This paper studies whether hospitals respond to financial incentives from Medicare reimbursement, using a reform in the reimbursement policies for inpatient transfers in the Medicare Prospective Payment System (PPS). Under PPS, hospitals are paid a fixed amount for each Medicare patient, based only on the patient’s diagnosis, not the actual costs of treatment. The Centers for Medicare & Medicaid Services implemented a post-acute care transfer payment policy (PACT) for a subset of diagnosis-related groups (DRG) and pay hospitals differently for inpatient transfers in those DRGs. Using California State Inpatient Databases and a difference-in-difference framework, I study hospitals’ response to financial incentives and its impact on health outcomes, exploiting an expansion in PACT DRGs in FY2005. I show that hospitals slightly changed their discharge or transfer decisions in response to the policy change. Among transfer visits, inpatient length of stay and charges increased by about 1.5% after the policy took effect. I find no significant impact on health outcomes, such as readmission and mortality.

A similar research questions could be analyzed in the setting of long-term care hospitals. Long-term care hospitals (LTCH) are post-acute care facilities for patients requiring extended hospital-level care. LTCH received exclusively cost-based reimbursement till FY2003. However, from FY2003, full prospective payments system (PPS) determined by DRG is implemented over a five-year period. CMS estimated that 97% of all long-term care hospitals were paid entirely under the PPS in 2005. Payments to LTCH from Medicare create potential financial incentives for hospitals to discharge patients at lucrative times. I'm working on analyzing the effects of Medicare payment on discharges in LTCH using a difference-in-difference framework and medical claims from Texas Inpatient Public Use Data File. I also plan to analyze potential impact on health outcomes (e.g. readmission and mortality), spillover effects to patients with private insurance, and explore heterogeneity by hospital ownership and other characteristics. The analysis would offer additional insights on medical payments cross locations of care and the importance of coordination of care across different types of healthcare facilities.