Toyon University® Presents

FFY 2023 Medicare IPPS Proposed Rule

May 20, 2022

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FFY 2023 IPPS Rate Setting

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Comments to CMS

- Comments are due to CMS no later than 5 p.m. EDT on June 17, 2022.
- In commenting, please refer to file code CMS–1771–P.
- Comments may be sent electronically at https://www.regulations.gov/ (see instructions under the ''submit a comment'' tab).
- Comments may also be submitted by mail to: Centers for Medicare &Medicaid Services, Department of Health and Human Services, Attention: CMS–1771–P, P.O. Box 8013, Baltimore, MD 21244–1850.

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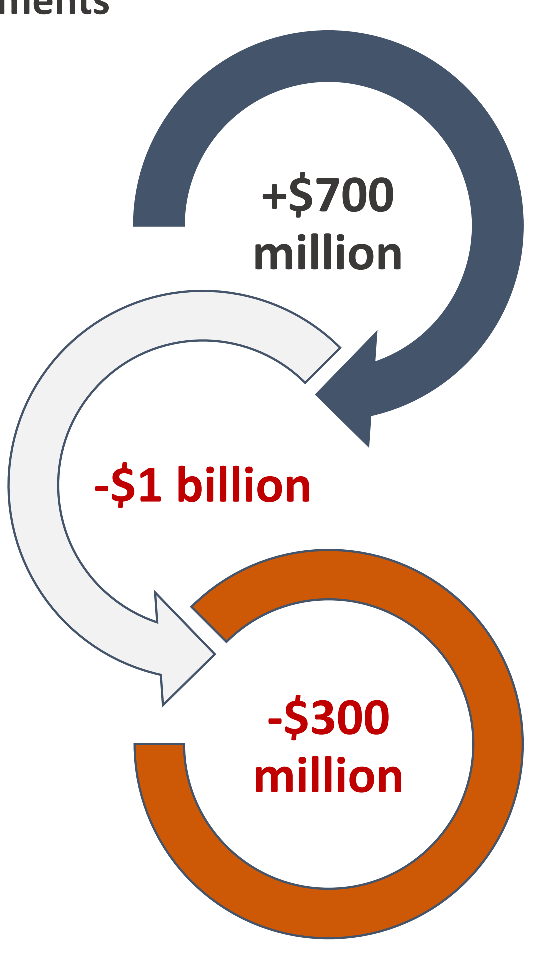
National IPPS Payments



Increase to operating payments (includes -$563 million cut to UC DSH).

Decrease in payments related to payment changes in programs for new technology, low volume hospitals, GME, and capital.

Net overall change of -$300 million in IPPS payments, as compared to FFY 2022.

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Payment Updates

Adjustment	% Impact on Medicare IPPS Pmts
Market Basket	3.10%
ACA Productivity Adjustment	-0.40%
Proposed FFY 2023 Update Factor	**2.70%**
MACRA Documentation and Coding Restoration*	0.50%
Update with MACRA	**3.20%**
DSH Payments	-0.80%
Outlier Payments	-1.80%
Expiration of MDH Status, Low Volume Adj Changes and Other**	-0.90%
Total Other Adjustments	**-3.50%**
Net Market Basket and Other Payment Adjustments	**-0.30%**

*MACRA adjustment applied after the Update Factor, combined with other budget neutrality adjustments computing the FFY 2023 Standardized Rate.

** Per American Hospital Association Summary of the FFY 2023 IPPS Proposed Rule.

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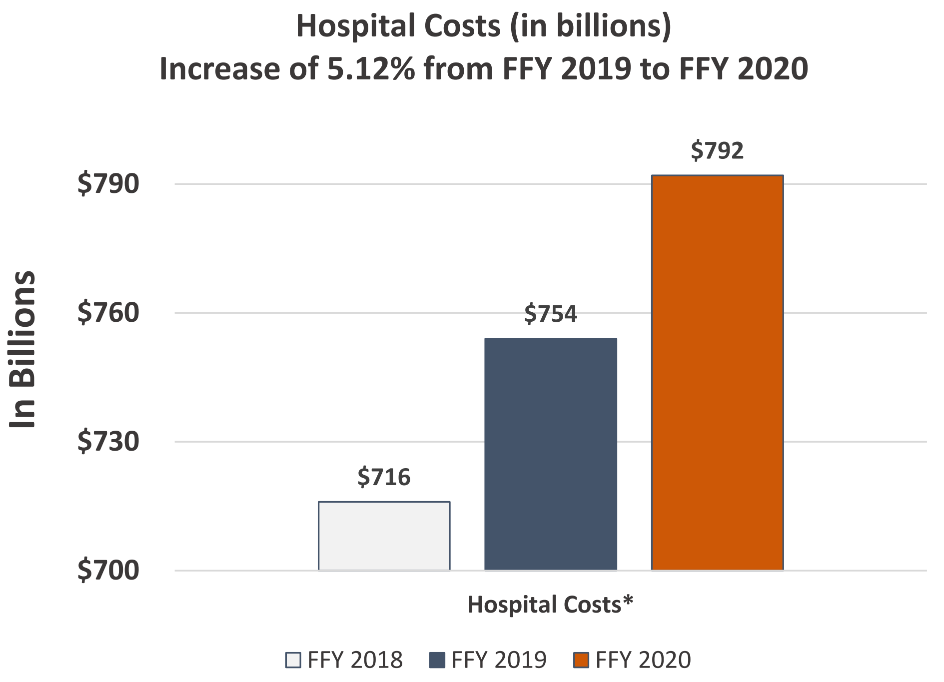
Request for Market Basket Increase



