FY 2016 IPPS Final Rule & A Few Other Random Items
Everything You Thought You Didn’t Want to Know

Sunday November 15, 2015

Bill Galinsky
Vice President, Government Finance
Baylor Scott & White Health

Steven Hand
Associate Vice President, Government Reporting
Memorial Hermann Health System

FY 2016 Medicare Updates

<table>
<thead>
<tr>
<th>Service</th>
<th>Net % Increase</th>
<th>$ Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPPS</td>
<td>0.9%</td>
<td>$272 M</td>
</tr>
<tr>
<td>OPPS (Proposed)</td>
<td>&lt;0.1%&gt;</td>
<td>&lt;$43 M&gt;</td>
</tr>
<tr>
<td>I/P Rehab</td>
<td>1.8%</td>
<td>$135 M</td>
</tr>
<tr>
<td>I/P Psych</td>
<td>1.5%</td>
<td>$75 M</td>
</tr>
<tr>
<td>SNF</td>
<td>1.4%</td>
<td>$500 M</td>
</tr>
<tr>
<td>HHA</td>
<td>&lt;1.8%&gt;</td>
<td>&lt;$350 M&gt;</td>
</tr>
<tr>
<td>Hospice</td>
<td>1.1%</td>
<td>$160 M</td>
</tr>
<tr>
<td>Physician Payments</td>
<td>0.5%</td>
<td>$200 M</td>
</tr>
<tr>
<td>LTCH</td>
<td>&lt;1.7%&gt;</td>
<td>&lt;$250 M&gt;</td>
</tr>
</tbody>
</table>
FY 2016 Medicare Updates

<table>
<thead>
<tr>
<th>Market Basket Increase</th>
<th>2.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Doc &amp; Coding Adjustment</td>
<td>(0.8)%</td>
</tr>
<tr>
<td>Less: Productivity Adjustment</td>
<td>(0.5)%</td>
</tr>
<tr>
<td>Less: ACA Required Cut</td>
<td>(0.2)%</td>
</tr>
<tr>
<td>Actual Rate Increase</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

Section 631 of American Taxpayer Relief Act

- Requires $11 billion be recovered from hospitals between 2014 & 2017 from MS-DRG transition in 2008
- CMS estimated 9.3% cut would recover all in 2014
- Instead, implemented 0.8% cut in 2014, cutting $1 billion
- An additional 0.8% cut in 2015, without removing prior year cut, cutting $2 billion
- Additional 0.8% cuts in 2016 & 2017 coming to recoup remaining $8 billion
Medicare Physician SGR Fix
April - 2015

WAS – 21.5% Reduction in Medicare Physician Payment Rates
17 Temporary Payment Patches

FIX - Cost $200 B
¼ % Increase in FY 16, 17, 18, 19
Flat for Six Years
¼ % Increase After That
Major Push/Rewards to Move Payments to Risk Based Models

FY 2016 IPPS Final Rule Update

FY 16 Final Payment: Full Update 2.4%
Market Basket Update -0.2%
Market Basket Adjustment (PPACA) -0.5%
Productivity Adjustment (PPACA) -0.8%
Documentation and Coding Effect (ATRA)** 0.9%

** Congress stipulated CMS must recoup additional $11 billion from FY 14-17. CMS expects to recoup entire $11 billion by adding .8% reduction each year – will be cumulative 3.2% reduction by FY 17, but CMS intends to reverse for subsequent years to return standardized amount to pre-reduction level.
FY 2016 IPPS Final Rule Update

<table>
<thead>
<tr>
<th>National Adjusted Operating Standardized Amount (Full Update)</th>
<th>FY 2015 Final</th>
<th>FY 2016 Final</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$5,437.85</td>
<td>$5,467.39</td>
<td>$29.54</td>
</tr>
</tbody>
</table>

