Update on Medicare's Hospital Readmissions Reduction Program

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MEDPAC

PPACA created financial incentives to reduce readmissions

- Hospital readmission reduction program (HRRP) enacted in 2010
- Payment penalty started in fiscal year 2013
  - Penalty based on prior three-year performance
  - 2013 and 2014 penalty based on three conditions (AMI, heart failure, pneumonia)
  - In 2015 added two more conditions (COPD and hip and knee replacements)
- Penalty capped at 3% of base operating payments

Data are preliminary and subject to change.

Readmission rates have fallen: Reductions for initial 3 conditions

Condition	2010	2011	2012	2013	Percentage point change 2010-2013	
					Raw	Case-mix adjusted
Pneumonia	18.7%	18.7%	18.2%	17.4%	-1.3%	-1.4%
AMI	19.2	19.1	18.3	17.5	-1.7	-1.8
Heart failure	25.0	24.8	24.2	23.3	-1.7	-2.1

Source: MedPAC analysis of Medicare claims data.

- Readmission rates have fallen for conditions covered under the HRRP
- Largest drop occurred the first year the penalties went into place (2013)

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Readmission rates have fallen: all-condition readmission measures

Condition	2010	2011	2012	2013	Percentage point change 2010-2013	
					Raw	Case-mix adjusted
All-condition unplanned	15.7%	15.7%	15.4%	14.9%	-0.8%	-1.1%
Potentially preventable	13.3	13.0	12.6	12.3	-1.0	-1.6

Source: MedPAC analysis of Medicare claims data.

- All-condition readmission rates declined but not as fast as for initial three conditions covered under HRRP
- Similar rates of decline across all hospital groups

Data are preliminary and subject to change.

Impact of HRRP on provider payments

- Total penalty in 2015 about $425 million
  - 0.5% of base payments
  - 0.4% of total inpatient PPS payments
- 79 percent of hospitals receive penalty in 2015
  - 5 percent excluded from penalty because not enough cases
  - For 16 percent of hospitals, penalty is between 1 and 3 percent of base operating payments
- Average of $163,000 per hospital with penalty
- Highest penalties
  - Hospitals with high SSI patient shares

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Issue 1. Random variation and small numbers of observations

- Current policy
  - Readmissions measured for individual conditions
  - Uses 3 years of data and requires at least 25 cases
  - Statistical methods used to shrink hospital's values toward national mean (more shrinkage with smaller n)
- Solution
  - Use all-condition readmissions to increase n
  - Continue to use 3 years of data to increase n
  - Allow hospitals to aggregate performance within a system for penalty purposes (continue to publicly report individual hospital performance)

Issue 2. Computation of penalty

- Current policy
  - Penalty constant as industry readmission rates decrease
  - Penalty multiplier differs for each condition
  - Over half of hospitals always penalized
- Solution
  - Move to an all-condition readmission measure
  - Use a fixed readmission-rate target that is below historical average (e.g., 40th percentile)
  - Set penalty equal to Medicare's cost of excess readmissions (excess = actual – target)

Penalties inversely related to readmission rate

Condition	Readmission rate	Number of readmissions	Cost of readmissions* (in millions)	Estimated net penalties (in millions)
COPD	20.7	67,000	$475	$66
Hip & Knee	5.3	16,000	110	135

*Base operating cost for the readmission.
Source: MedPAC analysis of Medicare claims data.

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Issue 3: Mortality and readmissions can be inversely related

- Current policy
  - CMS heart failure mortality measure has high negative correlation with heart failure, AMI and pneumonia readmission measures
  - Other two mortality measures exhibit less correlation
  - Heart failure mortality also negatively correlated with all-condition readmissions
- Solution
  - Use all-condition readmission measure
  - Use readmission-free survival

Issue 4. Penalties under current policy are higher for hospitals treating low-income patients

- Current policy
  - Hospitals serving low-income patients have higher readmission rates
  - No adjustment for SES in risk models
- Solution
  - Measure hospitals' performance against peer groups based on similar low-income patient shares (SSI patient share)
  - Set target readmission rate for peer group equal to 42nd percentile value for each peer group or set so average penalty is equal across peer groups (SSI decile)
  - Publicly report values without SSI adjustment

Comparison of potential all-condition readmission targets by SSI decile

SSI decile	SSI share	National target set equal to 42nd percentile	Target for each SSI decile equal to peer groups 42nd	Set target so mean penalty is equal across SSI decile
1	0-3	15.7	15.2	14.9
2	3-4	15.7	15.4	15.3
3	4-5	15.7	15.6	15.5
4	5-6	15.7	15.6	15.5
5	6-7	15.7	15.7	15.6
6	7-9	15.7	15.7	15.8
7	9-10	15.7	15.9	15.9
8	10-13	15.7	16.0	16.2
9	13-18	15.7	16.1	16.2
10	18-74	15.7	16.3	17.0

MEDPAC Source: MedPAC analysis of Medicare claims data using CMS all-condition unplanned readmission measure.

Data are preliminary and subject to change.

Comparison of payment penalties by hospital group all-condition measure

Hospital type	National target equal to 42nd percentile	Target for each SSI decile equal to peer group's 42nd percentile	Set target so mean penalty is equal across SSI deciles
All	0.50%	0.50%	0.50%
SSI 1st decile	0.15	0.35	0.50
SSI 10th decile	1.11	0.81	0.50

Source: MedPAC analysis of Medicare claims data using CMS all-condition unplanned readmission measure.

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Conclusion

- Hospitals are successfully reducing readmissions across all types of hospitals
- The HRRP can be improved by adopting the refinements the Commission suggests
- These refinements can be implemented quickly without modifications to currently available risk adjusters