



WISCONSIN HOSPITAL
ASSOCIATION

**SUMMARY OF THE RY 2008
MEDICARE LONG-TERM CARE
HOSPITALS PROPOSED PAYMENT
UPDATE**

March 2007

SUBMISSION OF COMMENTS

The Centers for Medicare and Medicaid Services (CMS) published proposed its regulations for the Medicare Prospective Payment System for Long-Term Care Hospitals (LTCH PPS) in the February 1 *Federal Register*. The proposed rule provides for a 60-day comment period. CMS must receive comments by **5 p.m. on March 26**. CMS requests that comments reference the file code CMS-1529-P and the specific “issue identifier” that precedes the section on which you choose to comment. CMS will accept comments in one of four ways:

1) One original and two copies of comments may be mailed to:

Centers for Medicare & Medicaid Services
Department of Health and Human Services
Attention: CMS-1529-P
P.O. Box 8015
Baltimore, MD 21244-8015

2) By express or overnight mail, one original and two copies may be mailed to:

Centers for Medicare & Medicaid Services
Department of Health and Human Services
Attention: CMS-1529-P
Mail Stop C4-26-5
7500 Security Boulevard
Baltimore, MD 21244-1850

3) One original and two copies may be hand-delivered to CMS by calling (410) 786-7197 in advance of delivering your comments. The following locations will accept hand-delivered comments

Room 445-G
Hubert H. Humphrey Building
200 Independence Avenue, SW
Washington, DC 20201

OR

7500 Security Boulevard
Baltimore, MD 21244-1850

4) CMS is also accepting comments submitted electronically at:
<http://www.cms.hhs.gov/eRulemaking> (attachments should be in Microsoft Word, WordPerfect, or Excel)

This document provides an overview of the Medicare proposed annual payment rate update for Long-Term Hospitals for rate year 2008. Additional information regarding the Long-Term Hospital PPS is available on the Centers for Medicare and Medicaid Services (CMS) Web site at <http://www.cms.hhs.gov/LongTermCareHospitalPPS/>.

I. OVERVIEW

In the February 1 *Federal Register*, CMS issued a proposed rule to update the RY 2008 PPS payment rates for long-term care hospitals. Proposed changes to payment amounts and the factors used to determine updated Federal rates are scheduled to be effective for discharges beginning on or after July 1, 2007. Because the Long-Term Care DRGs (LTC DRGs) are the same DRGs as used under the inpatient PPS (IPPS), CMS is not revising the LTC-DRGs and relative weights at this time. Any changes will be made at the same time as the hospital IPPS update and will be effective October 1, 2007.

This summary does not address the proposed changes to Graduate Medical Education payments, which were also published in this proposed rule.

II. PAYMENT RATE

Comments should refer to “PROPOSED CHANGES TO LTCH PPS PAYMENT RATES FOR THE 2008 LTCH PPS RATE YEAR”

Marketbasket Update (*Federal Register* page 4789)

The most recent estimate for the Rehabilitation, Psychiatric and Long-Term Care (RPL) marketbasket for the LTCH 2008 Rate Year is 3.2%; however, CMS is proposing to update the LTCH PPS federal rate by only 0.71% to incorporate an adjustment for a case-mix increase in the 2005 rate year. According to CMS, there was a 2.49% increase in case-mix during RY 2005 that is attributable to coding practice changes and not a true increase in patient severity. CMS has reduced the projected marketbasket by the 2.49% to arrive at the 0.71% rate increase. CMS will use a more recent RPL marketbasket estimate in the final rule, if one is available.

Standard Federal Rate (*Federal Register* page 4790)

This is the final year of the five-year transition to LTCH PPS. All facilities with cost reporting periods beginning on or after October 1, 2006 will receive a total LTCH PPS payment based on 100% of the federal rate. Facilities with cost reporting periods beginning prior to October 1, 2006 will receive a LTCH PPS payment based on 20% reasonable cost and 80% standard federal rate. The proposed standard federal rate for RY 2008 is \$38,356.45

Wage Index (*Federal Register* page 4793)

The standard federal rate is adjusted for differences in area wage levels by the wage index. The area wage index is applied to the labor-related portion of the federal rate. For RY 2008, CMS proposes reducing the labor-related portion of the federal rate from 75.665% to 75.511%

The area wage indexes are computed using wage data from inpatient acute care hospitals (excluding reclassifications, adjustments, and rural floors). The wage data used to generate the proposed wage indexes for LTCHs is from FY 2003.

