NEW JERSEY HOSPITAL ASSOCIATION
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Date: May 22, 2014

To: Chief Executive Officers
Chief Financial Officers
Government Relations Officers

From: Sean J. Hopkins
Senior Vice President, Federal Relations & Health Economics

Re: **FY 2015 Inpatient PPS Proposed Rule Financial Impacts**

The Centers for Medicare and Medicaid Services (CMS) released the fiscal year 2015 inpatient prospective payment system (PPS) proposed rule as a display copy on April 30, with the official version published in the *Federal Register* May 15. Since the rule's release, NJHA has performed a detailed analysis of the key financial provisions affecting hospitals, which will go in effect beginning Oct. 1, 2014. The attached analysis shows hospital-specific impacts of select proposals contained in the rule.

Market Basket and Imputed Rural Floor Impact

NJHA is pleased that CMS has proposed to extend New Jersey's imputed wage index floor for an additional year (through Sept. 30, 2015). **This extension is estimated to be worth a combined $33.6 million ($26.6 million in additional Medicare inpatient payments and $7 million in outpatient payments) in FY 2015 for 12 New Jersey acute care hospitals.** As published in the data tables accompanying the rule, the proposed imputed wage index floor for New Jersey in FY 2015 is 1.1088.

The proposed rule includes an initial market basket update of 2.7 percent for hospitals that submit data on quality measures and were meaningful users of electronic health records (EHRs) in FY 2013. There are two additional market basket reductions as mandated by the Affordable Care Act (ACA): a -0.4 percent reduction and a -0.2 percent "productivity" cut. Hospitals either not submitting quality data or were not meaningful users in FY 2013 will be subject to a one-quarter reduction in the 2.1 percent net market basket (the initial market basket rate minus the ACA reductions). Hospitals that fail to meet both the quality and EHR requirements will face a one-half reduction in the net market basket. In addition, the proposed rule includes a -0.8 percent reduction to the standardized amount as part of the American Taxpayer Relief Act (ATRA), which mandates adjustments to acute care hospitals totaling $11 billion nationwide over a 4-year period from FY 2014 to FY 2017. **Combined, the result is a net market basket of 1.3 percent. The difference between a full market basket of 2.7 percent and a net market basket of 1.3 percent equates to a reduction in Medicare reimbursement to New Jersey acute care hospitals of $49.3 million in FY 2015.**

FY 2015 Operating Market Basket (MB) Update:

Proposed rule full MB:	+2.7 percent
Healthcare reform MB adjustment:	-0.4 percent
Healthcare reform productivity adjustment:	-0.2 percent
ATRA mandated reduction:	-0.8 percent
Total proposed rule net MB:	**1.3 percent**

For capital payments, CMS proposes a rate update of 1.5 percent. The capital rate is not subject to any reductions in the proposed rule.

<u>Medicare Disproportionate Share Hospital (DSH) Reductions</u>

The FY 2015 proposed rule continues the reductions Medicare Disproportionate Share Hospital (DSH) payment policy as mandated by the ACA. The new payment formula provides hospitals 25 percent of the DSH payments they would have received under the prior DSH formula with the remaining 75 percent of nationwide DSH money placed in a pool which is distributed based on the proportion of total uncompensated care each hospital eligible for Medicare DSH provides. This pool will be reduced as the nationwide percentage of uninsured declines.

For FY 2015, using Congressional Budget Office estimates of the uninsured population from February 2014, CMS proposes to retain 80.36 percent of the 75 percent uncompensated care pool. In the proposed rule, total unadjusted DSH payments for FY 2015 are estimated to be $14.205 billion. This means approximately $8.561 billion will be placed into the uncompensated care pool ($14.205 billion * 0.75 pool share * 0.8036 reduction in uninsured adjustment). Each hospital's share of the $8.561 billion will be proportional to the amount of uninsured days it has relative to the nationwide total. CMS has provided the total dollar amount each hospital will receive from the pool in FY 2015 (column G in the attached model). CMS also provides the amount each hospital will receive in FY 2015 as part of the uncompensated care pool on a per claim basis (column I in the attached model). From a cash flow perspective, the per claim amount is fixed. However, total DSH payments from the uncompensated care pool will be reconciled to the amount in column G at year-end during the cost report settlement process.

NJHA estimates a statewide reduction of $11.8 million in Medicare DSH payments in FY 2015 as a result of this policy.

<u>Hospital Readmissions Reduction Program (HRRP)</u>

As part of the ACA, The Centers for Medicare & Medicaid Services (CMS) implemented the Hospital Readmissions Reduction Program (HRRP) in FY 2013. The HRRP penalizes hospitals with excess readmissions for certain conditions by reducing their Medicare payments.

CMS currently penalizes hospitals with excess readmissions for the following three conditions: pneumonia, heart failure and heart attack. In FY 2015 CMS proposes to include two addition conditions – chronic obstructive pulmonary disease (COPD) and total hip/total knee arthroplasties (THA/TKA).

For each condition, the penalty is calculated using hospital-specific factors that CMS derives annually. These factors – the Proposed FY 2015 Proxy Readmission Payment Adjustment Factor and the Excess Readmission Ratio – are published in a supplemental data table in the proposed rule. The maximum HRRP penalty a hospital can accrue during FY 2015 is 3 percent of its total inpatient Medicare DRG payments, an increase from the 2 percent maximum in FY 2014.

NJHA estimates a reduction of $23.5 million for New Jersey acute care hospitals in FY 2015 as a result of the HRRP.

Since this is the proposed rule, it is vital that member hospitals provide feedback during the comment period to protect the imputed wage index floor provision and ensure the language extending it appears in the final rule, which will be published in early August. In the near future, NJHA will be circulating two templates for hospitals to utilize to formulate their comments on the rule. The first will be related solely to the imputed wage index floor provision and the second letter will be a more comprehensive document outlining our comments on all provisions in the proposed rule. **NJHA urges all member hospitals to utilize these templates and provide comments before the June 30, 2014, 5 p.m. deadline.**

Please contact Roger Sarao, vice president, Economic & Financial Information, at 609-275-4026 or rsarao@njha.com with any questions or comments.

Attachments (3)