

Long-Term Care Hospital Prospective Payment System Final Rule For Rate Year 2007 SHORT-STAY OUTLIER POLICY

The Centers for Medicare & Medicaid Services (CMS) has issued the payment rates and policies for the Long-Term Care Hospital (LTCH) Prospective Payment System (PPS) in a final rule for the 2007 Rate Year, effective on July 1, 2006 through June 30, 2007.

Background

Long-term care hospitals, in general, are defined as hospitals that have an average Medicare inpatient length of stay of greater than 25 days. These hospitals typically provide extended medical and rehabilitative care for patients who are clinically complex and may suffer from multiple acute or chronic conditions. Services typically include comprehensive rehabilitation, respiratory therapy, head trauma treatment and pain management.

Short Stay Outlier Payments

The final rule revises the payment adjustment formula for short-stay outlier (SSO) cases (i.e., cases with a length of stay less than or equal to 5/6 of the geometric average length of stay (ALOS) of the LTC diagnosis related groups (DRG)), which comprise approximately 37 percent of LTCH PPS discharges.

- Under the current policy, payments for SSO cases are based on the lesser of 120 percent of estimated patient costs, 120 percent of the LTC-DRG per diem amount, or the full LTC-DRG payment.
- Data from FY 2005 indicate that approximately 60 percent of LTCH SSO patients had lengths of stay of 14 days or less, of which, 24 percent, had lengths of stay of 7 days or less. Since the LTCH designation and payment rates under the LTCH PPS are based on beneficiary stays of, on average, greater than 25 days, CMS is concerned about the high percentage of cases not requiring the full course of treatment available at a LTCH that are being overpaid.
- CMS continues to be concerned that acute care hospitals may be shifting some of their potentially longer stay patients to LTCHs, resulting in a high incidence of SSOs at LTCHs, and that LTCHs may be admitting patients that could otherwise be treated in acute care hospitals, as evidenced by shorter lengths of stay. CMS believes that the existing SSO payment policy may have unintentionally provided a financial incentive for LTCHs to admit patients that could be more appropriately treated in other settings.
- Beneficiaries requiring short hospital-level stays are generally treated at acute care hospitals and Medicare pays for their treatment under the inpatient prospective payment system (IPPS). CMS is concerned that many SSO patients at LTCHs could be more appropriately treated in short-term acute care hospitals and paid for under the IPPS.
- With the final rule, CMS is establishing a policy that will reduce the option of the current payment formula that is based on costs from 120 percent of cost to 100 percent to ensure that payments do not substantially exceed costs.
- CMS is also establishing a fourth option to the SSO payment formula that is a blended payment which is based on a percentage of an IPPS comparable amount computed as a per diem and capped at the full IPPS-comparable amount and a percentage of a payment based

on 120 percent of the LTC-DRG per diem amount. As the length of the stay increases, the stay begins to resemble less of a short-term acute care stay and more of a typical LTCH stay, and therefore, under the fourth option, Medicare payment is based on a decreasing percentage of the IPPS-comparable per diem amount and an increasing percentage of the payment based on the 120 percent of the LTC-DRG per diem amount.

- The fourth component of the payment formula is substantially revised from the version presented in the proposed rule as a result of CMS analysis of comments received during the comment period.
- Accordingly, beginning in RY 2007, the payment adjustment formula for SSO cases will be the lesser of:
 - 100 percent of estimated patient costs,
 - 120 percent of the LTC-DRG per diem amount,
 - the full LTC-DRG payment, or
 - a blend of an amount comparable to what would otherwise be paid under the IPPS, computed as a per diem and capped at the full IPPS DRG comparable amount, and 120 percent of the LTC-DRG per diem payment amount.

