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MEDICARE LONG TERM CARE HOSPITAL PPS UPDATES FOR FY 2010

In the August 27, 2009 ***Federal Register***, the Centers for Medicare and Medicaid Services (CMS) published its Final Rule updating the Medicare Prospective Payment System (PPS) for inpatient services provided by Long Term Care Hospitals (LTCHs). This rule contains policy changes effective for fiscal year FY 2010 (October 1, 2009 through September 30, 2010).

1. **FISCAL 2009 LTCH RELATIVE WEIGHTS:** In the June 3, 2009 ***Federal Register***, CMS announced that the agency had made an error in its calculation of the LTCH weights for fiscal 2009. CMS has applied a budget neutrality requirement for the annual update to the MS-LTC-DRG classifications and relative weights, starting with the fiscal 2008 update. This requirement was that estimated aggregate LTCH PPS payments would be neither greater than nor less than the estimated aggregate LTCH PPS payments that would have been made without the classification and relative weight changes.

   When CMS established the MS-LTC-DRG classifications and relative weights for fiscal 2009 based on the application of budget neutrality adjustment factors, it used the unadjusted recalibrated relative weights rather than using the normalized relative weights. This error resulted in relative weights that were approximately 3.9 percent higher then they should have been. These higher weights would inappropriately increase LTCH payments for the period of October 1, 2008 through September 30, 2009 by 130 million dollars over the correct budget neutral figures.

   CMS has published corrected relative weights that are effective June 3, 2009 (the date of publication) through September 30, 2009. These rates do not reflect attempts to retroactively adjust the error. This revision to the fiscal 2009 MS-LTC-DRG relative weights does not reflect a change in the established budget neutrality methodology itself. Rather, it reflects the proper calculation of the relative weights under the rule's stated methodology.

2. **PATIENT CLASSIFICATION AND RELATIVE WEIGHTS:** The Medicare Severity Diagnosis Related Groups (MS-DRGs) and the Medicare Severity Long Term Care Diagnosis Related Groups (LTC MS-DRGs) were adopted for the IPPS and the LTCH PPS, respectively effective October 1, 2007 (FY 2008). LTC MS-DRGs are structurally identical to the DRGs used under IPPS. Changes to the LTC MS-DRGs and relative weights remain linked to changes in the inpatient DRGs; which are updated in October of each year. Beginning with the RY 2010 LTCH PPS update, both the annual update of the LTCH PPS payment rate (including the annual update of the MS-LTC-DRGs and policy changes) along with the annual IPPS payment rate and policy changes in a single combined document are published.

   Additional DRG changes are possible in April, if ICD-9-CM is updated for new technologies and medical services. Therefore, the LTCH PPS may have two different Groupers during one rate year. Grouper 1 would be in effect from October 1 through March 31 and Grouper 2 would be in effect from April 1 through June 30. It should be noted that DRG relative weights in effect for that fiscal year will continue to be updated only once a year on October 1. Any new diagnosis or procedure codes will be assigned to the same DRG in which its predecessor's code was assigned, so that there is no impact on the DRG.

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3. **<u>CURRENT LTC MS-DRG GROUPER*:*</u>** Since, October 1, 2008 LTCH patients have been classified using the Version 26.0 Inpatient DRG Grouper. Effective October 1, 2009, LTCH patients will be classified using the Version 27.0 Inpatient DRG Grouper. See *Industry Insight No. 475, Final Medicare DRG Changes for FY 2010* for additional details on the Version 27.0 Grouper update.

4. **<u>WEIGHT UPDATE:</u>** There CMS is not making any policy changes related to relative weights. CMS is still struggling with the standardization process improvement to more precisely remove cost differences across hospitals. Standardization will improve the accuracy of the relative weights in future fiscal years. Proposed RY 2010 LTCH relative weights were published in the Federal Register on May 22, 2009. Subsequent year's relative weights are derivatives of the prior year's relative weights. The revisions made for FY 2009 changed the relative weights proposed and finalized for RY 2010. The Version 27.0 LTC MS-DRG weights that were published in the FY 2010 IPPS and LTCH Final Rule of the August 27, 2009 Federal Register (Table 11) will be effective October 1, 2009.

5. **<u>BUDGET-NEUTRALITY REQUIREMENT FOR ANNUAL LTC-DRG UPDATE:</u>** LTC MS-DRG classifications and relative weights for FY 2010 have been updated using the best available data to allow for changes in factors affecting hospital resource use; including practice patterns and new technology. A single budget-neutrality factor will then be calculated and applied to each LTC MS-DRG weight to ensure that estimated aggregate payments under the LTCH PPS will neither decrease or increase as a result of annual LTC MS-DRG reclassification or recalibration changes.

