Medicare Reimbursement for Inpatient Care:
ThedaCare Is Delivering Better Quality Care at Lower Cost
What's Happening? We Are Penalized, Not Rewarded, for Better Patient Outcomes

With healthcare reform beginning to take effect, ThedaCare, a five hospital healthcare system in northeastern Wisconsin, remains focused on the positive change that has demanded our attention for the past seven years: delivering measurably better results. That single-minded endeavor has improved the quality of patient care, saved $25 million in administrative costs, eliminated costly waste, reduced errors and increased productivity.

What is ThedaCare doing? We're systematically evaluating our processes and outcomes using Lean methods and tools. We are cutting waste and inefficiencies, and improving patient outcomes. We are sending patients home from the hospital earlier, having received better care while they are hospitalized, and with a complete follow-up plan of care in place. And we're doing it at lower costs. Our efforts are producing high quality care that costs less.

One example of our improved quality care delivered at lower cost is Collaborative Care, our inpatient care model. In Collaborative Care, we redesigned our delivery processes and spaces. Upon a patient's admission, a trio of caregivers—a physician, nurse and pharmacist—work together to determine a diagnosis and create a plan of care. They listen to the patient's story once, and they stay on the same page through the patient's stay. Collaborative Care has shown remarkable quality improvements, better patient outcomes—and shorter lengths of stay.

The length of stay problem

Shorter lengths of stay are the right outcome for patients, and for Medicare. In the present payment system, however, Medicare pays ThedaCare less for lower utilization, and financially penalizes ThedaCare for quality improvement and cost reduction associated with reducing patients' length of stay.

Medicare's reimbursement formula penalizes us for delivering better outcomes in a shorter time frame. The current reimbursement formula rewards inefficiency, waste, poor patient outcomes—and longer patient stays regardless of outcomes. Specifically, Medicare's post acute care transfer policy penalizes ThedaCare for shorter than average lengths of stay – even when the readmission rate goes down. That approach to reimbursement hinders the kind of innovation and improvement ThedaCare and other providers are engaged in—and which CMS wants to promote.

Fixing the problem

While the post acute care transfer policy is in place to prevent inappropriate transfers, the policy does not take into consideration that earlier than average transfers may be occurring for exactly the right reason – the patient got better and is ready to be transferred earlier. Readmission rates are the best available measurement to determine if the right treatment occurred. The post acute care transfer policy should have an exception for providers with low readmission rates.

We recommend that CMS waive the discharge penalty for organizations like ThedaCare that can show significant reduction in readmission rates based on better inpatient care. The waiver would recognize reimbursement based on value, not on volume by taking into consideration the provider's readmissions rate. Ultimately, the Medicare reimbursement formula needs to be changed, but in the meantime, a waiver approach would be an effective action to ensure that providers, like ThedaCare, are not being penalized for care improvement.

The data that follow demonstrate the improved patient outcomes we are delivering through Collaborative Care, including shorter lengths of stay and reduced readmissions. We also include financial information about the Collaborative Care approach, and an example DRG to show how early, appropriate discharges are penalized.

THEDACARE

The Financial Impact

Since ThedaCare launched its first Collaborative Care unit in 2007, we have consistently reduced the cost of care, reduced the length of stay, and improved the quality of patient outcomes. Medicare's reimbursement formula penalizes ThedaCare for those improvements. The charts below show how.

Collaborative Care
January – June 2010

Hospital	Cases	LOS	Average Charge	Average Payment	Average Payment Penalty
Appleton Medical Center	61	2.61	$8,173	$5,830	$2,196
Theda Clark Medical Center	58	2.36	$7,660	$5,239	$1,938

