



## Quality and the Bottom Line After Healthcare Reform—How Value-Based Purchasing Programs and Quality Performance Measures Will Impact Your Hospital's Financial Performance

The Patient Protection and Affordable Care Act (the "Healthcare Reform Act" or the "Act") includes significant changes intended to tie financial incentives to quality and performance measures. The final structure of many payment changes will depend on future regulations. However, the Act provides guidance on these standards, and providers should begin planning now to optimize payment in the future.

Three significant areas of change in the Healthcare Reform Act are found in Sections 3001, 3008, and 3025 of the Act. Section 3001 establishes a value-based purchasing program for hospital services beginning October 1, 2012. Section 3008 of the Act establishes a structure for reduction in payments to hospitals based on hospital-acquired conditions, effective October 1, 2014. Finally, Section 3025 of the Act provides for reductions in payments to hospitals with "excess" readmissions, beginning October 1, 2012.

### **Section 3001 – Hospital Value-Based Purchasing Programs**

The Act provides for the Secretary of the Department of Health and Human Services ("HHS") to establish a hospital value-based purchasing program to apply to payments for discharges on or after October 1, 2012. The Act includes some exemptions, but for most hospitals, the Act provides for DRG payments to be reduced by 1% for fiscal year 2013, 1.25% for fiscal year 2014, 1.5% for 2015, 1.75% for 2016 and 2% thereafter. The funds from those reductions are then to be shared

among qualifying hospitals to increase the base DRG payment to hospitals that meet performance criteria established by HHS. The Act provides for hospitals to have the opportunity to qualify based either on achievement of the relevant standards or an improvement score. Accordingly, even if a hospital does not meet national performance benchmarks, the hospital can still qualify for payment incentives by showing appropriate improvement in performance.

While the final standards and methodologies for the incentive payments are to be established by the Secretary of HHS by regulation, the Act provides that those regulatory performance measures must cover, at a minimum, acute myocardial infarction ("AMI"), heart failure, pneumonia, surgeries (as measured by the Surgical Care Improvement Project), and healthcare-associated infections (as measured by the HHS Action Plan to Prevent Healthcare-Associated Infections).

In addition to the payment provisions, the Act provides for information on the performance of individual hospitals to be made available on the CMS Hospital Compare website.

### **Section 3008 – Payment Reductions for Hospital Acquired Conditions**

Section 3008 of the Act provides that, for discharges on and after October 1, 2014, if a hospital is in the top quartile of hospitals, relative to the national average of hospital-acquired conditions, the hospital's payment will



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be 99% of the amount that would otherwise apply for discharges. In other words, if a hospital's rate of hospital acquired conditions places it among the "worst" 25% of hospitals nationally, the hospital will lose 1% of its Medicare payments for inpatient care. Under current regulations, Hospital acquired conditions include deep-vein thrombosis and pulmonary embolism following certain procedures, pressure ulcers, manifestations of poor glycemic control, surgical site infections following certain surgeries, catheter associated urinary tract infections, and vascular catheter associated infections, among other conditions.

### **Section 3025 – Hospital Readmissions**

Under Section 3025 of the Act (as amended by Section 10309 of the Act), beginning October 1, 2012, DRG payments to hospitals who have "excess" readmissions for certain conditions will be reduced. Under the provision, where a hospital has "excess" readmissions, the hospital's DRG payments will be multiplied by an adjustment factor equal to the greater of (1) a floor adjustment factor or (2) an excess readmissions ratio for the applicable fiscal year. The floor adjustment factor will be 99% for fiscal year 2013, 98% for 2014, and 97% for fiscal year 2015 and thereafter. The excess readmissions ratio is based on aggregate payments for excess readmissions and the total payments received by the hospital for all discharges. In determining whether a hospital has "excess" readmissions, the Act provides for establishment of risk-adjusted expected readmissions for AMI, heart failure and pneumonia. Beginning October 1, 2014, the list of conditions associated with "excess" readmissions will be expanded to include COPD (chronic obstructive pulmonary disease), CABG (coronary artery bypass graft), PTCA (percutaneous transluminal coronary angioplasty), and other vascular conditions. The Act also provides for patient readmission rates to be made

available on the CMS Hospital Compare website.

While new specific regulatory standards are yet to come, hospitals should focus resources to address performance relating to AMI, heart failure, pneumonia, surgical care improvement and healthcare-associated infections in efforts to qualify for the incentive payments that will begin October 1, 2012. Hospitals should also dedicate additional attention to readmission rates, as payment penalties for "excess" readmissions will begin October 1, 2012. While the new DRG payment reductions for hospital acquired conditions will not begin until October 1, 2014, hospitals should also begin planning for these changes to avoid falling into the top quartile of hospitals when these standards become effective.

If you have any questions, or for more information about the Act or for assistance in planning programs to meet these new challenges, please contact Emily Towey or Bill Hall at (866) 967-9604, by email at: [etowey@hdjn.com](mailto:etowey@hdjn.com) or [bhall@hdjn.com](mailto:bhall@hdjn.com). Additional information about Hancock, Daniel, Johnson & Nagle, P.C. is available on the firm's website at: [www.hdjn.com](http://www.hdjn.com).



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