

## CMS Proposes IPPS Updates for 2021

On May 11, 2020, the *Centers for Medicare and Medicaid Services* (CMS) released its proposed rules for payment and policy updates for the Medicare *Inpatient Prospective Payment System* (IPPS) and *Long-Term Care Hospital* (LTCH) *Prospective Payment System* (PPS) for fiscal year (FY) 2021.<sup>1</sup> Other than the changes in IPPS and LTCH payments, the most notable portion of the proposed rule is the innovation incentives proposed by CMS.<sup>2</sup> This *Health Capital Topics* article discusses the various provisions outlined in the CMS proposed rule.

### Payment Rate Update

The proposed rule includes an estimated 3.1% total increase in operating payments for general acute care hospitals paid under IPPS if the hospital participates in the *Hospital Inpatient Quality Reporting* (IQR) Program and are meaningful *electronic health record* (EHR) users.<sup>3</sup> The payment increase is lower than the 2020 increase of 3.7%.<sup>4</sup> This percentage increase translates to a growth in Medicare spending on inpatient hospital services of about \$2.07 billion in 2021.<sup>5</sup> However, proposed changes to payment policies will decrease IPPS payments by approximately 0.4%, leading to a true overall increase in IPPS payments of only 1.6%.<sup>6</sup> Proposed changes in new technology add-ons, capital payments, and uncompensated care payments will lead to decreases in overall IPPS payments.<sup>7</sup> Further, the proposed rule subjects hospitals to other payment adjustments under the IPPS, including:

- (1) “Penalties for excess readmissions, which reflect an adjustment to a hospital’s performance relative to other hospitals with a similar proportion of patients who are dually eligible for Medicare and full-benefit Medicaid;”
- (2) “Penalty (1 percent) for worst-performing quartile under the Hospital-Acquired Condition Reduction Program;” and,
- (3) “Upward and downward adjustments under the Hospital Value-Based Purchasing Program.”<sup>8</sup>

For 2021, LTCH PPS payments will decrease by 0.9%, reflecting the statutorily required reductions to LTCH payments.<sup>9</sup> The decrease is a reversal from last year’s increase of 1.75%.<sup>10</sup> The LTCH PPS operates under a dual-rate system consisting of site neutral payments and traditional LTCH payments.<sup>11</sup> Currently, the number of

cases paid using this blended payment rate represents approximately 25% of all LTCH cases and 10% of all LTCH PPS payments.<sup>12</sup> The number of LTCH cases paid under this dual model is expected to decrease by 20% by the end of 2021.<sup>13</sup>

### Technology Add-On

In this proposed rule, CMS suggests approving 24 applications for the new technology add-on payment (NTAP) program.<sup>14</sup> Under this program, CMS provides enhanced reimbursement (i.e., an add-on payment) to inpatient hospitals for new medical services or technologies.<sup>15</sup> Three of the 24 technologies were submitted to the *Food and Drug Administration* (FDA) as *Breakthrough Devices*,<sup>16</sup> and six have received FDA *Qualified Infectious Disease Product* (QIDP)<sup>17</sup> designation.<sup>18</sup> CMS has proposed expanding the technology add-on payment to other technology that addresses the “*unmet needs of patients with serious bacterial and fungal infections*.”<sup>19</sup> CMS is proposing conditional approval for antimicrobial products that meet the FDA standard but have not yet been approved as a QIDP in order for the antimicrobial product to receive payment sooner.<sup>20</sup> The proposed rule highlights CMS’s significant concern relating to antimicrobial resistance.