Quality & EHR Reductions

- FY 2016 regarding failures to report quality and be a meaningful EHR user
  - No Quality (Affects 26 Hospitals)
    - ¼ of market basket
  - No EHR (Affects 153 Hospitals)
    - For FY 2016
      - ¾ of market basket reduced by 66 2/3 percent
    - For FY 2017
      - ¾ of market basket reduced by 100%
**IPPS Update Labor Share**

- No changes to labor share
  - “Large” Urban areas – those with wage index greater than 1.000 – at 69.6 percent
  - “Other” areas with wage index values equal to or less than 1.000 remain at 62.0 percent by law

---

**FY 2016 IPPS Final Rule Update**

**FY 16 Adjusted Operating Standard Payment** *(Wage Index > 1)*

<table>
<thead>
<tr>
<th>Table 1A - National Adjusted Operating Standardized Amounts, Labor/Nonlabor <em>(69.6 Percent Labor Share/30.4 Percent Nonlabor Share if Wage Index is Greater Than 1)</em> – FY 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital submitted quality data and is a meaningful EHR user</td>
</tr>
<tr>
<td>Labor</td>
</tr>
<tr>
<td>$3,805.30</td>
</tr>
<tr>
<td>Hospital submitted quality data and is NOT a meaningful EHR user</td>
</tr>
<tr>
<td>Labor</td>
</tr>
<tr>
<td>$3,760.40</td>
</tr>
</tbody>
</table>
# FY 2016 IPPS Final Rule Update

**FY 16 Adjusted Operating Standard Payment (Wage Index <= 1)**

TABLE 1B - NATIONAL ADJUSTED OPERATING STANDARDIZED AMOUNTS, LABOR/NONLABOR (62 PERCENT LABOR SHARE/38 PERCENT NONLABOR SHARE IF WAGE INDEX IS EQUAL TO OR LESS THAN 1) – FY 2016

<table>
<thead>
<tr>
<th>Hospital submitted quality data and is a meaningful EHR user</th>
<th>Hospital did NOT submit quality data and is a meaningful EHR user</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>Nonlabor</td>
</tr>
<tr>
<td>$3,389.78</td>
<td>$2,077.61</td>
</tr>
</tbody>
</table>

Hospital submitted quality data and is NOT a meaningful EHR user

<table>
<thead>
<tr>
<th>Labor</th>
<th>Nonlabor</th>
<th>Labor</th>
<th>Nonlabor</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,349.79</td>
<td>$2,053.09</td>
<td>$3,329.78</td>
<td>$2,040.84</td>
</tr>
</tbody>
</table>

**FY 2016 IPPS Final Rule Update**

<table>
<thead>
<tr>
<th>Capital Standard Federal Payment Rate</th>
<th>FY 2015 Final</th>
<th>FY 2016 Final</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>$434.97</td>
<td>$438.75</td>
<td>$3.78</td>
<td></td>
</tr>
</tbody>
</table>
## FY 2016 IPPS Final Rule Update

**FFY 16 Additional Adjustments if Applicable:**

<table>
<thead>
<tr>
<th>Adjustment</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value Based Purchasing (VBP) ($1.5B)</td>
<td>$1.5B</td>
<td>Up to +/-1.75%</td>
</tr>
<tr>
<td>Readmissions Reduction (-$420M)</td>
<td>$420M</td>
<td>Up to -3.0%</td>
</tr>
<tr>
<td>Hospital Acquired Conditions (HAC)</td>
<td></td>
<td>-1.0%</td>
</tr>
<tr>
<td>Sequestration</td>
<td></td>
<td>-2.0%</td>
</tr>
<tr>
<td>DSH Changes ($1.2B)</td>
<td>$1.2B</td>
<td>-16%</td>
</tr>
</tbody>
</table>

## Polling Question # 1

**What is the FY 2016 IPPS Market Basket Increase?**

1) 2.7%
2) 2.4%
3) 2.0%
4) 3.0%
FY 2016_Outliers

- Outlier fixed-loss cost threshold for FY 2016 equal to the prospective payment rate for the DRG, plus any IME and DSH payments, and any add-on payments for new technology, plus $22,539
- Proposed was $24,485
- FY 2015 – 4.65%
- FY 2014 – 5.38%
- The current amount is $24,626

