Report in Brief
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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

Medicare Could Save Millions if It Implements an Expanded Hospital Transfer Payment Policy for Early Discharges to Post Acute Care

Why OIG Did This Audit

In a 2022 report, the Trustees of the Part A Hospital Insurance Trust Fund projected a Medicare Part A deficit of $7.3 billion by 2028 and urged policymakers to take timely and effective action to address this projected deficit. We performed this audit because data analysis indicated that significant cost savings could be realized for the Medicare program if CMS expanded the hospital transfer policy for discharges to postacute care (PAC).

Our objective was to determine how the hospital transfer policy for discharges to PAC would financially affect Medicare and hospitals if CMS expanded the policy to include all Medicare Severity Diagnosis-Related Groups (MS-DRGs).

How OIG Did This Audit

We reviewed a stratified random sample of 100 acute-care inpatient hospital claims for Medicare enrollees who were discharged early to PAC from 2017 through 2019. These claims were billed with specified MS-DRGs that are not subject to the hospital transfer policy for discharges to PAC. We calculated the savings that the Medicare program would have realized if the hospital transfer payment policy for discharges to PAC had been expanded to include all MS-DRGs. In addition, we compared the payments that would have been made under an expanded transfer policy with the hospitals' calculated costs to provide care.

What OIG Found

An expanded hospital transfer policy for discharges to PAC would result in significant cost savings to the Medicare program, and Medicare transfer payments would exceed hospital costs to provide care for most of the claims hospitals submit to Medicare. Of the 100 claims in our sample, 99 could have had transfer payments that were based on a reduced per diem rate (rather than the full payment) that would have resulted in net Medicare cost savings of $1 million. This amount represents the difference between the amount paid to the hospitals under the current policy for discharges to PAC and the amount that would have been paid if the policy had been expanded to include the MS-DRGs associated with our sampled claims. This policy change might negatively impact hospitals' revenues, but the transfer payment would have exceeded hospital costs for an estimated 65 percent of all claims that hospitals submit to Medicare.

CMS officials stated that CMS had not conducted an updated analysis of claims data since 2005. This analysis could have provided updated information in support of adding MS-DRGs or expanding the hospital transfer policy to include all MS-DRGs. On the basis of our sample results, we estimated that Medicare could have saved approximately $694 million, or an average of $6,407 per claim, from 2017 through 2019 if it had expanded its hospital transfer policy to include all MS-DRGs.

What OIG Recommends and CMS Comments

We recommend that CMS conduct an analysis of its hospital transfer payment policy for discharges to PAC and expand the policy as necessary.

In written comments on our draft report, CMS did not explicitly state whether it concurred with our recommendation but stated that it will examine the data relative to the current list of MS-DRGs that are subject to the policy to potentially assist in the identification of additional MS-DRGs for future rulemaking.

The full report can be found at https://oig.hhs.gov/oas/reports/region1/12100504.asp.