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# Reimbursement.

**THE REAL DOLLAR IMPACT OF THE  
MEDICARE 2016 IPPS UPDATE.**



# Presenters



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# What we will cover...

- **SAMPLE HOSPITAL 2016 IPPS FINAL RULE UPDATES**
  - Market Basket Update
  - Wage Index
  - Case Mix Index
  - Sole Community Rates
  - Outliers
  - Indirect Medical Education (IME)
  - Disproportionate Share (DSH)
  - Capital
  - Value Based Purchasing
  - Readmission Reduction Factor
  - Sequestration
- **OTHER UPDATES**





# SAMPLE HOSPITAL 2016 IPPS FINAL RULE UPDATES



# St. Marys Hospital and Medical Center – 06-0023

## DISCLAIMER

### MEDICARE IPPS RULE ANALYSIS

ST MARYS HOSPITAL AND MEDICAL CENTER - 60023

All amounts presented below are taken from the CMS issued public use file and related tables from each of the respective rules unless otherwise noted. **It is very important to compare the amounts to more current activity to determine if the hospital will realize the full change indicated below.** For example, the CMS public use files can often indicate large increases or decreases related to case mix index year-over-year which need to be reviewed as part of this analysis. Should the hospital determine that the case mix index will remain relatively consistent year-over-year despite the indication of a change based on the public use files then that portion of the change needs to be subtracted from the total change below. The change in the federal specific reimbursement and hospital specific reimbursement (if applicable) is broken out below for this purpose.

The amounts below are not all encompassing of Medicare reimbursement as this analysis does not include certain fee-for-service or pass-through amounts (such as Medicare Bad Debts or DGME) and is reflective of Traditional Medicare only.



# Regulation effective dates

**On July 31, 2015 CMS issued the final rule to update FY2016 Medicare payment policies & rates under the IPPS and LTCH PPS system.**

**Effective for discharges occurring on or after October 1, 2015**



# Market Basket Update

## MEDICARE IPPS RATE

- Medicare updates rates based primarily on a standard “Market Basket” update with other adjustments, such as adjustments mandated by the Affordable Care Act and coding related adjustments.

## DOCUMENTATION AND CODING REDUCTION

- A 0.8% reduction for coding & documentation is the third of four reductions required by the American Taxpayer Relief Act (ATRA) of 2012.
- ATRA required reductions are to be made annually from 2014 to 2017 for a total of \$11 billion.
- This authority allows CMS to retroactively recoup for increases in IP payments that the agency believes occurred during FY 2008 – 2013 solely due to hospital coding improvements related to the issuance of MS DRG’s on 10/1/2007.



# Market Basket Update (Cont.)

## MEDICARE IPPS RATE

	Final 2015	Final 2016	Estimate 2017
<b>Market Basket</b>	2.90%	2.40%	2.40%
<b>ACA Reductions</b>			
Market Basket	(0.20%)	(0.20%)	(0.75%)
Productivity	<u>(0.50%)</u>	<u>(0.50%)</u>	<u>(0.50%)</u>
Subtotal	<b>2.20%</b>	<b>1.70%</b>	<b>1.15%</b>
<b>Other Adjustments</b>			
Documentation & Coding	<u>(0.80%)</u>	<u>(0.80%)</u>	<u>(0.80%)</u>
Net Update	<b>1.40%</b>	<b>0.90%</b>	<b>0.35%</b>

- Table is for those that report quality data and meet meaningful use.
- Table excludes the impact of the 2% sequester, hospital readmission reductions, hospital acquired condition reductions, and value based purchasing.





# Market Basket Update (Cont.)

## BUDGET NEUTRALITY

- CMS has a budget each year for IPPS. Budget neutrality calculations will be incorporated each year.