Wage Index

- No changes to CBSAs
- Some FY 2015 Transitions would continue
  - Urban to Rural
    - Stay in urban for 3 years
    - Time to seek reclassification
    - Their wage index goes to rural
    - CMS says there are very few
  - Hospitals having decrease index values
    - Transition ends
## Wage Index – Region 9 States

<table>
<thead>
<tr>
<th>State</th>
<th>Wage Index</th>
<th>Geographic Adjustment Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>0.7302</td>
<td>0.8063</td>
</tr>
<tr>
<td>Louisiana</td>
<td>0.7045</td>
<td>0.7867</td>
</tr>
<tr>
<td>Mississippi</td>
<td>0.7315</td>
<td>0.8073</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>0.7593</td>
<td>0.8281</td>
</tr>
<tr>
<td>Texas</td>
<td>0.7735</td>
<td>0.8387</td>
</tr>
</tbody>
</table>

## Wage Index – Region 9 Metro Areas

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Wage Index</th>
<th>Geographic Adjustment Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dallas-Plano-Irving, TX</td>
<td>0.9736</td>
<td>0.9818</td>
</tr>
<tr>
<td>Houston-The Woodlands-Sugar Land, TX</td>
<td>0.9620</td>
<td>0.9738</td>
</tr>
<tr>
<td>Jackson, MS</td>
<td>0.7757</td>
<td>0.8404</td>
</tr>
<tr>
<td>Little Rock-North Little Rock-Conway, AR</td>
<td>0.8296</td>
<td>0.8799</td>
</tr>
<tr>
<td>New Orleans-Metairie, LA</td>
<td>0.8606</td>
<td>0.9023</td>
</tr>
<tr>
<td>Tulsa, OK</td>
<td>0.7794</td>
<td>0.8431</td>
</tr>
</tbody>
</table>
Wage Index

- No change to the statewide budget neutrality adjustment factor – federal versus state specific
- Massachusetts and California continue to be “big” winners

Wage Index – Rural Floor

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Hospitals</th>
<th>Number of Hospitals Receiving Rural Floor or Imputed Floor</th>
<th>Percentage Change in Payments</th>
<th>Difference (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>303</td>
<td>207</td>
<td>2.2</td>
<td>$220.65</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>61</td>
<td>39</td>
<td>3.1</td>
<td>$97.64</td>
</tr>
<tr>
<td>North Carolina</td>
<td>84</td>
<td>0</td>
<td>-0.4</td>
<td>-$13.95</td>
</tr>
<tr>
<td>Florida</td>
<td>170</td>
<td>14</td>
<td>-0.3</td>
<td>-$18.34</td>
</tr>
<tr>
<td>Georgia</td>
<td>105</td>
<td>0</td>
<td>-0.5</td>
<td>-$11.96</td>
</tr>
<tr>
<td>Illinois</td>
<td>127</td>
<td>2</td>
<td>-0.5</td>
<td>-$24.07</td>
</tr>
<tr>
<td>Michigan</td>
<td>96</td>
<td>0</td>
<td>-0.5</td>
<td>-$21.43</td>
</tr>
<tr>
<td>Missouri</td>
<td>78</td>
<td>2</td>
<td>-0.4</td>
<td>-$9.54</td>
</tr>
<tr>
<td>Ohio</td>
<td>132</td>
<td>6</td>
<td>-0.6</td>
<td>-$16.71</td>
</tr>
</tbody>
</table>
More on Floors

• Frontier Floor
  – Montana, North Dakota, South Dakota, and Wyoming, covering 48 providers, will receive a frontier floor value of 1.0000