Collaborative Care
Medicare Reimbursement Penalty Example MSDRG 193

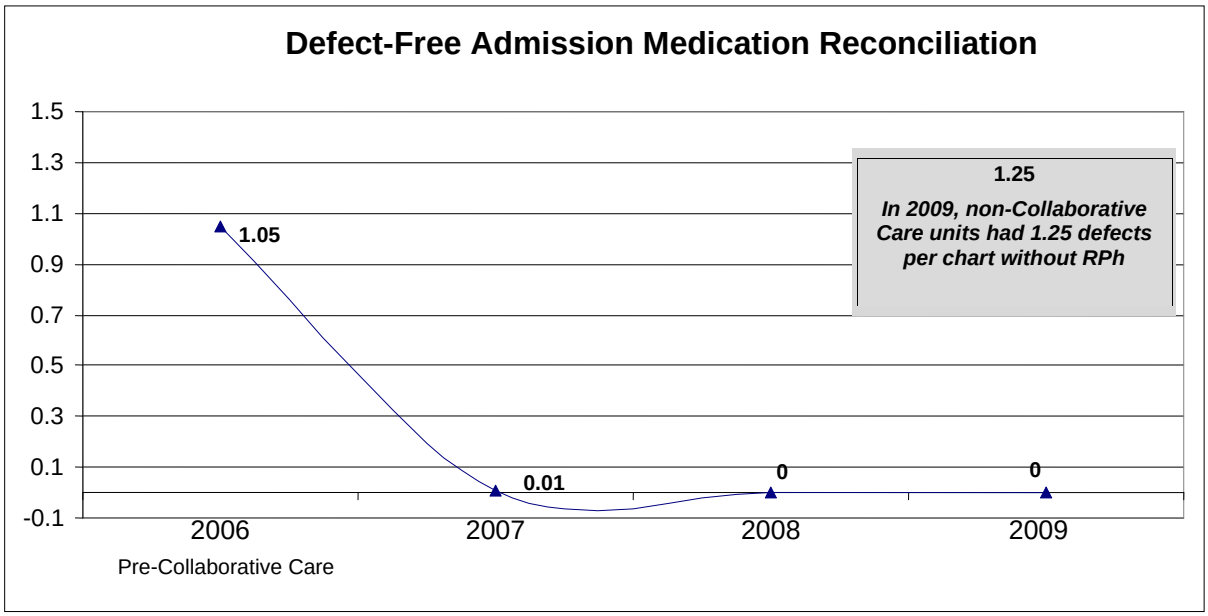
Patient Status	ThedaCare LOS	Geometric LOS	Payment	Payment Penalty
Patient discharged home	5	5.3	$7,945.28	-
Patient stays 1 day, discharged SNF	1	5.3	$2,998.22	$4,947.06
Patient stays 2 days, discharged SNF	2	5.3	$4,497.33	$3,447.95
Patient stays 3 days, discharged SNF	3	5.3	$5,996.44	$1,948.84
Patient stays 4 days, discharged SNF	4	5.3	$7,495.55	$449.73

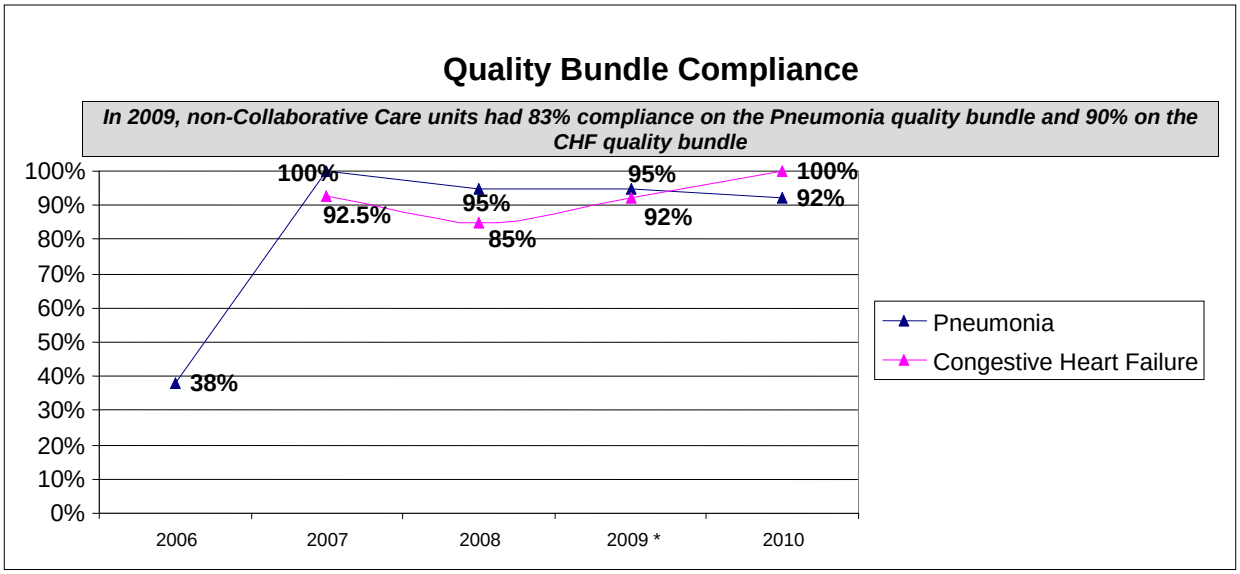
Collaborative Care
Total Medicare Post Acute Care Transfer Penalties to ThedaCare

