

At A Glance

KHA's Perspective

The Centers for Medicare & Medicaid Services issued its hospital inpatient prospective payment system proposed rule for fiscal year 2023.

From KHA's initial assessment, we must conclude that CMS' net 3.2 percent market basket update is severely inadequate and does not account for the hyperinflation, staffing crisis and the repercussions of the pandemic, which will influence resources necessary for patient care today and into the future. The policies proposed combined with certain payment policies set to expire will result in a decrease in payments from FY2022 to FY2023.

CMS must exercise the full extent of its authorities to ensure hospitals have the financial resources to ensure seniors retain the access to hospital care that they expect and deserve.

Further misplaced is the drop in uncompensated care Disproportionate Share Hospitals payments hospitals receive to serve the uninsured. While it would be an achievement for the number of uninsured to go down in the upcoming year as CMS assumes, the retreat of COVID-19 policies to extend coverage is more likely to send the uninsured numbers in the opposite direction. This is the wrong time to assume the challenge of funding care for uninsured Americans will decline.

A critical funding source expires in September 2022 when the Medicare-Dependent Hospital program concludes. This affects approximately 120 rural hospitals who depend on this source to keep their doors open.

We commend CMS for extending its measure suppression policies under its value-based payment program. It is particularly important CMS finalize its proposal to eliminate penalties under both the VBP and HAC programs. Hopefully, these programs can get back on course when it is practicable. We are pleased to see a proposed 5 percent cap on any decrease in a hospital's wage index, but we urge that this be applied in a non-budget neutral way.

CMS is also seeking provider feedback on the following: how to adjust payment for domestically produced N95 masks; how CMS can help hospitals address climate change; what measures CMS should consider to advance health equity; and proposed revisions to digital quality measures. CMS will accept comments on the proposed rule through June 17.

Key Takeaways

- **Payment rate update.** Hospitals reporting quality data and meaningful users of electronic health records will see a net 3.2 percent increase in payments in fiscal year 2023, compared to 2022.
- **Cap on hospital's wage index.** CMS proposes a permanent 5 percent cap on any decrease to a hospital's wage index from the prior fiscal year; this would be executed in a budget-neutral way.
- **Expiration of the Low-Volume and Medicare Dependent Hospitals.** CMS did not include an extension of the Low-Volume and Medicare Dependent Hospital programs. This represents a decrease of about \$600 million from fiscal 2022.
- **Disproportionate share hospital payments.** CMS is proposing to distribute about \$6.5 billion in uncompensated care payments in fiscal 2023. This represents a decrease of about \$800 million from fiscal year 2022.
- **Hospital inpatient quality-reporting program.** CMS proposed several changes to the Inpatient Quality Reporting Program, which reduces payment to hospitals failing to meet program requirements. CMS seeks to add 10 new measures, including one assessing a hospital's commitment to equity, one on opioid-related adverse events and one that captures screening of social determinants of health. CMS also proposes requiring a Medicare spending per beneficiary measure beginning in fiscal 2024.
- **Hospital readmissions reduction program.** CMS proposes resuming the measure that tracks and penalizes hospitals for 30-day readmissions after pneumonia hospitalization beginning in fiscal 2024. The measure was suppressed amid the pandemic.
- **New hospital designation.** The CMS inpatient payment rule officially unveils the proposal to create a new designation to identify "birthing-friendly hospitals".
- **Reporting COVID-19 and flu.** The CMS rule proposes requiring hospitals to continue reporting COVID-19 and flu data until April 30, 2024.
- **Medicare Severity Diagnosis Related Groups.** CMS proposed adding zero new MS-DRGs, keeping the number of MS-DRGs at 767 for fiscal year 2023.