Hospital Value-Based Purchasing

**Summary:** The proposal would establish a value-based purchasing program for hospitals starting in FY2013. Under this program, a percentage of hospital payment would be tied to hospital performance on quality measures related to common and high-cost conditions, such as cardiac, surgical and pneumonia care. Quality measures included in the program (and in all other quality programs in this title) will be developed and chosen with input from external stakeholders.

**Status Update:** On July 1, 2011, the Centers for Medicare and Medicaid Services (CMS) issued a proposed rule that would update payment policies and rates for both hospital outpatient departments (HOPDs) and ambulatory surgical centers (ASCs) for calendar year (CY) 2012, including proposals to strengthen the Hospital Value-Based Purchasing (HVBP) Program.

**Next steps:**
- January 7, 2011 – CMS issued a proposed rule.
- March 8, 2011 (5 pm) – Comment period closed on CMS on proposed rule.
- April 29, 2011 – CMS issued final rule.
- July 1, 2011 – CMS issued proposed rule regarding additional changes.
- August 30, 2011 – Comments due on proposed rule regarding additional changes.
- By October 1, 2011 (FY12) – Quality performance standards for Medicare inpatient hospital prospective payment system must be in place.
- November 1, 2011 – CMS final rule regarding additional changes.
- January 1, 2012 – Changes for calendar year 2012 go into effect (with respect to additional changes).
- By March 23, 2012 – Secretary must establish 2 demonstration programs to run for 3 years – (1) critical access hospital demonstration program and (2) demonstration program for hospitals excluded from this program.
- By October 1, 2012 (FY13) – Hospitals are paid based on the quality performance standards.
- By October 1, 2015 – Government Accountability Office (GAO) preliminary report due to Congress.
- By January 1, 2016 – Secretary report to Congress.
- By July 1, 2017 – GAO final report due to Congress.

**Additional information:**
Long summary:

Sec. 3001. Hospital Value-Based purchasing program (as modified by sec. 10335).
Secretary must establish a value-based purchasing (VBP) program under the Medicare hospital inpatient prospective payment system, such that quality performance standards applicable in FY 2012 affect payments beginning in FY 2013.

Hospitals excluded from program. These hospitals are excluded from the VBP program (but are still subject to reporting requirements in order to receive a full market basket update): hospitals subject to the penalty for failure to report quality measures successfully; hospitals cited by the Secretary for health and safety deficiencies posing immediate jeopardy; and hospitals with an insufficient number of measures or cases applicable to the hospital for the performance period.

Measures. Initial measures will be selected from those that hospitals currently must report to receive a full annual market basket update and will cover at least these areas: acute myocardial infarction (AMI), heart failure, pneumonia, surgical care, health-care associated infections, and patient perception of care (as measured by Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS)). Selected measures may not include measures of readmissions, which are subject to a separate policy. Beginning with payments for FY 2013, outcome measures must be appropriately risk-adjusted. Beginning with payments for FY 2013, each measure specified by the Secretary must be endorsed by the entity with a contract under section 1890(a), most likely the National Quality Forum, unless the Secretary makes an exception and uses a measure not so endorsed after due consideration of measures endorsed or adopted by a consensus organization identified by the Secretary. Measures selected by the Secretary must be reported by hospitals and
Payments and performance assessment. VBP payments are funded by reductions in payments made with respect to all Medicare Severity Diagnosis Related Groups (MSDRGs): 1% in FY 2013, 1.25% in FY 2014, 1.5% in FY 2015, 1.75% in FY 2016, and 2.0% in FY 2017 and succeeding years. Reductions do not apply to payments for indirect medical education (IME), disproportionate share (DSH), outliers, and low-volume add-on payments. Secretary must ensure that all reductions in a given year are returned to hospitals in VBP payments in the same year. Hospitals that meet or exceed minimum performance standards set by the Secretary will receive VBP incentive payments based on attainment or improvement, whichever score is higher. Performance is assessed and publicly reported for each measure and condition and for total hospital performance, but VBP payments are based only on the total performance score. Secretary has discretion on how to weight categories of measures or conditions when determining a hospital’s total score. Performance standards are set by the Secretary taking into account past hospital experience with the measures, historical performance standards, improvement rates; and opportunity for continued improvement and must be announced at least 60 days before the start of the performance period. Information on aggregate payment reductions and incentive payments under the VBP program and the number of hospitals affected will be publicly reported.