Comment to CMS

Request add-on to market basket increase greater than 3.1%

- Toyon's analysis of hospital costs shows an increase in allowable hospital costs from FFY 2019 to FFY 2020 of 5.1% ($38 million).
    - Examples of cost increases, include, but are not limited to, increased labor costs.
    - Hospitals are paying over 200% for travel nurses with additional losses ranging from $5 million to $9 million per hospital due to nursing turnover**.
- Requests to increase the market basket should include other "stranded costs of COVID-19", like rising insurance premiums.
- Request to eliminate the -0.4% ACA Productivity Adjustment cut for any year impacted by the COVID-19 PHE.

*Healthcare Cost Report Information System (HCRIS), comparison of expenses reported on WS A Line 118, Column 7 for 4,056 hospitals (acute care, critical access and LTCHs) with data in FFY 2018s through FFY 2020.

**2022 NSI National Health Care Retention & RN Staffing Report

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Discharges and Case Mix Index (CMI)

- CMS provides discharges and CMI from FFY 2021 to estimate annual proposed FFY 2023 IPPS payments.
- As hospitals project revenue for FFY 2023, current analysis of projected discharges and CMI is recommended.
- In the FFY 2022 IPPS Final Rule, CMS provided Medicare discharges and CMI using pre-COVID-19 data (FFY 2019).
  - There are 1.7 million less discharges (-20%) between FY 2021 and FY 2019 data.
  - The case mix index is estimated on average* 0.1649 greater in FFY 2021 as compared to FFY 2019.

		Variance in Discharges and CMI FFY 2023 Proposed Rule vs. FFY 2022 Final Rule		
Provider Type	**Number of Providers**	**Discharge Variance**	**Discharge Variance %**	**CMI Variance***
IPPS	2,239	(1,024,998)	-20.36%	0.1792
RRC	621	(530,733)	-18.10%	0.1311
SCH/RRC	157	(103,506)	-21.67%	0.1238
SCH	304	(69,002)	-20.62%	0.1492
EACH/RRC	2	(1,215)	-20.08%	0.1621
EACH	1	(79)	-10.81%	0.0693
Grand Total	**3,324**	**(1,729,534)**	**-19.69%**	**0.1649**

*For illustrative purposes, the average of CMI values is compared to show differences between FFY 2019 and FFY 2021 data.

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Standard Rates

2.7%
Full Update for Quality Reporting and Meaningful EHR Users

Description	FFY 2023 PR	FFY 2023 PR Alt	FFY 2022 FR
Wage Index > 1.0000			
Labor (67.6%)	$4,269.46	$4,271.33	$4,138.24
Non-Labor (32.4%)	$2,046.31	$2,047.20	$1,983.41
Wage Index < = 1.0000			
Labor (62.0%)	$3,915.78	$3,917.49	$3,795.42
Non-Labor (38.0%)	$2,399.99	$2,401.04	$2,326.23

- CMS provides two separate sets of base rates and variables for FFY 2023 rate setting: **Proposed and Alternative (Alt.) Proposed.**
- Proposed rates project fewer COVID-19 hospitalizations in FFY 2023 than in base-year data from FFY 2021 (i.e., FFY 2021 MEDPAR data*).
- Alt. rates do not make an adjustment projecting a decline COVID-19 hospitalizations from FFY 2021 to FFY 2023.
- Toyon estimates a national increase of $3 million (0.0025%) comparing Alt vs. Proposed FFY 2023 rates. However, 1,060 experience a reduction using Alt rates due to DRG weights used to project case mix indices and outlier payments.