	Final 2015	Final 2016	Estimate 2017
Net Update before Budget Neutrality	1.40%	0.90%	0.35%
Adjustment for Budget Neutrality	(0.14%)	(0.38%)	<i>unknown</i>
Net Update after Budget Neutrality	<b>1.26%</b>	<b>0.52%</b>	<i>unknown</i>



# Market Basket Update (Cont.)

## MEDICARE IPPS RATE

- Hospitals that fail quality reporting and/or meaningful use criteria will see negative updates in their 2016 rates.

2016	QD + EHR	QD – EHR	EHR – QD	- QD - EHR
Market Basket Rate of Incr.	2.40%	2.40%	2.40%	2.40%
Adjustments to the Rate + BN	(1.88%)	(1.88%)	(1.88%)	(1.88%)
Failure to submit Quality Data	-----	-----	(0.60%)	(0.60%)
Failure to meet Meaningful Use	-----	<u>(1.20%)</u>	-----	<u>(1.20%)</u>
Revised Net Payment Rate	<b>0.52%</b>	<b>(0.68%)</b>	<b>(0.08%)</b>	<b>(1.28%)</b>



# Market Basket Update (Cont.)

## SAMPLE HOSPITAL

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Federal Specific Reimbursement</b>			
Labor <sup>(1)</sup>	3,784.75	3,804.40	0.52%
Wage Index	1.004800	1.001200	-0.36%
Adjusted Labor	3,802.92	3,808.97	0.16%
Non-labor <sup>(1)</sup>	1,653.10	1,661.69	0.52%
Adjusted Standard Federal Rate	5,456.02	5,470.66	0.27%
Cases (Transfer Adjusted) <sup>(2)</sup>	4,486	4,486	0.00%
Case Mix	1.8832	1.8817	-0.08%
<b>Total Federal Specific Reimbursement</b>	<b>46,092,649</b>	<b>46,179,516</b>	<b>0.19%</b>

(1) = Rates assume the hospital submits quality data and is an EHR meaningful user.

(2) = Discharges used are consistent across all periods to remove volume as a variable in the analysis.



# Wage Index

## LABOR & NON-LABOR RELATED STANDARD RATES

	Full Update		Reduced Update	
	Labor Related	Non-Labor Related	Labor Related	Non-Labor Related
<b>Hospitals with a Wage Index &gt; 1 (69.6% Labor Share/30.4% Non-Labor Share)</b>	\$3,804.40	\$1,661.69	\$3,737.07	\$1,632.28
<b>Hospitals with a Wage Index ≤ 1 (62% Labor Share/38% Non-Labor Share)</b>	\$3,388.98	\$2,077.11	\$3,329.00	\$2,040.35



# Wage Index (Cont.)

## MICHIGAN CBSA'S (TABLE 3 FINAL RULING)

CBSA	Area Name	State	State Code	<sup>2</sup> FY 2016 Average Hourly Wage	<sup>2</sup> 3-Year Average Hourly Wage (2014, 2015, 2016)	Wage Index	GAF	Reclassified Wage Index	Reclassified GAF
23	MICHIGAN	MI	23	33.6547	32.6631	0.8279	0.8787	0.8279	0.8787
11460	Ann Arbor, MI	MI	23	40.5015	39.8037	0.9963	0.9975	0.9412	0.9594
12980	Battle Creek, MI	MI	23	41.741	39.392	1.0268	1.0183	0.9706	0.9798
13020	Bay City, MI	MI	23	40.8754	38.8167	1.0055	1.0038	0.8920	0.9247
19804	Detroit-Dearborn-Livonia, MI	MI	23	37.1587	36.5057	0.9141	0.9403		
22420	Flint, MI	MI	23	46.1685	44.232	1.1358	1.0911	1.0122	1.0083
24340	Grand Rapids-Wyoming, MI	MI	23	36.1331	35.2531	0.8889	0.9225	0.8783	0.9150
24580	Green Bay, WI	MI	23	37.483	36.7665			0.9085	0.9364
27100	Jackson, MI	MI	23	36.5675	36.1947	0.8996	0.9301		
28020	Kalamazoo-Portage, MI	MI	23	42.1375	39.987	1.0366	1.0249	0.9741	0.9822
29620	Lansing-East Lansing, MI	MI	23	43.195	41.9583	1.0626	1.0425	0.9952	0.9967
33220	Midland, MI	MI	23	34.4638	31.9602	0.8478	0.8931		
33780	Monroe, MI	MI	23	35.2987	35.5034	0.8684	0.9079		
34740	Muskegon, MI	MI	23	37.6392	39.2385	0.9259	0.9486	0.9136	0.9400
35660	Niles-Benton Harbor, MI	MI	23	33.139	33.4448	0.8279	0.8787		
40980	Saginaw, MI	MI	23	35.5779	35.445	0.8752	0.9128		
43780	South Bend-Mishawaka, IN-MI	MI	23	37.2275	36.3467	0.9158	0.9415		
47664	Warren-Troy-Farmington Hills, MI	MI	23	38.9831	37.7556	0.9590	0.9717		



