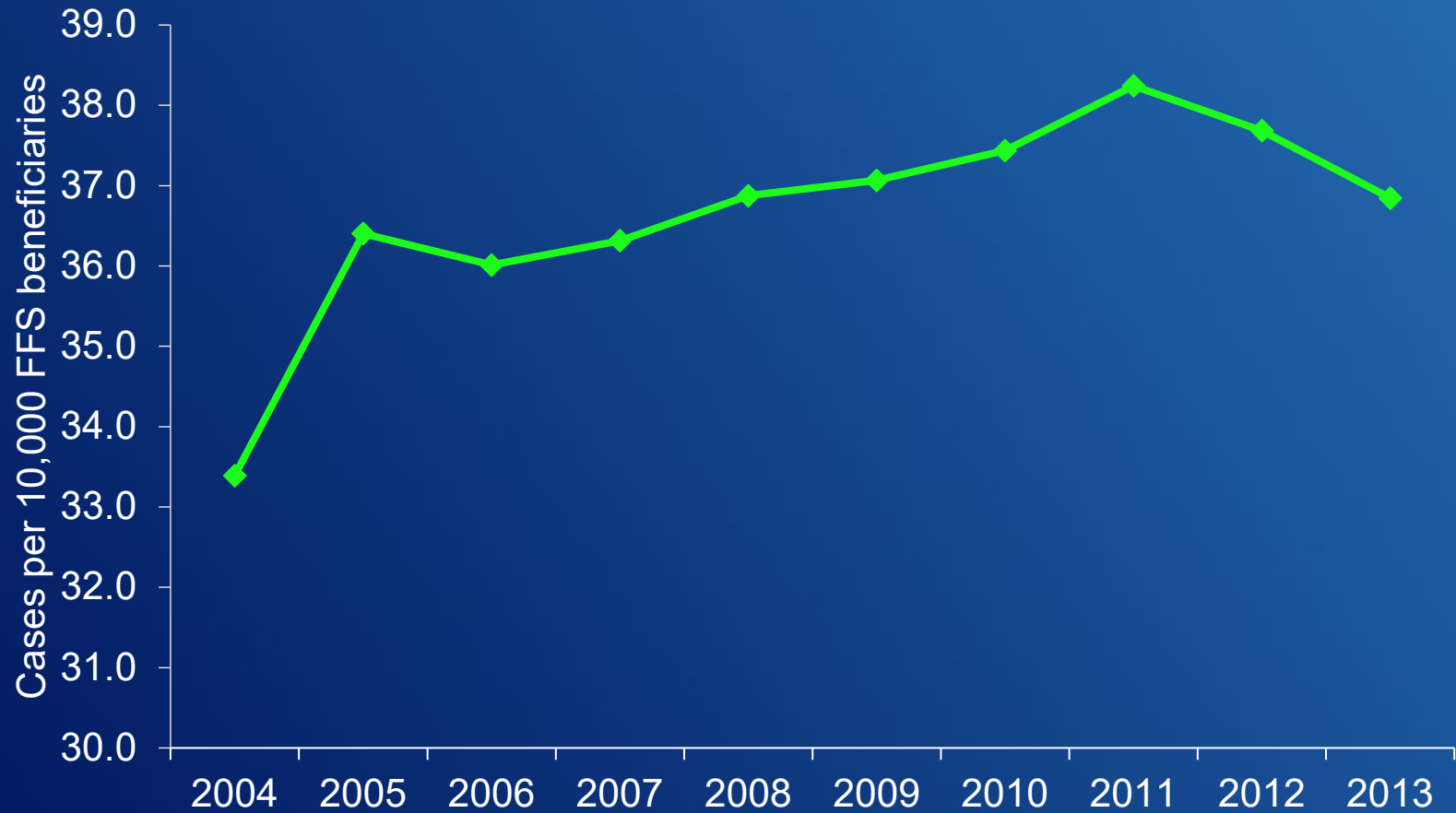
# Moratorium stabilized growth in LTCHs & beds



Results are preliminary and subject to change.

Source: MedPAC analysis of cost report data from CMS.