*Medicare Provider Analysis and Review (MEDPAR): Data on Medicare beneficiaries using hospital inpatient services at https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/MedicareFeeforSvcPartsAB/MEDPAR

**Excludes rates for hospitals in Puerto Rico.

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Standard Rates with Reductions

1.925%
Meaningful Health User, but Quality Data

Description	FFY 23	FFY 23 Alt	FFY 22
Wage Index > 1.0000			
Labor (67.6%)	$4,237.24	$4,239.10	$4,110.85
Non-Labor (32.4%)	$2,030.87	$2,031.75	$1,970.28
Wage Index < = 1.0000			
Labor (62.0%)	$3,886.23	$3,887.93	$3,770.30
Non-Labor (38.0%)	$2,381.88	$2,382.92	$2,310.83

0.375%
Quality Data, but Meaningful EHR User

Description	FFY 23	FFY 23 Alt	FFY 22 FR
Wage Index > 1.0000			
Labor (67.6%)	$4,172.80	$4,174.63	$4,056.08
Non-Labor (32.4%)	$1,999.98	$2,000.85	$1,944.03
Wage Index < = 1.0000			
Labor (62.0%)	$3,827.12	$3,828.80	$3,720.07
Non-Labor (38.0%)	$2,345.66	$2,346.68	$2,280.04

-0.40%
No Quality Data, Not Meaningful User

Description	FFY 23 PR	FFY 23 Alt	FFY 22
Wage Index > 1.0000			
Labor (67.6%)	$4,140.59	$4,142.40	$4,028.70
Non-Labor (32.4%)	$1,984.54	$1,985.41	$1,930.91
Wage Index < = 1.0000			
Labor (62.0%)	$3,797.58	$3,799.24	$3,694.96
Non-Labor (38.0%)	$2,327.55	$2,328.57	$2,264.65

*Excludes rates for hospitals in Puerto Rico.

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Other Key Standard Rates

Other Key Factors			
Description	**FFY 2023 PR**	**FFY 2023 PR Alt**	**FFY 2022 FR**
National UC DSH Funding	$6.6 billion	$6.6 billion	$7.2 billion
Prorated Sequestration Adjustment	-2.00%	-2.00%	-0.75%
Capital Rate	$480.29	$480.67	$472.59
***Fixed Loss Outlier Threshold**	**$43,214.00**	**$58,798.00**	**$30,988.00**
Long Term Care Hospital (LTCH) Rates:			
LTCH Full Update	$45,952.59	$45,952.62	$44,713.67
LTCH Reduced Update	$45,057.70	$45,057.73	$43,836.08
LTCH Fixed Loss Outlier Threshold	$44,182.00	$61,842.00	$33,015.00
LTCH Site-Neutral Fixed Loss Threshold	$43,214.00	N/A	$30,988.00

***FFY 2023 Proposed Fixed Loss Outlier Threshold**

- In FFY 2023 CMS proposes to exclude COVID-19 inflation from the proposed Fixed Loss Outlier Threshold of $43,214.
- CMS proposes to use charge inflation factors computed by comparing the average covered charge per case from FY 2018 to FY 2019.
- CMS notes using data from FY 2020 to FFY 2021 results in “significantly higher” Fixed Loss Threshold (at $58,798).

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MS-DRG Weights

- CMS proposes averaging weights with one set including COVID-19 diagnoses, and the other set excluding COVID-19 diagnoses.
- CMS seeks comment whether DRGs should be weighted without the proposed COVID-19 adjustments.
- FFY 2023 (and forward), DRG Weights are capped at no more than a 10% reduction compared to the PY.

MS-DRG	MS-DRG Title	FFY 23	FFY 23 Alt	Variance
18	CHIMERIC ANTIGEN RECEPTOR (CAR) T-CELL AND OTHER IMM.	36.61	36.33	0.28
453	COMBINED ANTERIOR AND POSTERIOR SPINAL FUSION WITH MCC	9.22	9.14	0.08
14	ALLOGENEIC BONE MARROW TRANSPLANT	11.12	11.05	0.08
957	OTHER O.R. PROCEDURES FOR MULT SIGNIFICANT TRAUMA WITH MCC	7.42	7.35	0.07
215	OTHER HEART ASSIST SYSTEM IMPLANT	10.29	10.23	0.07
981	EXTENSIVE O.R. PROCEDURES UNRELATED TO PRINCIPAL DIAG.WITH MCC	4.58	4.65	(0.07)
783	CESAREAN SECTION WITH STERILIZATION WITH MCC	1.86	1.94	(0.07)
166	OTHER RESPIRATORY SYSTEM O.R. PROCEDURES WITH MCC	3.66	3.75	(0.08)
3	ECMO OR TRACHEOSTOMY WITH MV >96 HOURS OR…	20.14	20.27	(0.13)
208	RESPIRATORY SYSTEM DIAGNOSIS WITH VENTILATOR SUPPORT <=96 HOURS	2.60	2.73	(0.14)
870	SEPTICEMIA OR SEVERE SEPSIS WITH MV >96 HOURS	6.79	7.08	(0.29)
207	RESPIRATORY SYSTEM DIAGNOSIS WITH VENTILATOR SUPPORT >96 HOURS	6.56	7.16	(0.60)
4	TRACHEOSTOMY WITH MV >96 HOURS…	13.68	14.50	(0.82)

