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Special Bulletin

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CMS Releases FY 2025 Long-term Care Hospital PPS Final Rule

The Centers for Medicare & Medicaid Services (CMS) on August 1 issued a final rule for the inpatient and long-term care hospital (LTCH) prospective payment systems (PPS) for fiscal year (FY) 2025. This Special Bulletin reviews highlights of the LTCH provisions in the rule. The inpatient PPS and Center for Medicare and Medicaid Innovation (CMMI) Transforming Episode Accountability Model (TEAM) provisions are covered in a separate Special Bulletin.

KEY HIGHLIGHTS

The rule will:

- Increase net LTCH payments by 2.2%, or $58 million, in FY 2025, relative to FY 2024, including both standard rate payments and site-neutral payments. This includes:
    - Increasing standard LTCH PPS payments by 2.0%, or $45 million in FY 2025 relative to FY 2024.
    - Increasing site-neutral LTCH PPS payments by 4.2%, or $13 million, in FY 2025 relative to FY 2024.
- Increase the standard rate fixed-loss amount for high-cost outlier (HCO) cases from $59,873 in FY 2024 to $77,048 in FY 2025.
- Adopt and modify certain patient assessment items related to health-related social needs and extend the window in which patient assessments must be done from three to four days after admission.

AHA TAKE

The payment update for LTCHs is inadequate and threatens access for extremely ill Medicare beneficiaries. In addition to this insufficient market basket update, the nearly 30% increase in the fixed-loss amount puts LTCHs in an untenable position by forcing them to absorb hundreds of thousands of dollars in additional losses when caring for the sickest patients. Without adequate funding, additional burden will be placed on acute-care hospitals and other providers that do not specialize in caring for this unique patient population. The AHA will continue to work with CMS to address these issues. **See AHA's full statement that was shared with the media.**

Highlights from the rule follow.

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LTCH PPS PAYMENT CHANGES

Overall FY 2025 Payment Update. When considering all LTCH provisions in the rule, including updates to both standard rate and site-neutral payments, CMS estimates that aggregate spending on LTCH services will increase by 2.2% or $58 million, in FY 2025 compared to FY 2024. For purposes of its estimates, CMS assumes that standard-rate cases will account for 88% of LTCH spending, with site-neutral cases accounting for the remaining 12%.

Update for Standard LTCH PPS Rate Cases. CMS will update standard rate payments by 2%, or $45 million, in FY 2025 relative to FY 2024. This update includes a 3.5% market-basket update that will be offset by a statutorily mandated cut of 0.5 percentage points for productivity. In addition, as discussed further below, CMS will decrease HCO payments as a percentage of total LTCH PPS standard federal rate payments by 0.8%. The final FY 2025 standard rate is $49,383.26, an increase from the current $48,116.62. LTCHs that fail to submit quality data as required will have this figure reduced by 2%.

Standard Rate HCO Threshold. CMS updates the fixed-loss amount annually to attempt to meet the statutorily required 7.975% HCO pool. CMS proposed to increase the fixed-loss amount for standard-rate HCO cases from $59,873 in FY 2024 to $90,921 in FY 2025. However, in the final rule, CMS finalized a fixed-loss amount of $77,048. It reached this figure by using more recently available claims and cost data. It also said it considered alternatives, such as a multi-year phase-in of the fixed-loss amount increase, but determined it was not necessary given the lower than proposed amount resulting from use of updated data.

Update for Site-neutral Rate Cases. CMS will update payments for site-neutral cases by 4.2% (or $13 million) in FY 2025 as compared to FY 2024. Site-neutral cases are paid the lower of the inpatient PPS-comparable per-diem amount, including any outlier payments, or 100% of the estimated cost of the case. Therefore, this update largely reflects CMS' updates under the inpatient PPS. For FY 2025, the final HCO threshold for site-neutral cases will continue to mirror that of the inpatient PPS threshold, which was finalized as $46,152.

