

# Long-Term Care Hospital Prospective Payment System



*This Fact Sheet highlights significant policy changes that were adopted in the May 11, 2007 LTCH PPS and August 22, 2007 Final Rules.*

## Updated Final Rule for the Long-Term Care Hospital Prospective Payment System (LTCH PPS)

Under the LTCH PPS, the Centers for Medicare & Medicaid Services (CMS) implemented several special payment provisions to account for short stays, interrupted stays, or unusually high cost admissions.

The initial Final Rule describing the system was published in the Federal Register on August 30, 2002 (67 FR 55954). Effective July 1, 2004, the LTCH PPS Rate Year is established as July 1 through June 30. On July 1 of each year, there will be payment updates based on:

- An update to the Federal Rate;
- An update to the Fixed-Loss Amount for High Cost Outlier payments; and
- An update to the wage index.

Annual updates to the LTCH PPS will be published in the Federal Register by May 1, but no later than June 1 (effective July 1).

As specified in the Final Rule published on August 30, 2002, the LTC-DRGs and relative weights will be updated on October 1 of each year. CMS maintains the October 1 update for the LTC-DRGs and relative weights to coordinate with the annual update to the ICD-9-CM Diagnosis Manual and the DRG updates for the Inpatient Prospective Payment System (IPPS), as required by the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Information regarding the LTC-DRGs and relative weights will be published annually in the IPPS Proposed and Final Rules.

## Medicare Contracting Reform (MCR) Update

In Section 911 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) Congress mandated that the Secretary of the Department of Health and Human Services replace the current contracting authority under Title XVIII of the Social Security Act with the new Medicare Administrative Contractor (MAC) authority. This mandate is referred to as Medicare Contracting Reform. Medicare Contracting Reform is intended to improve Medicare's administrative services to beneficiaries and health care providers. All Medicare work performed by Fiscal Intermediaries and Carriers will be replaced by the new A/B MACs by 2011. Providers may access the most current MCR information to determine the impact of these changes and to view the list of current MACs for each jurisdiction at <http://www.cms.hhs.gov/MedicareContractingReform/> on the CMS website.

News  
January 2008



# Long-Term Care Hospital Prospective Payment System News



This separation of the two updates provides a July 1 update of the Federal Rate, and an October 1 update of the LTC-DRGs and relative weights.

The IPPS Final Rules update the Long-Term Care-Diagnosis Related Groups (LTC-DRGs), relative weights, and the Average Length of Stay (ALOS) effective October 1 for that Fiscal Year. Beginning in Fiscal Year (FY) 2008, CMS adopted a Medicare Severity DRG (MS DRG) classification system for the LTCH PPS referred to as MS-LTC-DRGs. The MS-DRG system will increase the number of DRGs from 538 to 745, and better recognize severity of illness than the CMS-DRGs. There are three levels of severity in the MS-DRGs based on the secondary diagnosis codes: MC (Major Complication/Comorbidity), CC (Complication/Comorbidity), and non-CC. The changes are effective October 1, 2007.

## Background

Long-Term Care Hospitals (LTCHs) treat patients with multi-comorbidities requiring long-stay hospital-level care. To be designated as a LTCH, Medicare requires that a hospital typically demonstrates that it has an average length of stay for its Medicare patients of greater than 25 days. On October 1, 2002, CMS established the Long-Term Care Hospital Prospective Payment System (LTCH PPS). In the LTCH PPS, the method of determining payments for LTCHs shifts from a reasonable cost basis to a per discharge system, based on Medicare Severity Long-Term Care-Diagnosis Related Groups (MS-LTC-DRGs). As a conforming change, CMS also updated the regulations to specify that for discharges occurring on or after October 1, 2007, references to LTC-DRGs for policy descriptions and/or payment calculations are to be references to the MS-LTC-DRGs.

## What Are Long-Term Care-Diagnosis Related Groups?

The LTCH PPS uses MS-LTC-DRGs as a patient classification system. Each patient stay is grouped into an MS-LTC-DRG based on diagnoses (including secondary diagnoses), procedures performed, age, gender, and discharge status. For each MS-LTC-DRG, CMS annually calculates an Average Length of Stay (ALOS) for a patient classified to the MS-LTC-DRG. Under the LTCH PPS, an LTCH receives payment for each Medicare patient, based on the MS-LTC-DRG to which that patient's stay is grouped. This grouping reflects the typical resources used for treating such a patient. Cases assigned to an MS-LTC-DRG are paid according to the Federal payment rate, including adjustments.