# Wage Index (Cont.)

## SAMPLE HOSPITAL CBSA (TABLE 3 FINAL RULING)

<sup>1</sup> CCN	<sup>2</sup> Case-Mix Indexes for Discharges Occurring in Federal Fiscal Year 2014	<sup>3</sup> FY 2016 Wage Index	<sup>4</sup> Average Hourly Wage FY 2014	<sup>4</sup> Average Hourly Wage FY 2015	<sup>4</sup> Average Hourly Wage FY 2016	<sup>4</sup> 3-Year Average Hourly Wage (2014, 2015, 2016)	Geographic CBSA	Reclassified/Redesignated CBSA	Lugar/NECMA	MGCRB Reclass
060023	1.8888	1.0012	35.5064	38.4734	38.671	37.5649	24300	19740		Y



# Wage Index (Cont.)

## SAMPLE HOSPITAL

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Federal Specific Reimbursement</b>			
Labor <sup>(1)</sup>	3,784.75	3,804.40	0.52%
Wage Index	1.004800	1.001200	-0.36%
Adjusted Labor	3,802.92	3,808.97	0.16%
Non-labor <sup>(1)</sup>	1,653.10	1,661.69	0.52%
Adjusted Standard Federal Rate	5,456.02	5,470.66	0.27%
Cases (Transfer Adjusted) <sup>(2)</sup>	4,486	4,486	0.00%
Case Mix	1.8832	1.8817	-0.08%
<b>Total Federal Specific Reimbursement</b>	<b>46,092,649</b>	<b>46,179,516</b>	<b>0.19%</b>

(1) = Rates assume the hospital submits quality data and is an EHR meaningful user.

(2) = Discharges used are consistent across all periods to remove volume as a variable in the analysis.



# Case Mix Index

## TOP 10 MS-DRG'S (TABLE 5 AND 7A OF FINAL RULING)

MS-DRG	Number of Discharges	2015 Weight	2016 Weight	Percentage Change
470 – Major Joint Replacement or Reattachment of Lower Extremity	448,592	2.1137	2.0816	↓ 1.52%
871 – Septicemia or Sever Sepsis	438,571	1.8072	1.7926	↓ 2.47%
291 – Heart Failure & Shock	201,201	1.5097	1.4809	↓ 1.91%
292 – Heart Failure & Shock	194,235	0.9824	0.9707	↓ 1.19%
392 – Esophagitis, Gastroent & Misc	192,568	0.7388	0.7400	↑ 0.16%
690 – Kidney & Urinary Tract Infections	161,490	0.7794	0.7828	↑ 0.44%
194 – Simple Pneumonia & Pleurisy	149,469	0.9688	0.9695	↑ 0.07%
683 – Renal Failure	147,065	0.9512	0.9406	↓ 1.11%
378 – G.I. Hemorrhage	141,557	1.0021	0.9949	↓ 0.72%
190 – Chronic Obstructive Pulmonary Dis.	137,150	1.1743	1.1578	↓ 1.41%