Largest Increases Proposed Rule vs. Alt Proposed Rule

Largest Decreases Proposed Rule vs. Alt Proposed Rule

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Quality-Based Reimbursement

Value Based Purchasing (VBP)

- No Impact in FFY 2023*

Hospital Acquired Condition (HAC) Reduction Program

- No HAC adjustment or impact in FFY 2023.

Hospital Readmissions Reduction Program (HRRP)

- Resumes readmissions for pneumonia in FFY 2024, excluding COVID-19 patients.
- CMS seeks comment on provider performance for socially at-risk populations.

*To comply with statute on the 2% withhold for VBP, CMS is then adding back the same 2% to suppress VBP scores in FFY 2023. Therefore, there is a $0 net impact of VBP in FFY 2023.

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Medicare Dependent Hospital (MDH) Status

Expires in FFY 2023 (unless extended by Law)

Estimated impact to hospital payments is -$600 million

Low Volume Adjustment (LVA)*

More than 25 road miles (vs. 15 miles) from another subsection (d) hospital

Less than 200 total discharges (vs. 500 discharges)

***Hospitals have until September 1, 2022, to request low volume status for FFY 2023.**

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Payment for Medicare Portion

Domestically Made Surgical N95 Respirators

Biweekly payments accounting for marginal diff. in costs between NIOSH-approved surgical N95 respirators that were wholly domestically made and those that were not

OR

Claims-based MS-DRG add-on payment when hospitals meet or exceed a threshold of purchasing 50 percent or more wholly domestically sourced surgical N95 respirators

CMS seeks comment on IPPS and OPPS payment adjustments for FFY 2023 - and potentially subsequent years - to ensure an adequate supply of domestically produced N95 respirators

How would providers identify domestic vs. non-domestic N95 purchases?

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Noteworthy

Clarifications on Deferred Compensation Cost Reporting [42 CFR 413.99(a)(3)]

- ✓ Allowable Non-Qualified Deferred Compensation Plan costs are based on reasonable benefits paid to participating employees.
- ✓ Allowable Defined Contribution plan costs are based on reasonable contributions to Defined Contribution accounts.

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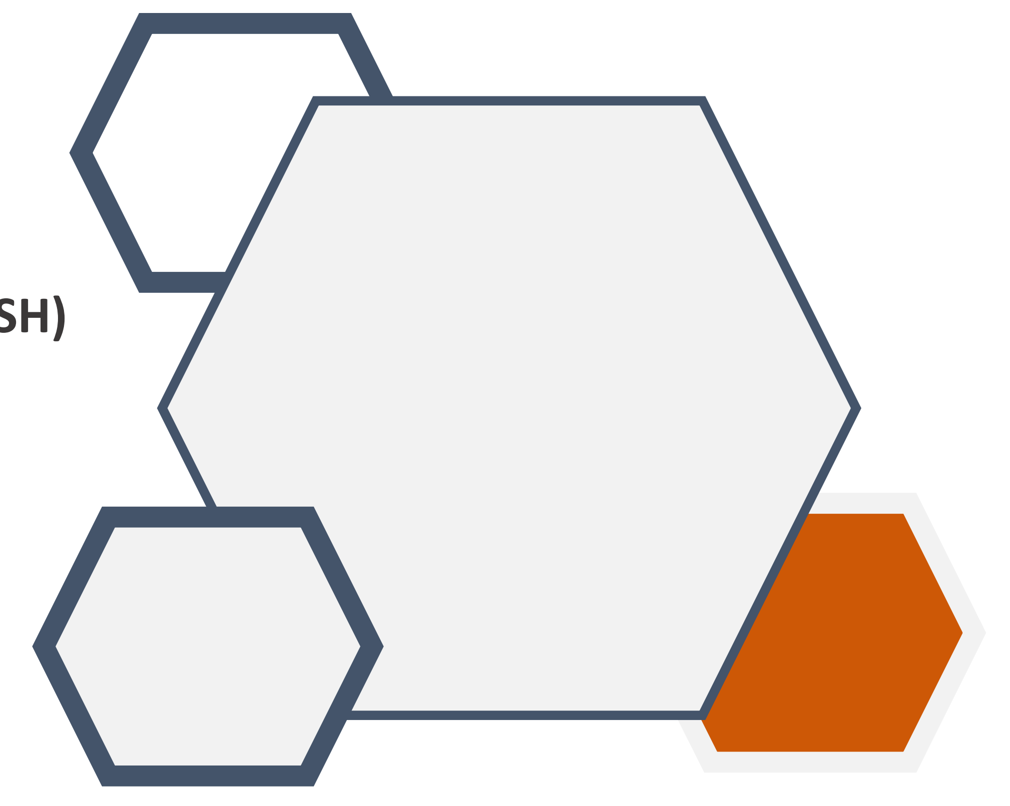