## What Change Was Made to the Short-Stay Outlier (SSO) Policy?

The LTCH PPS Final Rule for Rate Year (RY) 2008 revised the existing payment adjustment formula for a subgroup of SSO cases where the patient's LTCH covered length of stay is less than, or equal to, an "IPPS-comparable" threshold for the DRG to which the case is assigned. For cases falling within the "Inpatient PPS (IPPS) - comparable" threshold, Medicare payments under the SSO policy will be subject to a payment option based on an amount comparable to what would otherwise be payable under the IPPS, substituting for the option finalized beginning in RY 2007 of a blend of a percentage of an amount comparable to a per diem payment under the IPPS and a percentage of a payment based on 120 percent of the LTC-DRG per diem amount. For more detailed information on the new short-stay outlier policy, please see the Short-Stay Outliers Fact Sheet available at <http://www.cms.hhs.gov/MLNProducts/MPUB/list.asp#TopOfPage> on the CMS website.



## What is the Update to the LTCH PPS Federal Rate for the 2008 Rate Year?

Since the LTCH PPS was implemented in FY 2003, the LTCH PPS Federal rate was updated annually, based on the most recent estimate of the LTCH PPS market basket, effective for discharges on or after July 1 of each year. Based on an analysis of LTCH case-mix indices and margins since implementation of the LTCH PPS, for RY 2008, an adjustment was made to the most recent estimate of the LTCH PPS market basket to account for the effect of coding or classification changes that do not reflect an increase in patient severity. Consequently, the LTCH PPS Federal rate for RY 2008 will be changed to \$38,356.45.

## Which Rates Were Updated in the Final Rule?

The updated Final Rule revises several key rates that affect the LTCH PPS payments. Table 1 shows a full list of the updated LTCH PPS components, along with the previous rates, the new rates, and the effective dates for the changes.

Table 1. Updated Payment Rates and Effective Dates for LTCH PPS Components

The LTCH PPS Component	New Rate or Version Effective July 1, 2006	New Rate or Version Effective July 1, 2007	Subsequent Updates Will Be Effective On
Federal Rate	\$38,086.04	\$38,356.45	July 1
Fixed-Loss Amount	\$14,887	\$20,738	July 1
Budget Neutrality Adjustment	0.0% (*1.000)	0.0% (*1.000 no change)	July 1
Wage Index Data	FY 2002 audited acute care hospital inpatient wage data (the same wage data used to develop the FY 2006 IPPS wage index)	FY 2003 audited acute care hospital inpatient wage data (the same wage data used to develop the FY 2007 IPPS wage index)	July 1
GROUPE Version	24	25	October 1
MS-LTC-DRGs	—	—	October 1
Relative Weights	**	**	October 1

\* The PRICER payment amount will include the adjustment factor as 1.00.

\*\* In transitioning to the MS-LTC-DRGs, the FY 2008 relative weight for each MS-LTC-DRG was computed as a 50/50 blend of the MS-LTC-DRG relative weight and the LTC-DRG relative weight as described in "Step 7" of the "Steps for Determining the FY 2008 MS-LTC-DRG Relative Weights" in the August 22, 2007 FY 2008 IPPS Final Rule.

# Long-Term Care Hospital Prospective Payment System News

## What Other Provisions Are in the LTCH RY Final Rule?

The Final Rule published May 11, 2007, also includes other important policy changes that affect the LTCH PPS:

- CMS revised the existing payment adjustment formula for SSO outlier cases where the patient's LTCH covered length of stay is less than, or equal to, an "IPPS-comparable" threshold for the DRG to which the case is assigned.
- CMS established a budget neutrality requirement for the annual update of the LTC-DRG classifications and relative weights.
- CMS expanded the special payment provisions for LTCH and LTCH satellites.
- CMS revised the Cost of Living Allowances (COLAs) for Alaska as part of the LTCH Final Rule for RY 2008.

## Were there any Additional Policies Adopted for the LTCH PPS in the IPPS FY 2008 Final Rule?

- CMS adopted the structure of the MS-DRG system for the LTCH Prospective Payment System, referred to as MS-LTC-DRGs, beginning in FY 2008 as the new classification system for the LTCH PPS.

### Example

**Time Period:** July 1, 2006 through September 30, 2007

Medicare payments will be based on the updated Federal Rate determined on July 1, 2006 and LTC-DRGs and relative weights determined on October 1, 2006.

