

# Table of Contents

	<u>Page</u>
<b>Chapter 1</b>	<b>Introduction . . . . . 1-1</b>
1.1	Purpose and Policy Background of Report . . . . . 1-1
1.2	Evaluation Issues . . . . . 1-2
1.3	Data Sources . . . . . 1-2
1.4	Summary of Findings . . . . . 1-3
1.5	Organization of Report . . . . . 1-7
<b>Chapter 2</b>	<b>Descriptive Analysis of PAC Policy Change . . . . . 2-1</b>
2.1	Background of the Acute-to-Acute Transfer Policy under Inpatient PPS . . . . . 2-1
2.2	Rationale for Including Postacute Care Transfers under the Per Diem Policy . . . . . 2-3
2.3	Evidence of a Substitution of Postacute Care for Acute Care Services . . . . . 2-4
2.4	Description of the Postacute Care Transfer Payment Policy . . . . . 2-12
<b>Chapter 3</b>	<b>File Construction and PAC Validation . . . . . 3-1</b>
3.1	Sources of Data . . . . . 3-1
3.2	Construction of Episode-Level Files . . . . . 3-3
3.3	Verification of Claims Discharge Destination Codes . . . . . 3-7
3.4	Distortionary Effects of Declining GLOS on PAC Impact Analysis 3-11
<b>Chapter 4</b>	<b>Impact of Policy Change on Hospital Treatment Patterns . . . . . 4-1</b>
4.1	Changes in PPS Payment Incentives . . . . . 4-2
4.2	Trends in Postacute Care Transfer Volumes and Lengths of Stay . . . . . 4-6
4.3	Impact of Policy Change on Postacute Care Transfer Rate and PPS Length of Stay . . . . . 4-10
4.4	Impact of Policy Change on Length of Time Prior to Postacute Care Admission or Visit . . . . . 4-23
4.5	Impact of Policy Change on Postacute Care Lengths of Stay and Number of Visits . . . . . 4-25
4.6	Impact of Policy Change on PPS Hospital Costs and Profits . . . . . 4-28
4.7	Impact of Policy Change on PPS Transfer Rates, LOS, Costs and Profits by Type of Postacute Care Transfer . . . . . 4-31
4.8	Impact of Policy Change on PPS Transfer Rates, LOS, Costs and Profits by Type of PSS Hospital . . . . . 4-36
4.9	Impact of Policy Change on PPS Transfer Rates, LOS, Costs And Profits by Type of Medicare Beneficiary . . . . . 4-45

# Table of Contents

	<u>Page</u>
<b>Chapter 5</b>	
<b>Impact of PAC Policy Change on Medicare Expenditures</b> .....	<b>5-1</b>
5.1 Mathematical Summary of Per Diem Payment Methodology .....	5-2
5.2 Impact of Policy Change on PPS Expenditures .....	5-4
5.3 Decomposing the Impact of Policy Change on PPS Expenditures ...	5-8
5.4 Impact of Policy Change on Episode-Level Expenditures .....	5-19
5.5 Impact of Policy Change on PPS Expenditures by Type of Postacute Care Transfer .....	5-24
5.6 Impact of Policy Change on PPS Expenditures by Type of PPS Hospital .....	5-26
5.7 Impact of Policy Change on PPS Expenditures by Type of Medicare Beneficiary .....	5-30
<b>Chapter 6</b>	
<b>Extending the Scope of the PAC Transfer Payment Policy</b> .....	<b>6-1</b>
6.1 Introduction .....	6-1
6.2 HCFA DRG Selection Criteria .....	6-3
6.3 Model of PAC Utilization .....	6-12
6.4 Extensions Based on HCFA & MedPAC DRGs .....	6-17
6.5 Inhomogeneous DRGs: Implications for PAC Transfer .....	6-24
6.6 Extensions Based on DRG Pairs .....	6-30
6.7 Extensions based on “Super-DRG” Bundles .....	6-44
6.8 Extending PAC Transfer Policy to All DRGs .....	6-60
<b>Appendix A</b>	
<b>Appendix B</b>	
<b>Appendix C</b>	