Judicial review. Prohibits judicial review of VBP program policies and methodologies established by the Secretary, including measure selection and performance standards, but a hospital can appeal its performance assessment or performance score to the Secretary.

Transparency requirements. Methodologies for assigning scores and calculating VBP payments must be transparent and established through public rulemaking. The Secretary must work with hospitals, patients, researchers, policymakers and other stakeholders to improve the information available on the Hospital Compare website and to make it more user-friendly.

Reports. The Government Accountability Office (GAO) will evaluate the VBP program and submit an interim report to Congress by October 1, 2015 and a final report by July 1, 2017. The Secretary must submit a report by January 1, 2016, including analysis of whether the VBP program resulted in lower Medicare spending or other financial savings to hospitals and recommendations on the appropriateness of the Medicare program sharing any of the savings with hospitals.

Critical access hospitals and other hospitals. Not later than March 23, 2012, the Secretary must establish two 3-year demonstration programs, one to test VBP models for critical access hospitals (CAHs) and the other for hospitals excluded from the VBP program due to an insufficient number of measures and cases. Separate reports and recommendations on each demonstration are due to Congress 18 months after their completion. The projects must be budget neutral.

Legislative text:
SEC. 3001. HOSPITAL VALUE-BASED PURCHASING PROGRAM.
(a) PROGRAM.—
(1) IN GENERAL.—Section 1886 of the Social Security Act (42 U.S.C. 1395ww), as amended by section 4102(a) of the HITECH Act (Public Law 111–5), is amended by adding at the end the following new subsection:
“(o) HOSPITAL VALUE-BASED PURCHASING PROGRAM.—
“(1) ESTABLISHMENT.—
“(A) IN GENERAL.—Subject to the succeeding provisions of this subsection, the Secretary shall establish a hospital value-based...
purchasing program (in this subsection referred to as the ‘Program’ under which value-based incentive payments are made in a fiscal year to hospitals that meet the performance standards under paragraph (3) for the performance period for such fiscal year (as established under paragraph (4)).

“(B) PROGRAM TO BEGIN IN FISCAL YEAR 2013.—The Program shall apply to payments for discharges occurring on or after October 1, 2012.

“(C) APPLICABILITY OF PROGRAM TO HOSPITALS.—

“(i) GENERAL.—For purposes of this subsection, subject to clause (ii), the term ‘hospital’ means a subsection (d) hospital (as defined in subsection (d)(1)(B)).

“(ii) EXCLUSIONS.—The term ‘hospital’ shall not include, with respect to a fiscal year, a hospital—

“(I) that is subject to the payment reduction under subsection (b)(3)(B)(viii)(I) for such fiscal year;

“(II) for which, during the performance period for such fiscal year, the Secretary has cited deficiencies that pose immediate jeopardy to the health or safety of patients;

“(III) for which there are a minimum number (as determined by the Secretary) of measures that apply to the hospital for the performance period for such fiscal year; or

“(IV) for which there are not a minimum number (as determined by the Secretary) of cases for the measures that apply to the hospital for the performance period for such fiscal year.

“(iii) INDEPENDENT ANALYSIS.—For purposes of determining the minimum numbers under subclauses (III) and (IV) of clause (ii), the Secretary shall conduct an independent analysis of what numbers are appropriate.

“(iv) EXEMPTION.—In the case of a hospital that is paid under section 1814(b)(3), the Secretary may exempt such hospital from the application of this sub- section if the State which is paid under such section submits an annual report to the Secretary describing how a similar program in the State for a participating hospital or hospitals achieves or surpasses the measured results in terms of patient health outcomes and cost savings established under this subsection.

“(2) MEASURES.—

“(A) IN GENERAL.—The Secretary shall select measures, other than measures of readmissions, for purposes of the Program. Such measures shall be selected from the measures specified under subsection (b)(3)(B)(viii).

“(B) REQUIREMENTS.—

“(i) FOR FISCAL YEAR 2013.—For value-based incentive payments made with respect to discharges occurring during fiscal year 2013, the Secretary shall ensure the following:

“(I) CONDITIONS OR PROCEDURES.—Measures are selected under subparagraph (A) that cover at least the following 5 specific conditions or procedures:

“(aa) Acute myocardial infarction (AMI).

“(bb) Heart failure.

“(cc) Pneumonia.