# Case Mix Index (Cont.)

## SAMPLE HOSPITAL

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Federal Specific Reimbursement</b>			
Labor <sup>(1)</sup>	3,784.75	3,804.40	0.52%
Wage Index	1.004800	1.001200	-0.36%
Adjusted Labor	3,802.92	3,808.97	0.16%
Non-labor <sup>(1)</sup>	1,653.10	1,661.69	0.52%
Adjusted Standard Federal Rate	5,456.02	5,470.66	0.27%
Cases (Transfer Adjusted) <sup>(2)</sup>	4,486	4,486	0.00%
Case Mix	1.8832	1.8817	-0.08%
Total Federal Specific Reimbursement	46,092,649	46,179,516	0.19%

(1) = Rates assume the hospital submits quality data and is an EHR meaningful user.

(2) = Discharges used are consistent across all periods to remove volume as a variable in the analysis.



# Sole Community Rates

## SAMPLE HOSPITAL

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Hospital Specific Amount</b>			
Discharges <sup>(2)</sup>	4,486	4,486	0.00%
Case Mix Index	1.8877	1.8858	-0.10%
Hospital Specific Rate	6,625.53	6,727.38	1.54%
<b>Total Hospital Specific Amount</b>	<b>56,107,251</b>	<b>56,911,609</b>	<b>1.43%</b>

(2) = Discharges used are consistent across all periods to remove volume as a variable in the analysis.

VS.

<b>Total Federal Specific Reimbursement</b>	<b>46,092,649</b>	<b>46,179,516</b>	<b>0.19%</b>
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# Sole Community Rates

## SAMPLE HOSPITAL – HOSPITAL SPECIFIC RATE

	2015	2016
Beginning Balance: Prior year rate	\$6,490.95	\$6,625.53
Budget Neutrality	0.998761	0.998399
Update Factor (after ACA adj's)	<u>1.022000</u>	<u>1.017000</u>
<b>Ending Balance</b>	<b>\$6,625.53</b>	<b>\$6,727.38</b>



# Break it down!

## SAMPLE HOSPITAL

	2016 - Final	
	Total	Percent Change
<b>Federal Specific Reimbursement Analysis</b>		
Wage Index Impact	(115,105)	-0.25%
Case Mix Impact	(36,714)	-0.08%
Rate Update Impact	239,369	0.52%
Compounding Impact of the Above Items	(683)	0.00%
<b>Total</b>	<b>86,867</b>	<b>0.19%</b>



PPS

	2016 - Final	
	Total	Percent Change
<b>Hospital Specific Reimbursement Analysis</b>		
Case Mix Impact	(57,240)	-0.10%
Rate Update Impact	862,477	1.54%
Compounding Impact of the Above Items	(879)	0.00%
<b>Total</b>	<b>804,358</b>	<b>1.43%</b>



SCH



# Outliers

- Represents an **8.9%** decrease in the cost outlier threshold, resulting in **more** cases being eligible for outlier payments.
- Threshold is adjusted annually based on CMS' projections for total outlier payments so that total outliers payments approximate 5.1 percent of total IPPS payments.

	2015	2016	Difference
Operating Outlier Threshold	\$24,758	\$22,544	↓ \$2,214



# Outliers (Cont.)

## SAMPLE HOSPITAL

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Federal Specific Reimbursement</b>			
Labor <sup>(1)</sup>	3,784.75	3,804.40	0.52%
Wage Index	1.004800	1.001200	-0.36%
Adjusted Labor	3,802.92	3,808.97	0.16%
Non-labor <sup>(1)</sup>	1,653.10	1,661.69	0.52%
Adjusted Standard Federal Rate	5,456.02	5,470.66	0.27%
Cases (Transfer Adjusted) <sup>(2)</sup>	4,486	4,486	0.00%
Case Mix	1.8832	1.8817	-0.08%
Total Federal Specific Reimbursement	46,092,649	46,179,516	0.19%
<b>Outliers</b>	4,588,105	3,715,604	-19.02%

(1) = Rates assume the hospital submits quality data and is an EHR meaningful user.

