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FY 2023 Hospital IPPS & LTCH Proposed Rule: Key Terms and Implications

The Centers for Medicare and Medicaid Services (CMS) recently released the proposed rule dictating payment provisions for inpatient and long-term hospitals. The fiscal year 2023 Medicare Hospital Inpatient Prospective Payment System (IPPS) and Long-Term Care Hospital (LTCH) Prospective Payment System (PPS) proposed rule (Proposed Rule) includes not only updates to payment rates, but also includes new measures intended to enhance health equity.

Payment Rate Updates

Generally, hospitals are paid a set rate based on a patient's diagnosis. Acute care hospitals use Medicare Severity Diagnosis-Related Groups (MS-DRGs), while LTCHs utilize Medicare Severity Long-Term Care Diagnosis-Related DRGs (MS-LTC-DRGs) to classify patients upon discharge. The payment rates for MS-DRGs and MS-LTC-DRGs are updated annually to reflect changes in the cost of rendering services to patients, known as the "market basket" adjustment, and other factors. National payment rates are further adjusted to a specific hospital's geographic location to account for differing labor costs throughout the country. Notably, the Proposed Rule includes a 5% cap on year-over-year decreases in a hospital's wage index, in an effort to reduce volatility. However, this cap would be applied in a budget-neutral manner using a national adjustment to the standardized amount.

The FY 2023 IPPS and LTCH PPS Proposed Rule reflects a projected operating payment rate increase of 3.2% for acute care hospitals that are meaningful electronic health record users and participants in the Hospital Inpatient Quality Reporting (IQR) Program. This rate reflects a market basket increase of 3.1%, reduced by a .4% productivity adjustment and increased by a .5% statutory adjustment. Further adjustments may impact the payment rate for specific hospitals, including reductions for excess readmissions and the worst-performing quartile of hospitals under the Hospital-Acquired Condition Reduction Program, and either positive or negative adjustments related to the Hospital Value-Based Purchasing Program. Further, the Proposed Rule indicates that Medicare uncompensated care and disproportionate share hospital (DSH) payments will decrease by approximately $800 million in aggregate in FY 2023. For LTCHs, the Proposed Rule reflects an increase of .7%, resulting in an expected aggregate increase of $25 million.

In setting the payment rates for FY 2023, CMS returned to its historical practice of using the most recent available data (FY 2021 claims and FY 2020 cost reports) after veering from that practice during the COVID-19 pandemic. However, the data was adjusted to reflect CMS's belief that while Medicare beneficiaries will continue to be hospitalized for COVID-19, the volume of such hospitalizations will be lower than that reflected in the FY 2021 data.

Hospital Inpatient Quality Reporting Program

The Proposed Rule includes several changes to the Hospital IQR program, which hospitals must participate in to receive the full IPPS rates. The proposal includes ten new measures, as described in the Fact Sheet published by CMS[i]:

- Hospital Commitment to Health Equity measure beginning with CY 2023 reporting, which would impact the payment rate for FY 2025;
- New measures for Screening of Social Drivers of Health and Screen Positive Rate for Social Derivers

of Health, with voluntary reporting in CY 2023 and mandatory reporting in CY 2024, which would be used in development of payment rates for FY 2026;

- Addition of Cesarean Birth and Severe Obstetric Complications measures (mandatory reporting in CY 2024 to impact payment rates for FY 2026);
- Addition of Hospital-Harm – Opioid-Related Adverse Events measure (CY 2024 reporting to be used in the determination of payment rates for FY 2026);
- A Global Malnutrition Composite Score measure (CY 2024 reporting for FY 2026 payment determination);
- Hospital-Level Total Hip Arthroplasty (THA) and/or Total Knee Arthroplasty (TKA), with two voluntary reporting periods followed by mandatory reporting for the year ended June 30, 2026, which would impact the development of payment rates for FY 2028;
- A Hospital-Level Risk Standardized Complication Rate Following Elective Primary THA/TKA measure, beginning with the payment determination for FY 2024; and
- A Medicare Spending per Beneficiary – Hospital measure, beginning with the payment determination for FY 2024.

According to the press release issued by CMS, "the first measure assesses a hospital's commitment to establishing a culture of equity and delivering more equitable health care by capturing concrete activities across five key domains, including strategic planning, data collection, data analysis, quality improvement, and leadership engagement. The second and third measures capture screening and identification of patient-level, health-related social needs – such as food insecurity, housing instability, transportation needs, utility difficulties, and interpersonal safety. By screening for and identifying such unmet needs, hospitals will be in a better position to serve patients holistically by addressing and monitoring what are often key contributors to poor physical and mental health outcomes."[ii] In order to receive credit, a hospital must affirmatively attest to certain elements required within each of the five key domains. For example, in the strategic planning domain for the Hospital Commitment of Health Equity measure, a hospital would need to attest that, its strategic plan (a) identifies priority populations who currently experience health disparities, (b) identifies healthcare equity goals and discrete action steps to achieving those goals, (c) outlines specific resources which have been dedicated to achieving its equity goals, and (d) describes its approach for engaging key stakeholders, such as community-based organizations.[iii]

Additionally, two measures currently included in the IQR program would be refined under the Proposed Rule. These include the Hospital-Level, Risk Standardized Payment Associated with an Episode-of-Care for Primary Elective THA and/or TKA, and the Excess Days in Acute Care After Hospitalization for Acute Myocardial Infarction.