• Imputed Floor
  – Extended till September 30, 2016
  – Benefits
    • 21 providers in New Jersey
    • 4 providers in Rhode Island
    • 0 providers in Delaware (new urban only state)

Occupational Mix

• Using FY 2013 survey
• FY 2016 occupational mix adjusted national average hourly wage is $40.2555

<table>
<thead>
<tr>
<th>Occupational Mix Nursing Subcategory</th>
<th>Average Hourly Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>National RN</td>
<td>38.82</td>
</tr>
<tr>
<td>National LPN and Surgical Technician</td>
<td>22.76</td>
</tr>
<tr>
<td>National Nurse Aide, Orderly, and Attendant</td>
<td>15.95</td>
</tr>
<tr>
<td>National Medical Assistant</td>
<td>18.00</td>
</tr>
<tr>
<td>National Nurse Category</td>
<td>32.87</td>
</tr>
</tbody>
</table>
Reclassifications

- FY 2016 – 282 approved
- FY 2015 – 311 approved
- FY 2014 – 248 approved
- CMS says there are 841 hospitals reclassified for FY 2016
- Applications to MGCRB due by September 1st

FY 2016 IPPS Final Rule Update

- Wage index assessment
- Providers have the opportunity to request corrections to their wage data
- CMS is moving up wage index timeline for FY 17
- This year revision requests will be due in early September
FY 2016 IPPS Final Rule Update (cont.)

Hospitals should perform an assessment each year to take advantage of the opportunity for a second look

- Compare to hospital's prior year data
- Compare to other hospitals in area
- Review adjustments made in prior years, including both revisions and audit adjustments
- Involve others in the organization such as payroll and HR personnel

Polling Question # 2

Which 2 States are big Wage Index Winners?

1) IL & MI
2) OH & VA
3) MASS & CA
FY 2016 IPPS Final Rule Update

• Wage index assessment (cont.)
  - There is no "one size fits all" approach, but there are some issues that are common:
  - Identifying correct hours to include
  - Physician Part A admin - must be able to support related hours
  - Contract A&G - typically high AHW
  - Other contract labor - support for $ and hours
  - Allocation bases for benefits - salaries versus hours
  - Pension expense
  - Benefits buried in other GL accounts
  - Hours for contract dietary and housekeeping

IPPS DSH Formula

• Mandated by Section 3133 of ACA
• Splits system
  – 25 percent remains as old formula
  – Re-scrambles 75 percent
  – Uses 3 factors

\[
\text{Total New DSH Payment} = 25\% \text{ of Original DSH Payment} + 75\% \text{ of Original DSH Payments} \times \text{Change in Uninsured} \times \text{Uncomp Care Cost Ratio}
\]
DSH Factor One

• Determines 75 percent of what would have been paid under the old methodology

• Excluded hospitals
  – MD waivers
  – SCHs paid on a hospital-specific basis
  – Hospitals in Rural Community Demo

• Using CMS actuary estimates

<table>
<thead>
<tr>
<th>FY</th>
<th>Update</th>
<th>Discharge</th>
<th>Case-Mix</th>
<th>Other</th>
<th>Total</th>
<th>Estimated DSH Payments (in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>1.028</td>
<td>0.9844</td>
<td>1.014</td>
<td>1.0139</td>
<td>1.040394</td>
<td>$12.102</td>
</tr>
<tr>
<td>2014</td>
<td>1.009</td>
<td>0.9595</td>
<td>1.015</td>
<td>0.9993</td>
<td>0.98197</td>
<td>$11.884</td>
</tr>
<tr>
<td>2015</td>
<td>1.014</td>
<td>0.9885</td>
<td>1.005</td>
<td>1.0485</td>
<td>1.056207</td>
<td>$12.552</td>
</tr>
<tr>
<td>2016</td>
<td>1.009</td>
<td>1.0006</td>
<td>1.005</td>
<td>1.0450</td>
<td>1.060313</td>
<td>$13.441</td>
</tr>
</tbody>
</table>
DSH Factor One