Response to Comments on the LTCH PPS Proposed Rule

- CMS received many comments on the proposed revisions to the SSO policy presenting the views of trade associations representing LTCHs, both for profit and not for profit LTCH groups, medical corporations that include LTCHs, state medical societies, a Chamber of Commerce, Members of Congress, physicians and other hospital staff, and several interested citizens.
 - Commenters expressed great concern that the proposed IPPS-comparable option would considerably underpay LTCHs for long-stay SSO patients, that is, for patients whose stays approached the SSO threshold (5/6th of the average length of stay for a specific LTC-DRG).
 - The finalized policy transitions from a larger percentage based on the IPPS comparable per diem amount for shorter stay cases to a higher proportion of payment based on the 120 percent of the LTCH per diem amount as the length of stay increases. CMS believes this realistically addresses the significant concerns that the shortest length of stay cases could have continued to be treated at an acute care hospital and not require a LTCH stay, and therefore, payments to LTCHs under the LTCH PPS should be adjusted accordingly.

Revised Impact Analysis

- Based on the proposed changes presented in the proposed rule, CMS estimated that LTCH PPS payments per discharge would decrease approximately 11 percent from RY 2006 to RY 2007, mostly due to the proposed changes to the payment formula for SSO cases. Based on revisions to the SSO policy in the final rule, CMS is now projecting that payments per discharge will decrease approximately 3.7 percent from RY 2006 to RY 2007.
 - The estimated 3.7 percent decrease in LTCH PPS payments for RY 2007 was determined based on the current LTCH admission pattern of SSO cases (that is, currently about 37 percent of all LTCH cases, of which about 60 percent have a length of stay of less than or equal to 14 days).

- CMS believes that the estimated 3.7 percent decrease in LTCH payments per discharge for RY 2007 will only occur if LTCHs were to continue to admit the same number and type of SSO patients (for example, very short stay cases).

Example of the SSO Payment Policy – Blend Alternative

Under the finalized policy, CMS believes that it is appropriate to provide that, as the length of a SSO stay increases, the case begins to resemble a more ‘typical’ LTCH stay and it is appropriate for that payment to be based more on what would otherwise be payable under the LTCH PPS.

- Under the blend alternative, as the length of stay of the SSO case increases, the percentage of the IPPS comparable per diem amount will decrease and the percentage based on 120 percent of the LTC-DRG per diem specific amount will increase. As the length of stay reaches the lower of the five-sixths SSO threshold or 25 days, the payment will no longer be limited by this fourth option. This is because for SSO cases with a LOS of 25 days or more, the amount determined under the blend option is equal to 100 percent of the 120 percent of the LTC-DRG specific per diem amount and 0 percent of the IPPS comparable per diem amount.
 - The percentage of the 120 percent of the LTC-DRG per diem amount will be based on the ratio of the (covered) length of stay of the case to the lesser of the SSO threshold for the LTC-DRG (5/6ths of the geometric ALOS of the LTC-DRG) or 25 days. In addition, the LOS in the numerator cannot exceed the number of days in the denominator (i.e., the percentage may not exceed 100 percent).
 - The remaining percent of the blend alternative (that is, 100 percent minus the percentage that is based on the 120 percent of the LTC-DRG per diem amount) will be applied to the IPPS comparable per diem amount (capped at the full IPPS comparable amount).
- The following three examples illustrate how the blend alternative is calculated when the LTCH patient is grouped to hypothetical DRG XYZ. For purposes of this example, for DRG XYZ, the *full LTC DRG payment* is \$38,597.41, the *LTCH PPS geometric ALOS* is 33.6 days, the *LTCH PPS SSO threshold* (that is, 5/6ths of the geometric ALOS) is 28.0 days, the *full IPPS comparable amount* is \$8,019.82, and the *IPPS geometric ALOS* is 4.5 days.
- The following three tables illustrate how the blend alternative would be calculated for a *covered length of stay* of 11, 24 and 27 days respectively:

Example for an 11-Day Stay:

