STRATEGIC HEALTH CARE

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KEY PROVIDER ISSUES IN HEALTH CARE REFORM

April 2010 **READMISSION ADJUSTED DRG PAYMENTS**

High readmission rates will lead to reduced payments

Payments for discharges on or after October 1, 2012 at hospitals with higher-than-expected rates of readmission for a selected set of high-volume, high-spending procedures will be subject to a payment penalty. The penalty will be based on the total cost of excess readmissions compared to the total costs for the hospital, subject to a cap. In FY 2013, the penalty cannot be greater than 1 percent of the base payment rate, rising one percent each year to a cap of 5 percent by FY2015. This policy is intended to improve hospital discharge planning and to prompt hospitals to increase their scrutiny of post-acute care and ambulatory care providers, especially those that generate readmissions.

The new law instructs the Secretary to use measures which have been endorsed by the National Quality Forum (NQF), with "exclusions for readmissions that are unrelated to the prior discharge (such as a planned readmission or transfer to another applicable hospital)." The law allows the Secretary to expand the policy and does not restrict her to these measures as they are currently calculated.

The current readmission rate measures, calculated from claims data and published on CMS's Hospital Compare, are NQF-endorsed. The existing measures are,

- hospital-specific;
- adjusted for the expected rate of readmissions given the age, gender, past medical history, and co morbidities of the hospital's patient population;
- include patients who were discharged alive to any non-acute setting and return to any inpatient hospital within 30 days; and
- include all patients with a principal diagnosis of heart attack, heart failure, and pneumonia.

The new policy penalizes hospitals for readmissions above the expected rate. An average number of unavoidable readmissions is assumed and will not create a penalty for a hospital.

Some financial assistance is provided to hospitals with especially high rates of expected readmissions; these funds can be used to improve discharge planning, post-hospital care, transitional care, and activities to address patient noncompliance issues.

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