- Current DSH estimate is $13.411 Billion
- Current 25% estimate is $3.353 Billion
- Current 75% estimate – Factor 1 is $10.058 Billion

DSH Factor Two

- Reduces Factor One amount by percentage reduction in uninsured
- Using CBO “projections”
  - CY 2015 rate of insurance coverage: 87 percent
  - CY 2016 rate of insurance coverage: 89 percent
  - FY 2016 rate of insurance coverage: (87 percent * .25) + (89 percent * .75) = 88.5 percent
DSH Factor Two

• Percent of individuals without insurance for 2013 (March 2010 CBO estimate): 18 Percent

• Formula;
  – \[1 - \left|\frac{(0.115 - 0.18)}{0.18}\right| = 1 - 0.3611 = 0.6389 \text{ (63.89 percent)}\]
  – 0.6389 - 0.002 (0.2 percentage points) = 0.6369
  – 0.6369 = Factor 2
  – 0.7619 = was Factor 2 for FY 2015

DSH Factor Two

• The amount available for uncompensated care payments for FY 2016 will be approximately $6.406 Billion (0.6369 times Factor 1 estimate of $10.058 Billion)

• The FY 2014 “pool” was $9.033 Billion

• The FY 2015 “pool” was $7.648 Billion

• The FY 2016 “pool” is $6.406 Billion
DSH Factor Three

• Factor 3 is “equal to the percent, for each subsection (d) hospital, that
  represents the quotient of (i) the amount of uncompensated care for such
  hospital for a period selected by the Secretary (as estimated by the
  Secretary, based on appropriate data (including, in the case where the
  Secretary determines alternative data is available which is a better proxy
  for the costs of subsection (d) hospitals for treating the uninsured, the use
  of such alternative data)); and (ii) the aggregate amount of
  uncompensated care for all subsection (d) hospitals that receive a
  payment under this subsection for such period (as so estimated, based
  on such data)”

• Based on each hospital’s share of total uncompensated care costs across
  all PPS hospitals that received DSH payments
  – So the numerator is all PPS hospitals, but denominator is just DSH hospitals

DSH Factor Three

• CMS is using the utilization of insured low-income patients
defined as inpatient days of Medicaid patients plus
inpatient days of Medicare SSI patients as defined in 42
CFR 412.106(b)(4) and 412.106(b)(2)(i), respectively to
determine Factor 3
Polling Question # 3

Uncompensated Care now factors into a hospital’s DSH payments?

1) True

1) False

Medicare 2 Midnight Rule

• Modifications/Still in play

• 0.2 percent reduction in I/P payments/stays

• Rule – CMS generally considers hospital stays of less than 2 midnights to be OP, while hospital admissions for stays spanning two midnights or longer are deemed appropriate

• Under proposed rule, certain stays that are less than 2 midnights would be payable under Medicare Part A. “An I/P admission would be payable under Medicare Part A on a case-by-case basis based on the judgment of the admitting physician”
Medicare 2 Midnight Rule

• For hospital stays that are expected to span less than two midnights to be payable under Part A, documentation in a patient’s medical record must support that an I/P admission is necessary. For an admission to be payable under Part A the documentation in the medical record must support either the admitting physicians reasonable expectation, a patient will require hospital care.

Medicare 2 Midnight Rule

Spanning at least 2 midnights or the physician's determination that the patient requires formal admission to the hospital on an I/P basis.

• CMS plans to “Prioritize these types of cases for medical review.”

• CMS plans to direct Quality Improvement Organizations (QIOs) to oversee the majority of patient status audits, while RACs focus only on hospitals with consistently high denial rates.

