Framework for Post-Acute Care: Current and Future Issues for Providers

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Overview of Presentation

• Post-Acute Care: Background and Trends

• Impact of Health Reform

• Current Skilled Nursing Facility Marketplace

• Future Threats to Skilled Nursing Facility Providers
Post-Acute Care: Background and Trends

Distribution of Medicare PAC Care

**Long-Term Acute Care Hospitals (LTACHs)**
Provide care to patients with clinically complex problems, such as patients on ventilators, that need hospital care for extended periods of time.

**Inpatient Rehabilitation Facilities (IRFs)**
Provide intensive inpatient rehabilitation services, such as physical, occupational, or speech therapy, after an illness, injury, or surgical care.

**Skilled Nursing Facilities (SNFs)**
Provide skilled nursing and/or rehabilitation services to patients on an inpatient basis.

**Home Health Agencies (HHAs)**
Provide skilled nursing and/or rehabilitation services to homebound patients on a part-time or intermittent basis.

Source: 2009 Medicare 100 Percent Standard Analytic File (SAF) claims data base from the Centers for Medicare and Medicaid Services.
Overview of PAC Providers

<table>
<thead>
<tr>
<th>LTACHs</th>
<th>IRFs</th>
<th>SNFs</th>
<th>HHAs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Admission Criteria</strong></td>
<td><strong>Intensive rehabilitation services (≥ 3 hours a day, 5 days a week)</strong></td>
<td><strong>Requires 3-day hospital stay prior to admission</strong></td>
<td><strong>Beneficiary is homebound</strong></td>
</tr>
<tr>
<td>• LTACHs must have average stay ≥ 25 days</td>
<td>• Requires extended rehabilitation</td>
<td>• Must require skilled services</td>
<td>• Beneficiary needs part-time skilled care</td>
</tr>
<tr>
<td>• LTACHs cannot receive &gt;25% of their patients from an individual hospital</td>
<td>• 60% of patients must have 1 of 13 diagnoses that require extended rehabilitation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Coverage and Payment</strong></td>
<td><strong>Per day payment</strong>, which covers up to the first 100 days</td>
<td><strong>Per visit payment</strong>, which covers visits in 60-day episodes with no limit on number of episodes</td>
<td></td>
</tr>
<tr>
<td>Single payment, which covers up to 90 days per illness with a 60 day lifetime reserve</td>
<td>Single payment, which covers up to 90 days per illness with a 60 day lifetime reserve</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Beneficiary Cost sharing</strong></td>
<td>Deductible (if beneficiary admitted from community) and copayment beginning on day 61</td>
<td>Copayment beginning on day 21 of a SNF stay</td>
<td>None</td>
</tr>
<tr>
<td>Deductible (if beneficiary admitted from community) and copayment beginning on day 61</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Growth in PAC Spending

Medicare PAC Reimbursements By Provider Type (in billions)

- All PAC Providers
- Skilled Nursing Facilities
- Home Health Agencies
- Inpatient Rehabilitation Facilities
- Long-Term Acute Care Hospitals

Source: MedPAC, June 2011 Data Book
Projected Demand for PAC Services


Impact of Health Reform
Shift to Reward Value over Volume

Today

Rewards Volume

- Silos, Fee-for-Service
- Volume-based Rewards
- Limited Coordination

New Models

Reward Efficiency & Effectiveness

ACA-Driven Payment Reforms

- Bundled Payments
- Pay-for-Performance
- ACOs, Medical Homes

Key PAC Reforms in ACA

<table>
<thead>
<tr>
<th>Accountable Care Organizations</th>
<th>Bundled Payments</th>
<th>Value-Based Purchasing</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACOs can form starting in 2012</td>
<td>ACA demonstration will begin in 2013 but CMS has created bundling pilot program that can begin earlier</td>
<td>CMS required to submit plan for SNF VBP; missed October 1, 2011 deadline in ACA. No implementation requirement.</td>
</tr>
<tr>
<td>Includes physicians and hospitals (PAC providers are optional)</td>
<td>Includes varying combinations of physicians, hospitals, and PAC providers, depending on the model</td>
<td>SNF VBP demonstrations are being conducted in 3 states (Arizona, New York and Wisconsin)</td>
</tr>
<tr>
<td>Accountable for all Part A and B spending for their assigned population</td>
<td>Includes spending for services provided during an episode of care (e.g., 30, 60, or 90 days) for patients with specified conditions</td>
<td>Likely to include all spending by a specific provider type</td>
</tr>
<tr>
<td>ACOs are able to share in the savings achieved above a certain threshold</td>
<td>Unclear how providers would share in the savings under the ACA bundling demonstration</td>
<td>Likely that a shared savings pool will be created from reduced provider payments; savings will be distributed among high-quality providers or providers that have improved their quality of care substantially</td>
</tr>
</tbody>
</table>