(2) = Discharges used are consistent across all periods to remove volume as a variable in the analysis.



# Indirect Medical Education (IME)

## NO CHANGES TO IME FORMULA MULTIPLIER

- As set in the FY 2012 final rule, the IME formula multiplier for discharges occurring during FY 2008 and fiscal years thereafter is 1.35.
- CMS estimates that keeping the multiplier at 1.35 will result in an increase in IPPS payment of 5.5% for every ~10% increase in the hospital's resident to bed ratio.

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Indirect Medical Education (IME)</b>			
IME Adjustment Factor <sup>(4)</sup>	0.032660	0.031550	-3.40%
Medicare Traditional IME Reimbursement	1,505,377	1,456,964	-3.22%

(4) = The IME adjustment factors used are based on the rates published in the IPPS rules. Increases or decreases in interns and residents in the last couple years may not be reflected above unless separately noted.



# Disproportionate Share (DSH)

## PAYMENT CALCULATION

- DSH payment methodology was revised in FY2014
- 25% / 75%
- Factor 1, Factor 2, Factor 3

## FACTOR 2 UPDATE DRIVING DOWN DSH POOL

- Updated rate of 63.69%
- Reduces the 75% pool from \$7.6B in 2015 to \$6.4B in 2016

## ELIGIBILITY

- Reminder that if a hospital is determined not to be DSH eligible upon settlement, both the 25% (old method) and the 75% (DSH Pool) will be recouped.
- Medicaid-eligible days reviews – should you keep doing them?





# Disproportionate Share (DSH) (Cont.)

## SAMPLE HOSPITAL

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Disproportionate Share (DSH)</b>			
Estimated DSH Percentage	13.72%	13.43%	-2.11%
Empirically Justified Amount	1,580,690	1,550,246	-1.93%
Uncompensated Care Pool	2,994,461	2,449,727	-18.19%
Total DSH Reimbursement	4,575,151	3,999,973	-12.57%



# Capital

## SAMPLE HOSPITAL

- Federal rate increase of 0.85% with rates from \$434.97 to \$438.65.
- Hospital specific impact will be based on changes in the geographic adjustment factor, discharges, case mix, etc.

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Capital</b>			
Capital Federal Rate	434.97	438.65	0.85%
Geographic Adjustment Factor	1.0033	1.0008	-0.25%
Total Adjusted Capital Federal Rate	436.41	439.00	0.59%
Discharges	4,486	4,486	0.00%
Case Mix	1.8832	1.8817	-0.08%
Federal Capital Amount	3,686,768	3,705,741	0.51%
Capital Outlier	815,548	782,615	-4.04%
Capital DSH	208,764	209,838	0.51%
Capital IME	137,764	138,473	0.51%
Total Capital	4,711,079	4,698,195	-0.27%



# Value Based Purchasing

## PENALTY OR BONUS PROGRAM WITH 1.75% AT STAKE IN FY 2016

- Budget neutral program that redistributes penalties
  - Winner & Losers
- CMS estimates that \$1.5B will be available for redistribution

## SAMPLE HOSPITAL

	2015 - Final	2016 - Final	
		Total	Percent Change
Value Based Purchasing Adjustment	(48,714)	(57,189)	-17.40%

- Sample hospital shown above has received a VBP score below 1 (*FY 2016 currently based on FY 2015 as final results not available until October*).



# Readmission Reduction Factor

## PENALTY ONLY PROGRAM WITH UP TO 3% AT STAKE

- Compares your hospital to national average based on a three year look back period.
- Payment adjustment applied to the Medicare inpatient population's Federal Specific Amount.