“(dd) Surgeries, as measured by the Surgical Care Improvement Project (formerly referred to as 'Surgical Infection Prevention' for discharges occurring before July 2006).

“(ee) Healthcare-associated infections, as measured by the prevention metrics and targets established in the HHS Action Plan to Prevent Healthcare-Associated Infections (or any successor plan) of the Department of Health and Human Services.

“(II) HCAHPS.—Measures selected under subparagraph (A) shall be related to the Hospital Consumer Assessment of Healthcare Providers and Systems survey (HCAHPS).

“(ii) INCLUSION OF EFFICIENCY MEASURES.—For value-based incentive payments made with respect to discharges occurring during fiscal year 2014 or a subsequent fiscal year, the Secretary shall ensure that measures selected under paragraph (A) include efficiency measures, including measures of ‘Medicare spending per beneficiary’. Such measures shall be adjusted for factors such as age, sex, race, severity of illness, and other factors that the Secretary determines appropriate.

“(C) LIMITATIONS.—

“(i) TIME REQUIREMENT FOR PRIOR REPORTING AND NOTICE.—The Secretary may not select a measure under subparagraph (A) for use under the Program with respect to a performance period for a fiscal year (as established under paragraph (4)) unless such measure has been specified under subsection (b)(3)(B)(viii) and included on the Hospital Compare Internet website for at least 1 year prior to the beginning of such performance period.

“(ii) MEASURE NOT APPLICABLE UNLESS HOSPITAL FURNISHES SERVICES APPROPRIATE TO THE MEASURE.—A measure selected under subparagraph (A) shall not apply to a hospital if such hospital does not furnish services appropriate to such measure.

“(D) REPLACING MEASURES.—Subclause (VI) of subsection (b)(3)(B)(viii) shall apply to measures selected under subparagraph (A) in the same manner as such subclause applies to measures selected under such subsection.

“(3) PERFORMANCE STANDARDS.—

“(A) ESTABLISHMENT.—The Secretary shall establish performance standards with respect to measures selected under paragraph (2) for a performance period for a fiscal year (as established under paragraph (4)).

“(B) ACHIEVEMENT AND IMPROVEMENT.—The performance standards established under subparagraph (A) shall include levels of achievement and improvement.

“(C) TIMING.—The Secretary shall establish and announce the performance standards under paragraph (A) not later than 60 days prior to the beginning of the performance period for the fiscal year involved.

“(D) CONSIDERATIONS IN ESTABLISHING STANDARDS.—In establishing performance standards with respect to measures under this paragraph, the Secretary shall take into account appropriate factors, such as—

“(i) practical experience with the measures involved, including whether a significant proportion of hospitals failed to meet the performance standard during previous performance periods;

“(ii) historical performance standards;

“(iii) improvement rates; and

“(iv) the opportunity for continued improvement.

“(4) PERFORMANCE PERIOD.—For purposes of the Program, the Secretary shall establish the performance period for a fiscal year. Such performance period shall begin and end prior to the beginning of such fiscal year.

“(5) HOSPITAL PERFORMANCE SCORE.—
(A) IN GENERAL.—Subject to subparagraph (B), the Secretary shall develop a methodology for assessing the total performance of each hospital based on performance standards with respect to the measures selected under paragraph (2) for a performance period (as established under paragraph (4)). Using such methodology, the Secretary shall provide for an assessment (in this subsection referred to as the ‘hospital performance score’) for each hospital for each performance period.

(B) APPLICATION.—

(i) APPROPRIATE DISTRIBUTION.—The Secretary shall ensure that the application of the methodology developed under subparagraph (A) results in an appropriate distribution of value-based incentive payments under paragraph (6) among hospitals achieving different levels of hospital performance scores, with hospitals achieving the highest hospital performance scores receiving the largest value-based incentive payments.

(ii) HIGHER OF ACHIEVEMENT OR IMPROVEMENT.—The methodology developed under subparagraph (A) shall provide that the hospital performance score is determined using the higher of its achievement or improvement score for each measure.

(iii) WEIGHTS.—The methodology developed under subparagraph (A) shall provide for the assignment of weights for categories of measures as the Secretary determines appropriate.

(iv) NOMINIMUM PERFORMANCE STANDARD.—The Secretary shall not set a minimum performance standard in determining the hospital performance score for any hospital.

