

# Long-Term Care Hospital Prospective Payment System



## What Was the Original 25 Percent Threshold Rule for Co-Located LTCHs?

In the Fiscal Year (FY) 2005 Inpatient Prospective Payment System (IPPS) Final Rule, the Centers for Medicare & Medicaid Services (CMS) established a special payment adjustment policy for subclause (I) Long-Term Care Hospitals (LTCHs) as defined by section 1886(d)(1)(B)(iv)(I) of the Social Security Act. This includes LTCHs that are a hospital-within-a-hospital (HwH) or a satellite of an LTCH that is **co-located** with a host (acute care) hospital or campus (any facility within 250 yards of the acute care hospital).

### The Impact of the MMSEA of 2007 on the 25 Percent Threshold Payment Adjustment Policy

Beginning December 29, 2007, the Medicare, Medicaid, and SCHIP Extension Act of 2007 (MMSEA) required Medicare to **delay** application of certain features of the 25 percent threshold payment adjustment policy for three years, effective for LTCH cost reporting periods beginning on or after December 29, 2007. Specifically, for three years, this payment adjustment will not be applied to "free standing LTCHs" or LTCH HwHs that were "grandfathered" under the amendment made by section 4417(a) of the Balanced Budget Act of 1997 (BBA). Furthermore, under the MMSEA, the percentage threshold for those LTCH HwHs and HwH satellites that had been regulated under the original 25 percent threshold rule for FY 2005, and that were "transitioned" into the full threshold payment adjustment, was increased to 50 percent from 25 percent. Those LTCH HwHs and satellites that had a 50 percent threshold (i.e., co-located with a rural, urban single, or MSA dominant hospital) were raised to a 75 percent threshold for three years.

The discussion below describes the 25 percent threshold payment adjustment that was in effect prior to the enactment of the MMSEA, and that will once again become effective upon the sunset of this provision for cost reporting periods beginning on or after December 29, 2010.

This payment adjustment policy was commonly called the "25 percent threshold rule" and applied to the LTCH discharge payment amount. Under this rule, if more than 25 percent of an LTCH HwH's, or an LTCH satellite's discharges for a cost report period were **admitted from its co-located host hospital**, the payment to the LTCH for that cost report period was adjusted (usually downward) for all discharges subsequent to surpassing the 25 percent threshold. The net payment amount to the LTCH for such discharges was equivalent to the lesser of the initial

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LTCH payment, or what Medicare would otherwise have paid under the IPPS. In special situations [i.e., rural LTCHs or satellites, admissions from urban single or Metropolitan Statistical Area (MSA) dominant hospitals], the payment threshold was raised to 50 percent.

This policy did not apply to acute hospital episodes that qualified as outliers, and LTCH admissions that were referred from acute care hospitals not considered to be co-located facilities. In addition, this payment adjustment policy did not apply to freestanding or grandfathered subclause (I) LTCHs or any subclause (II) LTCHs defined in 1886(d)(1)(B)(iv)(II) of the Social Security Act.

Simply stated, if a subclause (I) LTCH or satellite admitted patients from any acute care hospital within 250 yards of its location, the 25 percent threshold rule applied.

## Why Was the Original 25 Percent Threshold Rule Implemented?

When CMS first established separateness and control criteria for LTCH HwHs in the FY 1995 IPPS Final Rule, the objective was to address the shifting of costly, long-stay patients from the host to the on-site LTCH. The co-location of facilities creates incentives which could result in two hospital stays, and a financial windfall for both providers for a beneficiary episode, as compared to acute care hospitals that do not have an LTCH HwH and provide care through the entire episode. Subsequent policies extended the separateness and control policies to LTCH satellites. However, provider enrollment data demonstrating an explosive growth in LTCHs from 105 in 1993 (of which 10 were HwHs), to 373 in 2005 (a majority of which were HwHs), suggested that the separateness and control criteria were providing insufficient protections from inappropriate discharges to LTCHs.

