Medicare Long-Term Care Hospital Prospective Payment System Proposed Rule Impact Analysis Federal Fiscal Year 2021

-Version 1-

Analysis Description

The federal fiscal year (FFY) 2021 Medicare Long-Term Care Hospital (LTCH) Prospective Payment System (PPS) Proposed Rule Impact Analysis is intended to show providers how Medicare LTCH fee-for-service (FFS) payments would change from FFY 2020 to FFY 2021 based on the policies set forth in the FFY 2021 LTCH PPS proposed rule. The analysis incorporates changes to LTCH payments mandated by Congress and implemented by the Centers for Medicare and Medicaid Services (CMS).

FFY 2021 LTCH Proposed Rule Payment Changes Modeled in this Analysis

- Marketbasket Update: A 2.9% increase to account for cost increases for the services furnished by providers.
- ACA-Mandated Productivity Reduction: A 0.4 percentage point productivity reduction to the marketbasket authorized by the Affordable Care Act (ACA) of 2010.
- Budget Neutrality (including all other budget neutrality): A proposed adjustment of 1.0018755 applied to the standard federal rate in order to maintain budget neutrality due to changes in the wage index and a proposed adjustment of 1.000517 applied to the standard federal rate due to elimination of the 25% threshold policy in order to maintain budget neutrality.
- Wage Index and Labor Share: Updated wage index values based on the FFY 2021 proposed hospital wage index without the rural floor or reclassifications, and the proposal to increase the labor-share from 66.3% in FFY 2020 to 68.0% in FFY 2021. The impact of the proposed 5% cap on any reduction of hospital's FFY 2021 wage index values from the FFY 2020 wage index value is broken out separately, where applicable.
- MS-LTC-DRG Updates: MS-LTC-DRG changes due to updates to the MS-LTC-DRG groupings and weights. The FFY 2020 final and the FFY 2021 proposed MS-LTC-DRG weights are from CMS FFY 2020 final rule Table 11 and FFY 2021 proposed rule Table 11 and used to calculate case-mix indexes.
- Site Neutral Payments: Impact of applying CMS site neutral payment adjustments to certain cases no longer deemed eligible for payment under the LTCH PPS. In such cases, hospitals will be paid the lower

of 100% of the cost, per diem IPPS amount, or full comparable amount to what would otherwise be paid under IPPS. The Bipartisan Budget Act of 2018 reduces the IPPS per-diem component of the site-neutrality calculation of 4.6% through FFY 2026. FFY 2020 is the first year of the full adjustment for cases affected by the site-neutral payment rate. The full site neutral payment amount is effective at the start of a LTCH's next cost report period following October 1, 2019. Impacts for LTCHs with cost report periods that began later than October 1, 2019 are prorated to include the 50/50 blend of LTCH standard payment and site neutral payment so this analysis does not assume a full year's site-neutral impact for FFY 2020.

- BiBa Discharge Payment Percentage Adjustment: Beginning in FFY 2021, the Bipartisan Budget Act (BiBa) mandates an IPPS equivalent payment rate for ALL discharges for LTCHs when less than 50% of cases are paid at standard LTCH PPS payment in the previous year. For FFY 2021, CMS will calculate discharge payment percentages using FFY 2020 data. This analysis assumes an LTCH will receive the discharge percentage adjustment because less than 50% of their cases in the FFY 2021 LTCH proposed rule impact file are flagged as standard LTCH PPS payment cases. The FFY 2021 proposed rule impact uses FFY 2019 data and therefore it is possible that an LTCH may not actually receive the adjustment for FFY 2021. Two bottom line FFY 2021 payments and percentage impacts over FFY 2020 are provided for this reason, one without the discharge payment adjustment and one including the adjustment, if applicable. Percentage impacts for the discharge payment percentage adjustment are calculated with FFY 2020 payments including site-neutral as the baseline.

Since FFY 2014, the applicable annual update is reduced by 2.0 percentage points for any LTCH which fails to meet the LTCH Quality Reporting Program (QRP) data submission requirements. The impact shown in the table does not include this reduction. An estimated impact is provided for FFY 2021 LTCH standard payment cases if a LTCH was to be subject to this reduction.

The values shown in the impact table do not include the 2.0% sequestration reduction to all lines of Medicare payment authorized by Congress through FFY 2030. As part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress eliminated the 2% sequester on Medicare payments from May 1, 2020 through December 31, 2020. The estimated sequestration reduction applicable to LTCH PPS-specific payment has been calculated separately based on estimated FFY 2021 payments without the discharge percent adjustment and is provided at the bottom of the impact table.

Data Sources

Estimated FFYs 2020 and 2021 LTCH PPS payments are calculated using individual LTCH characteristics from the FFY 2020 LTCH final rule and FFY 2021 LTCH proposed rule Impact Files provided by CMS.