## SAMPLE HOSPITAL

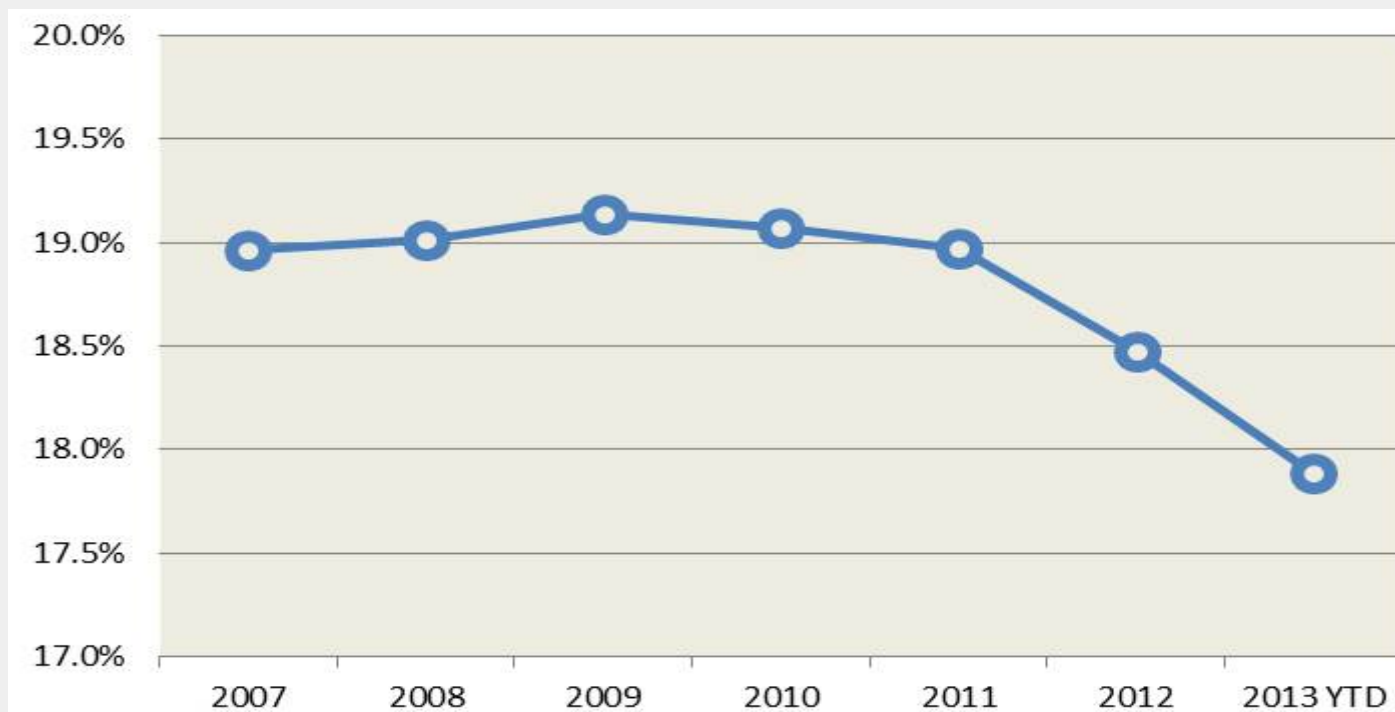
	2015 - Final	2016 - Final	
		Total	Percent Change
Readmission Reduction Factor	(27,656)	(23,090)	-16.51%

- Sample hospital shown above has received a Readmissions score below 1.



# Readmission Reduction Factor

## MEDICARE 30-DAY, ALL-CONDITION MEDICARE READMISSION RATES





# Sequestration

## NO CHANGES FROM PRIOR YEAR

- 2% cut was applied to Medicare payments beginning for dates of service on/after April 1, 2013
- The 2% reduction is after coinsurance and deductibles

## SAMPLE HOSPITAL

	2015 - Final	2016 - Final	
		Total	Percent Change
<b>Total Estimated Gross Reimbursement</b>	61,447,553	61,579,300	0.21%
<b>Sequestration Impact<sup>(3)</sup></b>	(1,045,907)	(1,048,213)	0.22%
<b>Total Estimated Reimbursement</b>	<b>60,401,646</b>	<b>60,531,087</b>	<b>0.21%</b>

(3) = Sequestration is estimated at 1.7% vs 2% to account for the reduction being after coinsurance and deductibles.