Medicare Disproportionate Share (DSH)

Uncompensated Care (UC)

&

Empirical Method

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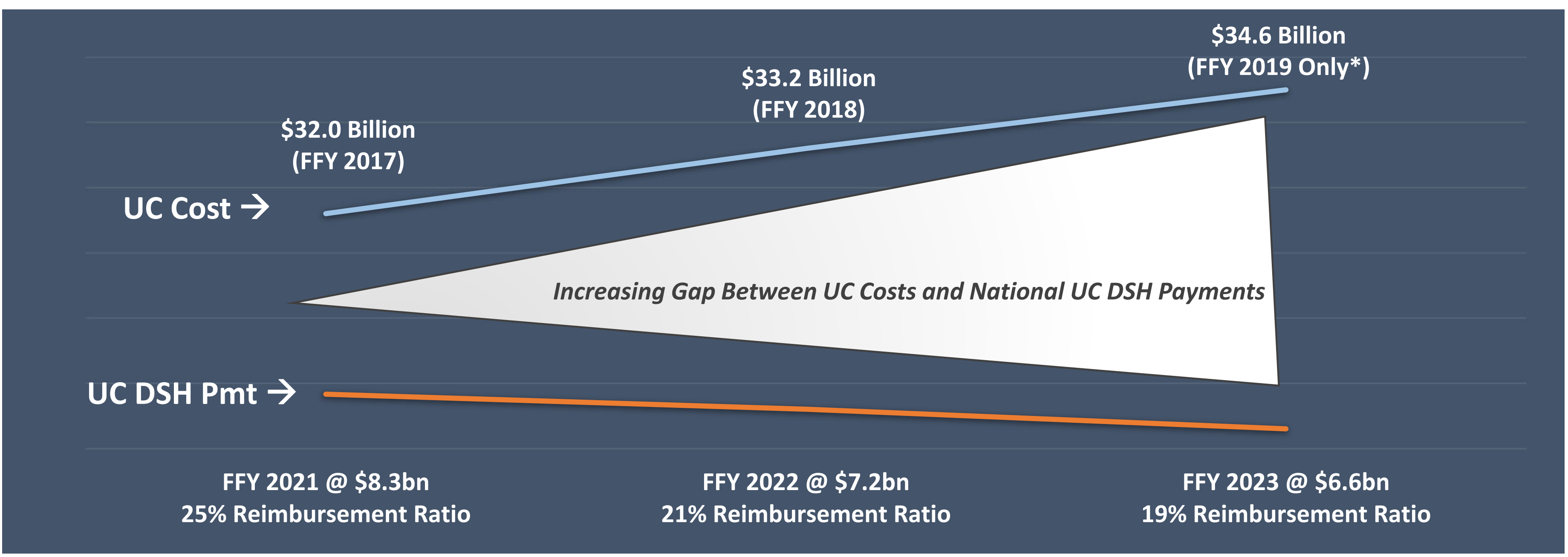
Uncompensated Care DSH

CMS Proposes $6.6 billion in UC DSH Payments

$563 million Decrease (-8%) from FFY 2022



***CMS Proposes to use the average UC cost from FFY 2018 and FFY 2019 to determine each hospital's UC DSH Payment in Factor 3.**

