

Inpatient Prospective Payment System (IPPS) Federal Fiscal Year (FFY) 2020 Proposed Rule Analysis

Estimated Change in Medicare Payments

FFY 2019 Final Rule Correction Notice Compared to FFY 2020 Proposed Rule

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	Operating		Capital		Total	
	Dollar Impact	% Change	Dollar Impact	% Change	Dollar Impact	% Change
Estimated FFY 2019 IPPS Payments	\$1,059,962,700		\$78,602,300		\$1,138,564,800	
Provider Type Changes	\$0	0.0%	\$0	0.0%	\$0	0.0%
Marketbasket Update (Includes Budget Neutrality)	\$32,864,700	3.1%	\$934,200	1.2%	\$33,798,900	3.0%
ACA-Mandated Marketbasket Reductions	(\$4,983,100)	-0.5%	<i>Not Applicable</i>		(\$4,983,100)	-0.4%
MACRA-Mandated Coding Adjustment	\$4,481,300	0.4%	<i>Not Applicable</i>		\$4,481,300	0.4%
Wage Index/GAF	\$3,727,900	0.4%	\$345,200	0.4%	\$4,072,700	0.4%
Reducing Wage Index Disparities	(\$5,330,800)	-0.5%	(\$474,500)	-0.6%	(\$5,805,700)	-0.5%
> Increasing Bottom Quartile Wage Index Values	\$0	0.0%	\$0	0.0%	\$0	0.0%
> Reducing Top Quartile Wage Index Values	(\$3,582,900)	-0.3%	(\$291,900)	-0.4%	(\$3,874,900)	-0.3%
> Application of 5% Stop Loss Adjustment	\$0	0.0%	\$0	0.0%	\$0	0.0%
> Budget Neutrality Due to 5% Stop-Loss	(\$1,747,700)	-0.2%	(\$182,600)	0.0%	(\$1,930,500)	-0.2%
DSH: UCC Payment Changes [1]	(\$5,515,200)	-0.5%			(\$5,515,200)	-0.5%
> DSH UCC Distribution Factor Change	(\$7,036,200)	-0.7%	<i>Not Applicable</i>		(\$7,036,200)	-0.6%
Change in Hospital Specific Rate	\$0	0.0%			\$0	0.0%
MS-DRG Updates	\$191,500	0.0%	\$300	0.0%	\$191,800	0.0%
Quality Based Payment Adjustments [2]	(\$308,100)	0.0%	(\$83,100)	-0.1%	(\$390,900)	0.0%
Net Change due to Low Volume Adjustment	\$292,400	0.0%	\$13,800	0.0%	\$306,100	0.0%
Estimated FFY 2020 IPPS Payments	\$1,085,383,500		\$79,338,100		\$1,164,721,500	
Total Estimated Change FFY 2019 to FFY 2020[‡]	\$25,420,800	2.4% ▲	\$735,800	0.9% ▲	\$26,157,200	2.3% ▲

[‡] The values shown in the table above do not include the 2.0% sequestration reduction to all lines of Medicare payment authorized by Congress through FFY 2027. It is estimated that sequestration will reduce FFY 2020 IPPS-specific payments by: \$23,294,600.

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¹ Detail on DSH UCC Payment Changes

The table to the right provides detail on DSH payment changes specific to the UCC component of the DSH program. National DSH program information is from the FFY 2019 IPPS final rule correction notice and FFY 2020 IPPS proposed rule. Hospital-specific UCC payment factors are from the FFY 2019 and FFY 2020 DSH Supplemental files published with those same rules.

	FFY 2019	FFY 2020	Change
Total Funding for UCC Payments	\$12.254 Billion	\$12.643 Billion	+\$0.389 Billion
ACA-Mandated Reduction	-32.49%	-32.86%	-0.37%
Redistribution Pool	\$8.273 Billion	\$8.489 Billion	+\$0.216 Billion
Hospital Specific Payment Factor	Hospital-Specific		
Hospital UCC Payment Amount	\$58,355,300	\$52,840,300	(\$5,515,200)