**grouper Version:** 24

**Time Period:** October 1, 2007 through June 30, 2008

Medicare payments will be based on the updated Federal Rate determined on July 1, 2006 and MS-LTC-DRGs and relative weights determined on October 1, 2007.

**grouper Version:** 25

## Where Can I Go for More Information about the Updated LTCH PPS Final Rule?

The following online references provide more information about the LTCH PPS:

- **The Medicare Learning Network Web Page**

The Medicare Learning Network (MLN) is the brand name for official CMS educational products and information for Medicare fee-for-service providers. For additional information visit the Medicare Learning Network's web page at <http://www.cms.hhs.gov/MLNGenInfo> on the CMS website.

- **Long-Term Care Hospital Prospective Payment System Web Page**

[http://www.cms.hhs.gov/LongTermCareHospitalPPS/01\\_Overview.asp](http://www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp)

The Long-Term Care Hospital Web Page provides the Final Rules and additional LTCH PPS-related documents.

- **LTCH PPS Press Release Updating the LTCH PPS for Rate Year 2008**

<http://www.cms.hhs.gov/apps/media/press/release.asp?Counter=2154>

The press release summarizes how Medicare is updating the format and data of the LTCH PPS system for Rate Year 2008. These changes were also published in the Federal Register on May 11, 2007.

- **Changes to the Hospital Inpatient Prospective Payment System and Fiscal Year 2008 Rates**

<http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/CMS-1533-FC.pdf>

The FY 2008 IPPS Final Rule establishes updates to the CCR ceiling and applicable statewide average CCRs used under the LTCH PPS, as well as adopts the Medicare Severity DRG (MS-LTC-DRG) as the new patient classification system for the LTCH PPS.

- **Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction; Final Rule**

<http://www.cms.hhs.gov/AcuteInpatientPPS/downloads/CMS-1533-CN2.pdf>

The above document corrects technical errors that appeared in the final rule with comment period entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates."

- **Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction; Final Rule**

<http://a257.g.akamaitech.net/7/257/2422/01jan20071800/edocket.access.gpo.gov/2007/07-5513.htm>

The above document corrects wage index, case-mix index, and geographic adjustment factor errors in the final rule with comment period that appeared in the August 22, 2007 Federal Register entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates Final Rule"; **and** the correction notice that appeared in the October 10, 2007 Federal Register entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction."

- **Federal Register Notice for Prospective Payment System for Long-Term Care Hospitals RY 2008: Annual Payment Rate Updates and Policy Changes**

<http://www.cms.hhs.gov/QuarterlyProviderUpdates/Downloads/CMS1529F.pdf>

The LTCH PPS Final Rule provides a more in-depth look at the changes for Rate Year 2008. This final rule also contains the establishment of a budget neutrality requirement for the annual MS-LTC-DRG update, extension of the 25 percent threshold adjustment, and revisions to the SSO policy that are effective October 1, 2007, under the LTCH PPS.

- **CMS Manual System - Medicare Claims Processing Manual - Update-Long Term Care Hospital Prospective Payment System (LTCH PPS) Rate Year 2008 (Transmittals 1268 and 1354)**

<http://www.cms.hhs.gov/transmittals/downloads/R1268CP.pdf>

<http://www.cms.hhs.gov/transmittals/downloads/R1354CP.pdf>

- **The CMS Manual System - Medicare Claims Processing Manual update provides updated payment rates, provisions, and updates to the Medicare Claims Processing Manual for the LTCH PPS Rate Year 2008**

<http://www.cms.hhs.gov/Manuals/IOM/list.asp>

Questions about the updated Final Rule and the LTCH PPS can be emailed to [ltchpps@cms.hhs.gov](mailto:ltchpps@cms.hhs.gov).

*This fact sheet was prepared as a service to the public and is not intended to grant rights or impose obligations. This fact sheet may contain references or links to statutes, regulations, or other policy materials. The information provided is only intended to be a general summary. It is not intended to take the place of either the written law or regulations. We encourage readers to review the specific statutes, regulations and other interpretive materials for a full and accurate statement of their contents.*

January 2008 • ICN # 006393

Visit [www.cms.hhs.gov/LongTermCareHospitalPPS/01\\_Overview.asp](http://www.cms.hhs.gov/LongTermCareHospitalPPS/01_Overview.asp) on the CMS website for more information.