(v) REFLECTION OF MEASUREMENTS APPLICABLE TO THE HOSPITAL.—The hospital performance score for a hospital shall reflect the measures that apply to the hospital.

(C) VALUE-BASED INCENTIVE PAYMENT AMOUNT.—The value-based incentive payment amount for each discharge of a hospital in a fiscal year shall be equal to the product of—

(i) the base operating DRG payment amount (as defined in paragraph (7)(D)) for the discharge for the hospital for such fiscal year; and

(ii) the value-based incentive payment percentage specified under subparagraph (C) for the hospital for such fiscal year.

(D) VALUE-BASED INCENTIVE PAYMENT PERCENTAGE.—

(i) IN GENERAL.—The Secretary shall specify a value-based incentive payment percentage for each hospital for a fiscal year.

(ii) REQUIREMENTS.—In specifying the value-based incentive payment percentage for each hospital for a fiscal year under clause (i), the Secretary shall ensure that—

(I) such percentage is based on the hospital performance score of the hospital under paragraph (5); and

(II) the total amount of value-based incentive payments under this paragraph to all hospitals in such fiscal year is equal to the total amount available for value-based incentive payments for such fiscal year under paragraph (7)(A), as estimated by the Secretary.

(E) FUNDING FOR VALUE-BASED INCENTIVE PAYMENTS.—

(A) AMOUNT.—The total amount available for value-based incentive payments under paragraph (6) for all hospitals for a fiscal year shall be equal to the total amount of reduced payments for all hospitals under subparagraph (B) for such fiscal year, as estimated by the Secretary.

(B) ADJUSTMENT TO PAYMENTS.—

(i) IN GENERAL.—The Secretary shall reduce the base operating DRG payment amount (as defined in subparagraph (D)) for a hospital for each discharge in a fiscal year (beginning with fiscal year 2013) by an amount equal to the applicable percent (as defined in subparagraph (C)) of the base operating DRG payment amount for the discharge for the hospital for such fiscal year. The Secretary shall make such reductions for all hospitals in the fiscal year involved, regardless of whether or not the hospital has been determined by the Secretary to have earned a value-based incentive payment under paragraph (6) for such fiscal year.

(ii) NO EFFECT ON OTHER PAYMENTS.—Payments described in items (aa) and (bb) of subparagraph (D)(i)(II) for a hospital shall be determined as if this subsection had not been enacted.

(C) APPLICABLE PERCENT DEFINED.—For purposes of subparagraph (B), the term ‘applicable percent’ means—

(i) with respect to fiscal year 2013, 1.0 percent;

(ii) with respect to fiscal year 2014, 1.25 percent;

(iii) with respect to fiscal year 2015, 1.5 percent;

(iv) with respect to fiscal year 2016, 1.75 percent; and

(v) with respect to fiscal year 2017 and succeeding fiscal years, 2 percent.

(D) BASE OPERATING DRG PAYMENT AMOUNT DEFINED.—

(i) IN GENERAL.—Except as provided in clause (i), in this subsection, the term ‘base operating DRG payment amount’ means, with respect to a hospital for a fiscal year—

(I) the payment amount that would otherwise be made under subsection (d) (determined without regard to subsection (q)) for a discharge if this subsection did not apply; reduced by

(II) any portion of such payment amount that is attributable to—

(aa) payments under paragraphs (5)(A), (5)(B), (5)(F), and (12) of subsection (d); and

(bb) such other payments under subsection (d) determined appropriate by the Secretary.

(ii) SPECIAL RULES FOR CERTAIN HOSPITALS.—

(I) SOLE COMMUNITY HOSPITALS AND MEDICARE-DEPENDENT, SMALL RURAL HOSPITALS.—In the case of a medicare-dependent, small rural hospital (with respect to discharges occurring during fiscal year 2012 and 2013) or a sole community hospital, in applying subparagraph (A)(i), the payment amount that would otherwise be made under subsection (d) shall be determined without regard to subparagraphs (I) and (L) of subsection (b)(3) and subparagraphs (D) and (G) of subsection (d)(5).

(II) HOSPITALS PAID UNDER SECTION 1814.—In the case of a hospital that is paid under section 1814(b)(3), the term ‘base operating DRG payment amount’ means the payment amount under such section.
under paragraphs (6) and (7)(B)(i).

