



*Advising the Congress on Medicare issues*

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

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# Long-term care hospitals

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- Meet Medicare's conditions of participation for acute care hospitals (ACH) and have Medicare average length of stay (ALOS) greater than 25 days
- Medicare spending: \$5.4 billion in 2014
  - Cases: ~134,000
  - Mean payment per case: ~\$40,000
- Per case payments based on:
  - MS-LTC-DRGs, adjusted for:
    - High cost outliers
    - Short-stay outliers (SSO)

# The Pathway for SGR Reform Act of 2013 establishes “site-neutral” payments for LTCHs

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- Beginning FY 2016, higher LTCH payments allowed for qualifying cases with an 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
- LTCH required ALOS of 25+ days excludes:
  - Cases paid based on the site-neutral rate
  - Medicare Advantage cases
- Moratorium on new LTCHs from April 2014 through September 2017

# Payment adequacy framework

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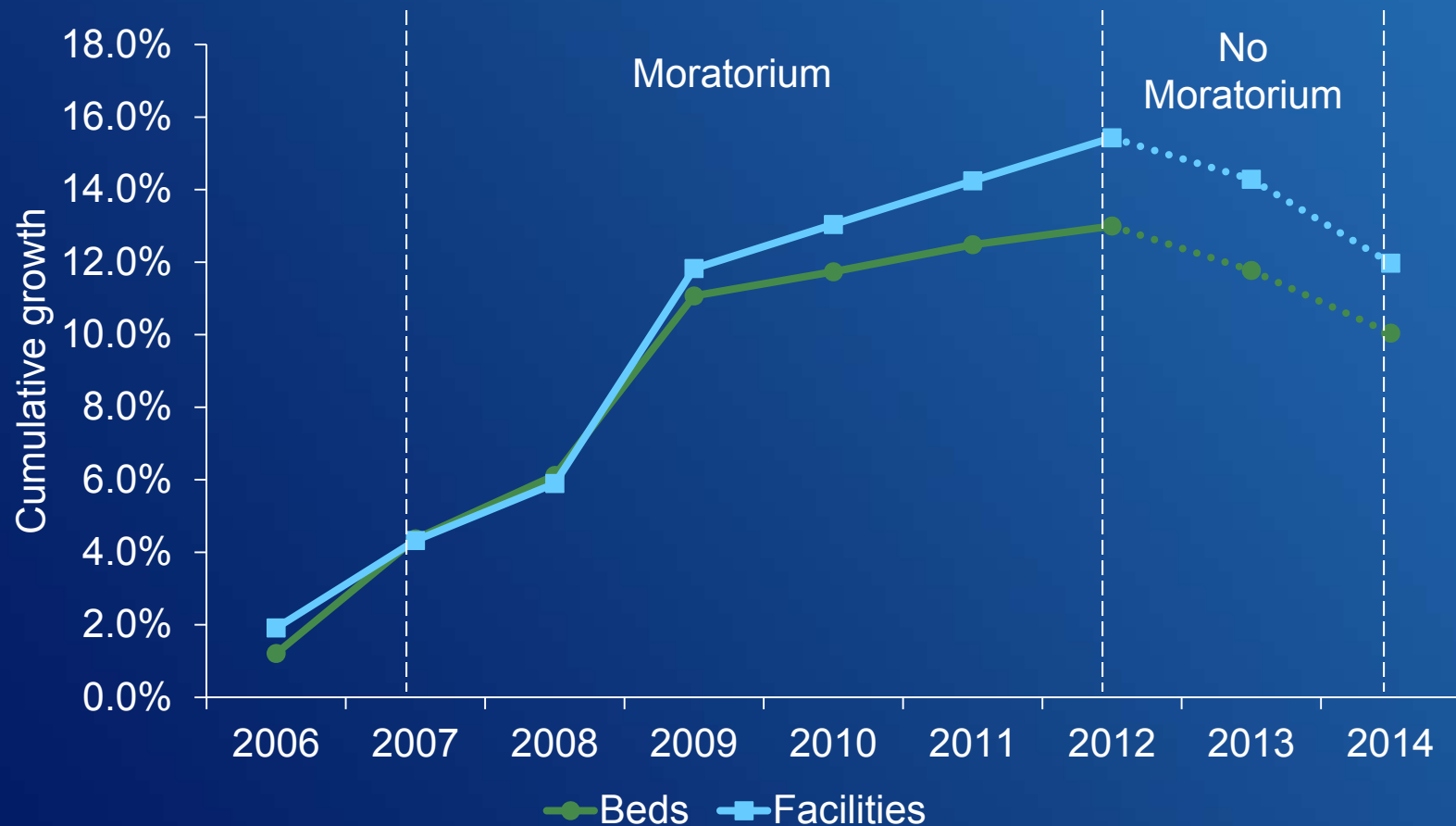
- Access
  - Supply of providers
  - Volume of services
- Quality
- Access to capital
- Payments and costs