Step Number	Description of Step	Description of Calculation	Example of Calculation	Result
1a	Determine 120 percent of the LTC-DRG per diem amount	Divide the full LTC-DRG payment by the geometric ALOS of LTC-DRG XYZ and multiply that per diem amount by both the covered LOS and 1.2	$\frac{\$38,597.41}{33.6 \text{ days}} \times 11 \text{ days} \times 1.2$	\$15,163.27
1b*	Calculate the percentage of the 120 percent of the LTC-DRG per diem amount	Divide the covered LOS by the lesser of the 5/6 th ALOS of LTC-DRG XYZ or 25 days	11 days ÷ 25 days	0.44
1c	Determine the LTC-DRG per diem portion of the blend alternative	Multiply the percentage determined in step (1-b) by the LTC-DRG per diem amount in step (1-a)	0.44 x \$15,163.28	\$6,671.84
2a	Calculate the IPPS comparable per diem amount	Divide the full IPPS comparable amount by the geometric ALOS of DRG XYZ and multiply by the covered LOS	$\frac{\$8,019.82}{4.5 \text{ days}} \times 11 \text{ days}$	\$19,604.00
2b	Determine the IPPS comparable amount to be used in the blend alternative	Compare the full IPPS comparable amount to the IPPS per diem amount to determine which is the least amount	The full IPPS comparable amount (\$8,019.82) is lower than the IPPS per diem comparable amount (\$19,604.00)	\$8,019.82
2c	Calculate the percentage of the IPPS comparable per diem amount	Subtract the percentage determined in step (1-b) from 1 (i.e., 1 minus the covered LOS divided by the lesser of the 5/6 th ALOS of LTC-DRG XYZ or 25 days)	1 – 0.44	0.56
2d	Determine the IPPS comparable per diem portion of the blend alternative	Multiply the percentage determined in step (2-c) by the IPPS comparable amount determined in step (2-b)	0.56 x \$8,019.82	\$4,491.10
3	Compute the blend alternative	Add the LTC-DRG per diem portion determined in step (1-c) and the IPPS comparable per diem portion determined in step (2-d)	\$6,671.84 + \$4,491.10	\$11,162.94

* In this example, 25 days was used in the denominator since the 5/6th ALOS of LTC DRG XYZ (28.0 days) is greater than 25 days. If the 5/6th ALOS of LTC-DRG XYZ was less than 25 days, that value would have been used in the denominator of this calculation. In addition, the LOS in the numerator may not exceed the number of days in the denominator (that is, the percentage may not exceed 100 percent).

Example for a 24-Day Stay:

Step Number	Description of Step	Description of Calculation	Example of Calculation	Result
1a	Determine 120 percent of the LTC-DRG per diem amount	Divide the full LTC-DRG payment by the geometric ALOS of LTC-DRG XYZ and multiply that per diem amount by both the covered LOS and 1.2	$\frac{\$38,597.41}{33.6 \text{ days}} \times 24 \text{ days} \times 1.2$	\$33,083.49
1b*	Calculate the percentage of the 120 percent of the LTC-DRG per diem amount	Divide the covered LOS by the lesser of the 5/6 th ALOS of LTC-DRG XYZ or 25 days	24 days ÷ 25 days	0.96
1c	Determine the LTC-DRG per diem portion of the blend alternative	Multiply the percentage determined in step (1-b) by the LTC-DRG per diem amount in step (1-a)	0.96 x \$33,083.49	\$31,760.15
2a	Calculate the IPPS comparable per diem amount	Divide the full IPPS comparable amount by the geometric ALOS of DRG XYZ and multiply by the covered LOS	$\frac{\$8,019.82}{4.5 \text{ days}} \times 24 \text{ days}$	\$42,772.37
2b	Determine the IPPS comparable amount to be used in the blend alternative	Compare the full IPPS comparable amount to the IPPS per diem amount to determine which is the least amount	The full IPPS comparable amount (\$8,019.82) is lower than the IPPS per diem comparable amount (\$42,772.37)	\$8,019.82
2c	Calculate the percentage of the IPPS comparable per diem amount	Subtract the percentage determined in step (1-b) from 1 (i.e., 1 minus the covered LOS divided by the lesser of the 5/6 th ALOS of LTC-DRG XYZ or 25 days)	1 – 0.96	0.04
2d	Determine the IPPS comparable per diem portion of the blend alternative	Multiply the percentage determined in step (2-c) by the IPPS comparable amount determined in step (2-b)	0.04 x \$8,019.82	\$320.79
3	Compute the blend alternative	Add the LTC-DRG per diem portion determined in step (1-c) and the IPPS comparable per diem portion determined in step (2-d)	\$31,760.15 + \$320.79	\$32,080.95

