

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

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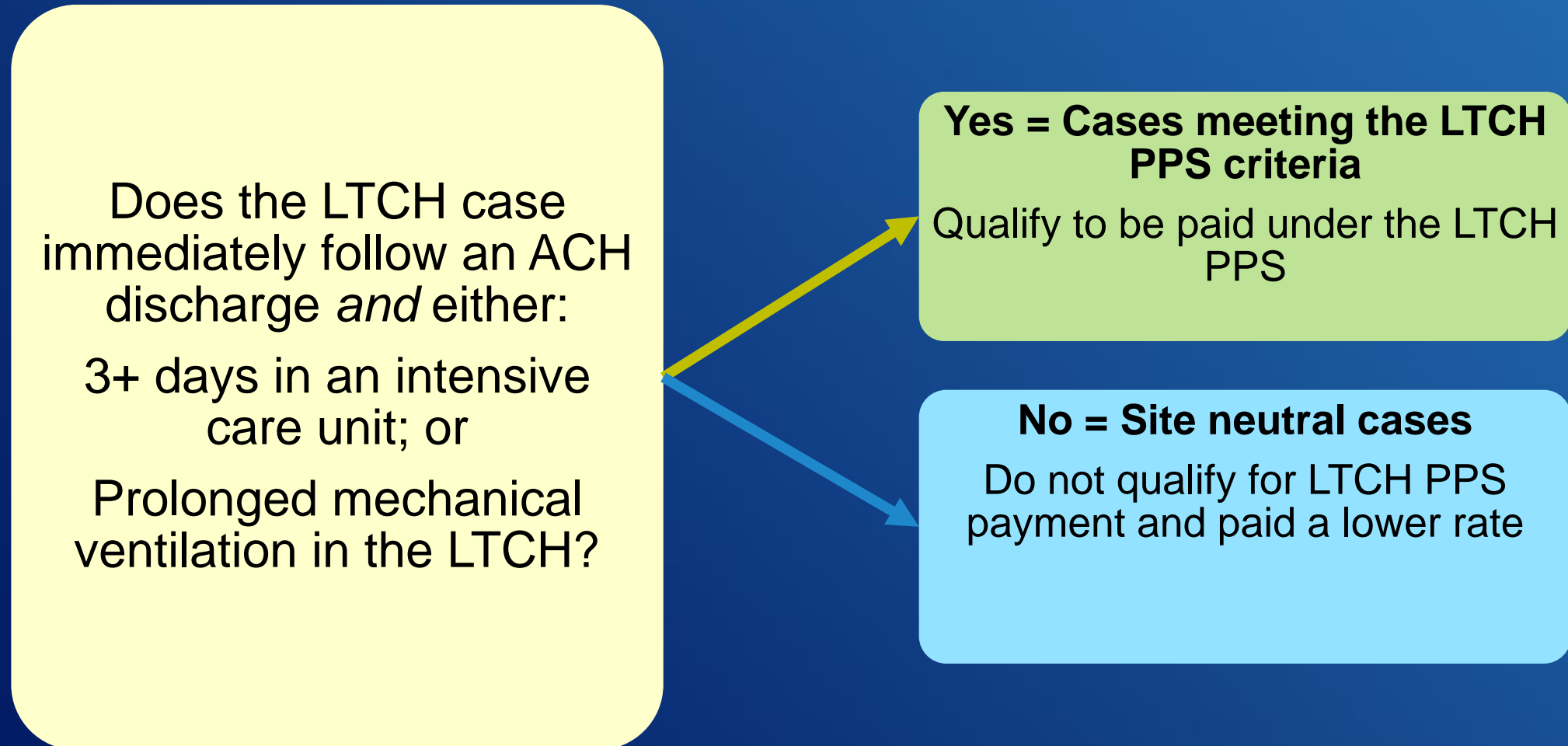
# Long-term care hospitals definition

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- 1 Meet Medicare's conditions of participation for acute care hospitals (ACHs)

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- 2 Average length of stay greater than 25 days for certain Medicare cases

