THORN RUN PARTNERS
GOVERNMENT RELATIONS

Issue Brief: Medicare Hospital Quality Reporting and Payment Programs

April 7, 2016

I. EXECUTIVE SUMMARY

This memorandum provides an overview of key Medicare hospital quality reporting and payment programs, including their recent developments and significant upcoming changes. We begin with a brief outline of these programs, noting for example the Centers for Medicare and Medicaid Services' (CMS) early experience with quality reporting-focused initiatives, such as the Hospital Inpatient Quality Reporting (IQR) Program. Building on the Hospital IQR Program, the Affordable Care Act (ACA) implemented a slate of reforms that incentivize value-based care via a number of hospital pay-for-performance programs.[1] These include: the Hospital Readmissions Reduction Program (HRRP); the Hospital Value Based Purchasing (VBP) Program; and the Hospital Acquired Condition (HAC) Reduction Program, highlighted in this issue brief.

As detailed more fully in section III, CMS has taken a number of steps to instill greater transparency and accuracy with respect to hospital quality data. This is evidenced, in part, by the upcoming inclusion of overall hospital quality star ratings on the Hospital Compare website. Further, the Department of Health and Human Services (HHS) and collaborative partners are examining possible risk-adjustment of certain measures for socioeconomic status (SES) – a topic we will more thoroughly examine in an upcoming issue brief. The results of this work are sure to have profound implications on Medicare quality measurement and payment methodologies.

II. OVERVIEW OF HOSPITAL QUALITY REPORTING AND PAYMENT PROGRAMS

As delineated in Table 1, CMS continues to add value-based payment components to Medicare hospital reimbursement. Generally, CMS leverages its annual Hospital Inpatient Prospective Payment System (IPPS) regulation to codify hospital quality program changes. For example, the Fiscal Year (FY) 16 IPPS final regulation, released last July, outlined a host of updates to these programs – most notably through the expansion of measures. Under last year's final rule, hospitals that successfully participated in the Hospital IQR Program and documented "meaningful use" of certified electronic health record (EHR) technology received a 0.9 percent increase in their respective payment rate. The American Hospital Association (AHA) estimates that hospitals currently report nearly 90 measures across various hospital inpatient and outpatient quality programs.[2]

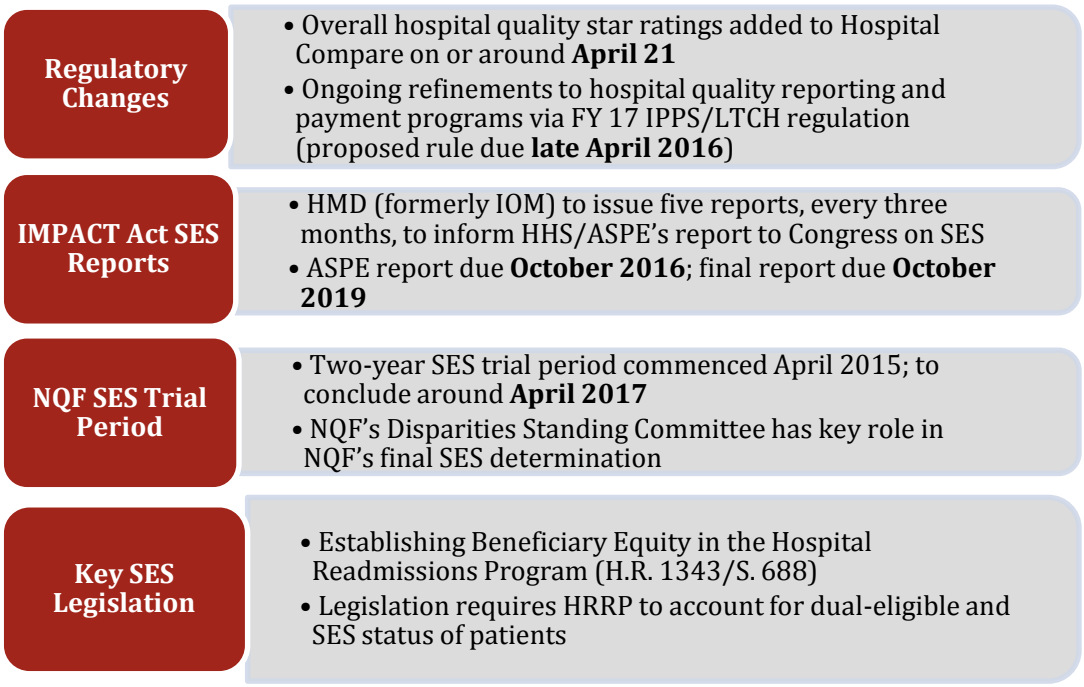
Table 1: Key Medicare Inpatient Hospital Quality Reporting and Payment Programs