### Hospital Inpatient Quality Reporting (IQR) Program

The Hospital IQR Program is a quality reporting program that may reduce payments to hospitals that fail to meet quality reporting requirements.<sup>21</sup> Major proposed changes to the Hospital IQR Program include publicly displaying *electronic clinical quality measures* (eCQM) on the *Hospital Compare* website. The data will be required to be reported by hospitals for the 2021 reporting period and subsequent years so that it may be included and periodically updated on the *Hospital Compare* website for healthcare consumers to view.<sup>22</sup> CMS proposes streamlining the validation process for the Hospital IQR Program by requiring quality reporting information to be submitted electronically only and prohibiting the submission of CDs, flash drives, or other physical copies.<sup>23</sup>

### Additional Proposals

The changes proposed by CMS would affect approximately 3,200 acute care hospitals and 360 LTCHs.<sup>24</sup> According to CMS, the proposed changes to the payment systems are intended to “*support the*

agency's key priorities, which include *Strengthening Medicare and Fostering Innovation*.<sup>25</sup> Further, CMS proposes the implementation of some aspects of the 2019 price transparency rules by proposing the collection of hospitals' median payor-specific negotiated inpatient services charges for Medicare Advantage organizations and third-party payors.<sup>26</sup> CMS is also requesting comments pertaining to potentially using the data to set Medicare payment rates for hospital procedures.<sup>27</sup> The price transparency rule is further discussed in the

November 2019 *Health Capital Topics* article entitled, *"Trump Administration Brings Transparency to Healthcare"*.<sup>28</sup> CMS notes in the proposed rule its recognition of the impact of COVID-19 on limiting the ability of impacted parties from commenting on the proposals, so it has limited its annual rulemaking to focus on essential policies, as well as policies that may help providers responding to the COVID-19 pandemic.<sup>29</sup> Comments from industry stakeholders regarding the proposed rule are due by July 10, 2020.<sup>30</sup>

1 "Fiscal Year (FY) 2021 Medicare Hospital Inpatient Prospective Payment System (IPPS) and Long Term Acute Care Hospital (LTCH) Proposed Rule (CMS-1735-P)" Centers for Medicare & Medicaid Services, May 11, 2020, <https://www.cms.gov/newsroom/fact-sheets/fiscal-year-fy-2021-medicare-hospital-inpatient-prospective-payment-system-ipps-and-long-term-acute> (Accessed 5/13/20).

2 *Ibid.*

3 *Ibid.*

4 "Fiscal Year (FY) 2020 Medicare Hospital Inpatient Prospective Payment System (IPPS) and Long Term Acute Care Hospital (LTCH) Prospective Payment System Proposed Rule and Request for Information" Centers for Medicare & Medicaid Services, Press Release, April 23, 2019, <https://www.cms.gov/newsroom/fact-sheets/fiscal-year-fy-2020-medicare-hospital-inpatient-prospective-payment-system-ipps-and-long-term-acute> (Accessed 5/14/20).

5 Centers for Medicare & Medicaid Services, May 11, 2020.

6 *Ibid.*

7 *Ibid.*

8 *Ibid.*

9 *Ibid.*

10 Centers for Medicare & Medicaid Services, April 23, 2019.

11 Centers for Medicare & Medicaid Services, May 11, 2020.

12 *Ibid.*

13 *Ibid.*

14 *Ibid.*

15 "CMS Releases FY 2021 IPPS Proposed Rule" By Jessica Roth, et al., McDermott+Consulting, May 12, 2020, <https://www.mcdermottplus.com/insights/cms-releases-fy-2021-ipps-proposed-rule/> (Accessed 5/20/20).

16 Provides patients with early access to new technology by speeding up development and review of products.

17 Products that receive QIDP designation receive expedited development and review if the product treats life-threatening conditions.

18 Centers for Medicare & Medicaid Services, May 11, 2020.

19 *Ibid.*

20 *Ibid.*

21 *Ibid.*

22 *Ibid.*

23 *Ibid.*

24 *Ibid.*

25 *Ibid.*

26 *Ibid.*

27 *Ibid.*

28 "Trump Administration Brings Transparency to Healthcare" *Health Capital Topics*, Vol. 12, Issue 11 (November 2019), [https://www.healthcapital.com/hcc/newsletter/11\\_19/HTML/CHARGE/convert\\_charge-disclosure\\_hc\\_topics\\_draft-11.21.19.php](https://www.healthcapital.com/hcc/newsletter/11_19/HTML/CHARGE/convert_charge-disclosure_hc_topics_draft-11.21.19.php) (Accessed 5/13/20).