# IPPS 2016 Final Rule Summary

## WHILE THE UPDATE IS POSITIVE, IT DOESN'T TELL THE WHOLE STORY

- Providers should be reviewing their specific impact based on previous year discharges and case mix and changes in wage index factors to determine the true impact to the hospital.
- DSH pool cuts will further reduce operating payments due to the Factor 2 reduction.
- Not meeting MU or IQR will likely put you in the red year over year.



# OTHER UPDATES





# Other Updates

## TWO MIDNIGHT RULE

- Inpatient pay reduction of -0.2% continues to be upheld.
  - Many hospitals are including this as a protested item on their Medicare cost reports due to the lack of support for the “0.2%”.
- FY16 OPPS Proposed Rule
  - New approach allows Part A payment for stays spanning less than two midnights with proper physician documentation
  - RACs now will focus on repeat offenders while Quality Improvement Organizations will take over the short stay reviews and will refer cases to the MACs when payment adjustment is required
  - Cases spanning less than one midnight will be prioritized for review
  - Post-payment audits will resume October 1, 2015



# Other Updates

## WORKSHEET S-10

- Lack of transparency in the Worksheet S-10 instructions continues to be a hot topic.
- Future of Worksheet S-10
  - CMS still plans to use the Worksheet S-10 at some point in the future to assist in determining uncompensated care for the DSH calculation.
    - Complete the forms as best you can in accordance with current instructions.
  - CMS has speculated that they plan to make revisions to both the forms and related instructions.
    - Estimate 2018-19.



# Other Updates

## LOW VOLUME

- If the mileage requirement is met, low volume applies to hospitals with 1,600 or less total discharges. Program extended through October 1, 2017.
- Excerpt from CMS Table 14:

CMS Certification Number (CCN)	Medicare Discharges	FY 2016 Low-Volume Payment Adjustment (Percentage Add-on)
220174	1,560	0.007143
220177	181	0.253393
230003	1,041	0.099821
230013	289	0.234107
230015	470	0.201786

## MDH STATUS

- Program extended through October 1, 2017.



# Other Updates

## PROVIDER PAYMENT EQUALIZATION

- Frequent discussion point – CMS may eventually adjust how provider based clinics are reimbursed in order to equalize provider based versus non-provider based payments.
- Change Request 9231 revises current general hospital OP department place-of-service code 22 as of January 1, 2016.
- CMS and OIG becoming more strict with ensuring clinics billing as provider-based facilities are meeting the requirements as outlined in (42 CFR § 413.65).
- Keep in mind other benefits that come with a provider based clinic designation.



# Other Updates

## REVISED COST REPORT FORMS MEDICARE FQHC'S

- Changed to a PPS payment system for cost reports beginning on or after October 1, 2014.
- Next round of Medicare FQHC cost reports (9/30/15 YE's) will be on the new forms
  - Medicare 222-92 (old) to Medicare 224-14 (new)
  - New forms are not yet available for use, but draft forms show some significant changes.



# Other Updates

## MEDICARE OPPS 2016 PROPOSED RULE

- Overall update of negative 0.1 percent made up of the following:
  - 2.7 percent market basket update
  - 0.8 percent reduction mandated by the ACA
  - 2.0 percent reduction Lab reduction (discussed below)
- Lab Reduction – CMS estimated a \$2.4 billion shift in CY 2014 spending due to laboratory tests previously paid under the Clinical Laboratory Fee Schedule. CMS found that \$1 billion in laboratory tests continued to be paid outside OPPS which essentially meant that CMS over-estimated the impact of the laboratory tests packaged under OPPS. To account for this, they are proposing a 2.0 percent reduction.



# Conclusion

- Next Steps
  - Review your personalized calculations
  - Contact us with questions





# Questions?





# Contact information



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