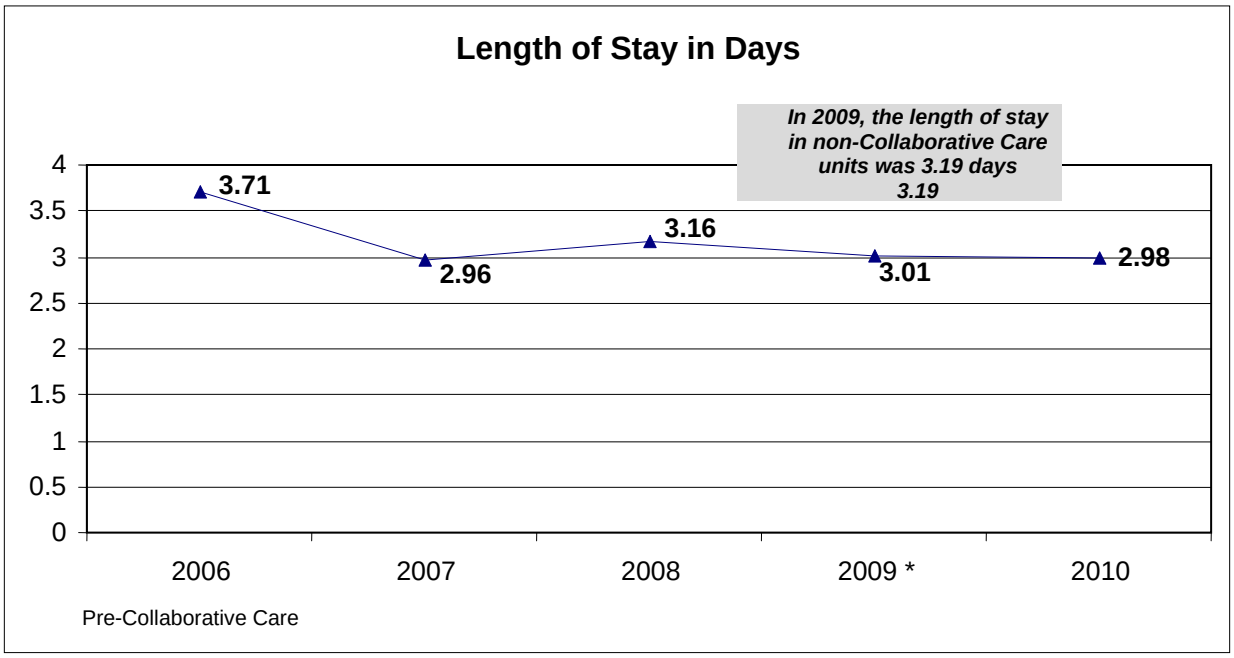
- *Over the past three years, Medicare's transfer penalty to ThedaCare has totaled more than $969,500 for all of ThedaCare's Collaborative Care claims.*
- *The early transfer penalty to ThedaCare for 2011 is expected to be approximately $720,000—increasing our total payment penalty to $1,689,500 since we launched Collaborative Care in 2007.*
- *By December 2011, we anticipate that six units in two of our hospitals will be operating under the Collaborative Care model. By December 2012, we plan to complete the spread of Collaborative Care to all our medical and surgical units in those two hospitals. As we spread the Collaborative Care model, the financial impact of the post acute care transfer policy will have an even more significant negative impact.*

