CAPITOL STREET

August 1, 2024

Final Inpatient Hospital Pay +3.3% In 2025

Surgical Mandatory Pay Bundle & Sickle Cell NTAP Finalized

Relevant Companies

CHS Community Health Systems | Tenet Health | HCA Healthcare | UHS Universal Health Services, Inc.

On August 1, 2024, the Centers for Medicare and Medicaid Services (CMS) released the final FY 2025 hospital inpatient rule (IPPS) and long-term acute care hospital (LTCH) payment rules (here).

Our Take & Next Up

Proprietary hospitals will see pay +3.3% in 2025, a 70 bps improvement over the proposal, which is good news. The overall update for all hospitals will be +2.8% (up from +2.4%), including the 3.4% market basket update (up from 3.0%) reduced by the proposed 0.4% productivity adjustment (down from 0.5%). New rates start Oct 1, 2024, the start of FY25. The overall inpatient pay for 2025 will be +2.8% to all hospitals, a 40 bps improvement from the proposed rule (here). As a reminder, the original +2.4% was quickly criticized by hospitals as not considering inflation, operational costs, persistent labor shortages and aging demographics. See our memo on the proposed rule here. CMS will also (1) finalize the surgical mandatory demonstration (called TEAMS), that many surgical and other device makers oppose, (2) update the new technology add-on payments (NTAP) pay % for sickle cell gene therapies as well as (3) require small, independent hospitals to provide a buffer stock of drugs as a way to be prepared for future drug shortages.

Key Points

OVERALL PAY UPDATE (IPPS)

Rural hospitals will see a lower update (+2.6%, up from +1.9% proposed) than urban facilities (+2.8%, up from +2.6% proposed) based on the combined effects of the hospital update to the national standardized amount and the hospital update to the hospital-specific rate.

CMS payments to inpatient hospitals will increase by $2.9 B (down from $3.2 B proposed) in 2025. The rule also projects that Medicare DSH and uncompensated care payments will decrease by $226 M next year at $5.786 B, vs. $6.021 B in FY 2024, a –3.91% decrease.

DRUG SHORTAGES

The agency finalizes a new separate payment to smaller and independent hospitals to set up an emergency "buffer" stock of essential drugs. The payment would apply to hospitals with 100 or fewer beds and would cover the costs of a six-month supply of essential medicines to be used during shortages. Approximately 500 hospitals would qualify under the new policy, with an aggregate payment sum of $2.8 M. Medicare will pay 11% of the costs, or $0.3 M.

As a reminder, hospitals quickly shot down the idea when it was proposed. "It is misguided to punish hospitals if their purchasing practices do not conform to an arbitrary set of principles crafted by a federal agency," Nancy Foster, vice president of quality and safety policy for the AHA, said in a statement in April.

SICKLE CELL PLAN

CMS is finalizing a policy to temporarily increase the NTAP percentage from 65% to 75% for gene therapies that are indicated and used specifically for the treatment of SCD. The two gene therapy technologies approved for NTAP will increase IPPS spending by $38 M in FY 2025.

The CMS sickle cell action plan can be found here. To improve flexibility for applicants for NTAP, CMS is changing to use the start of the fiscal year, October 1, instead of April 1, to determine whether a technology is within its 2- to 3-year newness period. This change would be effective starting in FY 2026 for new applicants for NTAP and when extending NTAP for an additional year for technologies initially approved for NTAP in FY 2025 or subsequent years. This change will increase IPPS spending by approximately $459 M in FY 2027.

MANDATORY SURGERY DEMONSTRATION

High-cost surgery payment model: CMS finalizes policies of the 5-year mandatory Transforming Episode Accountability Model (TEAM). The purpose of this model is to "improve quality of care for people with Medicare undergoing certain high-expenditure, high-volume surgical procedures by reducing rehospitalization and recovery time while lowering Medicare spending and driving equitable outcomes" (here). TEAM is a 5-year, mandatory episode-based payment model that starts January 2026. Hospitals that are required to participate would be chosen based on geographic regions from across the US.

As a reminder, most medical device makers and other stakeholders opposed TEAM. Episodes of focus would be Lower Extremity Joint Replacement, Surgical Hip Femur Fracture Treatment, Spinal Fusion, Coronary Artery Bypass Graft, and Major Bowel Procedure. The model is mandatory versus voluntary via CMMI. We believe that CMS is trying to achieve savings in an era where most pilots have not saved the Medicare program dollars save for a handful of cases.

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