ACA: Affordable Care Act
ACO: Accountable Care Organization
PAC: Post Acute Care
VBP: Value-Based Purchasing
Current Skilled Nursing Facility Marketplace

Medicare Cross-Subsidizes Medicaid

- Medicaid long-stay patient days comprise almost 57 percent of total patient days but Medicaid payments represent only 33 percent of nursing facilities’ total revenue

Source: Patient revenues: 2009 National Health Expenditures data; Patient days: Analysis of 2009 Skilled Nursing Facility Centers for Medicare and Medicaid Services Cost Report Data
Average Medicaid PPD Payment Shortfall Continues to Increase…


Notes: 2011 data are projected. The 2011 Medicaid shortfall is a projection based upon trending of the most recently available (2009 or 2010) cost reports to 2011 and comparing these trended costs to current rates. No estimation could be made for 2010 because cost reports for 2010 were available in all but 10 states.

Average Medicaid Payment Shortfall per Medicaid Resident Day, All States, 1999-2011

Due to Freezes or Cuts to State Medicaid Nursing Facility Payment Rates

<table>
<thead>
<tr>
<th></th>
<th>SFY 2010</th>
<th>SFY 2011</th>
<th>SFY 2012</th>
<th>SFYs 2010 – 2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of States Freezing Payments</td>
<td>15</td>
<td>22</td>
<td>16</td>
<td>17</td>
</tr>
<tr>
<td>Number of States Cutting Payments</td>
<td>7</td>
<td>10</td>
<td>16</td>
<td>23</td>
</tr>
</tbody>
</table>

The number of states cutting Medicaid rates continues to increase.

Note: The survey does not consider the impact of provider taxes, fees, and other policies apart from direct changes to payment rates.

Sources: News sources, interviews with state affiliates of the American Health Care Association and interviews with state Medicaid departments.

*For purposes of this column, a state that reduced payments in any of the three years counts as a “cut” state and a state that froze rates in any of the three years but did not cut rates in any of the three years counts as a “freeze” state.
States Imposing Freezes or Cuts to Medicaid Nursing Facility Reimbursement Rates, SFY 2010 - SFY 2012

Sources: News sources, interviews with state affiliates of the American Health Care Association and interviews with state Medicaid departments.

A state that reduced payments in any of the three years counts as a “cut” state and a state that froze rates in any of the three years but did not cut rates in any of the three years counts as a “freeze” state.

Medicare Cuts Exacerbate Situation

<table>
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<tr>
<th>Reduction</th>
<th>Percentage Cut</th>
<th>10-Year Impact (FY 2012-FY 2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forecast Error (Case-Mix) Adjustment in FY 2010 Rule</td>
<td>3.3%</td>
<td>$16.8 billion</td>
</tr>
<tr>
<td>Productivity Adjustment (ACA-mandated)</td>
<td>Variable*</td>
<td>$29.4 billion</td>
</tr>
<tr>
<td>Forecast Error (Market Basket) Adjustment in FY 2011 Rule</td>
<td>0.6%</td>
<td>$2.6 billion</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$48.8 billion**</td>
</tr>
</tbody>
</table>

The FY 2012 SNF Final Rule included a NET payment reduction/correction of 11.1%, which will reduce SNF payments by an additional $60 billion** over 10 years.