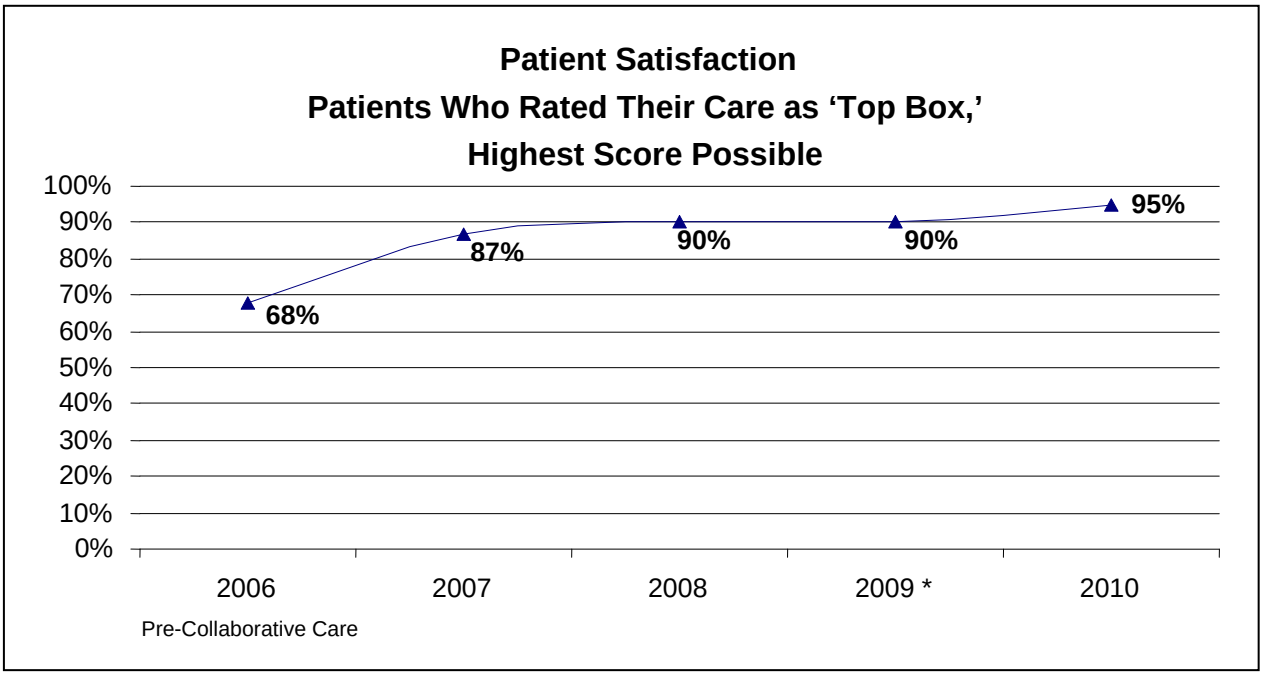
Quality Impact: How We're Improving Care and Reducing Costs

ThedaCare tracks and measures quality and costs. Since 2004, when we shifted our focus from system outcomes to patient outcomes, we have operated in an environment of improving something every day, and we've tracked our progress. For Collaborative Care, that process has revolutionized our hospital care. What have we accomplished? We've eliminated errors during admission medication reconciliation, improved quality bundle compliance, reduced the average length of hospital stay by almost a full day, increased patient satisfaction, and reduced overall costs by more than $2,000 per case when compared to our traditional inpatient units.