² Detail on Quality-Based Payment Adjustments

The table to the right provides individual impact estimates for performance under the Value Based Purchasing (VBP), Readmissions Reduction, and Hospital-Acquired Condition (HAC) Reduction Programs for each of FFY 2019 and FFY 2020. The FFY 2020 Readmissions adjustment factors are from the FFY 2020 IPPS proposed rule impact file, and are based on the FFY 2019 adjustment factors. The list of hospitals that could potentially be subject to the FFY 2020 HAC Reduction Program penalty is derived from hospital quality data available with the 4th quarter 2018 update of Hospital Compare (CMS did not provide this list with the rule). The FFY 2020 VBP adjustment factor is estimated based on hospital quality data available with the 4th quarter 2018 update of Hospital Compare (CMS' FFY 2020 VBP proxy adjustment factors are based on a prior program year). The FFY 2019 VBP and Readmissions adjustment factors are from the FFY 2019 IPPS final rule correction notice, final FFY 2019 HAC flags are from Hospital Compare.

	FFY 2019	FFY 2020
Base Operating Dollars Subject to Quality Programs	\$884,547,500	\$913,330,600
Value Based Purchasing Program Impact	\$4,974,300	\$5,852,300
Readmissions Reduction Program Impact	(\$1,363,200)	(\$1,408,500)
HAC Reduction Program Impact	(\$1,682,800)	(\$2,906,300)
Net Impact of Quality Programs	\$1,928,300	\$1,537,500

Notes:

This analysis is intended to show providers how Medicare inpatient fee-for-service (FFS) payments would change from FFY 2019 to FFY 2020 based on the policies set forth in the FFY 2020 IPPS proposed rule.

- This analysis does not include estimates for outlier payments, payments for services provided to Medicare Advantage patients, electronic health record incentive payments, nor modifications in FFS payments as a result of hospital participation in new payment models being tested under Medicare demonstration/pilot programs.

- Estimated IPPS payments for FFYs 2019 and 2020 are calculated using individual hospital characteristics provided by CMS in the FFY 2020 IPPS proposed rule Impact and DSH Supplemental files. Wage indexes, GAFs, and federal operating/capital rates are from the FFY 2019 final rule correction notice and FFY 2020 proposed rule Federal Registers.

- This analysis was developed to measure the impact of IPPS policy changes only. Hospital volume, patient mix, traditional DSH, and IME factors are held constant at the values published in the FFY 2020 proposed rule impact file.

- Dollar impacts in this analysis may differ from those provided by other organizations/associations due to differences in source data and analytic methods. Individual percentages and dollars shown in this analysis may not add to total due to compounding and rounding. Dollar amounts less than \$50 and percentages less than 0.05% will appear as zeros due to rounding. Impact percentages are derived by comparing values of individual impacts to base year revenue. Due to the influence of the DSH uncompensated care pool, which is not tied to the inpatient rate, percentage impacts may not tie to the values listed below for component updates (i.e. marketbasket, ACA, etc.).

FFY 2020 IPPS Proposed Rule and Congressionally-Mandated Payment Changes Modeled in this Analysis:

- Provider Type Change: Changes to inpatient payments resulting from a change in provider type. This includes adjustments to both hospital specific rate (if received) and changes to the traditional, rate-based DSH payment calculation for hospitals that change special status.

- Marketbasket Update (Includes Budget Neutrality): 3.2% operating marketbasket increase and 1.5% capital marketbasket increase. Budget neutrality factors increase the operating update by 0.1% and reduce the capital update by 0.3%.

- ACA Mandated Marketbasket Reduction: 0.5 percentage point (PPT) productivity reduction to the marketbasket authorized by the Affordable Care Act (ACA) of 2010.

- MACRA-Mandated Coding Adjustment: 0.5% increase to the federal operating rate to prospectively increase the rate after the American Taxpayer Relief Act (ATRA) of 2012 retrospectively adjusted for what CMS claimed to be over-payments due to coding improvements.

- Wage Index/GAF: Updated wage index and capital GAF values; including any impact due to new wage data; reclassifications; and other adjustments to the wage indexes. This value does not include CMS' proposal to increase the wage index values of hospitals in the bottom quartile of wage index values nationally.