Program	Overview	Authorizing Legislation	Recent Developments
Hospital IQR Program	Hospitals failing to report on designated quality measures are subject to a 2 percentage point annual market basket (MB) update.[3]	Section 501 of the MMA,[4] subsequently modified by section 5001 of the DRA 2005[5]	• For the FY 17 payment determination and subsequent years, the IQR set includes total of 63 measures (47 required and 16 voluntary electronic measures).[6] • IQR quality information and other data sets reported via Hospital Compare. Overall hospital star ratings to be added to site on or around April 21, 2016.
HRRP	Hospital base Diagnosis Related Group (DRG) payments may be reduced up to 3 percent if inpatient (30-day) readmission rates exceed certain levels. Penalty is based on an "excess readmissions ratio," calculated using readmission measures for specified clinical conditions.[7]	Sec. 3025 of the ACA	• Number of clinical conditions that can contribute to penalties under the program has grown since program's inception, with expanded readmission measures planned in FY 17 and future years.[8] • Providers have expressed concern about inclusion of readmissions unrelated to initial reason for readmission, as well as the lack of risk-adjustment for SES – factors often outside a hospital's control.
Hospital VBP Program	Adjusts hospital payments based on four quality domains: clinical process; patient experience; outcome; and efficiency.[9] Funded by withholding an applicable percentage of hospital DRG payment (1.75 percent in 2016 with a cap of 2 percent in 2017). Withhold is then redistributed to top-performing hospitals.[10]	Sec. 3001 of the ACA	• Recent changes include the addition of new measures, as well as potential future changes to certain measures (e.g., National Health Safety Network (NHSN) measures beginning FY 2019).[11]
HAC Reduction Program	Adjusts hospital payments based on specified HAC quality measures, with hospitals in the worst-performing quartile subject to a 1 percent penalty.[12]	Sec. 3008 of the ACA	• In FY 16, 758 out of 3,308 hospitals were in the worst-performing quartile and subject to a 1 percent payment reduction, estimated to yield $364 million in Medicare savings.[13]

III. NEXT STEPS

There are a number of imminent and longer-term changes on the horizon related to hospital quality improvement. As detailed in Figure 1 below, notable upcoming changes include the addition of overall star ratings to the Hospital Compare website, as well as forthcoming IPPS[14] proposals that will likely seek to further align hospitals' reporting of electronic clinical quality measures (eCQMs) under the Hospital IQR with the Medicare EHR Incentive Program.

Figure 1: Key Regulatory and Legislative Hospital Quality Program Changes Ahead



Beyond immediate regulatory changes, HHS is taking a broader look at the impact of SES and other factors on quality and resource use in Medicare. Specifically, HHS contracted with the National Academies' Health and Medicine Division (HMD), formerly the Institute of Medicine (IOM), to provide input on two SES-related reports to Congress. These reports are required by statute and due in October of 2016 and 2019, respectively.[15] Additionally, CMS continues to work with the National Quality Forum (NQF) during its two-year SES trial period – concluding in the spring of 2017 – to identify appropriate measures to risk-adjust for SES and other demographic factors.[16] The results of these ongoing evaluations have the potential to significantly shape the measures included in various hospital quality reporting programs, not to mention hospital performance outcomes.

In the meantime, absent a nearer-term SES policy shift, hospital stakeholders continue to press for more immediate legislative reforms. For example, the Establishing Beneficiary Equity in the Hospital Readmissions Program (H.R. 1343/S. 688), introduced by Rep. James Renacci (R-OH) and Sen. Joe Manchin (D-WV), requires the HRRP to account for dual-eligible and SES status of patients, among other key changes. As always, TRP Health Policy will continue to keep you apprised of key legislative and regulatory developments on this front.

[1] http://www.aha.org/content/14/ip-qualreport.pdf
[2] http://www.mhanet.com/mhaimages/sqi/StatewideMeeting2015.pdf (slide 57) and http://www.aha.org/content/13/13ehrchallenges-issbrief.pdf
[3] https://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/HospitalQualityInits/HospitalRHQDAPU.html
[4] Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA)
[5] Deficit Reduction Act of 2005 (DRA)
[6] https://www.gpo.gov/fdsys/pkg/FR-2015-08-17/pdf/2015-19049.pdf (p. 49649) and https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2014-Fact-sheets-items/2014-08-04-2.html (as per the FY 2015 IPPS/LTCH final rule)
[7] https://www.cms.gov/medicare/medicare-fee-for-service-payment/acuteinpatientpps/readmissions-reduction-program.html
[8] https://www.gpo.gov/fdsys/pkg/FR-2015-08-17/pdf/2015-19049.pdf and https://www.qualitynet.org/dcs/ContentServer?c=Page&pagename=QnetPublic%2FPage%2FQnetTier2&cid=1228772412458
[9] https://www.medicare.gov/hospitalcompare/Data/hospital-vbp.html
[10] https://www.medicare.gov/HospitalCompare/Data/payment-adjustments.html
[11] https://www.gpo.gov/fdsys/pkg/FR-2015-08-17/pdf/2015-19049.pdf
[12] https://www.cms.gov/Medicare/Medicare-Fee-for-Service-Payment/AcuteInpatientPPS/HAC-Reduction-Program.html
[13] https://www.qualitynet.org/dcs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1228890507799&blobheader=multipart%2Foctet-stream&blobheadername1=Content-Disposition&blobheadervalue1=attachment%3Bfilename%3DFY_2016_HACRP_FactSheet.pdf&blobcol=urldata&blobtable=MungoBlobs
[14] http://www.reginfo.gov/public/do/eAgendaViewRule?pubId=201510&RIN=0938-AS77
[15] HHS' Office of the Assistant Secretary for Planning and Evaluation (ASPE) is required to produce such reports pursuant to the Improving Medicare Post-Acute Care Transformation (IMPACT) Act of 2014
[16] http://www.qualityforum.org/Finding_The_Right_Adjustment.aspx