## Why Was the 25 Percent Threshold Rule Expanded Beginning July 1, 2007?

As a result of monitoring efforts, CMS has identified patterns of patient shifting and admission practices between LTCHs and referring hospitals that are not co-located, which are similar to those co-located LTCHs to which the original 25 percent threshold policy applied. Such patterns suggest that LTCHs, whether co-located or not, often appear to be functioning as **de facto** step-down units of acute care hospitals, which is not permitted under the Medicare statute. CMS no longer believes that co-location is a prerequisite to inappropriate patient shifting between an acute care hospital and an LTCH, and expanded the policy to freestanding and non-co-located LTCH payments through a three-year transition period beginning in Rate Year (RY) 2008. CMS believes that establishing this policy will result in hospitalized patients who continue to need acute care hospital treatment to not be shifted to an LTCH setting before the end of a full episode of care, but rather to complete the appropriate treatment at the initial admitting hospital.

## How Was the 25 Percent Threshold Rule Expanded to Other LTCHs?

The May 11, 2007, LTCH PPS Final Rule expanded the 25 percent payment threshold policy to all subclause (I) LTCHs, including free-standing, satellite, grandfathered, and co-located facilities, admitting patients from any acute care hospital, regardless of the location or ownership of the referring acute care hospital (see Table 1).

Under this rule, if more than 25 percent of an LTCH HwH's or an LTCH satellite's discharges for a cost report period are admitted from any acute care hospital, regardless of location or ownership, the payment to the LTCH for that cost report period is adjusted (usually downward) for all discharges subsequent to surpassing the 25 percent threshold. The net payment amount to the LTCH for such discharges is equivalent to the lesser of the initial LTCH payment or what Medicare would otherwise have paid under the IPPS. In special situations as shown in Table 1 below, the payment threshold is raised up to 50 percent for LTCH cost reporting periods beginning on or after December 29, 2007 and

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before December 29, 2010. For LTCHs with special circumstances, the 50 percent threshold is raised to 75 percent for the same three-year period.

Simply stated, the 25 percent threshold rule applies to all subclause (I) LTCHs or satellites admitting patients from any acute care hospital, regardless of the location or ownership of the referring acute care hospital.

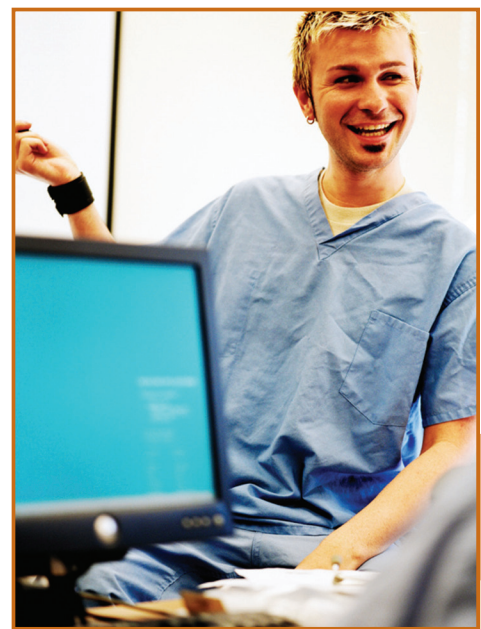
Table 1. Expansion of LTCHs Subject to the 25 Percent Threshold Rule

	Subclause (I) LTCH	Subclause (I) LTCH	Subclause (II) LTCH	Subclause (II) LTCH
	Original 25% Threshold Policy	Current 25% Threshold Policy	Original 25% Threshold Policy	Current 25% Threshold Policy
HwH	Applied	Applies	Did not apply	Does not apply
Co-located LTCH satellite	Applied	Applies	Did not apply	Does not apply
Non co-located LTCH satellite	Did not apply	Applies	Did not apply	Does not apply
Freestanding LTCH	Did not apply	Applies	Did not apply	Does not apply
Grandfathered LTCH or satellite (freestanding, co-located or not co-located)	Did not apply	Applies	Did not apply	Does not apply

However, CMS continues to apply a modified threshold policy, or special treatment, for patients admitted to a subclause (I) LTCH or satellite LTCH located in a rural area, or where the referring hospital is an MSA dominant or sole urban hospital. In such situations, instead of the 25 percent threshold, Medicare provides for a threshold of 50 percent for any qualifying rural LTCH or satellite patients from any referring hospital, and also provides for a threshold of 25-50 percent for LTCH or satellite patients from acute care hospitals that qualify as MSA dominant or sole urban hospitals.