- Reducing Wage Index Disparities: Reflects the estimated impact of CMS' proposal to increase the wage index for hospitals with a wage index value in the bottom quartile of the nation. This increase would be half of the difference between the hospital's pre-adjustment wage index, and the 25th percentile wage index value across all hospitals. This increase would be offset by reducing the wage index of hospitals above the 75th percentile wage index value by 4.3% of the difference between their individual wage index and the 75th percentile wage index value for all hospitals, while instituting a one-year stop-loss adjustment so that no hospital's FFY 2020 wage index could be less than 95% of that hospital's FFY 2019 wage index. The stop-loss adjustment would be made budget-neutral by a -0.17% adjustment to the IPPS operating rate and a -0.23% adjustment to the IPPS capital rate. The impact of these individual components are broken out separately.

- UCC Payment Changes: Changes to UCC payments under the ACA-mandated DSH payment formula. In this analysis, DSH and UCC payment eligibility are held constant at the eligibility status predicted by CMS in its FFY 2020 proposed rule DSH Supplemental File. Changes in hospital UCC payments that result from changes in the national UCC pool dollars are isolated to the list of DSH-eligible hospitals in the FFY 2020 DSH supplemental file. The impacts also include year-to-year changes in hospital-specific UCC payment factors (factor 3) for these hospitals, the impact of which is also displayed separately.

- Change in Hospital Specific Rate: Reflects the impact to special status hospitals (SCHs, MDHs, or EACHs) where there is a change in payment status (hospital-specific vs federal) or where the value of the hospital-specific/federal blend for MDHs is changed due to a variation in uncompensated care payments.

- MS-DRG Updates: Changes due to updates to the DRG groupings and weights. The impact shown is the case-mix change resulting from running the FFY 2018 Medicare claims data through the two DRG Grouper software programs (Grouper Version 36 for FFY 2019 and Grouper Version 37 for FFY 2020) and assigning the respective MS-DRG weights for each year.

- Quality-Based Payment Adjustments: Year-to-year change in hospital-specific quality performance and subsequent adjustments under the VBP, Readmissions Reduction, and HAC Reduction programs.

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- Low Volume Adjustment: Reflects the change in overall payments made as a result of the Low Volume Hospital (LVH) Adjustment program. The LVH adjustment factors are from FFY 2019 IPPS final rule correction notice and the FFY 2020 IPPS proposed rule impact files. Distance eligibility for FFY 2019 was determined using the most recent 3 years of cost report data (2016, 2017 and 2018) as well as those that are proposed to receive the adjustment in FFY 2020. If a hospital reported low volume payments in their most recent cost report, or had reported in its most recent year that the distance requirement had been met on Worksheet S-2, it is assumed that the hospital had met the distance requirement of the low volume adjustment. It is worth noting that, due to the Bipartisan Budget Act of 2018, this adjustment was based on Medicare discharges prior to FFY 2019, and is based on Total discharges for FFYs 2019-2022.

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Estimated Change in Medicare Wage Index and DSH Uncompensated Care

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Estimated Impact of CMS' Proposal to Reduce Wage Index Disparities

In order to reduce the disparity between high and low wage index hospitals, for FFY 2020, CMS is proposing to increase the wage index for hospitals with a wage index value in the bottom quartile of the nation for at least four years. This increase would be half of the difference between the hospital's pre-adjustment wage index, and the 25th percentile wage index value across all hospitals. This increase would be offset by reducing the wage index of hospitals above the 75th percentile wage index value by 4.3% of the difference between their individual wage index and the 75th percentile wage index value for all hospitals, while instituting a one-year stop-loss adjustment so that no hospital's FFY 2020 wage index could be less than 95% of that hospital's FFY 2019 wage index. The stop-loss adjustment would be made budget-neutral by a -0.17% adjustment to the IPPS operating rate value.

CMS also provided three alternative approaches to reduce this disparity, that they had considered prior to proposing what was included in the FFY 2020 IPPS proposed rule. The impact of those alternatives are also provided below.