"(9) NO EFFECT IN SUBSEQUENT FISCAL YEARS.—The value-based incentive payment under paragraph (6) and the payment reduction under paragraph (7)(B)(i) shall each apply only with respect to the fiscal year involved, and the Secretary shall not take into account such value-based incentive payment or payment reduction in making payments to a hospital under this section in a subsequent fiscal year.

"(10) PUBLIC REPORTING.—

"(A) HOSPITAL SPECIFIC INFORMATION.—

"(i) IN GENERAL.—The Secretary shall make information available to the public regarding the performance of individual hospitals under the Program, including—

"(I) the performance of the hospital with respect to each measure that applies to the hospital;

"(II) the performance of the hospital with respect to each condition or procedure; and

"(III) the hospital performance score assessing the total performance of the hospital.

"(ii) OPPORTUNITY TO REVIEW AND SUBMIT CORRECTIONS.—The Secretary shall ensure that a hospital has the opportunity to review, and submit corrections for, the information to be made public with respect to the hospital under clause (i) prior to such information being made public.

"(iii) WEBSITE.—Such information shall be posted on the Hospital Compare Internet website in an easily understandable format.

"(B) AGGREGATE INFORMATION.—The Secretary shall periodically post on the Hospital Compare Internet website aggregate information on the Program, including—

"(i) the number of hospitals receiving value-based incentive payments under paragraph (6) and the range and total amount of such value-based incentive payments; and

"(ii) the number of hospitals receiving less than the maximum value-based incentive payment available to the hospital for the fiscal year involved and the range and amount of such payments.

"(11) IMPLEMENTATION.—

"(A) APPEALS.—The Secretary shall establish a process by which hospitals may appeal the calculation of a hospital’s performance assessment with respect to the performance standards established under paragraph (3)(A) and the hospital performance score under paragraph (5). The Secretary shall ensure that such process provides for resolution of such appeals in a timely manner.

"(B) LIMITATION ON REVIEW.—Except as provided in subparagraph (A), there shall be no administrative or judicial review under section 1869, section 1878, or other-wise of the following:

"(i) The methodology used to determine the amount of the value-based incentive payment under paragraph (6) and the determination of such amount.

"(ii) The determination of the amount of funding available for such value-based incentive payments under paragraph (7)(A) and the payment reduction under paragraph (7)(B)(i).

"(iii) The establishment of the performance standards under paragraph (3) and the performance period under paragraph (4).

"(iv) The measures specified under subsection (b)(3)(B)(viii) and the measures selected under paragraph (2).

"(v) The methodology developed under paragraph (5) that is used to calculate hospital performance scores and the calculation of such scores.


"(C) CONSULTATION WITH SMALL HOSPITALS.—The Secretary shall consult with small rural and urban hospitals on the application of the Program to such hospitals.

"(12) PROMULGATION OF REGULATIONS.—The Secretary shall promulgate regulations to carry out the Program, including the selection of measures under paragraph (2), the methodology developed under paragraph (5) that is used to calculate hospital performance scores, and the methodology used to determine the amount of value-based incentive payments under paragraph (6)."

"(3) AMENDMENTS FOR REPORTING OF HOSPITAL QUALITY INFORMATION.—Section 1886(b)(3)(B)(viii) of the Social Security Act (42 U.S.C. 1395ww(b)(3)(B)) is amended—

"(A) in subclause (II), by adding at the end the following sentence: "The Secretary may require hospitals to submit data on measures that are not used for the determination of value-based incentive payments under subsection (o).";

"(B) in subclause (V), by striking "beginning with fiscal year 2008" and inserting "for fiscal years 2008 through 2012";

"(C) in subclause (VII), in the first sentence, by striking "data submitted" and inserting "information regarding measures submitted"; and

"(D) by adding at the end the following new subclauses:

"(VIII) Effective for payments beginning with fiscal year 2013, with respect to quality measures for outcomes of care, the Secretary shall provide for such risk adjustment as the Secretary determines to be appropriate to maintain incentives for hospitals to treat patients with severe illnesses or conditions.

"(IX)(aa) Subject to item (bb), effective for payments beginning with fiscal year 2013, each measure specified by the Secretary under this clause shall be endorsed by the entity with a contract under section 1890(a).

"(bb) In the case of a specified area or medical topic determined appropriate by the Secretary for which a feasible and practical measure has not been endorsed by the entity with a contract under section 1890(a), the Secretary may specify a measure that is not so endorsed as long as due consideration is given to measures that have been endorsed or adopted by a consensus organization identified by the Secretary.