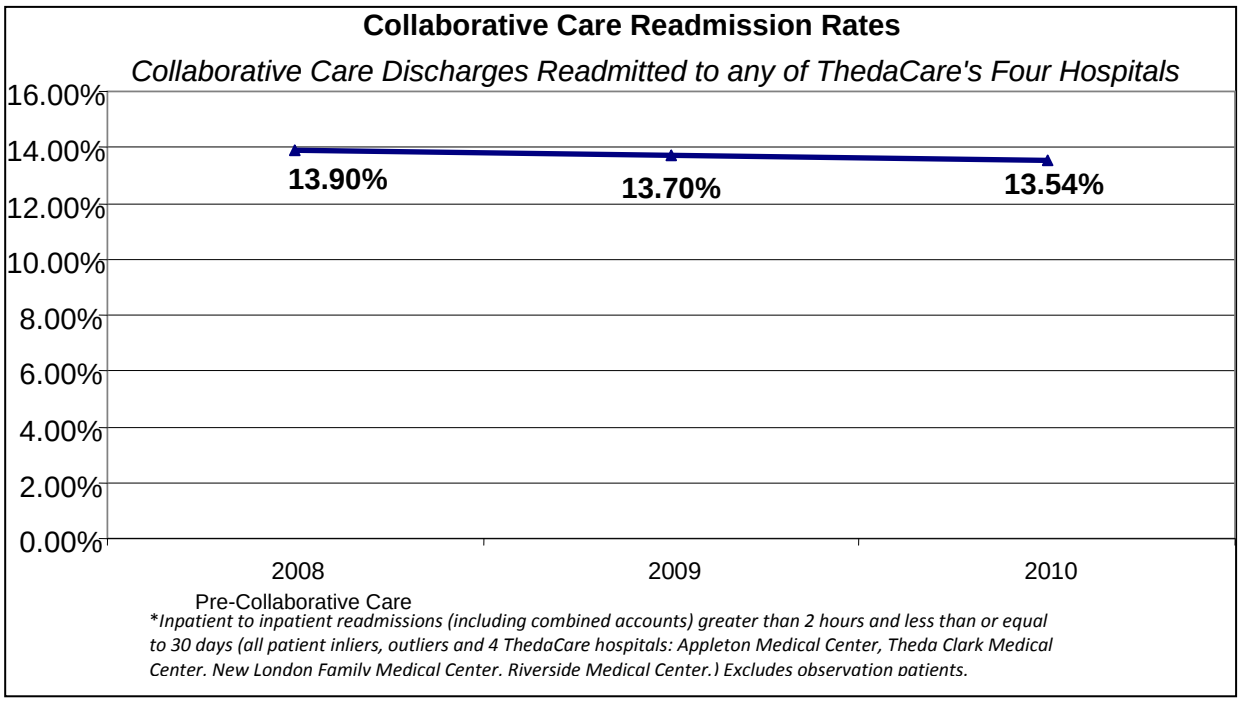



Length of Stay in Days
In 2009, the length of stay in non-Collaborative Care units was 3.19 days
3.19
4
3.5
3
2.5
2
1.5
1
0.5
0
3.71
2.96
3.16
3.01
2.98
2006
2007
2008
2009 *
2010
Pre-Collaborative Care


Patient Satisfaction
Patients Who Rated Their Care as 'Top Box,'
Highest Score Possible
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
68%
87%
90%
90%
95%
2006
2007
2008
2009 *
2010
Pre-Collaborative Care