* In this example, 25 days was used in the denominator since the 5/6th ALOS of LTC DRG XYZ (28.0 days) is greater than 25 days. If the 5/6th ALOS of LTC-DRG XYZ was less than 25 days, that value would have been used in the denominator of this calculation. In addition, the LOS in the numerator may not exceed the number of days in the denominator (that is, the percentage may not exceed 100 percent).

Example for a 27-Day Stay:

Step Number	Description of Step	Description of Calculation	Example of Calculation	Result
1a	Determine 120 percent of the LTC-DRG per diem amount	Divide the full LTC-DRG payment by the geometric ALOS of LTC-DRG XYZ and multiply that per diem amount by both the covered LOS and 1.2	$\frac{\$38,597.41}{33.6 \text{ days}} \times 27 \text{ days} \times 1.2$	\$37,218.93
1b*	Calculate the percentage of the 120 percent of the LTC-DRG per diem amount	Divide the covered LOS by the lesser of the 5/6 th ALOS of LTC-DRG XYZ or 25 days; however, since the LOS in the numerator exceeds the number of days in the denominator, the percentage equals 100 percent	27 days ÷ 25 days is > 1; therefore percent is 1.00	1.00
1c	Determine the 120 percent of the LTC-DRG per diem portion of the blend alternative	Multiply the percentage determined in step (1-b) by the 120 percent of the LTC-DRG per diem amount in step (1-a)	1.0 x \$37,218.93	\$37,218.93
2a	Calculate the IPPS comparable per diem amount	Divide the full IPPS comparable amount by the geometric ALOS of DRG XYZ and multiply by the covered LOS	$\frac{\$8,019.82}{4.5 \text{ days}} \times 27 \text{ days}$	\$48,118.92
2b	Determine the IPPS comparable per diem amount to be used in the blend alternative	Compare the full IPPS comparable amount to the IPPS comparable per diem amount to determine which is the least amount	The full IPPS comparable amount (\$8,019.82) is lower than the IPPS comparable per diem amount (\$48,118.92)	\$8,019.82
2c	Calculate the percentage of the IPPS comparable per diem amount	Subtract the percentage determined in step (1-b) from 1 (i.e., 1 minus the covered LOS divided by the lesser of the 5/6 th ALOS of LTC-DRG XYZ or 25 days)	1 – 1.00	0.00
2d	Determine the IPPS comparable per diem portion of the blend alternative	Multiply the percentage determined in step (2-c) by the IPPS comparable per diem amount determined in step (2-b)	0.00 x \$8,019.82	\$0.00
3	Compute the blend alternative	Add the 120 percent of the LTC-DRG per diem portion determined in step (1-c) and the IPPS comparable per diem portion determined in step (2-d)	\$37,218.93 + \$0.00	\$37,218.93 **

* In this example, 25 days was used in the denominator since the 5/6th ALOS of LTC DRG XYZ (28.0 days) is greater than 25 days. If the 5/6th ALOS of LTC-DRG XYZ was less than 25 days, that value would have been used in the denominator of this calculation. In addition, the LOS in the numerator may not exceed the number of days in the denominator (that is, the percentage may not exceed 100 percent).

** Note that, since in this example the LOS of the SSO case exceeds 25 days, the blend percentage applicable to the 120 percent of the LTC-DRG specific per diem amount is 100 percent and the percentage applicable to the IPPS comparable per diem amount is 0 percent, therefore the amount computed under the blend option is equal to 120 percent of the LTC-DRG specific per diem amount.