

CAPITOL STREET

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Hospitals +2.8% Proposed 2024 Pay

340B Pay Restoration & Site Neutral Policy Comes Later While LTCH -2.5%

Relevant Companies



UHS Universal Health Services, Inc.

Today, the CMS issued the proposed IPPS and LTCH payment rules ([here](#)). These are payment rates and policies that would be for FY 2024 (starts Oct 1, 2023). Comments are due by June 9, 2023. Final rates will be released on or around August 1, 2023.

»» Our Take & Next Up

CMS hospital pay is healthy and the rule is less complicated than FY23 rules (DSH changes, etc) so this is generally good news for hospitals and more challenging for LTCH beds. With comments due June 9, CMS will publish a final rule on or before August 1. New policies and rates start Oct 1, 2023 (FY24). We could see small tweaks between now and the final rule.

»» Key Points

OVERALL UPDATE – POSITIVE INPATIENT HOSPITALS & NEGATIVE LTCH PAY '24

CMS will provide a +2.8% proposed 2024 pay bump to all hospitals (proprietary & voluntary) (THC, UHS, HCA, CYH, others). This is on par with our preview of ~3% in 2024.

The rural hospital update is higher (+3.3%) than urban update (+2.8%), Urban hospitals will have a +2.8% bump and rural hospitals will receive a +3.3% bump. See page 1383 of the rules for an impact analysis table of proposed changes to the IPPS.

CMS payments to inpatient hospitals will increase by \$3.3 B in 2024. The rule also projects that Medicare DSH and uncompensated care payments will increase by \$115 M next year, with an increase in payments for inpatient cases with new med tech by \$460 M.

Negatively, the Long Term Acute Care Hospital (LTCH) standard payment rate would decline by -2.5% in FY 24. Payments for discharges paid a standard rate are expected to decrease by -2.5% or \$59 M. This is due to a new outlier formula.

340B REFUND NOT ADDRESSED

CMS does not address returning 340B payments to hospitals, per court decision, as we predicted. Look out for guidance in the hospital outpatient rule (OPPS) in June/July 2023. As a reminder, on June 15, 2022, the US Supreme Court unanimously ruled in favor of hospitals to overturn a 2020 decision to uphold the authority of the HHS to significantly cut payments to hospitals participating in the 340B Drug Pricing Program. 340B hospitals received a reimbursement rate based on “an estimate from MedPAC that 340B hospitals obtained prescription drugs at an average discount of 22.5% below the average sales price charged by manufacturers” ([here](#)).

HEALTH EQUITY & SDOH

CMS adds 15 new health equity hospital categorizations. The rule helps to advance the CMS Framework for Health Equity 2022-2032 to measure the impact of CMS policies more explicitly on health equity. A priority moving forward is to better collect, report, and analyze health equity data.

CMS makes changes to three social determinants of health (SDOH) codes. The rules propose a change in the severity designation of the three ICD-10-CM diagnosis codes for homelessness (unspecified, sheltered, and unsheltered) from non-complication or comorbidity codes to complication or comorbidity codes, based on the higher average costs of these diagnosis codes compared to similar cases without them.

PHYSICIAN OWNED HOSPITALS

On physician-owned hospitals, CMS proposes the changes below.

CMS proposes to clarify that

- (1) CMS will only consider expansion exception requests from eligible hospitals
- (2) clarify the data and information that must be included in an expansion exception request
- (3) identify factors that CMS will consider when making a decision on an expansion exception request
- (4) revise the process for requesting expansion exception.

CMS proposes to reinstate, for hospitals that meet the criteria for “high Medicaid facilities,” (1) program integrity restrictions on the frequency of expansion exception requests, (2) maximum aggregate expansion of a hospital, and (3) location of expansion facility capacity that were removed in the CY 2021 OPPS/ASC final rule.

SITE NEUTRAL PAYMENTS

CMS provides no “site neutral payment” proposals; we predicted as much and think Congress eventually has its eye on that \$100B+ prize. While Congress eyes \$100-400 B+ in hospital savings, CMS does not have the authority to regulate on this topic. So-called site-neutral payment reforms could save Medicare upward of \$100 B over a decade, according to CBO and other projections, and those with private health insurance could see savings. Medicare lets hospital-owned clinics be designated as outpatient departments and net a higher payment for certain services than if they were owned by clinicians or independent. As a reminder, MedPAC and BCBSA recently (2023) discussed reforms, providing recommendations to Congress, along with mentions at recent House & Senate hearings on costs in the healthcare system.

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