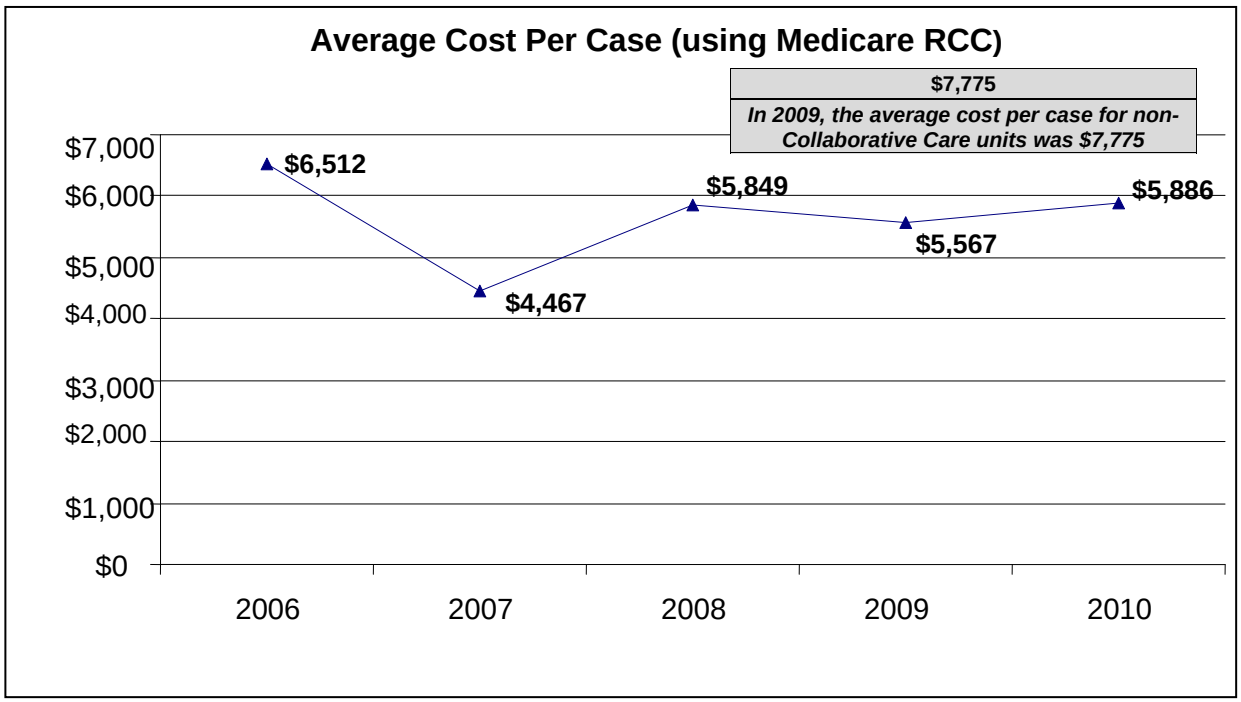
Collaborative Care Readmission Rates

A shorter hospital stay does not necessarily mean patients are at higher risk for readmission. Because Collaborative Care improves the quality of care and the readiness of a patient for discharge, readmission rates are consistently below the national average of approximately 20% (New England Journal of Medicine, April 2009), and continue to improve.



Collaborative Care Average Cost per Case

Since 2008, ThedaCare has maintained a significantly lower cost per case for Collaborative Care than for non-Collaborative Care. In 2009, for example the average cost for a Collaborative Care case was $5,567, while the average cost for a traditional unit case was $7,775.



The time to act is now

Visionary leaders, including those at CMS, understand that delivery system reform and payment reform go hand-in-hand. Goals for both align with the Affordable Care Act, CMS's own goals, and the work of the Center for Medicare and Medicaid Innovation. Indeed, CMS is considering payment reform initiatives.

ThedaCare's Collaborative Care is a prime example of why the post acute care discharge policy should be adjusted based on achievement of quality measures, such as readmission rates. A waiver is a reasonable first step, but longer-term payment reform initiatives must go forward. ThedaCare's experience with Collaborative Care produces the following results – results we want to continue to deliver:

- Collaborative Care costs 25 percent less per case than traditional care
- Quality outcomes in Collaborative Care are dramatically better than in traditional care
- Readmission rates are lower among Collaborative Care patients

We are particularly concerned about the disparity in the reimbursement because we our spreading the Collaborative Care model in our hospitals. We are eager to bring this cost-saving, improved-outcomes innovation to our patients. Unfortunately, our improvements may not be sustainable without improvements to Medicare's reimbursement formula.