# There is wide geographic variation in LTCH use

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- LTCHs are located in 44 states and in about 265 counties nationwide
- Beneficiary use of LTCHs varies dramatically by county
  - Median: 6 days per 100 FFS beneficiaries
  - Top 10 percent of counties: 21 days per 100 FFS beneficiaries
    - Account for over one-third of all LTCH FFS days
    - Most of these counties are concentrated in three states
- Research has shown that outcomes for the most medically complex beneficiaries who receive care in LTCHs are no better than those for similar patients that do not have an LTCH stay

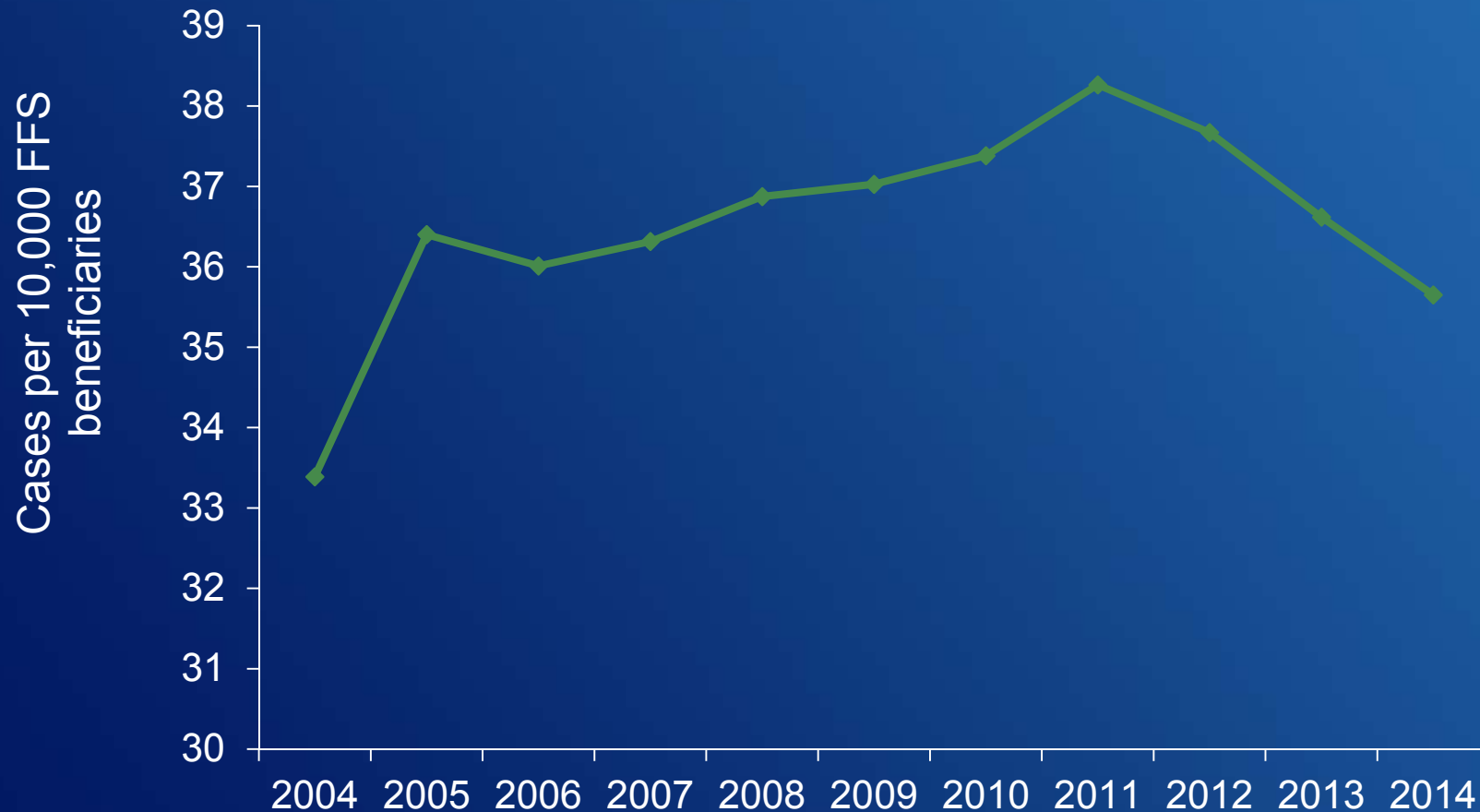
# LTCH growth declined beginning in 2009



Results are preliminary and subject to change.

Source: MedPAC analysis of cost report data and the Provider of Services file from CMS.

# Volume of LTCH services declined for the third 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
  - 24% die in LTCH or within 30 days of discharge; varies by case type:
    - Septicemia w/ prolonged mechanical ventilation = 46%
    - Aftercare, musculoskeletal system and connective tissue with major complication or comorbidity= 3%