# Volume of LTCH services declined for the second year in a row





# Quality: Limited available measures

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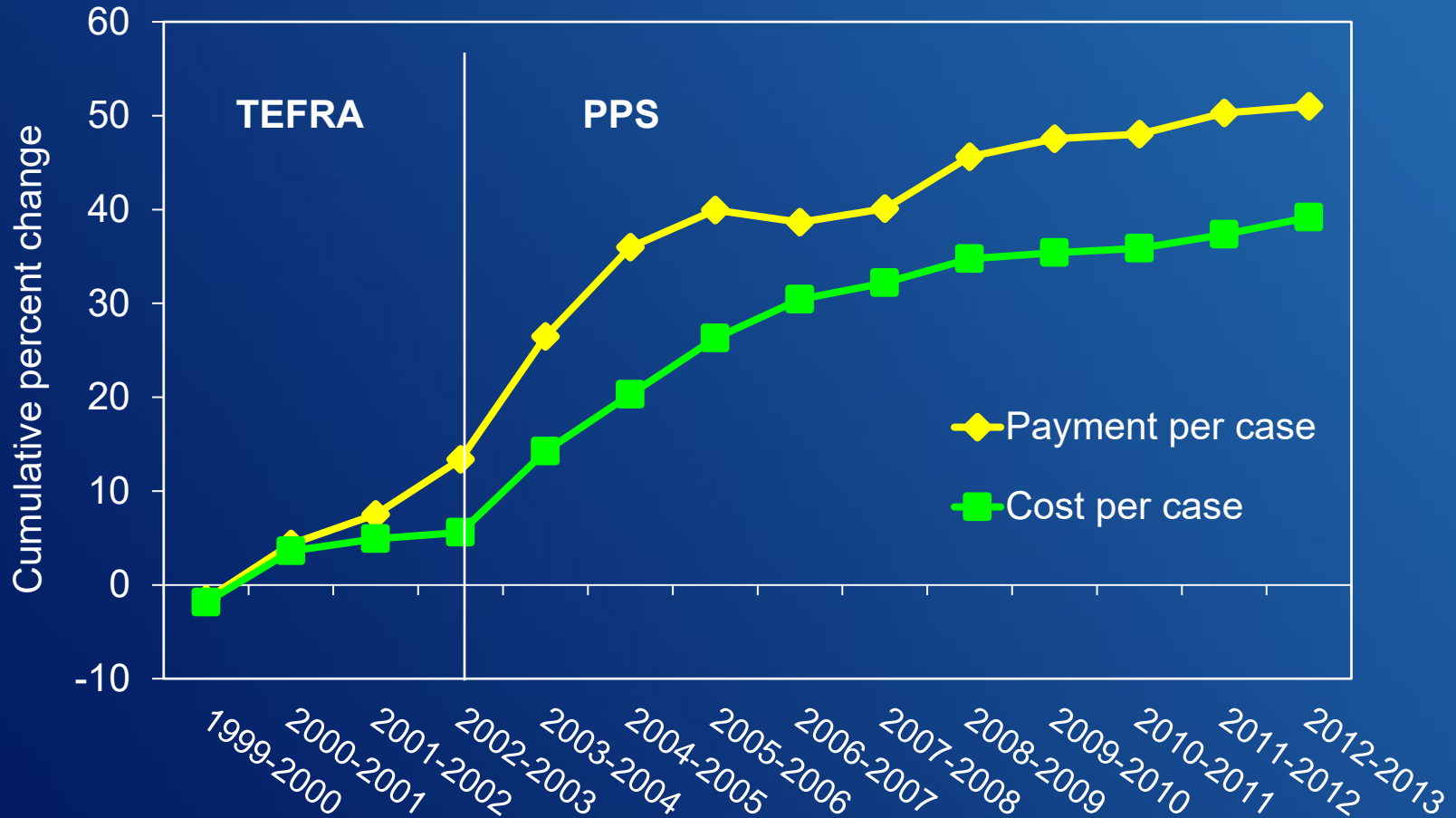
- Readmission rates and mortality rates stable or declining for most of the top diagnoses
- LTCH mortality
  - 25% die in LTCH or within 30 days of discharge; varies by case type:
    - Septicemia w/ prolonged mechanical ventilation = 51%
    - Diabetes w/ complications or comorbidities = 4%

# Access to capital: Regulatory certainty but with limits on near-term expansion

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- Recently legislation provides near-term regulatory and payment certainty
- Moratorium on new facilities beginning on April 1, 2014 through September 30, 2017

# LTCHs' per case cost growth outpaces payment growth



# LTCH Medicare margins, 2013

	% of LTCHs	% of cases	Margin
All LTCHs	100%	100%	6.6%
Bottom 25 <sup>th</sup>	25	19	-12.4
Top 25 <sup>th</sup>	25	25	20.2
Urban	93	95	6.8
Rural	7	5	2.4
For-profit	78	85	8.4
Nonprofit	17	14	-1.7

Government-owned LTCHs are not shown. Percentages may not sum to 100% due to rounding. Results are preliminary and subject to change.

# High- and low-margin LTCHs, 2013

	High-margin LTCHs	Low-margin LTCHs
Mean total discharges (all payer)	522	423
Occupancy rate	74%	57%
Standardized cost per discharge	\$28,352	\$39,119
Medicare payment per discharge	\$39,411	\$40,861
High-cost outlier payment per discharge	\$1,594	\$5,515
Short-stay cases	25%	29%
Mean case mix index (non-SSOs)	1.13	1.09
For-profit	93%	64%

# Summary

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- Access: Supply stable, volume declines consistent with ACH
- Quality: Stable for limited available measures
- Access to capital: Limited activity
- 2013 margin: 6.6 percent