## Table of Tables and Figures

	<u>Page</u>
<b>Chapter 1</b>	
Table 1-1	Comparison of Volumes for 10 Postacute Care DRGs Pre Versus Post Policy Change Periods . . . . . 1-4
Table 1-2	Decomposition of Medicare Savings from BBA Postacute Care Transfer Policy . . . . . 1-6
<b>Chapter 2</b>	
Figure 2-1	Share of Postacute Care Transfers By Provider Type, 1991-1998 . . . 2-6
Table 2-1	Percent of Postacute Care (PAC) Utilization for Top 20 DRGs**, 1991-1998 . . . . . 2-9
Figure 2-2	Average Length of Stay PAC Transfers vs. Non-PAC Transfers, 1991-1998 . . . . . 2-10
Table 2-2	Mean Length of Stay for Top 20 Postacute Care Transfer DRGs, Postacute Care Users vs. Non-Users, 1991-1998 . . . . . 2-11
Table 2-3	DRGs Included in the PAC Transfer Policy . . . . . 2-14
<b>Chapter 3</b>	
Table 3-1	Number and Share of Postacute Care Transfers by DRG: 1997-1999 . . . . . 3-5
Table 3-2	Number and Share of Postacute Transfers by Type of Discharge: 1997 - 1999 . . . . . 3-6
Table 3-3	Comparison of Reported Versus Acute Postacute Care Transfers Pre versus Post- Policy Change Periods . . . . . 3-9
Table 3-4	Shares and GLOS Thresholds of Short-Stay PAC Transfers . . . . . 3-13
<b>Chapter 4</b>	
Table 4-1	Average DRG and Simulated Per Diem Payments for Short-Stay PAC Transfers Pre-Policy Change Period . . . . . 4-4
Figure 4-1	Number of Short-Stay PACs versus Non-PACs, 1997-1999 . . . . . 4-7
Figure 4-2	Average LOS for Short-Stay PACs versus Non-PACs, 1997-1999 . . 4-9
Table 4-2	Number and Share of PPS Short-Stay Postacute Care Transfers Pre versus Post Policy Change Periods . . . . . 4-12
Table 4-2A	Number and Share of PPS Short-Stay PAC Transfers Holding GLOS Constant By Applying 1998 GLOS to Both Periods . . . . . 4-14
Table 4-3	Number and Share of PPS Long-Stay Postacute Care Transfers Pre versus Post Policy Change Periods . . . . . 4-15
Table 4-3A	Number and Share of PPS Long-Stay PAC Transfers Holding GLOS Constant By Applying 1998 GLOS to Both Periods . . . . . 4-17
Table 4-4	Average LOS of Short-Stay and Non-PAC Transfers Pre versus Post Policy Change Periods . . . . . 4-19

## Table of Tables and Figures

		<u>Page</u>
Table 4-4A	Average LOS of Short-Stay PAC Transfers Holding GLOS Constant By Applying 1998 GLOS to Both Periods . . . . .	4-20
Table 4-5	Average LOS of Long-Stay PAC and Non-PAC Transfers Pre versus Post Policy Change Periods . . . . .	4-21
Table 4-5A	Average LOS of Long-Stay PAC Transfers Holding GLOS Constant By Applying 1998 GLOS to Both Periods . . . . .	4-22
Table 4-6	Number and Share of Postacute Care Transfers Occurring after Time Interval for Per Diem Payments . . . . .	4-24
Table 4-7	Average LOS of Short-Stay and Long-Stay Postacute Care Transfers In Postacute Care Facility Pre versus Post Policy Change Periods . . . . .	4-26
Table 4-8	Average Costs of Short-Stay PAC and Non-PAC Transfers Pre versus Post Policy Change Periods. . . . .	4-29
Table 4-9	Average PPS Payments and Profit Margins of Short-Stay PAC Transfers Pre versus Post Policy Change Periods . . . . .	4-30
Table 4-10	Number and Share of PPS Short-Stay Postacute Care Transfers by Type of Postacute Provider Pre versus Post Policy Change Periods . . . . .	4-32
Table 4-11	Average LOS of PPS Short-Stay and Long-Stay Postacute Care Transfers by Type of Provider Pre versus Post Policy Change Periods . . . . .	4-33
Table 4-12	Average Costs of PPS Short-Stay and Long-Stay Postacute Care Transfers by Type of Provider Pre versus Post Policy Change Periods . . . . .	4-34
Table 4-13	Number and Share of Short-Stay PAC and Non-PAC Cases by Hospital Bed Size Pre versus Post Policy Change Periods . . . . .	4-37
Table 4-14	Average LOS, Costs and Profits of Short-Stay PAC and Non-PAC Cases By Hospital Bed Size Pre versus Post Policy Change Periods . . . . .	4-39
Table 4-15	Number and Share of Short-Stay PAC and Non-PAC Cases by Hospital Ownership Pre versus Post Policy Change Periods . . . . .	4-41
Table 4-16	Average LOS, Costs and Profits of Short-Stay PAC and Non-PAC Cases by Hospital Ownership Pre versus Post Policy Change Periods . . . . .	4-43
Table 4-17	Number and Share of Short-Stay PAC and Non-PAC Cases by Hospital Teaching Status Pre versus Post Policy Change Periods . . . . .	4-44
Table 4-18	Average LOS, Costs and Profits of Short-Stay PAC and Non-PAC Cases by Hospital Teaching Status Pre versus Post Policy Change Periods . . . . .	4-46
Table 4-19	Number and Share of Short-Stay PAC and Non-PAC Cases by Hospital Region Pre versus Post Policy Change Periods . . . . .	4-48
Table 4-20	Average LOS, Costs and Profits of Short-Stay PAC and Non-PAC Cases by Hospital Region re versus Post Policy Change Periods . . . . .	4-49

