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CMS NEWS

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CMS issues FY 2014 inpatient payment rule

Rule improves value and quality focus in hospital payments

Today, the Centers for Medicare & Medicaid Services (CMS) issued a final rule updating fiscal year (FY) 2014 Medicare payment policies and rates for inpatient stays at general acute care and long-term care hospitals (LTCHs). The rule improves value and quality in hospital care and provides clarification about when a patient should be admitted to the hospital and responds to recent concerns about extended Medicare beneficiary stays in the hospital outpatient department.

The final FY 2014 Hospital Inpatient Prospective Payment System (IPPS) rule increases overall hospital payments (capital and operating) by \$1.2 billion. The rule also moves forward with health care delivery system reforms made possible by the Affordable Care Act. These include a new program aimed at improving safety in hospitals and refining the Hospital Readmissions Reduction program.

“This rule helps improve hospital care and establishes clearer guidance to hospitals for when we will consider inpatient care to be appropriate so the system works better for patients and providers,” said CMS Administrator Marilyn Tavenner.

FY 2014 Payment Update

The final rule would increase IPPS operating rates by 0.7 percent after accounting for inflation and other adjustments required by the law. This increase reflects a temporary reduction of 0.8 percent to implement the American Taxpayer Relief Act’s requirement to recoup overpayments from prior years as a result of a new patient classification system that better recognizes patient severity of illness. CMS is also making an additional 0.2 percent reduction to offset projected spending increases associated with changes to admission and medical review criteria for inpatient services. CMS projects that LTCH PPS payments would increase by 1.3 percent, or approximately \$72 million, in FY 2014.

Key FY 2014 Payment and Quality Changes

New Hospital-Acquired Condition (HAC) Reduction Program. As part of a new HAC Reduction program created by the Affordable Care Act, beginning in FY 2015 hospitals that are in the lowest quartile for medical errors or serious infections that patients contract while in the hospital will be paid 99 percent of what they otherwise would have been paid under the IPPS. This rule finalizes the criteria to rank hospitals with a high rate of hospital-acquired conditions.

Readmissions Reduction Program. In October 2012, Medicare began encouraging to hospitals with excess 30-day readmissions to lower 30-day readmission rates for heart attack, heart failure, and pneumonia patients by reducing a portion of the hospital's payments by up to one percent, depending on their performance on key readmissions measures. As required by law, the FY 2014 IPPS rule increases the maximum reduction of payments to up to two percent. It adds hip and knee surgery and chronic obstructive pulmonary disease to the list of conditions used to determine the reduction, effective in FY 2015. CMS has increased the number and types of planned readmissions that no longer count against a hospital's readmission rate.

Admission and Medical Review Criteria for Inpatient Services. The final rule provides greater clarity regarding when inpatient hospital admissions are generally appropriate for Medicare Part A payment. The new rules are intended to address concerns about Medicare beneficiaries having long stays in the hospital as outpatients and improve program integrity.

Under the rule, if a physician expects a beneficiary's surgical procedure, diagnostic test or other treatment to require a stay in the hospital lasting at least two midnights, and admits the beneficiary to the hospital based on that expectation, it is presumed to be appropriate that the hospital receive Medicare Part A payment. The final rule emphasizes the need for a formal order of inpatient admission to begin inpatient status, but permits the physician to consider all time a patient has already spent in the hospital as an outpatient receiving observation services, or in the emergency department, operating room, or other treatment area in guiding their two-midnight expectation.

The rule also finalizes the provision in a March 2013 proposed rule that set the timeframe in which to bill Medicare Part B for hospital inpatient services inappropriately billed under Part A at one year from the date of service. This portion of the rule makes clear that its terms apply to admissions with dates of service on or after October 1, 2013.

Medicare Disproportionate Share Hospitals (DSH). The Affordable Care Act directs CMS to revise the methodology used to recalculate the additional amount Medicare pays hospitals that serve a disproportionate share of low-income patients. Under the new rules, part of those payments will be distributed to hospitals based on an estimate of how much uncompensated care they provide relative to other hospitals. The final rule determines the total amount of money available as uncompensated care payments based on a federal fiscal year determination of the uninsured.

Other changes. The August rule also finalizes a number of payment policies as proposed, among them rebasing the hospital market basket and the method to recover documentation and coding. The final rule also will allow the LTCH 25-percent patient threshold payment adjustment policy moratorium to expire.

The rule's changes to Medicare quality incentive programs will reduce providers' reporting burden in both the Electronic Health Record (EHR) Incentive Program and the Hospital Inpatient Quality Reporting (IQR) Program. It finalizes new measures for the Hospital Inpatient Quality Reporting Program, the Hospital Value-Based Purchasing program, and quality reporting programs for LTCHs, PPS-Exempt Cancer Hospitals, and Inpatient Psychiatric Facilities.

For more information on these and other payment and quality of care provisions in the FY 2014 IPPS/LTCH rule, please see the payment and quality fact sheets at:

http://www.cms.gov/apps/media/fact_sheets.asp

The final IPPS/LTCH PPS rule can be downloaded from the *Federal Register* at:

<http://www.ofr.gov/inspection.aspx?AspxAutoDetectCookieSupport=1>.

It will appear in the August 19, 2013 *Federal Register*.

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