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Uncompensated Care DSH

	Proposed FFY 2023	Final FFY 2022	Final FFY 2021
Factor 1 (Empirical DSH Estimates Not Accounting for ACA Implementation)			
Base Year Empirical DSH (Before Factor 1 Update)	$13,808,000,000	$13,882,000,000	$14,000,400,000
Factor 1 Updates	**($542,321,925)**	**$102,752,729**	**$1,170,273,476**
Projected DSH Payments	**$13,265,678,075**	**$13,984,752,729**	**$15,170,673,476**
75% of Available UC DSH Funds	75.00%	75.00%	75.00%
Gross Uncompensated Care Pool (Factor 1)	**$9,949,258,557**	**$10,488,564,547**	**$11,378,005,107**
Factor 2 (Reduction for Change in Uninsured Population)			
Uninsured Population Reduction (Factor 2)	**65.71%**	**68.57%**	**72.86%**
National UC DSH Funding			
Adjusted UC DSH Funding	$6,537,657,798	$7,192,008,710	$8,290,014,521
Supplemental UC DSH Funding	$91,627,798	$0	$0
Total UC DSH Funding	**$6,629,285,596**	**$7,192,008,710**	**$8,290,014,521**
Change from Prior Year ($)	**($562,723,114)**	**($1,098,005,811)**	**($60,584,575)**
Change from Prior Year (%)	**-7.82%**	**-13.24%**	**-0.73%**

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Uncompensated Care DSH – Factor 1

Update Factor
- Market Basket
- ACA Payment Reduction
- Productivity Adjustment
- Documentation and Coding

Case-Mix Factor
- Est change in IPPS case mix
- Impacted by COVID-19

Factor 1 Market Adjustments

Discharge Factor
- Medicare FFS Claims Update
- Impacted by COVID-19

Other Factor
- Includes change in Medicaid Enrollment from ACA expansion
- Impacted by COVID-19

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Uncompensated Care DSH – Factor 1

	A	B	C	D	E	F= B*C*D*E	A*F (compounded)
FFY	Base Year Amt (bns)	Update	Discharges	Case-Mix	Other	Total	Est DSH Pmts (bns)
FFY 2023 IPPS Proposed Rule							
2019	**13.808**						
2020		1.0310	0.8620	1.0380	0.9890	0.9123	12.5980
2021		1.0290	0.9470	1.0290	0.9842	0.9869	12.4320
2022		1.0250	1.0070	0.9900	1.0084	1.0304	12.8110
2023		1.0320	1.0100	0.9900	1.0035	1.0355	**13.2660**
FFY 2022 IPPS Final Rule							
2018	**13.984**						
2019		1.0185	0.9700	1.0090	1.0176	1.0144	14.0820
2020		1.0310	0.8570	1.0380	0.9912	0.9091	13.8010
2021		1.0290	1.0130	1.0290	0.9662	1.0364	13.2670
2022		1.0250	1.0590	0.9675	1.0038	1.0541	**13.9850**
Variance: FFY 2023 IPPS Proposed vs. FFY 2022							
2020		0.0000	0.0050	0.0000	(0.0022)	0.0033	(1.2030)
2021		0.0000	(0.0660)	0.0000	0.0180	(0.0495)	(0.8350)
2022		0.0000	(0.0520)	0.0225	0.0047	(0.0237)	(1.1740)

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Uncompensated Care Funding

Factor 3

Base Year Change

- CMS Proposes to use the **average UC cost from FFY 2018 and FFY 2019 to determine Factor 3.**
- For FFY 2024 and forward, CMS proposes to use a three-year average of UC cost (i.e., FFY 2018, FFY 2019 and FFY 2020) to determine each DSH hospital's Factor 3.
- For FFY 2023 interim UC DSH payments, CMS proposes to use average discharges from FFY 2018, FFY 2019 and FFY 2021.

Supplemental DSH Fund

- $92 million Supplemental UC DSH fund for Indian Health Service (IHS)/Tribal and Puerto Rico hospitals in FFY 2023.
- In FFY 2023 IHS/Tribal and Puerto Rico hospitals receive FFY 2023 Supplemental UC DSH payments using FFY 2022 UC DSH payments adjusted by "one plus the percent change" in total uncompensated care.
- CMS is seeking comment on alternatives for determining Factor 3 for IHS/Tribal and Puerto Rico hospitals.

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Uncompensated Care Funding

Verification of Worksheet S-10 UC cost (Factor 3)

- Hospitals have until July 8th to notify CMS for issues related to mergers and/or to report potential upload discrepancies due to MAC mishandling of Worksheet S-10 data during the report submission process (i.e., not reflecting audit results due to MAC mishandling or most recent report differs from previously accepted amended report due to MAC mishandling).
- CMS's UC DSH public use file is here on its website*, and hospitals may contact CMS at Section3133DSH@cms.hhs.gov to request corrections.

