



## The President’s and Other Bipartisan Proposals to Reform Medicare: Post-Acute Care Reform

**By 2026, the Medicare Hospital Insurance (HI) Trust Fund will be bankrupt.** Since 2008, the HI Trust Fund has been spending more money than it is collecting through the Medicare payroll tax.

**Spending from the Supplemental Medical Insurance (SMI) Trust Fund—which is primarily financed through general revenue—will increasingly strain the federal budget.** Under current law, Medicare spending is expected to grow from 3.6 percent of Gross Domestic Product (GDP) in 2012 to 6.5 percent of GDP in 2087.

To address concerns with the sustainability of the Medicare Trust Funds, [President Obama](#) and other bipartisan groups including the [Bipartisan Policy Commission](#), [Moment of Truth Project \(Bowles-Simpson\)](#), [Medicare Payment Advisory Commission](#) and [Congressional Budget Office](#) have all focused on reforming post-acute care (PAC), or care delivered after a hospitalization, in the Medicare program.

The President has proposed five specific changes to PAC as part of the FY2014 Budget, which many of these organizations have also previously considered, including:

- 1) Reducing market basket updates for home health agencies (HHAs), skilled nursing facilities (SNFs), inpatient rehabilitation facilities (IRFs) and long-term care hospitals (LTCHs);
- 2) Creating site neutral payments between IRFs and SNFs for certain procedures;
- 3) Modifying the criteria required for IRF status (the so-called “75 percent rule”);
- 4) Establishing a SNF readmissions program; and
- 5) Creating PAC bundled payments.

**73 percent of the variation in Medicare spending is attributed to PAC** (Institute of Medicine).

- “What really drives differences in Medicare fee-for-service spending is what happens to the patient after he or she leaves the hospital.” (*Obama Administration testimony, June 14, 2013*)

**Medicare’s PAC payment systems have high margins.**

- “When we see [Medicare] margins that are in the double-digit rates, that gives us very strong concerns that our payment rates are too high relative to the cost of care.” (*Obama Administration testimony, June 14, 2013*)

**Table 1 – PAC Medicare Data (2011 spending)**

PAC Setting	Annual Medicare Expenditures	Annual Medicare Beneficiaries	Average Medicare Margin
Home Health	\$18.4 billion	3.4 million	14.8%
SNF	\$31.3 billion	1.7 million	22-24%
IRF	\$6.5 billion	371,000	9.6%
LTCH	\$5.4 billion	123,000	6.9%
<b>TOTAL</b>	<b>\$61.6 billion</b>	<b>5.6 million</b>	

*SOURCE – Medicare Payment Advisory Commission March 2013 Report to Congress*

**Site neutral payments ensure patient characteristics determine care, not financial incentives.**

- “If one payment system pays more than another for the same service or the same patient, then people begin to behave in ways that are not clinically driven, and, instead are driven to maximize payments.” (*Medicare Payment Advisory Commission testimony, June 14, 2013*)

**Medicare’s rules do not clearly delineate the types of patients who are appropriate for each Medicare PAC setting.**

- “We don’t have a great definition for what constitutes, for example, a skilled nursing facility patient. We don’t know what the right mix of PAC services are for a given condition.” (*Obama Administration testimony, June 14, 2013*)
- “The intent of the [President’s proposal] 75 percent rule is that the inpatient rehabilitation facilities were taking patients that didn’t need to be there, that could have been treated elsewhere.” (*Medicare Payment Advisory Commission testimony, June 14, 2013*)

**Re-hospitalization and community discharge rates are important tools to improve care for patients.**

- “If SNFs faced re-hospitalization penalties, they would be more inclined to ensure patients were physically ready, to see that their families were adequately educated, and to partner with high-quality community services to avoid readmission to the hospital.” (*Medicare Payment Advisory Commission Report to Congress, March, 2013*)

**Fundamentally shifting from volume to value will ensure more efficient use of PAC services.**

- “The President’s budget set a goal or a target to achieve post-acute care bundling by 2017. Really, our intent there is to send a clear signal, give a direction on how the health delivery system should move.” (*Obama Administration testimony, June 14, 2013*)