This is also the final year of the five-year transition to full use of the area wage index. Facilities with cost reporting periods beginning on or after October 1, 2006 will receive a full wage index adjustment to the standard federal rate. Facilities with cost reporting periods beginning prior to October 1, 2006 will receive a four-fifths (80%) wage index adjustment to the federal portion of their LTCH PPS payment rate. The proposed wage indexes (at full and four-fifths values) are published in Addendum A, Table 1 in the *Federal Register* (page 4849)

High Cost Outliers (*Federal Register* page 4796)

High cost outlier cases are those that have extraordinarily high costs as compared to the costs of most LTCH discharges. CMS makes outlier payments for any discharges where the cost of the case exceeds the adjusted

LTCH PPS payment plus a fixed-loss amount. Costs are determined by multiplying the facility's overall Cost to Charge Ratio (CCR) by the allowable charges for the case. Costs determined to be in excess of the LTCH PPS payment plus the threshold are reimbursed at 80%

CMS proposes a fixed loss amount of \$18,774 for the 2008 rate year, compared to \$14,887 for RY 2007. CMS justifies the increase in the fixed loss amount as necessary in order to maintain the requirement for estimated outlier payments to equal 8% of total LTCH PPS payments.

III. OTHER PROPOSED CHANGES

Comments should refer to "OTHER PROPOSED POLICY CHANGES FOR THE 2008 LTCH PPS RATE YEAR"

Short Stay Outliers (*Federal Register* page 4804)

CMS believes that length of stay (LOS) is the essential, defining characteristic for LTCHs and that, as such, many short stay cases could and should be treated in the acute care setting (and be paid for under the acute care Inpatient PPS). CMS established a special payment policy for Short Stay Outlier (SSO) cases to ensure that a payment rate that is based upon a long LOS is not inappropriately applied to a case where the patient may have received only partial treatment or should have been treated in a more appropriate setting.

The current SSO payment policy applies to cases with a covered LOS of less than or equal to five-sixths of the geometric mean LOS. The LTC DRGs, the applicable geometric mean LOS, and five-sixths LOS are listed in Appendix A, Table 3 of the *Federal Register* (page 4872).

Currently, payment for SSO cases is based on the lowest of four calculated amounts: 1) 100% of cost; 2) 120% of the LTC-DRG per diem; 3) the full LTC-DRG case amount; or 4) a blend of the IPPS-DRG per diem and 120% LTC-DRG per diem. In the proposed rule, CMS is considering the addition of another short stay threshold for the shortest stay SSO cases (those with a LOS less than or equal to the mean LOS plus one standard deviation for that DRG under IPPS). In such cases, CMS is considering altering the fourth alternative under the SSO payment methodology to be 100% of the IPPS per diem (as opposed to the current blend). Under this "considered" approach, SSO cases with covered lengths of stay that exceed the comparable IPPS threshold, but are still below the old threshold of five-sixths of the LTC mean, would continue to be paid under the existing policy. The fourth column on Table 3 shows what the IPPS comparable thresholds would be for each LTC-DRG.

CMS is soliciting comments on the above approach as well as suggestions as to alternative ways in which to address the shortest stay SSO issue.

The 25 Percent Rule (*Federal Register* page 4809)

Currently, LTCH Hospitals within Hospitals (HwHs) or LTCH satellites that admit more than 25% of their Medicare cases from their co-located, host hospitals receive an adjusted payment rate of the lesser of the LTCH PPS amount or the IPPS amount. For cost reporting periods beginning on or after July 1, 2007, CMS is proposing to expand this policy to apply to any subclause (I) LTCH or LTCH satellite that admits more than 25% of Medicare patients from any individual hospital – thereby closing what CMS terms as the "location-specific loophole". For facilities located in rural areas, CMS proposes to increase the percentage threshold to 50%.