*https://www.cms.gov/medicare/acute-inpatient-pps/fy-2023-ipps-proposed-rule-home-page
File name "FY 2023 IPPS Proposed Rule: Medicare DSH Supplemental Data File (ZIP)"

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Uncompensated Care Funding

Comments for CMS Consideration

Factor 1

- ❑ **Normalize any data used to project FFY 2023 discharges impacted by the COVID-19 Omicron variant.**
- ❑ **Apply recent trends on increased length of stay and higher acuity of care for CMI update in FFY 2023.**

Factor 2

- ❑ **Account for impending increases to the uninsured population.**
  - o Est. 14-15 million uninsured due to declining Medicaid enrollment as CARES Act provision sunsets.*
  - o Increase of ~3 million uninsured due to expiring American Rescue Plan (ARP) Enhanced Exchange Subsidies.**

Factor 3

- ❑ **Allow material revisions of FFY 2018 and FFY 2019 UC cost.**
  - o Providers did not anticipate the results of the audits would apply for multiple years of reimbursement and there is no administrative review (appeal) of UC DSH payments.

*Per reports by Urban Institute and Kaiser Family Foundation

**Per report by Assistant Secretary for Planning and Evaluation (ASPE)

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Empirical DSH

Section 1115 Waiver Days

Section 1115 Waiver Days "Regarded as Eligible"	• Patients who receive health insurance through a section 1115 demonstration itself or purchase such health insurance with premium assistance authorized by a section 1115 demonstration, where state expenditures may be matched with Title XIX funds.
Allowable	• Days with insurance coverage under Essential Health Benefits (EHB), if bought with premium assistance, for which the premium assistance is equal to or greater than 90 percent of the cost of the coverage. • EHB requirements at 42 CFR part 440, subpart C, for an Alternative Benefit Plan.
Non-Allowable	• Days related to a State's uncompensated care payment. • Days with Medicare Part A coverage.

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Wage Index Update

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Wage Index Update

National AHW Trend

	FFY 2021 (FFY 2017 Base Year)	FFY 2022 (FFY 2018 Base Year)	FFY 2023 (FFY 2019 Base Year)
National AHW	$45.23	$46.41	$47.74
Change		2.6%	2.9%

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Wage Index Update

5% Cap

Permanent cap “to smooth year-to-year decreases in hospitals’ wage indexes” regardless of circumstances causing a hospital’s decline

State Rural Floor

Continues policy to remove urban-to-rural reclassifications from the statewide rural floor

High-Low Adjustment

Continues policy to reduce wage index high-to-low disparities by increasing the values for low wage index hospitals below the 25th percentile (or a WIF of 0.8401 in FFY 2023)

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Wage Index Update – Important Dates

June 17, 2022

Rural Redesignation Lock-In Date

June 24, 2022

Medicare Geographic Classification Review Board (MGCRB) Terminations and Withdraws*

*Reclassified hospitals are not eligible to receive an out-migration factor adjustment, so hospitals that are expected to receive a rural floor wage index (imputed or Statewide rural floor) should consider reclassification withdrawal to secure an outmigration adjustment.

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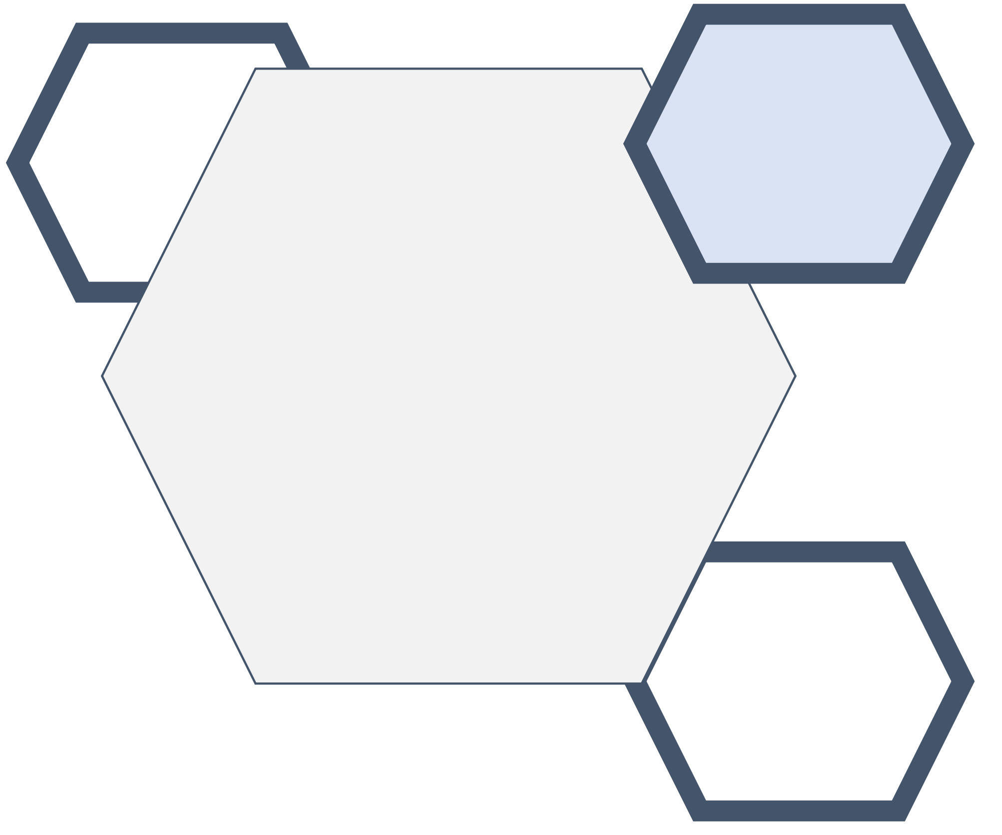