Wage Index Version	FFY 2020 Wage Index Value	Est. Total FFY 2020 IPPS Revenue (Before Changes to CMI, DSH, Quality)	Estimated FFY 2020 Impact (\$)	Estimated FFY 2020 Impact (%)
FFY 2020 Wage Index Before Proposed Changes	-	\$1,175,934,600	-	
CMS Proposal: Increasing the Wage Index Value of Hospitals Below the National 25th Percentile Wage Index Value with Budget Neutrality Offset to Wage Index Values of Hospitals Above the National 75th Percentile Wage Index Value	-	\$1,170,128,900	(\$5,805,700)	-0.5%
CMS Alternative #1 (Not Proposed)*: Application of a budget neutrality factor to the federal rate rather than to the wage index of high wage index hospitals to offset increases to hospitals below the 25th percentile wage index value	-	\$1,173,698,800	(\$2,235,800)	-0.2%
CMS Alternative #2 (Not Proposed)*: Obtaining budget neutrality by reducing high wage index values by an amount equal to half the difference between the hospital's baseline wage index value and the 75th percentile wage index value. This would then be followed by an adjustment to the federal rate to ensure budget neutrality.	-	\$1,153,251,100	(\$22,683,500)	-1.9%
CMS Alternative #3 (Not Proposed)*: Creation of a national rural wage index (estimated at 0.8569) to replace the current state-specific rural/floor wage index values.	-	\$1,156,269,500	(\$19,665,100)	-1.7%

* For CMS' alternative wage index adjustment methodologies, this analysis does not force the use of the wage index reclassifications provided with the proposed rule and assumes that a provider would instead use the higher of their geographic or reclassified wage index.

Estimated Impacts of CMS' Proposals Related to Distribution of the DSH Uncompensated Care Pool

DSH Eligibility: Not Projected to Receive FFY 2020 Uncompensated Care Pool Distribution

For FFYs 2017 through 2019, CMS has utilized a three year averaging methodology for the calculation of the DSH Uncompensated Care Pool (UCP) distribution factor (Factor 3) in order to transition to the use of Medicare cost report Worksheet S-10 and to reduce the year-to-year volatility of the distribution factors. For FFY 2017, this was based on three years of Medicaid (2011-2013) and Medicare SSI (2012-2014) days; FFY 2018 used two years of Medicaid (FFY 2012/2013) and Medicare SSI (FFY 2014/2015) days, and one year of data from Worksheet S-10 (2014); and FFY 2019 utilized one year of Medicaid (2013) and Medicare SSI (2016) days, and two years of Worksheet S-10 (2014-2015) data.

For FFY 2020, CMS is instead proposing to utilize a single year of Medicare cost report data from the audited FFY 2015 S-10 Worksheet, and to not continue the three year averaging process for Factor 3. Additionally, CMS is seeking public comment on whether FFY 2017 S-10 data should be used in lieu of the audited FFY 2015 S-10 data. Individual impacts of using solely audited FFY 2015 or solely FFY 2017 S-10 data, as well as if CMS were to continue the three-year averaging calculation are provided below. All impacts are based on the projected FFY 2020 DSH UCC pool of \$8.5 billion.

Basis for Factor 3	Estimated Factor 3	Est. FFY 2020 UCC Revenue (If Eligible)	Estimated FFY 2020 UCC Impact (\$)	Estimated FFY 2020 UCC Impact (%)
FFY 2019 (Final): Using FFY 2013 Medicaid Days, FFY 2016 Medicare SSI Days, FFY 2014/2015 S-10 Data	-	\$59,876,600	-	
FFY 2020 (Continued Transition): Using FFY 2014, 2015, 2016 S-10 Data	-	\$54,597,700	(\$5,278,900)	-8.8%
FFY 2020 (Proposal): Using Solely Audited FFY 2015 S-10 Data	-	\$52,840,300	(\$7,036,300)	-11.8%
FFY 2020 (Alternative): Using Solely FFY 2017 S-10 Data	-	\$62,455,600	\$2,579,000	4.3%

Notes:

- FFY 2020 (Continued Transition): Values for Factor 3 calculated utilizing data from the 1Q2019 update of the Medicare cost reports for FFYs 2014 and 2016, and the audited FFY 2015 S-10 data from the FFY 2020 IPPS proposed rule DSH Supplemental file. Due to more recent data being included in this estimate (FFY 2016) than in CMS' main proposal, Factor 3 values are determined based on the eligibility flags provided with CMS' FFY 2017-based estimates.

- FFY 2019 (Final) factors are based on the FFY 2019 IPPS final rule DSH supplemental file. FFY 2020 (Proposal) and FFY 2020 (Alternative) factors are based on FFY 2020 IPPS proposed rule DSH supplemental files.