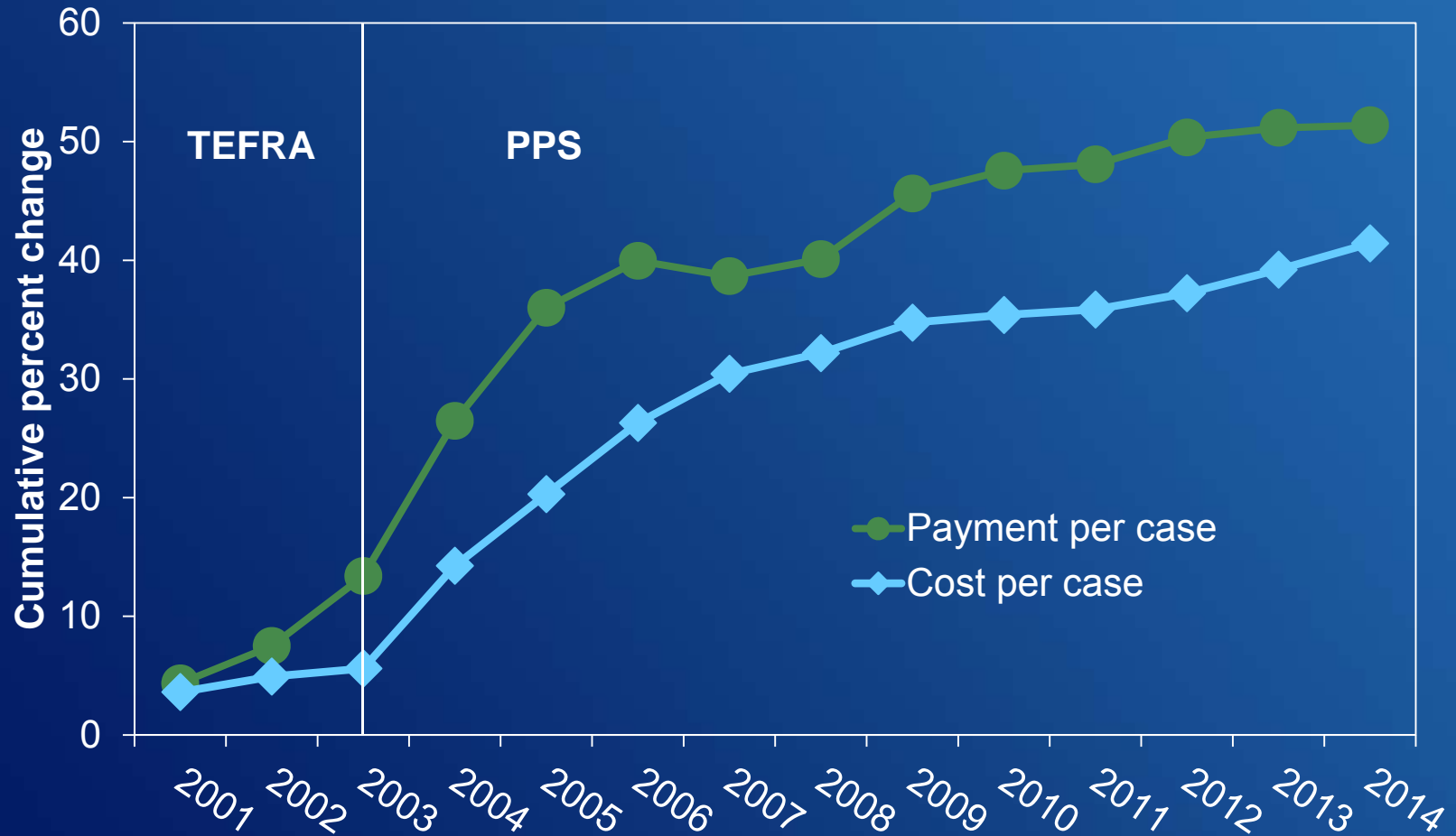


# Access to capital: Continued limits on near-term expansion

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- Recent legislation provides near-term regulatory certainty
- Moratorium on new facilities and bed expansion beginning on April 1, 2014 through September 30, 2017
- Moratorium reduces opportunities for expansion and the need for capital

# LTCHs' per case cost growth outpaces payment growth



# LTCH Medicare margins, 2014

- 2014 Medicare margin: 4.9 percent
- 2014 marginal profit: 20 percent

	% of LTCHs	% of cases	Margin
All LTCHs	100%	100%	4.9%
Bottom 25 <sup>th</sup>	25	18	-15.3
Top 25 <sup>th</sup>	25	25	18.9
Urban	93	94	4.9
Rural	7	6	4.1
For-profit	77	85	6.9
Nonprofit	19	13	-2.8

Government-owned LTCHs are not shown. Percentages may not sum to 100% due to rounding. Results are preliminary and subject to change. The margins reflect current law policies, including sequestration.

Source: MedPAC analysis of Medicare cost report data from CMS.

# High- and low-margin LTCHs, 2014

	High-margin LTCHs	Low-margin LTCHs
Mean total discharges (all payer)	516	411
Occupancy rate	74%	56%
Standardized cost per discharge	\$27,424	\$36,952
Medicare payment per discharge	\$37,808	\$36,074
High-cost outlier payment per discharge	\$2,041	\$5,848
Short-stay cases	25%	30%
Mean case mix index (non-SSOs)	1.14	1.09
For-profit	89%	60%

Includes LTCHs that filed valid cost reports in both 2011 and 2012. Government-owned facilities are excluded from this analysis. Results are preliminary and subject to change.

Source: MedPAC analysis of Medicare cost report and MedPAR data from CMS.