How Medicare Wastes $4.6 Billion A Year On Long-Term Care Hospitals

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Patient Belva Avery (L) , works with her Physical Therapist, Michelle Hernandez, (R) on hip strengthening exercises at Southland Care Center in Norwalk. (Photo by Barbara Davidson/Los Angeles Times via Getty Images)

Mom falls and breaks her hip. Her injury is repaired at the local acute care hospital but she needs intensive rehab and post-surgical care. She could be sent home or to a skilled nursing facility (SNF) but instead she is discharged to a long-

term care hospital (LTCH)—a facility that specializes in intensive post-acute services.

But a new study, published by the National Bureau of Economic Research, finds that in 2014, Medicare paid LTCHs three-times what it paid SNFs, or about $33,000 more, for each discharge. And there is no evidence, according to the research, that mortality is any lower than for nursing facility patients. Overall, according to the authors, Medicare could save $4.6 billion annually by reimbursing LTCHs like SNFs—with no harm to patients.

The researchers, Liran Einav of Stanford University, Amy Finkelstein of MIT, and Neale Mahoney of the University of Chicago are weighing into a long-standing battle over these facilities. LTCHs argue that their patients are sicker than SNF patients and, thus, they should be paid more by Medicare.

An odd duck

Indeed, Medicare has been gradually slowing its annual payment increases to LTCHs since 2015. Just this month, it decided to boost reimbursements to the facilities by about 0.9 percent for 2019.

Even in the curious world of health care, LTCHs are something of an odd duck. Mostly for-profits located in the south, these facilities are, as the authors say, "a purely regulatory phenomenon." They do not exist for clinical reasons. They exist because of money.

Here is a brief history: When Medicare revised its hospital payment system 35 years ago, it attempted to protect about 40 long-term care hospitals that cared for very sick patients for long periods of time. Some were old tuberculosis care facilities.

Sweet profits

Because Medicare paid LTCHs much more than acute care hospitals, companies saw an opportunity. Now there are more than 400 of these facilities, mostly units within larger acute care hospitals. Discharging a patient from a hospital bed to an LTCH located on the same campus is easy. And the returns are sweet: The study authors estimate that the two largest operators of LTCH's earn profits ranging from 16 percent to 29 percent on the facilities.

It is no wonder. The authors calculated that in 2014, Medicare paid SNFs an average of about $450-per-day but paid LTCHs $1,400. Medicare paid about $73-a-day for home health care.

LTCHs provide the most intensive treatment but it is not clear whether patients discharged to these facilities require such a high level of care. And, as the authors write, it is difficult for even doctors to know which setting is most appropriate for their patients. At least one study found that mortality is lower for certain patients discharged from LTCHs than for similar patients in other settings.

In recent years, the Centers for Medicare and Medicaid Services and Congress have tried to squeeze some reimbursement from the facilities. But as long as they operate under unique payment rules, their owners will find ways to benefit from what the authors call a regulatory "game of whack-a-mole."

Why health care costs so much

Other Medicare changes may drive care from LTCHs to lower-cost settings, however. For example, about one third of Medicare beneficiaries are members of Medicare Advantage managed care plans that are unlikely to discharge their patients to such high-cost facilities.

As the authors note, there are some limitations to their study. Because they measure mortality rates only, they do not attempt to capture other medical or quality of life benefits of care in long-term care hospitals relative to care in skilled nursing facilities or at home. And, as they acknowledge, things may have changed since 2014, the most recent year for which data were available.

In the US, we always ask ourselves why health care costs so much. Increasingly, the answer is: Because the price is so high, not because we use too much of it. Einav, Finkelstein, and Mahoney have explained an important example of what may be needless health care spending. And they may have identified an easy way for Medicare to save $4.6 billion.

(Full disclosure: I am an unpaid board member of Suburban Hospital in Bethesda MD and of Johns Hopkins Medicine. Neither owns a LTCH)

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