# The Pathway for SGR Reform Act of 2013 established a dual payment-rate system



# Timeline of dual-payment rate system phase in



**FY2016**

Blended site-neutral payments for non-qualifying cases beginning in first month of cost-reporting period in fiscal year



**FY2017- 2019**

Blended site-neutral payments for non-qualifying cases



**FY2020**

Fully site-neutral payments for non-qualifying cases beginning in first month of cost reporting period in fiscal year



**FY2021**

Fully site-neutral payments for all non-qualifying cases for entire year and beyond

Site-neutral payments temporarily waived during the coronavirus public health emergency

# Long-term care hospital summary, 2019

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- Average payment per case:
  - ~\$41,000 (all cases)
  - ~\$47,000 (cases meeting the LTCH PPS criteria)
- Total cases: ~91,000
- Total facilities: 361
- Total Medicare spending: \$3.7 billion

# LTCH payment adequacy framework

## Beneficiaries' access to care

- Volume of services
- Supply of providers
- Marginal profit

## Quality of care

- Risk-adjusted PAC measures
- Unadjusted Mortality

## Access to capital

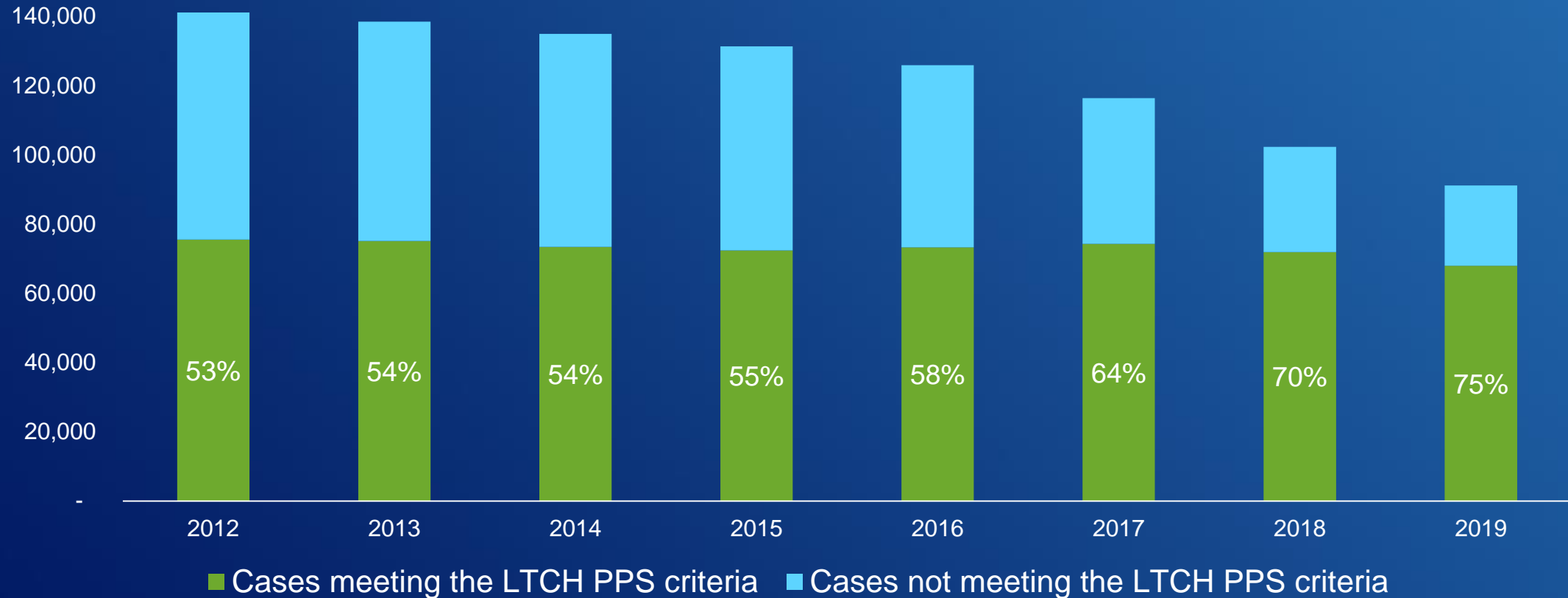
- Transaction activity
- All-payer profitability