6. **<u>STANDARD FEDERAL RATE AND MARKET BASKET ESTIMATE FOR 2009:</u>** The standard federal rate for RY 2010 is $39,896.65; which was calculated by applying a 2.0% update factor to the 2009 standard federal rate of $39,114.36. The 2.0% update reflects the most recent "rehabilitation, psychiatric and long term care (RPL)" market basket estimate of 2.5%, minus a .5 % adjustment to eliminate increases in the casemix index (CMI); which are due to changes in coding practice rather than increases in patient severity.

7. **<u>LOCAL WAGE DIFFERENCE ADJUSTMENTS:</u>** Wage index values for RY 2010 are shown in Table 1 for urban areas (pages 26840-26862) and Table 2 for rural areas (page 26863) of ***Federal Register***, Vol. 73, No. 91 published August 27, 2009. Each table shows the proposed wage index for discharges occurring October 1, 2009 through September 30, 2010. A number of changes in the Final Rule effect the wage index, including:

   An update to the labor-related share from 75.662% to 75.779% for RY 2010 was made. Using the FY 2002-based RPL market basket costs, this update is based on data from the first quarter of 2009 forecast to determine the labor-related share for the LTCH PPS for RY 2010. This is effective for discharges occurring on or after October 1, 2009 through September 30, 2010. The labor-related share for RY 2010 LTCH PPS continues to be determined as the sum of the relative importance of each labor-related cost category, and reflects the different rates of price change for these cost categories between the base year (FY 2002) and the 2010 LTCH PPS rate year.

   Using the IPPS wage data to determine the RY 2010 LTCH wage index values reflects the policy under IPPS that apportions the wage data for multi-campus hospitals that are located in different labor market areas (CBSAs) to each CBSA where the campuses are located. For the RY 2010 LTCH PPS wage index values, CMS allocated salaries and hours to the campuses of three multi-campus hospitals with campuses that are located in different labor areas that are located in the following states: Massachusetts, Illinois, and Michigan. Consistent with the FY 2010 IPPS wage index, the RY 2010 LTCH PPS wage index values for the following CBSAs will be affected by this policy: Boston-Quincy, MA (CBSA 14484), Providence-New Bedford-Falls River, RI-MA (CBSA 39300), Chicago-Naperville-Joliet, IL (CBSA 16974), Lake County-Kenosha County, IL-WI (CBSA 29404), Detroit-Livonia-Dearborn, MI (CBSA 19804), and Warren-Troy-Farmington-Hills, MI (CBSA 47644).

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Based on the FY 2006 IPPS wage data that was used to determine the RY 2010 LTCH PPS wage index values, there are no IPPS wage data for the urban area of Hinesville-Fort Stewart, GA (CBSA 25980). Consistent with methodology for determining a LTCH PPS wage index value for urban areas with no IPPS wage data, the RY 2010 wage index was calculated for CBSA 25980 as the average of the wage index values for all of the other urban areas within the state of Georgia.

8. **COST OF LIVING ADJUSTMENT:** CMS is continuing the cost of living adjustment (COLA) for payments to LTCHs in Alaska and Hawaii. The updated factors are listed below. These proposed factors were issued from the U.S. Office of Personnel Management (OPM) and are currently also used under the IPPS Final Rule.

LOCATION	COLA ADJUSTMENT
City of Anchorage1	1.23
City of Fairbanks1	1.23
City of Juneau1	1.23
All Other Areas in Alaska	1.25
Honolulu County	1.25
Hawaii County	1.18
Kauai County	1.25
Maui and Kalawao	1.25

***Also includes areas within an 80 kilometer (50 mile) radius by road.*

9. **HIGH COST OUTLIER PAYMENTS:** CMS will continue to make outlier payments for discharges when estimated costs exceed an outlier threshold. Costs are determined by multiplying allowable charges by a facility-specific cost-to-charge ratio (RCC). For RY 2010, the outlier threshold is equal to the sum of the adjusted LTC MS-DRG payment and a fixed-loss amount that will be $18,425. MedPAR claims data and CCRs based on data from the most recent provider specific file (PSF) (or from the applicable statewide average CCR if a LTCH's CCR data is faulty or unavailable) are used to establish a fixed-loss threshold amount under the LTCH PPS. Under current regulations, estimated aggregate high cost outlier case payments are limited to 8% of total estimated LTCH payments. Outlier adjustments will continue to be calculated as 80% of the difference between costs and the outlier threshold.

