

# Healing cuts for Medicare

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Medicare payment reforms mandated in the Affordable Care Act (ACA) for postacute care have great potential to lower costs without harming patients, a new study reports.

However, researchers caution, policymakers will need to be vigilant to ensure that these cuts don't result in one-time savings that revert to rising costs.

"We expect that the [Affordable Care Act](#)'s dramatic cuts in payments to providers for postacute care will lead to decreased utilization and lower spending," said David Grabowski, Harvard Medical School professor of health care policy and lead author of the study. "Our work suggests that those changes will not have a dramatic effect on outcomes, based on analysis of patient mortality and hospital readmissions under previous cuts."

These findings are reported in the September issue of *Health Affairs*.

Each year, more than 10 million Medicare beneficiaries are discharged from acute care hospitals into postacute care settings: long-term care hospitals, inpatient rehabilitation facilities, skilled nursing facilities and patients' homes with services from home health agencies.

"These four sectors were among the fastest growing part of the [Medicare program](#) during much of the nineties," Grabowski said. Despite several efforts to curb spending, postacute care remains a major driver of rising [Medicare costs](#).

ACA-mandated changes in payments for Medicare postacute care services are intended to contain spending in the long run and help ensure the program's financial sustainability. In addition to reducing annual payment increases to providers, the act calls for bundled payment models, accountable care organizations and other strategies to promote care coordination and reduce spending.

The researchers studied the effects of payment reforms from 1997, 1998 and 2002. The group also analyzed Medicare claims data to measure the impact of reforms on patient mortality and hospital readmissions for postacute care recipients.

Each of these previous payment reforms caused a steep downtick in postacute care costs immediately after implementation. However, expenses quickly resumed their upward trend as reimbursements were renegotiated and providers changed the ways they managed patient care.

The researchers recommend that policymakers will need to be vigilant in monitoring the impact of the ACA reforms and be prepared to amend policies as necessary to ensure that the reforms exert persistent controls on spending without compromising the delivery of patient-appropriate postacute services.

In the mandated demonstration projects, providers and health care systems are experimenting with different models of payment that all aim to lower costs, for example, providing a lump sum per patient per year, or a single fee for a healthy recovery from an illness or injury to be shared among physicians, hospitals and postacute care facilities.

"If it works the way it's meant to, patients will use only those services that are the most efficient," Grabowski said. That could mean moving patients from high-cost skilled inpatient rehabilitation facilities to lower-cost skilled nursing facilities. It could also mean that providers find

creative new ways to avoid costly treatments altogether, like inspecting homes for tripping hazards to prevent painful and costly falls. In the current system, there's no incentive for providers to perform these kinds of interventions, he said, since Medicare has no mechanism to reward these kinds of savings.

"The overall goal of these experiments is to find ways to improve overall care and make services more cost effective. In any system this complex, there are always going to be tradeoffs, so monitoring results closely to minimize any issues will be critical," Grabowski said.

**More information:** "Medicare Postacute Care Payment Reforms Have Potential To Improve Efficiency Of Care, But May Need Changes To Cut Costs" by Grabowski et al. *Health Affairs*, Sept. 4, 2012

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