

## New Medicare Penalties with Quality and Safety Incentive Programs



**(April 30, 2015):** Starting this year, the Centers for Medicare and Medicaid Services (CMS) will have three Medicare quality and safety incentive programs go into effect. As a result, more than three dozen hospitals across the U.S. will be penalized more than 3% on most of their CMS reimbursements. Medicare penalties may be a real risk for your organization.

### I. Medicare Quality and Safety Incentive Programs Now in Effect:

The three Medicare quality and safety incentive programs, established under the Affordable Care Act (ACA) that will take effect this year are the Hospital Value-Based Purchasing (VBP) Program, the Hospital Readmissions Reductions Program, and the Hospital-Acquired Condition (HAC) Reduction Program.

- **Hospital Readmissions Reductions Program:** Hospitals can be **penalized up to 3%** of revenue for excessive 30-day readmissions. This is the highest amount allowed under the ACA, and is a significant increase from the readmission penalty in 2014, which was 35%.
- **VBP program:** CMS will **withhold 1.5% of payments** for all hospitals and distribute incentive payments based on performance. This program establishes bonuses and penalties that will be based on different quality indicators.
- **HAC Reduction Program:** There will be a **1% penalty to any hospital** that falls into the bottom 25% nationally for hospital-acquired conditions, such as urinary catheter or bloodstream infections and other issues related to patient safety.

### II. Impact of Increased Medicare Penalties:

To show the effect these increased Medicare penalties will have on certain hospitals, [Modern Healthcare](#) did an analysis of CMS data and found that when the Medicare penalties associated with these three programs are combined, two hospitals in particular will have considerable Medicare payments docked over 4%. The 180-bed Palisades Medical Center in North Bergen, N.J.,

will face a reduction of 4.44% in reimbursements, and the 455-bed Pennsylvania Hospital in Philadelphia will face a reduction of 4.21% reduction.

The escalating penalties are receiving a lot of criticism from advocates for teaching hospitals and critical-access hospitals, which make up the biggest number of worst-performing hospitals. According to these advocates, CMS programs need to be refined to ensure they are not creating additional hardships. Members of the American Association of Medical Colleges (AAMC) say that AAMC hospitals are disproportionately affected by these penalties because by their very nature they take on more complex cases and are more likely to report bad outcomes. Therefore, their stance is that they should not be compared to and held to the same standards as hospitals with different types of patients and different types of procedures.

*Modern Healthcare* also found that academic medical centers were among the more heavily penalized hospitals in the nation:

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***The University of Colorado Hospital faces a 2.18% reduction from its Medicare reimbursements;***

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***Peter's University Hospital faces a 2.5% reduction from its Medicare reimbursements; and***

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***Thomas Jefferson University Hospital faces a 3.01% reduction from its Medicare reimbursements.***

**[Forty-two hospitals will face a combined penalty of 3% or higher on their 2015 Medicare revenue.](#)**

### **III. Improved Performance as a Result of New Programs**

While some healthcare providers will surely struggle as a result of increased penalties, many facilities have already improved their performance from year to year and face low penalty rates. In fact, about 800 of the nation's hospitals face either no penalties or will be earning rewards based

on their performance in the value-based purchasing program.

For example, Bucks County Specialty Hospital in Pennsylvania earned the nation's highest reward in the value-based purchasing program and will see a fiscal 2015 reimbursement boost of 2.09%. The acute-care hospital has not seen a 30-day readmission fine in the past three years, it will not face a HAC penalty in 2015, and it increased its VBP Program reward.

#### IV. Conclusion:

There has been no suggestion from CMS that new rules or exceptions will be made for critical-access or academic medical centers who are disproportionately affected by increased penalties. Penalties are expected to increase over the years, having a large combined financial impact. By 2017, the combined penalties for HAC 30-day readmissions and value-based purchasing will put as much as 5.5% of inpatient Medicare payments at risk. CMS is constantly updating penalties for providers that don't meet their arbitrary requirements, and these penalties are getting more expensive. If you have questions about these new penalties or any other pre-existing Medicare payment penalties that you may be at risk for violating, please give us a call, toll-free, at 1-800-475-1906.



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