AHA analyses have found that site-neutral cases are underpaid by CMS, both under the prior blended rate and the current full site-neutral rate. This finding contrasts with CMS' ongoing position that the cases paid at the site-neutral payment rate will likely mirror the costs and resource use for inpatient PPS cases assigned to the same MS-DRG.

Rebasing of LTCH PPS Market Basket. As it does approximately every four years, CMS rebased the LTCH PPS market basket. CMS rebases the market basket to help ensure that it accurately reflects the mix of goods and services provided by LTCHs. The last rebasing was in FY 2021 utilizing FY 2016 and 2017 data. For this update, the agency utilized cost report data from FY 2022. CMS used almost entirely the same methodology as it used previously. However, one significant finalized change is the

weighting of the contract labor cost category, which will increase from 4.4% to 12.6% of the market basket. Most of the weight is being redistributed from the “all other” category, which will decrease from 28.3% to 20.8%. The table below, reproduced from the final rule, shows the final major cost category weights.

TABLE EEEE 1—MAJOR COST CATEGORIES AS DERIVED FROM MEDICARE COST REPORTS

Major Cost Categories	2022-Based LTCH Market Basket (Percent)	2017-Based LTCH Market Basket (Percent)
Wages and Salaries	42.7	42.6
Employee Benefits	6.5	6.2
Contract Labor	12.6	4.4
Professional Liability Insurance (Malpractice)	0.7	0.5
Pharmaceuticals	4.5	6.2
Home Office/Related Organization Contract Labor	3.7	1.9
Capital	8.5	9.9
All Other	20.8	28.3

The rule also contains a prospective and retrospective analysis comparing the current and new market baskets. As shown in the table below, also reproduced from the final rule, the market baskets produce, on average, similar outcomes. However, there are some small differences from year to year.

TABLE EEEE 8—2022-BASED LTCH MARKET BASKET AND 2017-BASED LTCH MARKET BASKET PERCENT CHANGES, FYs 2020 THROUGH 2027

	Fiscal Year (FY)	2022-Based LTCH Market Basket Percent Change	2017-Based LTCH Market Basket Percent Change
Historical Data	FY 2020	2.2	2.0
	FY 2021	2.6	2.8
	FY 2022	5.1	5.5
	FY 2023	5.1	4.8
	Average 2020-2023	**3.8**	**3.8**
Forecast	FY 2024	4.0	3.7
	FY 2025	3.5	3.4
	FY 2026	3.1	3.1
	FY 2027	2.9	2.9
	Average 2024-2027	**3.4**	**3.3**

Note that these market basket percent changes do not include any further adjustments as may be statutorily required.
Source: IHS Global Inc. 2nd quarter 2024 forecast

LTCH QUALITY REPORTING PROGRAM

CMS did not to adopt, modify or remove any quality measures from the LTCH Quality Reporting Program (QRP) in this rule.

CMS will require LTCHs to report four new patient assessment items in the Long-Term Care Hospital (LTCH) Continuity Assessment Record and Evaluation (CARE) Data Set (LCDS) under the social determinants of health (SDOH) category beginning with the FY

2028 LTCH QRP. The items are currently collected in the Accountable Health Communities Health-related Social Needs Screening Tool, and include:

- Living situation: addresses housing stability;
- Food: addresses frequency of worry that food would run out;
- Food: addresses food running out without ability to buy more; and
- Utilities: addresses utilities being shut off in home.

In addition, CMS will modify the patient assessment item on Transportation to simplify the response options and revise the look-back period.

Finally, CMS finalized its proposal to extend the window for admission assessments from three days to four beginning with patients admitted on Oct. 1, 2026.

NEXT STEPS

The AHA in the coming weeks will provide a Regulatory Advisory with a more detailed summary. Please contact Jonathan Gold, AHA's senior associate director of policy, at jgold@aha.org, with any questions related to payment, and Caitlin Gillooley, AHA's director of policy, at cgillooley@aha.org, regarding any questions related to quality.

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