



The Impact of the Changing Reimbursement Landscape on Deal Work

Transacting in the Post-Acute Care Space Crash Course

November 14, 2017

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Agenda



1. Brief overview of Post-Acute Care
2. Discussion Regarding How PACs are Currently Reimbursed
3. Discussion Regarding What Changes are Happening that Will Impact the Reimbursement of PACs
4. How the Changing Reimbursement of PACs May Impact Deals
5. Take-aways and Considerations: What to Consider Moving Forward

Brief Overview of PACs



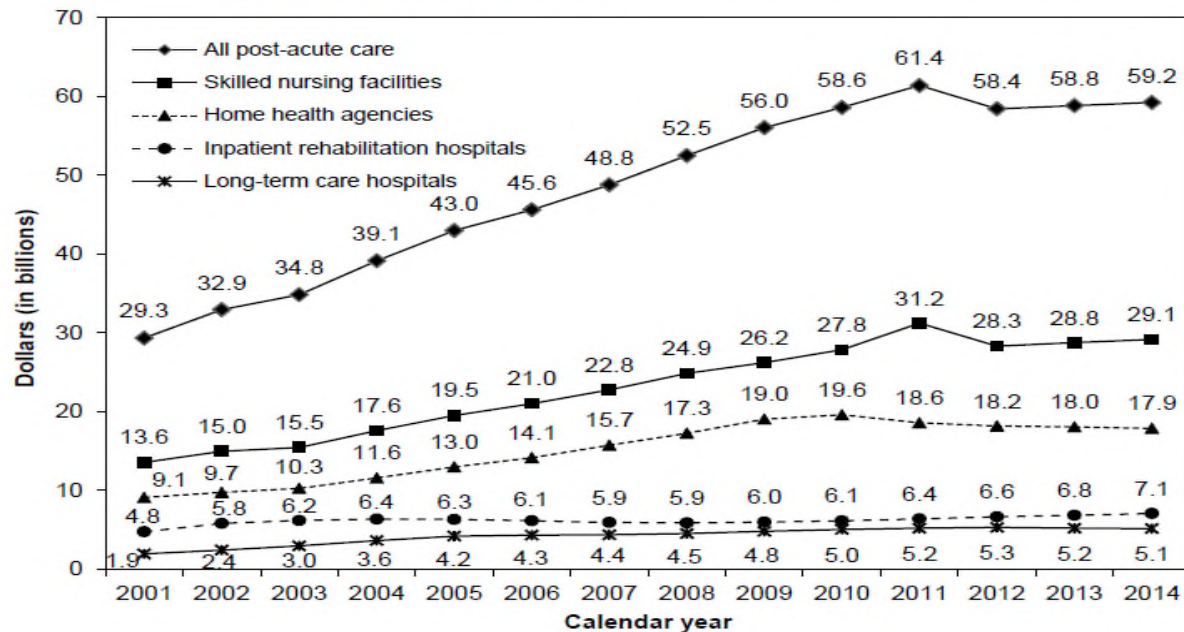
- Post-Acute Care providers offer recuperation and rehabilitation services to patients, many of whom include Medicare beneficiaries.
- Services are being provided in four main PAC settings:
 1. Long-Term Acute Care Hospitals (LTACs)
 2. Inpatient Rehabilitation Facilities (IRFs)
 3. Skilled-Nursing Facilities (SNFs)
 4. Home Health Agencies (HHAs)
- Patients with similar conditions can be treated in all of these types of facilities, but payment for similar patients can differ substantially since Medicare uses separate prospective payment systems (PPSs) to pay for care in each setting.
- Quality of services in PAC (or lack thereof) and coordination with hospital care and physician services have a major impact on beneficiaries and families and drive utilization across the continuum of care

How are PACs Currently Reimbursed?



- According to MedPAC, 42% of FFS beneficiaries discharged from a hospital in 2013 were treated in a PAC setting, costing Medicare nearly \$60 billion, or 12% of its total expenditures.

Chart 8-2. Growth in Medicare's post-acute care expenditures has slowed since 2012



Though growth in Medicare's PAC expenditures has slowed since 2012, there is still an upward trend in costs for PACs.

Note: These numbers represent only program spending; they do not include beneficiary copayments.

Source: CMS Office of the Actuary 2016.

How are PACs Currently Reimbursed? (Cont'd.)



- Medicare currently uses four PPS to pay for PAC services - the same service performed in different settings is paid for at different rates, regardless of outcome.

Average Payment, per first PAC site used

Medicare Payment Advisory Committee, June 2013

Condition	HHA	SNF	IRF
Stroke	\$13,344	\$33,266	\$40,881
Simple Pneumonia & Pleurisy	\$12,403	\$26,597	\$39,166
Coronary bypass w/ cardiac catheterization	\$39,708	\$52,554	\$60,677
Heart failure & Shock	\$13,881	\$30,984	\$45,516
Major Joint Replacement	\$17,712	\$28,013	\$32,891
Fractures of Hip & Pelvis	\$9,980	\$26,947	\$32,200
Kidney & urinary tract infections	\$11,597	\$27,613	\$37,739

What Changes are Happening to Impact Reimbursement of PACs?



- There have been efforts to make immediate changes to the PPS for each setting such as:
 - **Home Health Value-Based Purchasing Model (HHVBP)** – starting in 2018 HHVBP will adjust each HHA’s payment based on performance on the applicable measures CMS started collecting in target states in 2016
 - **Skilled Nursing Facility Value-Based Purchasing Program (SNFVBP)** – CMS has proposed to start a SNFVBP program no earlier than Oct. 2018 that would fund payment adjustments to the PPS for SNFs using a 2% quality withhold / incentives payments will be issued based on performance
- Improving Medicare Post-Acute Care Transformation Act of 2014 (IMPACT) required MedPAC to develop a prospective payment system spanning all four PAC settings under which plan payments would be based on **patients characteristics** rather than site of service.
- MedPac supports this change in reimbursement structure to implemented as soon as 2021, with a three-year transition – if passed by Congress.

How the Changing Reimbursement of PACs May Impact Deals



- Because the objective of a unified PAC PPS is to base payments on patient characteristics, and not setting, a redistribution of payments would be expected.
- A potential game-changer for M&A work – similar patients can receive similar care, but in different settings.
 - Example: Home health agencies, which historically have a lower overhead than their PAC counterparts will have an advantage. They have the potential for increasing their revenue through the types of patients they're serving while still maintaining a lower overhead.
- Must consider these types of upcoming changes when assessing a potential deal, especially in valuation. Past reported revenue may not be an accurate indication of revenue potential.

What Should I Consider Moving Forward?



- The value of risk – if you're interested in acquiring a PAC today, consider how the value of that PAC may be impacted if these changes are implemented, and adjust your valuation to incorporate the risk of such changes.
- Consider strengthening relationships with high-quality PAC providers through M&A and strategic partnerships
- Acquiring targets with lower overhead may result in increased revenue potential in the long-run, but there still may be opportunities to invest in historically higher cost PACs.
- Continue to monitor this new payment structure so as to understand its impact on PACs already owned by your organizations

Questions?



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Upcoming Webinars

Transacting in the Post-Acute Care Space Crash Course Series



- **Post-Acute Care Deals: From Diligence to Closing**
Tuesday, November 21 at 2:00 – 2:15 p.m. ET
Presenter: Alison M. Wolf
- **Post-Acute Preferred Provider Arrangements—Strategies for Partnership**
Tuesday, November 28 at 2:00 – 2:15 p.m. ET
Presenter: Clifford E. Barnes

To register, please visit: <http://www.ebglaw.com/events/>

Thank you.