CMS did not provide sufficient information on length-of-stay (LOS) in its PUF to allow for modeling of the site-neutral payment policy. For this analysis, the FFY 2019 LTCH MEDPAR (March 2020 update) was used to determine which cases met the LTCH payment rules vs. site neutral in order to calculate site-neutral adjustment factors.

The estimated FFY 2021 site-neutral PPS payments are calculated using both individual LTCH characteristics and IPPS characteristics from the FFY 2021 LTCH proposed rule Impact File and the FFY 2021 IPPS proposed rule Impact File provided by CMS, as well as the FFY 2019 LTCH MEDPAR file.

The standard rates and labor shares for the FFYs 2020 and 2021 LTCH PPS payments are from the FFY 2020 LTCH final rule and the FFY 2021 LTCH proposed rule.

The standard rates and labor shares for the FFYs 2020 and 2021 site-neutral PPS payments are from the FFY 2020 IPPS final rule correction notice and FFY 2021 IPPS proposed rule.

Medicare cases are from the FFY 2021 LTCH proposed rule Impact File and are held constant for FFYs 2020 and 2021. Case mix index is obtained from the FFY 2021 LTCH proposed rule Impact File.

Wage indexes for LTCH standard payment cases are from the FFY LTCH 2020 final rule and FFY 2021 LTCH proposed rule Impact Files and reflect hospital wage index values without the rural floor or reclassifications. Wage indexes, GAF, and COLA for site-neutral payments are calculated using the FFY 2020 IPPS final rule correction notice Table 3 and the FFY 2021 IPPS proposed rule Table 3.

The average length of stay is from the FFY 2021 LTCH proposed rule Table 11.

Note: All components related to facility operations are held constant (e.g. volume, etc.) in order to measure the impacts of policy changes only.

Methods

The dollar impact of each component change has been calculated by first estimating FFY 2020 payments as if all cases were LTCH standard eligible. Estimated FFY 2020 payments reflect the wage index, labor-share, cost of living adjustment (COLA), standard federal amount multiplied by each hospital's appropriate cases and case-mix index. FFY 2020 estimates for site-neutral payments (detailed below) are subtracted from the FFY 2020 LTCH standard payment.

In order to calculate policy changes, site-neutral payments are added back into the FFY 2020 estimated payments. Then, starting from the estimated FFY 2020 payments as if all were LTCH standard eligible, the policy changes to the LTCH rates are applied sequentially. The differences in payments are then calculated. Percent changes by each component change are derived from the resulting changes in payment.

The site-neutral payment component of the analysis was calculated using the CMS criteria for identifying qualifying cases against the FFY 2019 LTCH MEDPAR. Each qualifying case was evaluated by comparing the adjusted IPPS comparable per diem payment multiplied by the LTCH LOS to 100% of the cost of the case. The lower of the two is considered the site-neutral payment amount. The site-neutral payment amount is reduced by a budget neutrality factor due to high cost outliers. A site-neutral payment adjustment factor was then developed for each provider as a ratio of the total site-neutral payment amount per provider and what the total standard LTCH payment amount per provider would have been if these cases were eligible for LTCH standard payment. This factor was applied to the estimated FFY 2020 and FFY 2021 payments for each provider in order to develop a site-neutral impact. Finally, a discharge percentage adjustment FFY 2021 payment was developed for each applicable provider by calculating all discharges as if they were paid at the IPPS equivalent rate. The full site neutral payment amount is effective at the start of a LTCH's next cost report period following October 1st, 2019. Impacts for LTCHs with cost report periods that began later than October 1st, 2019 are prorate to include the 50/50 blend of LTCH standard payment and site neutral payment so this analysis does not assume a full year's site-neutral impact for FFY 2020. FFY 2021 is the first year of a full year's site-neutral impact.

The IPPS comparable per diem payment amount is capped at the lower of the IPPS comparable per diem amount and the full comparable amount to what would otherwise be paid under IPPS.

The adjusted IPPS comparable per diem amount includes: the IPPS standard amount, IPPS MS-DRG weight, IPPS labor-share and wage index, Disproportionate Share Hospital (DSH) adjustment, Indirect Medical Education (IME) adjustment, IPPS capital standard amount, geographic adjustment factor (GAF), and COLA. The standard LTCH payment was calculated by adjusting the LTCH standard amount by the LTCH labor-share and wage index, COLA, and MS-LTC-DRG weight. This value is multiplied by the length of stay of each case as well as the average geometric length of stay for that cases DRG. The full comparable amount to what would otherwise be paid under IPPS does not include this multiplier.

This analysis does NOT include impact estimates due to high cost outliers, estimates for payments for Managed Care patients, or any modifications in FFS payments as a result of hospital participation in new payment models being tested under Medicare demonstration/pilot programs. Interrupted stays, where a patient is temporarily discharged to another facility, are also not included in the analysis. This analysis also does not include projections for anticipated decreases in length of stay and costs.

Note: Individual percentages and dollars shown in this analysis may not foot to total due to compounding and rounding. Dollar amounts less than $50 and percentages less than 0.05% will appear as zeros due to rounding.