*Depends on the ten-year average for nonfarm multi-factor productivity; estimate assumes the productivity adjustment is 1 percent each year

**Relative to payments that would have been made in the absence of the reductions
Payroll Tax Deal Worsens Environment

• **Middle Class Tax Relief and Job Creation Act of 2012** includes a reduction in Medicare bad debt payments

• **Medicare bad debt payments** are payments made to nursing facilities and hospitals as reimbursement for unpaid deductibles and co-payments owed by beneficiaries or state Medicaid programs

• **Dual Medicare-Medicaid eligibles are exempt from Medicare co-payments and deductibles;** Medicaid programs are generally required to make co-payments on behalf of dual eligibles, but many states are able to avoid covering these co-payments

<table>
<thead>
<tr>
<th></th>
<th>Current Reimbursement Level</th>
<th>New Reimbursement Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Duals</td>
<td>70 percent</td>
<td>65 percent</td>
</tr>
<tr>
<td>Duals</td>
<td>100 percent</td>
<td>65 percent</td>
</tr>
</tbody>
</table>

This cut has a disproportionate impact on nursing facilities, because approximately 90 percent of nursing facility bad debt is related to dual-eligible beneficiaries.

Threats and Opportunities
Issues and Time Frames

- 2012 – possibility of silo-specific cuts
- 2013 – debt/deficit policy *versus* good health policy

Key Players Engaged in the Current Focus on Deficit Reduction
2012 Issues

• FY 2013 Federal Budget

  – President’s Proposed Budget PAC Specifics: market basket reductions; further bad debt payments; equalize “hips & knees;” SNF readmissions policy; home health co-payments; phase-down of provider tax

  – House Republican Budget Likely

  – Pre-election path ongoing “Sturm-und-Drang” through September resulting in Continuing Resolution

2012 Issues

• FY 2013 NPRM

  – Late April/early May
  – No major changes anticipated, but...

• Possible revisit of sequestration

  – Currently requires 2% across-the-board Medicare cut effective January 1, 2013
  – Some discussion of reshaping – likely to mean winners and losers

• Doc Fix/Medicare extenders – Lame Duck
2013 and Beyond

• Likely dominance of debt and deficit reduction
  – Entitlement programs in cross-hairs
  – Provider cuts v. radical reforms (personal responsibility)

• Outcome of elections will drive approaches, but can’t avoid issue

2013 and Beyond: Implications for PAC Policy

• ACOs
• Bundling
• Episodic Payment Systems
• Site-Neutral Payment Systems
Because the Cost of Providing Care Varies Substantially by PAC Provider…

Top Five Conditions with Hospital Major Severity of Illness (SOI 3) Discharged to PAC Settings*

<table>
<thead>
<tr>
<th>Conditions</th>
<th>Long Term Acute Care Hospitals</th>
<th>Inpatient Rehabilitation Facilities</th>
<th>Skilled Nursing Facilities</th>
<th>Home Health Agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS-DRG, SOI Level 3</td>
<td>$26,372</td>
<td>$15,564</td>
<td>$8,114</td>
<td>$3,354</td>
</tr>
<tr>
<td>291: Heart Failure and Shock with MCC</td>
<td>$29,987</td>
<td>$16,540</td>
<td>$8,946</td>
<td>$3,430</td>
</tr>
<tr>
<td>871: Septicemia or Severe Sepsis w/o mechanical ventilation, with MCC</td>
<td>$28,095</td>
<td>$15,486</td>
<td>$9,214</td>
<td>$3,499</td>
</tr>
<tr>
<td>683: Renal Failure with CC</td>
<td>$29,280</td>
<td>$16,896</td>
<td>$9,760</td>
<td>$3,804</td>
</tr>
<tr>
<td>064: Intracranial Hemorrhage or Cerebral Infarction W MCC</td>
<td>$25,744</td>
<td>$15,570</td>
<td>$8,588</td>
<td>$3,261</td>
</tr>
</tbody>
</table>

Source: Analysis of 2009 Medicare 100 Percent Standard Analytic File (SAF) claims data base from the Centers for Medicare and Medicaid Services (CMS) for SNFs, LTACHs, IRFs, HHAs, and Inpatient Hospitals. CC indicates complications or comorbidities; MCC indicates major complications or comorbidities; * Extreme severity (SOI 4) was not chosen due to sample size

Proposals to Equalize Payments Across Post-Acute Care Providers Are Under Consideration

Current Silo-ed Medicare Post-Acute Care Payment System*

New Site-Neutral Payment System

Long-Term Acute Care Hospital
Inpatient Rehabilitation Facility
Skilled Nursing Facility
Home Health Agency

Equalizing Payment

LTACH
IRF
SNF
HHA

*Circles Adjusted to Represent the Difference in Payments by Site of Care

The President’s FY 2013 Budget included a proposal to equalize SNF and IRF payments for certain conditions such as hip and knee replacements.