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CMS Issues Proposed Hospital Inpatient Payment Regulation

Proposed rule would strengthen tie between payment and quality improvement

On April 30, CMS issued a proposed rule that would update FY 2015 Medicare payment policies and rates for inpatient stays at general acute care and long-term care hospitals (LTCHs). This rule builds on the Obama administration's efforts through the Affordable Care Act to promote improvements in hospital care that will lead to better patient outcomes while slowing the long-term health care cost growth.

CMS projects that the payment rate update to general acute care hospitals will be 1.3 percent in FY 2015. The rate update for long term care hospitals will be 0.8 percent. The difference in the update is accounted for by different statutory and regulatory provisions that apply to each system.

The rule's most significant changes are payment provisions intended to improve the quality of hospital care that reduce payment for readmissions, and hospital acquired conditions (HACs). The rule also includes proposed changes to the Hospital Inpatient Quality Reporting (IQR) Program. The rule also describes how hospitals can comply with the Affordable Care Act's requirements to disclose charges for their services online or in response to a request, supporting price transparency for patients and the public.

The proposed rule asks for public input on an alternative payment methodology for short stay inpatient cases that also may be treated on an outpatient basis, including how to define short stays. In addition, the proposed rule reminds stakeholders of the existing process for requesting additional exceptions to the two-midnight benchmark.

Improving Patient Care

Hospital Value-Based Purchasing Program. The hospital value-based purchasing (VBP) program, which was established by the Affordable Care Act, adjusts payments to hospitals under the IPPS based on the quality of care they deliver to patients. For FY 2015, as directed by the law, CMS is increasing the applicable percent reduction, the portion of Medicare payments available to fund the value-based incentive payments under the program, to 1.5 percent of the base operating DRG payment amounts to all participating hospitals. CMS estimates that the total amount available for value-based incentive payments in FY 2015 will be approximately \$1.4 billion, and will update this estimate in the FY 2015 IPPS/LTCH final rule.

Hospital Readmissions Reduction Program. The maximum reduction in payments under the Hospital Readmissions Reduction program will increase from 2 to 3 percent as required by law. For FY 2015, CMS proposes to assess hospitals' readmissions penalties using five readmissions measures endorsed by the National Quality Forum (NQF). Already, CMS estimates that hospital readmissions in Medicare declined by a total of 150,000 from January 2012 through December 2013.

Hospital-Acquired Condition Reduction Program. CMS proposes to implement the Affordable Care Act's Hospital Acquired Condition (HAC) Reduction Program. Beginning in FY 2015, hospitals scoring in the top quartile for the rate of HACs (i.e. those with the poorest performance) will have their Medicare inpatient payments reduced by one percent. This new program builds on the progress in this area achieved through the existing HAC program, which is currently saving approximately \$25 million annually by reducing Medicare payments when certain conditions that are reasonably preventable are acquired in the hospital.

Quality Reporting Programs. The proposed rule would revise measures for the Hospital Inpatient Quality Reporting, Long-Term Care Hospital (LTCH) Quality Reporting and PPS-Exempt Cancer Hospital Quality Reporting Programs. CMS proposes to align for 2015 and 2016 the reporting and submission timelines for clinical quality measures for the Medicare Electronic Health Record (EHR) Incentive Program with the reporting and submission timelines of the Hospital IQR Program.

Wage Index - Updated Labor Market Areas. In order to maintain a more accurate and up-to-date payment system that reflects the reality of population shifts and labor market conditions, we are proposing to use the most recent labor market area delineations issued by the Office of Management and Budget (OMB) using 2010 Census data.

In order to mitigate potential negative payment impacts due to the proposed adoption of the new OMB delineations, CMS is proposing a one-year transition for all hospitals that would experience a decrease in their actual payment wage index exclusively due to the proposed implementation of the new OMB delineations, and a three-year transition for hospitals currently located in an urban county that would become rural under the new OMB delineations.

CMS will accept comments on the proposed rule until June 30, 2014, and will respond to comments in a final rule to be issued by August 1, 2014.

- [Proposed rule](#)
- [Press Release](#)
- [Fact Sheet](#), "CMS Proposals to Improve Quality of Care during Hospital Inpatient Stays"
- [Fact Sheet](#), "Fiscal Year 2015 Proposed Policy and Payment Changes for Inpatient Stays in Acute-Care Hospitals and Long-Term Care Hospitals"



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