• CMS made no changes to its policy regarding hospital stays that are expected to be two midnights or longer.
Final FY 2016 IPPS

- Posted on 7/31/2015
- Published in 8/17/15 Federal Register
- Copy at:

- Tables for IPPS at: http://www.cms.hhs.gov/Medicare/medicare-Fee-for-Service-Payment/AcuteInpatientPPS/index.html
- Tables for LTCH at: http://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/LongTermCareHospitalPPS/index.html

Medicare OPPS Proposed

- Final decrease of 0.4% (2.4% less productivity adjustment of .6% and .2% cut required by ACA and a 2.0% reduction for excess packaged payment for lab tests)
Medicare OPPS Final
Overpayment for Packaged Lab

- CMS reports it overestimated the shift in CY 2014 spending for newly packaged labs into the OPPS rates
- Now they are implementing a 2% cut to account for the $1 billion inflation in OPPS spending
- Slight changes were made to the Outpatient Quality reporting program

Medicare OPPS
APCs Re-organized

- Final rule restructures the nine clinical ambulatory payment classification (APC) families with modifications for certain services and procedures.
- CMS also finalized nine new comprehensive-APCs (C-APCs), including some surgical APCs and a new C-APC for comprehensive observation services.
- CMS finalized the C-APC for comprehensive observation services, but will exclude all surgical procedures from being bundled into that C-APC, regardless of date of service.
Medicare OPPS Final Packaging

- Additional ancillary services will be packaged
- Some drugs used in surgical procedures
- Lab gets a packaging status indicator which will make it easier to bill for lab tests provided without other related services

Medicaid DSH

- Medicaid DSH is a $12 billion per year federal program
- Original Medicaid DSH cuts under Affordable Care Act, 2014-2020 = $18.1 billion
- Revised Medicaid DSH cuts under current law, 2018-2024 = $43.0 billion
- CMS does not want to provide relief to states that don’t expand Medicaid
- MedPAC report on uncomp care due Feb 2016
HRSA’s 340B MEGA Guidance

- Federal Register published rules 8/28/15
- Officially called 340B Drug Pricing Program Omnibus Guidance
- Comment period open until 10/27/15
- There are significant changes and clarifications

- Extends the prohibition on use of group purchasing organizations
  - Except as a last resort (document, document, document)
- Definition of “eligible patient” clarified
  - Child sites must be on 340B register to be covered. This is a critical compliance element
  - Staff privileges not enough, physician must be employed (or contracted) such that the covered entity may bill for services
HRSA’s 340B MEGA Guidance

- Definition of “eligible patient” clarified – continued
  - Inpatients are not an “eligible patient”. This now includes the ER, observation or other OP services done prior to admission.
  - Covered entities can make different decisions on traditional Medicaid and Medicaid Managed Care related to Medicaid discounts.
  - Contract pharmacy dispensations (to both traditional and Managed Care Medicaid) will be excluded from the 340B program unless a well-documented plan is in place to avoid duplicate discounts.

HRSA’s 340B MEGA Guidance

- Notes the expectation of annual independent audits
  - Expects auditable data kept for at least 5 years
HRSA’s 340B MEGA Guidance – Coalition Conference Take-aways

- Be prepared – have policies and procedures for all compliance areas
- Compliance is the entity’s responsibility. Do not rely on the software to do that
- Patient eligibility includes maintaining auditable records and maintaining patient responsibility
- Understand how you prevent duplicate discounts
- Have methods in place to prevent diversion and perform self-audits to ensure they are effective

Bipartisan Budget Act of 2015

- Maintaining 2016 Medicare Part B Premium and Deductible Levels Consistent With Actuarially Fair Rates
- Applying Inflation Adjustment to Medicaid Generic Drug Inflationary Rebate
- Treatment of New Off-Campus Outpatient Departments of a Provider
- Repeal of automatic enrollment requirement
Join the conversation!

Type your question or comment into the Q&A box on your computer screen.

Bill Galinsky
Vice President, Government Finance
Baylor Scott & White Health

email: wgalinsky@sw.org
tel: 254.215.9063

Steven Hand
Associate Vice-president Government Reporting
Memorial Hermann Health System

email: steve.hand@memorialhermann.org
tel: 713.338-4191