## Medicare payments and costs

- Cost growth
- Medicare margin

Update recommendation for LTCH PPS

# Access: Most of the reduction in LTCH volume continued to be in non-qualifying cases



# Supply reduction as expected, occupancy and marginal profit suggest access is adequate

**Supply decreased as expected**

- 3.5 percent reduction in number of LTCHs from 2018 to 2019

**Occupancy unchanged**

- 63 percent in 2019, unchanged from 2018

**Marginal profit suggests incentive to serve Medicare beneficiaries**

- 15 percent across all LTCHs in 2019
- 17 percent for LTCHs with a high share of cases meeting the LTCH PPS criteria



# Quality: Generally stable

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- Risk-adjusted MedPAC measures
  - Rate of hospitalizations stable (5.3% in 2019)
  - Slight decrease from 2018 in successful discharge to the community (22% in 2019)
- Unadjusted mortality rates
  - Rates of in-LTCH mortality and mortality after 30 days of discharge stable for qualifying and non-qualifying cases

# Access to capital: Industry contraction after dual payment rate system phase-in

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- Limited access to capital
- All-payer margin declined between 2018 and 2019
  - All LTCHs: **2 percent** in 2019
  - LTCHs with a high share of patients meeting the LTCH criteria: **3.2 percent** in 2019

# Year-over-year changes in cost per stay varied

	2015-2016	2016-2017	2017-2018	2018-2019
All LTCHs	1.3%	-0.9%	2.9%	4.4%
LTCHs with high share of PPS qualifying cases	4.9	2.3	2.0	4.1

Note: Results are preliminary and subject to change.  
Source: MedPAC analysis of Medicare cost report and claims data from CMS.

# Aggregate Medicare margins decreased in 2019

		2018	2019
All LTCHs	Total	-0.5%	-1.6%
	For profit	1.3	0.4
	Nonprofit	-11.7	-12.2
LTCHs with high share of PPS qualifying cases	Total	4.7	2.9
	For profit	6.2	4.2
	Nonprofit	-5.6	-6.9

# High-margin LTCHs treat higher acuity cases and have lower costs than low-margins LTCHs

Medicare margins

- Highest quartile vs. lowest quartile:
- 16% vs. -29%

Case characteristics

- Total count: 459 vs. 405
- Occupancy: 69% vs. 55%
- Medicare share: 63% vs. 52%
- Mean CMI: 1.22 vs. 1.14
- Share meeting LTCH PPS criteria: 80% vs. 66%

Standardized cost per case

- \$28,000 vs. \$39,000

# Effect of the coronavirus pandemic on LTCH services

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- PHE-related policy changes
  - CMS waived the 25-day ALOS requirement
  - CARES Act of 2020
    - All stays paid the LTCH standard PPS rate
    - Additional funding
- Volume: data limited but large, publicly traded company reports occupancy up in 2020 compared to 2019

# Summary of LTCH payment adequacy indicators, 2019

Beneficiaries' access to care	Quality of care	Access to capital	Medicare payments and costs
<ul style="list-style-type: none"><li>➤ Occupancy rate steady</li><li>➤ Share of cases meeting criteria increased</li><li>➤ Supply decreased</li><li>➤ Marginal profits adequate</li></ul>	<ul style="list-style-type: none"><li>➤ Stable mortality rates (unadjusted)</li><li>➤ Stable hospitalizations, slight decline in discharge to community (risk-adjusted)</li></ul>	<ul style="list-style-type: none"><li>➤ Industry contraction reduced the need for capital</li><li>➤ All-payer margin declined slightly from 2018</li></ul>	<ul style="list-style-type: none"><li>➤ Medicare margin for LTCHs with a high share of cases meeting the LTCH PPS criteria: 2.9 percent</li></ul>
As expected, given changes in payment system	Mixed	As expected, given changes in payment system	Positive