



PG Bulletin

November 14, 2019

CMS Ends “Site Neutral” Transitional Payments for LTCH Discharges Occurring in Fiscal Years 2016 to 2019

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In 1999 and 2000, the Centers for Medicare & Medicaid Services (CMS) established the Long-Term Care Hospitals (LTCH) Prospective Payment System (PPS) for LTCH cost reporting periods beginning October 1, 2002.¹ The LTCH PPS pays for the operating and capital-related costs of hospital inpatient stays in LTCHs through prospectively set rates under Medicare Part A.² CMS updates the LTCH PPS each fiscal year through rulemaking and sometimes imposes “transitional payments” to smooth changes in LTCH payment rates. Because the federal statutes governing the LTCH PPS do not always mandate a dollar amount impact to LTCH providers, CMS’ transitional payments and rulemaking often contain new proposals and final rules that disproportionately impact certain types of LTCH providers or services. CMS’ fiscal year 2020 LTCH PPS final rule, promulgated on August 16, 2019, contains such a change by eliminating transitional payments involving “site neutral payment rates.”³

Section 1886(m)(6) of the Social Security Act applies a “site neutral payment rate” to Medicare payments for inpatient LTCH hospital services beginning with discharges in cost reporting periods beginning October 1, 2015.⁴ 42 C.F.R. § 412.522(a)(2) excludes certain discharges from the site neutral payment rate and instead pays the LTCH PPS standard federal payment rate for two situations of patients admitted directly from an Inpatient Prospective Payment System (IPPS) hospital: (1) where the patients spent at least three days in an intensive care unit or coronary care unit but did not have a psychiatric or rehabilitation principal diagnosis,⁵ and (2) where the patients received at least 96 hours of respiratory ventilation services during the LTCH stay⁶ but did not have a psychiatric or rehabilitation principal diagnosis.⁷ 42 C.F.R. § 412.523 calculates the LTCH PPS standard federal payment rate as the average cost of a discharge, adjusted each year by a price index of goods and services in an appropriate market basket, multiplied by the relative weight of the Diagnosis Related Group assigned to that discharge, and further adjusted for additional outliers, budget neutrality constraints, area wage changes, and other policy changes.⁸

Generally, the site neutral payment rate is the lower of the IPPS comparable per diem amount, adjusted for certain outliers,⁹ and 100% of the estimated cost of services.¹⁰ However, for discharges in cost reporting periods occurring between fiscal years 2016 and 2019, CMS imposed a “transitional payment method” calculated as 50% of the site neutral payment rate and 50% of the LTCH PPS standard federal payment rate.¹¹ The transitional payment rate ended October 1, 2019; thereafter, site neutral LTCH discharges receive instead only the site neutral payment rate of the lower of the IPPS comparable per diem amount and 100% of the estimated cost of services.¹² Only discharges that meet the criteria for exclusion from the site neutral payment rate may receive the LTCH PPS standard federal payment rate.¹³ CMS estimates that approximately 71% of LTCH cases in fiscal year 2020 will meet the patient-level criteria for exclusion from the site neutral payment rate and receive instead the LTCH PPS standard federal payment rate for the full year.¹⁴

In its final rule for the LTCH PPS for fiscal year 2020, CMS also updated the LTCH PPS payment rates with various budget neutrality adjustment factors and a 2.5% increase from the fiscal year 2019 LTCH PPS rate, as mandated by 42 C.F.R. § 412.523(c)(3)(xvi).¹⁵ Slightly different adjustments apply to LTCHs that fail to submit required quality reporting under the LTCH Quality Reporting Program.¹⁶ CMS also updated other components of the LTCH PPS for fiscal year 2020, including updates for the area wage level index, updates for the labor-related share, adjustments for certain high cost discharge outliers, cost-of-living adjustments for LTCHs in Alaska and Hawaii, and slight updates to the IPPS comparable amount to reflect other statutory changes in the IPPS DSH payment adjustment methodology.¹⁷

While CMS acknowledges “that the new site neutral payment rate will be lower than the historic standard Federal payment rate for certain LTCH discharges,”¹⁸ CMS’ ending of transitional payments and other updates to the LTCH PPS standard federal payment rate will yield a total estimated increase in LTCH payments of \$43 million in fiscal year 2020,¹⁹ or a 1% increase from fiscal year 2019.²⁰ LTCHs may consider monitoring their Medicare payments for discharges in cost reporting periods after October 1, 2019 to ensure that received funds comply with CMS’ elimination of transitional payments for site neutral payments.

¹ 84 Fed. Reg. 42044, 42428 (Aug. 16, 2019).

² *Id.*

³ 84 Fed. Reg. 42044, 42687 (Aug. 16, 2019).

⁴ 42 U.S.C.A. § 1395ww(m)(6)(A)(i). CMS believes that “the site neutral payment rate will not negatively impact access to or quality of care for Medicare beneficiaries given that general acute care hospitals are effectively providing [LTCH] treatment for the same types of patients” (84 Fed. Reg. 42044, 42688 (Aug. 16, 2019)).

⁵ 42 C.F.R. § 412.522(b).

⁶ 84 Fed. Reg. 42044, 42433 (Aug. 16, 2019).

⁷ 42 C.F.R. § 412.522(b).

⁸ 42 C.F.R. § 412.523.

⁹ The IPPS comparable per diem amount decreases by 4.6% for each year between 2018 and 2026. 42 U.S.C.A. § 1395ww(m)(6)(B)(iv).

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- ¹⁰ 42 U.S.C.A. § 1395ww(m)(6)(B)(ii).
¹¹ 42 U.S.C.A. § 1395ww(m)(6)(B)(iii); 84 Fed. Reg. 42044, 42687 (Aug. 16, 2019).
¹² 84 Fed. Reg. 42044, 42687 (Aug. 16, 2019).
¹³ 42 C.F.R. § 412.522(a)(2).
¹⁴ 84 Fed. Reg. 42044, 42688 (Aug. 16, 2019).
¹⁵ 84 Fed. Reg. 42044, 42641 (Aug. 16, 2019).
¹⁶ *Id.*
¹⁷ 84 Fed. Reg. 42044, 42641-49 (Aug. 16, 2019).
¹⁸ 80 Fed. Reg. 49326, 49602 (Aug. 17, 2015).
¹⁹ 84 Fed. Reg. 42044, 42653 (Aug. 16, 2019).
²⁰ 84 Fed. Reg. 42044, 42687 (Aug. 16, 2019).

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