## Table of Tables and Figures

		<u>Page</u>
 <b>Chapter 5</b>		
Table 5-1	Average and Total PPS Payments for Short-Stay PAC Transfers Pre versus Post Policy Change Periods . . . . .	5-6
Table 5-2	Average and Total PPS Payments for All Discharges from Pilot Transfer DRGs Pre versus Post Policy Change Periods . . . . .	5-7
Table 5-3	Decomposition of Change in Medicare Expenditures following Implementation of PAC Transfer Policy Pre versus Post Policy Change Periods . . . . .	5-15
Table 5-3A	Decomposition of Change in Medicare Expenditures following Implementation of PAC Transfer Policy Holding GLOS Constant By Applying 1998 GLOS to Both Periods . . . . .	5-18
Table 5-4	Average and Total Episode-Level Payments for Short-Stay Postacute Care Transfers to PPS Exempt Facilities Pre versus Post Policy Change Periods . . . . .	5-21
Table 5-5	Average and Total Episode-Level Payments for Short-Stay Postacute Care Transfers to Skilled Nursing Facilities Pre versus Post Policy Change Periods . . . . .	5-22
Table 5-6	Average and Total Episode-Level Payments for Short-Stay Postacute Care Transfers to Home Health Agencies Pre versus Post Policy Change Periods . . . . .	5-23
Table 5-7	Average PPS Payments for Short-Stay PAC Transfers by Provider Type Pre versus Post Policy Change Periods . . . . .	5-25
Table 5-8	Average and Total PPS Payments for All PAC Transfers by Provider Type Pre versus Post Policy Change Periods . . . . .	5-27
Table 5-9	Average and Total Payments for Short-Stay Cases by Hospital Bed Size Pre versus Post Policy Change Periods . . . . .	5-28
Table 5-10	Average and Total PPS Payments for Short-Stay Cases by Hospital Ownership Pre versus Post Policy Change Periods . . . . .	5-29
Table 5-11	Average and Total PPS Payments for Short-Stay Cases by Hospital Teaching Status Pre versus Post Policy Change Periods . . . . .	5-31
Table 5-12	Average and Total PPS Payments for Short-Stay Cases by Geographic Region Pre versus Post Policy Change Periods . . . . .	5-32
Table 5-13	Average and Total PPS Payments for Short-Stay Cases by Rural/Urban Location Pre versus Post Policy Change Periods . . . . .	5-33
Table 5-14	Average and Total PPS Payments for Short-Stay Cases by Sex of Beneficiary Pre versus Post Policy Change Periods . . . . .	5-34
Table 5-15	Average and Total PPS Payments for Short-Stay Cases by Age of Beneficiary Pre versus Post Policy Change Periods . . . . .	5-36
Table 5-16	Average and Total PPS Payments for Short-Stay Cases by Medicare Status of Beneficiary Pre versus Post Policy Change Periods . . . . .	5-37

## Table of Tables and Figures

		<u>Page</u>
<b>Chapter 6</b>		
Table 6-1	Postacute Care Frequency by Short vs. Long Stay, 1998; 10 Original DRGs plus 13 Additional DRGs .....	6-20
Table 6-2	Postacute Care Trends 1992 - 1998; 10 Original DRGs plus 13 Additional DRGs .....	6-23
Table 6-3	Frequency of Discharge Destination for DRG 1, Craniotomy Patients by Procedure Class, 1998 .....	6-29
Figure 6-1	Frequency of LOS by Surgery Class, 1998 .....	6-31
Figure 6-2	Frequency of Length of Stay, Surgery Class, 1 vs. Class 3 1998 .....	6-32
Table 6-4	Paired DRG Frequency by Short vs. Long Stay 1998 .....	6-36
Table 6-5	Paired DRG Trends 1992 - 1998 .....	6-39
Table 6-6	Top 25 DRG Postacute Care (PAC) Pairs Ranked by Total PAC by Short vs. Long Stay 1998 .....	6-41
Table 6-7	Postacute Care Frequency by Short vs. Long Stay 1998; Trauma DRGs .....	6-48
Table 6-8	Postacute Care Frequency by Short vs. Long Stay 1998: Skin Graft and Debridement DRGs .....	6-49
Table 6-9	Postacute Care Frequency by Short vs. Long Stay 1998; Burn DRGs .....	6-50
Table 6-10	Postacute Care Frequency by Short vs. Long Stay 1998; Infection DRGs .....	6-52
Table 6-11	Postacute Care Frequency by Short vs. Long Stay 1998; Behavioral Health DRGs .....	6-53
Table 6-12	Postacute Care Frequency by Short vs. Long Stay 1998; Major Cardiothoracic DRGs .....	6-55
Table 6-13	Postacute Care Frequency by Short vs. Long Stay 1998; Major Musculoskeletal DRGs .....	6-56
Table 6-14	Postacute Care Frequency by Short vs. Long Stay 1998; Fracture DRGs .....	6-58
Table 6-15	Postacute Care Frequency by Short vs. Long Stay 1998; Amputation DRGs .....	6-59
Table 6-16	Postacute Care Frequency by Short vs. Long Stay 1998; Tracheotomy DRGs .....	6-61