The Case for a Site Neutral Payment System

Existing Medicare payment policies focus on phases of a patient’s illness defined by a specific service site, rather than on the characteristics or care needs of the Medicare beneficiary. As a result, patients with similar clinical profiles may be treated in different settings at different costs to Medicare. This payment system fails to encourage collaboration and coordination across multiple sites of care and provides few incentives that reward efficient care delivery. Such misalignment has been understood and acknowledged for a very long time.

The Solution

The American Health Care Association supports efforts to address the failures of current payment methodologies and to develop concepts that in effect are “site neutral.” Site neutral means that care is patient-centered, thus it is organized around the individual’s needs, rather than around the settings where care is delivered.

In March 2014, MedPAC unveiled its case for site neutral payments for several conditions that are treated in both skilled nursing facilities (SNFs) and in-patient rehabilitation facilities (IRFs). The MedPAC data and analyses are compelling and groundbreaking.

The Commission’s work is the culmination of two years of site neutral policy analysis and builds upon a strong movement toward the need for a site neutral policy that began in 2005. A few of the key milestones in the site neutral discussion include the following:

- In 2005, MedPAC developed a set of PAC reform principles to drive the system toward the delivery of high quality care in the most effective manner and improve payment efficiency.
- The Deficit Reduction Act (DRA) of 2005 mandated a demonstration that also supports site neutral. This mandate resulted in the development of a common assessment tool which could facilitate significant movement toward the ability to compare patients across settings. This assessment tool could also help reshape current PAC payment systems to pay for similar services to similar patients, despite the settings.
- In the April 2013 Moment of Truth Project report, “A Bipartisan Path Forward to Securing America’s Future,” the co-chairs, Erskine Bowles and Senator Alan Simpson proposed reforming PAC payments and included a proposal to equalize payments between across PAC settings.
- The Fiscal Year 2014 “President’s Plan For Economic Growth And Deficit Reduction, Legislative Language and Analysis” proposed to restructure PAC payments. The legislative language proposed to adjust Medicare payments for three conditions involving hip and knee replacements and hip fracture as well as other conditions selected by the Secretary at her discretion. The Budget indicated these conditions are commonly treated at both IRFs and SNFs, but Medicare pays significantly more for patients treated in IRFs. The Budget clearly stated that IRFs provide intensive inpatient rehabilitation care that may not be needed for patients with certain conditions and whose care needs could reasonably be expected to be met in a SNF.

MedPAC unveiled its work on site neutral PAC payment in March 2014. The Commission examined three specific conditions: stroke, major joint replacement, and hip fractures. They concluded the following:

- For select conditions, characteristics of beneficiaries admitted to IRFs and SNFs in the same market were similar;
- In addition, the prevalence of comorbidities of beneficiaries were similar but patients treated in SNFs were more likely to have several of the comorbidities;
- Outcomes between IRFs and SNFs were basically the same for the identified conditions. There were no significant differences in risk-adjusted readmission rates between IRFs and SNFs; no significant differences in mobility, and, with respect to self-care, there were no significant differences for orthopedic conditions but some higher rates of improvement for IRF patients.

The Commission concluded that the work on orthopedic conditions was a strong starting point for a site neutral policy. MedPAC staff will continue to explore site neutral payment between SNFs and IRFs.

Medicare’s long-term financial woes are no secret. Site neutral payment models are one way to help mitigate rising costs and fiscal pressures on this struggling program.

The current system must be fixed - with an eye to the future, in order to maximize the potential of Accountable Care Organizations, bundling and other potential care/payment reforms. Care across the acute and post-acute spectrum should be aligned. If this is not done, inappropriate cost data, inappropriate Medicare payment, and clinically inappropriate sites of care will be drawn into the fabric of the new systems and contribute to their failure.

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