## How Will the Updated 25 Percent Threshold Rule Be Phased In for Affected LTCHs and Satellites?

The basic LTCH payment formula under the 25 percent threshold payment adjustment for Medicare discharges from referring hospitals described above has been amended for newly affected providers to permit a transition period for full implementation. Beginning in RY 2008, CMS will implement



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the 25 percent rule using a three-year transition (see Table 2 below) to phase in the threshold level permitted for LTCH or satellite admissions from individual acute care hospitals before the adjustment is applied.

Table 2. Three-year Transition of Full Implementation of Updated 25 Percent Threshold Rule

Year 1 - cost reporting periods July 1, 2007 - June 30, 2008	Affected LTCHs and LTCH satellites will be paid under the unadjusted LTCH PPS for the percentage of discharges originating from a referring hospital that do not exceed the lesser of the percentage of those patients for their RY 2005 cost reporting period or 75 percent.
Year 2 - cost reporting periods July 1, 2008 - June 30, 2009	Affected LTCHs and LTCH satellites will be paid under the otherwise unadjusted LTCH PPS for the percentage of discharges originating from a referring hospital that do not exceed the lesser of the percentage of those patients for their RY 2005 cost reporting period or 50 percent.
Year 3 - cost reporting periods on or after July 1, 2009	All LTCHs and LTCH satellites subject to the payment threshold policy effective for RY 2008, will be subject to the 25 percent (or applicable special) threshold.

Affected subclause (I) LTCHs and satellites include:

- **HwH LTCHs** admitting patients from any acute care hospital other than the “host.”  
*NOTE: HwH LTCH patients admitted from the “host” acute care hospital have been fully transitioned under the original 25 percent rule and remain subject to full implementation.*
- **Co-located LTCH satellites** admitting patients from any acute care hospital other than the “host.”  
*NOTE: Co-located LTCH satellite patients admitted from the “host” acute care hospital have been fully transitioned under the original 25 percent rule and remain subject to full implementation.*
- **All non-co-located LTCH satellites** admitting patients from any acute care hospital.
- **All freestanding LTCHs** admitting patients from any acute care hospital.
- **All grandfathered LTCHs** or satellites admitting patients from any acute care hospital.

## What LTCH Discharge Payments Are Excluded from the 25 Percent Threshold Criteria?

The following LTCH discharge payments are not subject to the 25 percent threshold rule adjustment:

- If a patient transferred from an acute care hospital that already qualified for outlier payments, the admission would not count as part of the LTCH's allowable percentage from that hospital.
- If the LTCH exceeds its threshold during a cost report year, the LTCH discharges admitted from the admitting hospital prior to reaching the 25 percent (or applicable) threshold would be paid an otherwise unadjusted payment. Only discharges subsequent to surpassing the threshold would be adjusted.
- Subclause (II) LTCHs are excluded from all provisions of the 25 percent threshold policy due to unique factors in how their rates are determined that are incompatible with this policy.

In these situations, the LTCH would be eligible for full payment under the LTCH PPS for the applicable discharges.

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## How is This Payment Adjustment Implemented?

The method of determining the threshold varies depending upon whether the LTCH or satellite are co-located with a host hospital or are referred from referral source with which they are not co-located.

Patients admitted to HwH LTCHs or co-located LTCHs from the “host” hospital (excluding those qualifying as outliers) will count towards the threshold amount for the referring acute care hospital. This will be tracked by CMS on a **location specific basis** since the facilities are in the same building or on the same campus. Grandfathered HwH LTCHs or co-located satellites previously excluded from the 25 percent threshold rule are now subject to this methodology as well.

Patients that do not qualify as outliers and who are admitted to freestanding LTCHs or non-co-located LTCH satellites (including such grandfathered LTCHs or satellites) will count towards the threshold amount for the referring acute care hospital. This will

be tracked by CMS based upon provider numbers for both the LTCH and the referring acute care hospital. This means that multi-campus referral source acute care hospitals and multi-campus LTCHs or LTCH satellites will be treated as a single entity for this methodology.