10. **SHORT STAY OUTLIER PAYMENTS:** Cases with covered lengths of stay (LOS) less than or equal to five-sixths of the geometric average LOS for the LTC-DRG will continue to be paid under the existing short stay outlier (SSO) policy, which had been the lesser of:

    - 120% of the LTC MS-DRG-specific per diem amount multiplied by the length of stay of that discharge.
    - 120% of the estimated costs for the case.
    - Full LTC-DRG payment.

    In the RY 2008 LTCH Final Rule, CMS established an alternative fourth payment option for SSO cases under the LTCH PPS for discharges occurring on or after July 1, 2007. This fourth payment alternative is a blend of an LTCH PPS amount that is comparable to the IPPS per diem payment amount, and the 120% of the LTC MS-DRG per diem payment amount. The blend is the IPPS "comparable" per diem payment amount (capped at the full IPPS "comparable" payment) and 120% of the LTC MS-DRG per diem payment amount. This payment alternative is as follows:

    - Blend of the 120% of the LTC MS-DRG specific per diem amount and an amount comparable to the IPPS per diem amount specified for cases where the covered LOS for a SSO case is greater than the IPPS comparable threshold.

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- Amount comparable to the hospital IPPS per diem amount for cases where the covered LOS for a SSO is within the “IPPS comparable threshold.”

Section 114(c)(3) of the MMSEA specifies that the refinement of the SSO policy with the addition of the fourth SSO payment option shall not apply for a three-year period.

11. **25% ADMISSION RULE:** Currently, if an LTC hospital within an acute hospital, or the satellite of a LTCH, admits more that a given percentage of Medicare discharges (generally 25%) from its host hospital during the cost reporting period, then the payment to the LTCH is adjusted downward. CMS proposed to reduce payment for virtually all LTCHs that receive more than 25% of their discharged patients from a single hospital, regardless of whether that hospital is located in the general vicinity of the LTCH. In rural areas, this percentage would be 50%. Patients transferred from the host hospital, which qualified for outlier payments at the host hospital, are not included in the calculation of this percentage. The adjusted payment is the lesser of the LTCH PPS amount or the “comparable” payment under the IPPS.

    The Medicare, Medicaid, and SCHIP Extension Act of 2007 delayed (three years) the extension of the 25 percent threshold payment adjustment to grandfathered LTCH hospital-within-a-hospital facilities and freestanding LTCHs. Additionally, the rule establishes a three-year moratorium on construction of new LTCHs and bed increases in existing LTCHs. The American Recovery and Reinvestment Act of 2009 (ARRA) extended the delays to two additional categories of LTCHs. The 25 percent patient threshold payment adjustment was extended to an LTCH or satellite facility (as of December 29, 2007) and was co-located with an entity that is a provider-based, off-campus location of a subsection (d) hospital which did not provide services payable under section 1886(d) of the Social Security Act at the off-campus location. Additionally, the ARRA specifies that section of the MMSEA, regarding the increase of the percentage threshold established by the regulations shall also apply to grandfathered satellites.

12. **OTHER HOSPITAL ADJUSTMENTS:** In the 2008 IPPS Final Rule, CMS announced that it planned to maintain the capital IPPS teaching adjustment for fiscal 2008, but would begin phasing it out with a 50 percent reduction in fiscal 2009 and a complete elimination in fiscal 2010. The American Recovery and Reinvestment Act of 2009 (ARRA) directed CMS not to apply the 50 percent adjustment in fiscal 2009, but specified that the ARRA provision would not affect the phase-out of the capital IPPS teaching adjustment for fiscal 2010 and subsequent fiscal years.

    CMS delayed the elimination of the capital IPPS teaching adjustment. In RY 2010, CMS is not implementing any hospital-specific adjustments for indirect medical education (IME), disproportionate share (DSH), geographic reclassification, or rural location.

FOR FURTHER INFORMATION

If you have questions regarding the Long Term Care Hospital Prospective Payment System changes described above, or if you need software to assign the appropriate casemix measures and calculate reimbursement, please contact our Client Services Department at 1-800-999-DRGS (3747). *Industry Insights*, as well as source documents and relevant statistics can be located on the Ingenix web site under News & Events: http://www.ingenix.com/News/Industnews/.

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