

## CMS Proposes Increasing Inpatient & Long Term Care Payments

On April 10, 2024, the Centers for Medicare & Medicaid Services (CMS) released its proposed rules for the payment and policy updates for the Medicare inpatient prospective payment system (IPPS) and long-term care hospital prospective payment system (LTCH PPS) for fiscal year (FY) 2025.<sup>1</sup> This Health Capital Topics article will discuss the proposed rule and the implications for stakeholders.

By law, CMS is required to update IPPS and LTCH payment rates annually while accounting for changes in the prices of goods and services used by hospitals in the treatment of Medicare beneficiaries.<sup>2</sup> Under the two payment systems (IPPS and LTCH PPS), base payment rates are set by CMS prospectively for inpatient stays based on the severity of the illness, the services utilized, the treatment provided, the cost of labor in the locality, and the patient's diagnosis.<sup>3</sup> Hospitals receive a lump payment for each hospitalization, dependent on the Diagnosis-Related Group (MS-DRG) classification assigned at discharge.<sup>4</sup>

CMS proposes increasing the IPPS base rate by 2.6%, which is \$3.2 billion in additional funding for FY 2025.<sup>5</sup> This percentage increase is comprised of a projected FY 2025 hospital market basket increase of 3.0%, reduced by 0.4% due to a productivity adjustment.<sup>6</sup> This proposed increase is slightly lower than the FY 2024 payment increase of 2.8%.<sup>7</sup> For FY 2025, the LTCH standard payment rate is expected to increase by 2.8%, with the rate decreasing 2.0% for LTCHs that do not submit quality reporting data.<sup>8</sup> For FY 2024, the LTCH PPS payments increased by 3.3%.<sup>9</sup> CMS is currently seeking comment on the methodology utilized to determine the LTCH PPS outlier threshold for the patient discharges that are paid the LTCH standard payment rate.<sup>10</sup>

Additional to the proposed increase in pay, CMS announced new policies and equity incentives for hospitals.<sup>11</sup> The agency will increase payments to hospitals treating patients who are experiencing homelessness by changing severity designations for seven diagnosis codes.<sup>12</sup> This change will "more accurately reflect each health care encounter for hospitals that take care of persons who have inadequate housing or have housing instability, and also improve the reliability and validity of the coded data including in support of efforts to advance health equity."<sup>13</sup> CMS also plans to increase add-on payments for new technology, specifically for (1) novel gene therapies that target sickle

cell disease.<sup>14</sup> Additionally, a separate payment will be added for small independent hospitals that maintain a stock of essential medicines, and a requirement will be added that at least half of 200 new graduate medical education slots (available in 2026) will go towards psychiatry.<sup>15</sup>

The proposed rule also outlined the agency's plan for a new, mandatory Transforming Episode Accountability Model (TEAM).<sup>16</sup> The model would aim to "quality of care for people with Medicare undergoing certain high-expenditure, high-volume surgical procedures, reducing rehospitalization and recovery time while lowering Medicare spending and driving equitable outcomes."<sup>17</sup> Liz Fowler, Deputy Administrator at CMS, stated that "the model is a direct response to post-discharge care breakdowns that lead to complications and increased utilization down the line."<sup>18</sup> Fowler also said that "by bundling all the costs of care for an episode, this proposed rule can incentivize care coordination, improve patient care transitions, and decrease the risk of an avoidable readmission."<sup>19</sup> The agency plans to use this model to test whether episode-based payments for five costly and common procedures would preserve and enhance the quality of care while reducing Medicare expenditures.<sup>20</sup>

The proposed rule also supports emergency preparedness by implementing a data reporting structure for infectious diseases like respiratory syncytial virus, influenza, and COVID-19.<sup>21</sup> CMS believes that "sustained data collection and reporting of respiratory illnesses outside of emergencies will help hospitals and CAHs gain important insights related to their evolving infection control needs."<sup>22</sup> CMS proposes that hospitals and CAHs would report this data on a weekly basis, outside of a public health emergency (PHE).<sup>23</sup>

Healthcare industry stakeholders have expressed frustration with CMS's proposals, arguing that the proposed payment increase will not be enough to cover the rising costs to provide care. The American Hospital Association (AHA) stated that the IPPS update, "is woefully inadequate, especially following years of high inflation and rising costs for labor, drugs and equipment."<sup>24</sup> Premier Inc., a hospital group purchasing network, stated that "with a mere 2.6% payment increase that fails to align with the stark realities of inflation and operational costs, persistent labor shortages and an aging demographic, the sustainability of our healthcare system is jeopardized."<sup>25</sup> Additionally, the Federation of

American Hospitals (FAH) issued a similar statement, asserting that more support would be needed from Medicare. FAH President and CEO, Chip Kahn, stated that “just like last year, with inflation still stubbornly high, CMS fails to meet the moment.”<sup>26</sup> Kahn also stated that Congress needs “to examine the inability of current payments to keep up with rising costs outside hospitals’ control, which ultimately jeopardizes patient care at a time when hospitals are being threatened with Medicare

cuts.”<sup>27</sup> Kahn also expressed concern that “these cuts could lead to closures in rural and underserved areas.”<sup>28</sup>

The financial challenges resulting from the proposed payment rates may continue the hospital affiliation and divestiture trends observed in recent years. For hospitals in financial distress have represented a larger share of the seller market, as compared to past years.

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- 2 “FY 2025 Hospital Inpatient Prospective Payment System (IPPS) and Long-Term Care Hospital Prospective Payment System (LTCH PPS) Proposed Rule - CMS-1808-P Fact Sheet” Newsroom, Centers for Medicare and Medicaid Services, April 10, 2024, <https://www.cms.gov/newsroom/fact-sheets/fy-2025-hospital-inpatient-prospective-payment-system-ipps-and-long-term-care-hospital-prospective> (Accessed 4/18/24).
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- 14 Muoio, Fierce Healthcare, April 10, 2024.
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- 16 *Ibid.*
- 17 “Overview Fact Sheet: Transforming Episode Accountability Model” Centers for Medicare & Medicaid Services, <https://www.cms.gov/files/document/team-model-fs.pdf> (Accessed 4/24/24).
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