Graduate Medical Education

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Change to FTE for GME Program

Based on ruling in Hershey v. Becerra, for reporting periods beginning on or after October 1, 2001, CMS proposes a hospital's total weighted FTE count equal to the FTE cap if a hospital's:

- ❑ Unweighted FTE count exceeds the FTE cap, and
- ❑ Weighted FTE count also exceeds the FTE cap

Description	Current (Weighted Count Reduced Via Formula)		Proposed (Weighted Count Allowed Up To Cap)	
Unweighted FTE Cap	100.00	A	100.00	A
Unweighted FTE Count	120.00	B	120.00	B
Ratio of Cap to Total FTEs	**0.83**	**C=A/B**	**0.83**	**C=A/B**
Weighted FTE Count	105.00	D	105.00	D
Allowed Weighed FTEs	**87.50**	**E = C*D**	**100.00**	**E = Capped at A**

- ❑ Toyon recommends teaching hospitals effected by this rule **request that total weighted FTE counts be adjusted to equal the FTE cap for all open cost report years.**
- ❑ If the weighted FTE count was listed as a protested item on the hospital's filed cost report, Toyon recommends teaching hospitals pursue the opportunity to increase their GME FTE count though cost report amendments and/or re-openings.
- ❑ CMS is not likely to restate weighted GME counts for cost reports that have already been issued an NPR, unless the hospital appealed this issue.

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Change to FTE for GME Program

Affiliated Group Agreements for Certain Rural Training Tracks

- ❑Urban and rural hospitals that participate in the same separately accredited 1-2 family medicine rural training track (RTT) program, that already have RTT FTE limitations, may enter Rural Track Medicare GME Affiliation Agreements.

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Proposals on National Healthcare Issues

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Proposals on National Healthcare Issues

- **Social Determinants of Health (SDOH)** – CMS seeks comments on how reporting on SDOH may improve the acuity and complexity under the MS-DRGs. CMS also seeks comment through a Request for Information (RFI) on measurements and stratification considerations for addressing health care disparities.
- **Climate Change** – CMS seeks comment through a Request for Information (RFI) on what the Agency can do to help determine the impact of climate change, and actions to reduce emissions.
- **Maternity Care** – CMS proposing measurements indicating hospital quality and safety with a public designation in the Fall of 2023. Hospitals that report "yes" on questions in the Maternal Morbidly Structural Measure would receive the CMS designation.
- **COVID-19 and Seasonal Influenza Reporting** – CMS proposes hospital reporting will continue through April 30, 2024, while establishing a process to report data to the Centers for Disease Control and Prevention in case of another infectious disease PHE.

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Thank you

Please see an estimate of your hospital's FFY 2023 IPPS Payments here: https://www.toyonassociates.com/resources/medicare-federal-fiscal-year-ffy-2023-ipps-proposed-rule-estimated-hospital-payments/

Fred Fisher
Vice President, Service Development
Uncompensated Care Recognition Services
fred.fisher@toyonassociates.com
888.514.9312

Ryan Sader
Chief Financial Officer
Wage Index Improvement Strategy Services
ryan.sader@toyonassociates.com
888.514.9312

Tom Hubner
Vice President
Graduate Medical Education Reimbursement Services
tom.hubner@toyonassociates.com
888.514.9312

Scott Besler
Senior Director
Cost Reporting Services
scott.besler@toyonassociates.com
888.514.9312

Dylan Chinea
Senior Director
Medicare DSH and Bad Debt
dylan.chinea@toyonassociates.com
925.685.9312, ext. 3121

Robert Howey
Senior Director
Cost Reporting | Organ Acquisition
robert.howey@toyonassociates.com
888.514.9312

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