CMS is also proposing to modify its policies related to electronic clinical quality measures (eQCMs), requiring submission of 100% of requested medical records from the current 75%, beginning with the FY 2025 payment determination. Also, hospitals would be required to report on six quality measures (three mandatory and three self-selected) beginning with the CY 2024 reporting period, up from the current four (1 mandatory and three self-selected).

Maternal Health

In an effort to enhance maternal healthcare and reduce maternal mortality, the Proposed Rule would establish a "Birthing-Friendly" hospital designation relating to the quality and safety of maternity care. The hospital designation would be established in Fall 2023, and would initially be based on a hospital's attestation to the Maternal Morbidity Structural Measure within the Hospital IQR Program. Hospitals will first submit data related to this measure in May 2022.

Other Provisions

The Proposed Rule calls for the resumption of the 30-day readmission rate following hospitalization for pneumonia in the HRRP after a COVID-related suspension of this measure. However, certain adjustments would be made for patients diagnosed with COVID-19. CMS also proposed to suppress or refine various measures in the Hospital-Acquired Condition Reduction Program and the Hospital Value-Based Purchasing Program to ensure that hospitals are neither rewarded nor penalized in connection with circumstances caused by COVID-19.

Key Implications for Hospitals

Several hospital industry groups have been highly critical of the proposed payment update, noting that the rate is insufficient in light of the ongoing pandemic as well as broad economic conditions. The American Hospital Association (AHA) expressed concern that the Proposed Rule would result in a net decrease in payments to hospitals, which is "simply unacceptable" in light of ongoing "challenges that threaten their ability to continue caring for patients and providing essential services for their communities."[iv] The Federation of American Hospitals described the proposed payment update as "woefully inadequate," stating that "it does not reckon for the hyper-inflation, staffing crisis, and the continuing pandemic, which will impact resources necessary for patient care well into the future."[v]

In addition to the expected overall payment decrease that the Proposed Rule would yield, hospitals are also facing additional reimbursement decreases. Sequestration reductions were suspended during the public health emergency, but a 1% reduction was resumed on April 1, 2022 and will increase to a 2% reduction beginning July 1. PAYGO will further reduce payments by 4% beginning January 1, 2023 unless Congress intervenes.

These payment reductions are taking place in an environment of rising costs. The AHA recently published a report detailing the extreme financial challenges hospitals must contend with. According to this report, hospital labor expenses were 36.9% higher by the end of 2021 than pre-pandemic levels; drug expenses per patient increased 36.9%; and supply expenses were up 15.9%.[vi] Rising inflation will continue to create pressure on labor costs as well as supply and equipment costs. Additionally, increased cost of living has the potential to reduce demand for certain healthcare services, as consumers devote more of their income to essential items such as housing and food.

Conclusion

The Proposed Rule attempts to improve the quality of care by incorporating various components to enhance health equity. However, the proposed payment update that results in an overall expected payment decrease to hospitals creates immense challenges in the current economic environment.

The Proposed Rule is open for a 60-day comment period, through June 17, 2022.

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[i] "FY 2023 Hospital Inpatient Prospective Payment System (IPPS) and Long Term Care Hospitals (LTCH PPS) Proposed Rule - CMS-1771-P." *Centers for Medicare & Medicaid Services*, 18 Apr. 2022, https://www.cms.gov/newsroom/fact-sheets/fy-2023-hospital-inpatient-prospective-payment-system-ipps-and-long-term-care-hospitals-ltch-pps. Accessed 1 May 2022.
[ii] "CMS Proposes Policies to Advance Health Equity and Maternal Health, Support Hospitals." *Centers for Medicare & Medicaid Services*, 18 Apr. 2022, https://www.cms.gov/newsroom/press-releases/cms-proposes-policies-advance-health-equity-and-maternal-health-support-hospitals. Accessed 1 May 2022.
[iii] "Billing Code 4120-01-P DEPARTMENT OF HEALTH AND HUMAN SERVICES Centers for Medicare & Medicaid Services 42 CFR Parts 412, 413, 482, 485, and 495." *FederalRegister.Gov*, https://public-inspection.federalregister.gov/2022-08268.pdf. Accessed 1 May 2022.
[iv] "AHA Statement on FY 2023 Proposed IPPS Rule." *American Hospital Association*, 18 Apr. 2022. https://www.aha.org/press-releases/2022-04-18-aha-statement-fy-2023-proposed-ipps-rule. Accessed 1 May 2022.
[v] FAH Policy Blog Team. "FAH Leader Statement on FY2023 Proposed IPPS Rule." *Federation of American Hospitals*, 18 Apr. 2022, https://www.fah.org/blog/fah-leader-statement-on-fy2023-proposed-ipps-rule/. Accessed 1 May 2022.
[vi] "Massive Growth in Expenses and Rising Inflation Fuel Continued Financial Challenges for America's Hospitals and Health Systems." *American Hospital Association*, April 2022. https://www.aha.org/system/files/media/file/2022/04/2022-Hospital-Expenses-Increase-Report-Final-Final.pdf. Accessed 1 May 2022.