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

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Long-term care hospital definition and payment

- Meet Medicare’s conditions of participation for acute care hospitals (ACHs)
- Have an average length of stay greater than 25 days for certain Medicare cases
- Paid per-discharge under the LTCH PPS for cases that immediately follow an ACH discharge and had either 3+ days in an intensive care unit or received prolonged mechanical ventilation in the LTCH
- 2016 to 2019 site neutral rates phased in, full phase in in 2020 interrupted by the public health emergency
Federal support to LTCHs during the PHE

- Federal grants and loans (e.g., Provider Relief Fund, Paycheck Protection Program)
- Suspension of 2-percent sequestration payment adjustment
- LTCH-specific policies
  - CMS waived the 25-day average length-of-stay requirement
  - CARES Act of 2020: All stays paid the LTCH standard PPS rate, waiver of requirement to maintain at least 50 percent qualifying cases
Long-term care hospital summary, 2020

- Average Medicare payment per case:
  - ~$45,000 (all cases)
  - ~$50,000 (cases meeting the LTCH PPS criteria)
- Total Medicare cases: ~78,000
- Total facilities: 348
- Total Medicare spending: $3.4 billion

Note: Results are preliminary and subject to change.
MedPAC’s framework for assessing payment adequacy for LTCHs

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<thead>
<tr>
<th>Access to care</th>
<th>Quality of care</th>
<th>Access to capital</th>
<th>Medicare payments and providers’ costs</th>
</tr>
</thead>
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<tr>
<td>• Supply and capacity</td>
<td>• Risk-adjusted PAC measures</td>
<td>• All-payer profitability</td>
<td>• Medicare payments and providers' costs</td>
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<td>• Volume</td>
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<td>• Transaction activity</td>
<td>• Margins and projected margins</td>
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<td>• Marginal profit</td>
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Update recommendation for payment system base rates
LTCH use declined in 2020, but had been declining prior to the PHE

Note: Results are preliminary and subject to change.
Largest monthly declines in LTCH use in 2020 occurred prior to PHE, likely in response to payment system incentives.

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Supply of LTCHs, occupancy, and marginal profit suggest access is adequate

Supply decreased
• 3.6 percent reduction in number of LTCHs from 2019 to 2020

Occupancy steady
• 65 percent in 2020

Marginal profit suggests incentive to serve Medicare beneficiaries
• 18 percent across all LTCHs in 2020
• 20 percent for LTCHs with a high share of cases meeting the LTCH PPS criteria

Note: Results are preliminary and subject to change.
Quality of care: Difficult to assess in 2020

- Risk-adjusted rates of hospitalizations increased and rates of successful discharge to the community increased in 2020
- We can’t draw conclusions about trends in the quality of care provided to Medicare beneficiaries and their relationship to Medicare payment adequacy in 2020
  - 2020 indicators reflect temporary changes unique to the PHE
  - PAC quality metrics rely on risk-adjustment models that do not include new COVID-19 diagnosis information

Note: Results are preliminary and subject to change.
Access to capital: All payer margins increased in 2020

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
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<tbody>
<tr>
<td>All LTCHs</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>LTCHs with high share (&gt;85%)</td>
<td>3%</td>
<td>6%</td>
</tr>
<tr>
<td>of PPS qualifying cases</td>
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Note: Results are preliminary and subject to change. Source: MedPAC analysis of Medicare cost report data from CMS.
Medicare payments and costs: Payments per case grew more than providers’ costs per case in 2020

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<th>All LTCHs</th>
<th>LTCHs with &gt;85% qualifying cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments per case</td>
<td>9.1%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Costs per case</td>
<td>4.2%</td>
<td>4.9%</td>
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</table>

Higher growth in payments per case than costs per case reflects temporary payment increases for site-neutral cases and suspension of the 2-percent sequestration adjustment.

Note: Results are preliminary and subject to change. Source: MedPAC analysis of Medicare cost report data from CMS.
Aggregate Medicare margins increased in 2020

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<th>2018</th>
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<th>2020</th>
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</thead>
<tbody>
<tr>
<td>All LTCHs</td>
<td>-0.5%</td>
<td>-1.6%</td>
<td>3.6</td>
</tr>
<tr>
<td>LTCHs with high share (&gt;85%) of PPS qualifying cases</td>
<td>4.7</td>
<td>2.9</td>
<td>6.9</td>
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With share of relief funds funds allocated to Medicare payments, aggregate margins were 5 percent for all LTCHs, and 7.8 percent for LTCHs with a high share of qualifying cases.

Note: Results are preliminary and subject to change. Source: MedPAC analysis of Medicare cost report data from CMS.
COVID-19 and temporary PHE-related policies affected LTCH payment adequacy indicators in 2020

Access to care
- Volume decline
- Occupancy rate steady
- Supply decreased, but less than pre-PHE
- Marginal profits increased

Quality of care
- Difficult to assess in 2020

Access to capital
- All-payer margin increased
- Largest provider of LTCH services acquired multiple facilities

Medicare payments and providers’ costs
- Medicare margin for LTCHs with a high share of qualifying cases: 6.9%

Note: Results are preliminary and subject to change.