## What Are the Requirements for Satellite or Remote Locations to Qualify as an LTCH?

In the May 7, 2004, LTCH PPS Final Rule, CMS finalized its clarification of the requirements for a satellite or remote location to qualify as an LTCH. Generally, where a satellite of an LTCH is separating from a parent LTCH, the facility must first be separately certified as a hospital (e.g., an acute care hospital) and then present the hospital's discharge data collected after it was separately certified to show that it has met the Average Length of Stay (ALOS) requirement for five of the six months following certification. If the separation **is required** by the provider-based regulations, the hospital may submit ALOS data for the satellite or remote location from the six-month period preceding the separation for purposes of qualifying for payment under the LTCH PPS.

## Where Can I Find More Information about the LTCH PPS?

The following online references provide more information about the LTCH PPS:

- **The Medicare Learning Network Web Page**

The Medicare Learning Network (MLN) is the brand name for official CMS educational products and information for Medicare fee-for-service providers. For additional information visit the Medicare Learning Network's web page at <http://www.cms.hhs.gov/MLNGenInfo> on the CMS website.

- **Long-Term Care Hospital Prospective Payment System Web Page**

The Long-Term Care Hospital PPS web page provides the Final Rules and additional LTCH PPS-related documents. For more information visit the Long-Term Care Hospital PPS web page at [http://www.cms.hhs.gov/LongTermCareHospitalPPS/01\\_Overview.asp](http://www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp) on the CMS website.

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- **LTCH PPS Press Release Updating the LTCH PPS for RY 2009**

This press release summarizes how Medicare is updating the format and data of the LTCH PPS system for RY 2009. These changes were also published in the Federal Register on May 9, 2008. For more information visit the Media Press release web page at <http://www.cms.hhs.gov/apps/media/press/release.asp?Counter=3088> on the CMS website.

- **Changes to the Hospital Inpatient Prospective Payment Systems (IPPS) and Fiscal Year (FY) 2009 Rates**

The FY 2009 IPPS Final Rule establishes updates to the CCR ceiling and applicable statewide average CCRs used under the LTCH PPS. For more information visit the Acute IPPS Regulations and Notices web page at <http://www.cms.hhs.gov/AcuteInpatientPPS/IPPS/list.asp?listpage=4> on the CMS website.

- **Federal Register Notice for Prospective Payment System for Long-Term Care Hospitals RY 2009: Annual Payment Rate Updates and Policy Changes**

The LTCH PPS Final Rule provides an in-depth look at the changes for RY 2009. The Final Rule takes into account certain changes that were mandated by the Medicare, Medicaid, and SCHIP Extension Act of 2007 (MMSEA). This Final Rule also explains that LTCH PPS payments for RY 2009 are based on a 15-month period from July 1, 2008 through September 30, 2009. For more information visit the LTCH PPS Regulations and Notices web page at <http://www.cms.hhs.gov/LongTermCareHospitalPPS/LTCHPPSRN> on the CMS website.

- **CMS Manual System – Medicare Claims Processing Manual - Update-Long Term Care Hospital (LTCH) Prospective Payment System (PPS) Rate Year 2009 (Transmittal 1547)**

<http://www.cms.hhs.gov/transmittals/downloads/R1547CP.pdf>

- **CMS Online Manual System – Medicare Claims Processing Manual - Updated payment rates and provisions for the LTCH PPS Rate Year 2009**

<http://www.cms.hhs.gov/Manuals/IOM/list.asp>

Questions about payment adjustment policy and the LTCH PPS can be emailed to [ltchpps@cms.hhs.gov](mailto:ltchpps@cms.hhs.gov).

## Where Can I Find More Information about ICD-9-CM Coding?

The LTCH PPS Final Rule emphasized that proper coding is essential for correct diagnosis and procedure reporting. The following online references provide ICD-9-CM coding guidance and ICD-9-CM Coordination and Maintenance Committee activities:

- **The ICD-9-CM Official Guidelines for Coding and Reporting**

<http://www.cdc.gov/nchs/data/icd9/icdguide.pdf>

- **Updates to the ICD-9-CM Diagnosis and Procedure Codes**

<http://www.cms.hhs.gov/ICD9ProviderDiagnosticCodes/>

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