29 Centers for Medicare & Medicaid Services, May 11, 2020.

30 *Ibid.*

**FREE EBOOK DOWNLOAD**  
Health Capital Topics 2019

Visit [www.healthcapital.com](http://www.healthcapital.com)

This book reviews and discusses subjects in the ever-changing U.S. healthcare industry and how they may affect healthcare organizations. Topics include value-based reimbursement; the latest regulatory pronouncements; emerging healthcare organizations; and much more.

**CLICK**

**GET IT NOW**



**(800)FYI - VALU**

*Providing Solutions  
in the Era of  
Healthcare Reform*

Founded in 1993, HCC is a nationally recognized healthcare economic financial consulting firm

- [HCC Home](#)
- [Firm Profile](#)
- [HCC Services](#)
- [HCC Experts](#)
- [Clients & Projects](#)
- [HCC News](#)
- [Upcoming Events](#)
- [Contact Us](#)
- [Email Us](#)

## HCC Services

- [Valuation Consulting](#)
- [Commercial Reasonableness Opinions](#)
- [Commercial Payor Reimbursement Benchmarking](#)
- [Litigation Support & Expert Witness](#)
- [Financial Feasibility Analysis & Modeling](#)
- [Intermediary Services](#)
- [Certificate of Need](#)
- [ACO Value Metrics & Capital Formation](#)
- [Strategic Consulting](#)
- [Industry Research Services](#)



**[Todd A. Zigrang](#)**, MBA, MHA, CVA, ASA, FACHE, is the President of HEALTH CAPITAL CONSULTANTS (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 25 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 2,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "[The Adviser's Guide to Healthcare – 2nd Edition](#)" [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies*; *Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); American Health Lawyers Associate (AHLA); the American Bar Association (ABA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.



**[Jessica L. Bailey-Wheaton](#)**, Esq., is Senior Vice President & General Counsel of HCC, where she focuses on project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions, and research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. She has presented before associations such as the American Bar Association and NACVA.



**[John R. Chwarzinski](#)**, MSF, MAE, is Senior Vice President of HCC, where he focuses on the areas of valuation and financial analysis of healthcare enterprises, assets and services. Mr. Chwarzinski holds a Master's Degree in Economics from the University of Missouri – St. Louis, as well as, a Master's of Science in Finance Degree from the John M. Olin School of Business at Washington University in St. Louis. He has presented before associations such as the National Association of Certified Valuators and Analysts; the Virginia Medical Group Management Association; and, the Missouri Society of CPAs. Mr. Chwarzinski's areas of expertise include advanced statistical analysis, econometric modeling, and economic and quantitative financial analysis.



**[Daniel J. Chen](#)**, MSF, CVA, focuses on developing Fair Market Value and Commercial Reasonableness opinions related to healthcare enterprises, assets, and services. In addition he prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services and applies utilization demand and reimbursement trends to project professional medical revenue streams and ancillary services and technical component (ASTC) revenue streams. Mr. Chen holds the Certified Valuation Analyst (CVA) designation from NACVA.



**[Paul M. Doelling](#)**, MHA, FACMPE, has over 25 years of healthcare valuation and operational management experience and he has previously served as an administrator for a number of mid to large-sized independent and hospital-owned physician practice groups. During that time, he has participated in numerous physician integration and affiliation initiatives. Paul has authored peer-reviewed and industry articles, as well as served as faculty before professional associations such as the Medical Group Management Association (MGMA) and the Healthcare Financial Management Association (HFMA). He is a member of MGMA, as well as HFMA where he previously served as President of the Greater St. Louis Chapter.