"(X) To the extent practicable, the Secretary shall, with input from consensus organizations and other stakeholders, take steps to ensure that the measures specified by the Secretary under this clause are coordinated and aligned with quality measures applicable to—

"(aa) physicians under section 1848(k); and

"(bb) other providers of services and suppliers under this title.

"(XI) The Secretary shall establish a process to validate measures specified under this clause as appropriate. Such process shall include the auditing of a number of randomly selected hospitals sufficient to ensure validity of the reporting program under this clause as a whole and shall provide a hospital with an opportunity to appeal the validation of measures reported by such hospital.

"(3) WEBSITE IMPROVEMENTS.—Section 1886(b)(3)(B) of the Social Security Act (42 U.S.C. 1395ww(b)(3)(B)), as amended by section

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4102(b) of the HITECH Act (Public Law 111–5), is amended by adding at the end the following new clause:

“(x)(I) The Secretary shall develop standard Internet website reports tailored to meet the needs of various stakeholders such as hospitals, patients, researchers, and policymakers. The Secretary shall seek input from such stakeholders in determining the type of information that is useful and the formats that best facilitate the use of the information.

“(II) The Secretary shall modify the Hospital Compare Internet website to make the use and navigation of that website readily available to individuals accessing it.”

(4) GAO STUDY AND REPORT.—

(A) STUDY.—The Comptroller General of the United States shall conduct a study on the performance of the hospital value-based purchasing program established under section 1886(o) of the Social Security Act, as added by paragraph (1). Such study shall include an analysis of the impact of such program on—

(i) the quality of care furnished to Medicare beneficiaries, including diverse Medicare beneficiary populations (such as diverse in terms of race, ethnicity, and socioeconomic status);

(ii) expenditures under the Medicare program, including any reduced expenditures under Part A of title XVIII of such Act that are attributable to the improvement in the delivery of inpatient hospital services by reason of such hospital value-based purchasing program;

(iii) the quality performance among safety net hospitals and any barriers such hospitals face in meeting the performance standards applicable under such hospital value-based purchasing program; and

(iv) the quality performance among small rural and small urban hospitals and any barriers such hospitals face in meeting the performance standards applicable under such hospital value-based purchasing program.

(B) REPORT.—Not later than January 1, 2016, the Secretary of Health and Human Services shall submit to Congress a report containing the results of the study conducted under subparagraph (A), together with recommendations for such legislation and administrative action as the Comptroller General determines appropriate.

(5) HHS STUDY AND REPORT.—

(A) STUDY.—The Secretary of Health and Human Services shall conduct a study on the performance of the hospital value-based purchasing program established under section 1886(o) of the Social Security Act, as added by paragraph (1). Such study shall include an analysis—

(i) of ways to improve the hospital value-based purchasing program and ways to address any unintended consequences that may occur as a result of such program;

(ii) of whether the hospital value-based purchasing program resulted in lower spending under the Medicare program for critical access hospitals; and

(iii) of any other area determined appropriate by the Secretary.

(B) REPORT.—Not later than September 29, 2011, the Secretary of Health and Human Services shall submit to Congress a report containing the results of the study conducted under subparagraph (A), together with recommendations for such legislation and administrative action as the Secretary determines appropriate.

(6) VALUE-BASED PURCHASING DEMONSTRATION PROGRAMS.—

(1) VALUE-BASED PURCHASING DEMONSTRATION PROGRAM FOR INPATIENT CRITICAL ACCESS HOSPITALS.—

(A) ESTABLISHMENT.—

(i) IN GENERAL.—Not later than 2 years after the date of enactment of this Act, the Secretary of Health and Human Services (in this subsection referred to as the “Secretary”) shall establish a demonstration program under which the Secretary establishes a value-based purchasing program under the Medicare program for critical access hospitals as defined in paragraph (1) of section 1861(mm) of such Act (42 U.S.C. 1395x(mm)) with respect to inpatient critical access hospital services as defined in paragraph (2) of such section in order to test innovative methods of measuring and rewarding quality and efficient health care furnished by such hospitals.

(ii) DURATION.—The demonstration program under this paragraph shall be conducted for a 3-year period.

(iii) SITES.—The Secretary shall conduct the demonstration program under this paragraph at an appropriate number (as determined by the Secretary) of critical access hospitals. The Secretary shall ensure that such hospitals are representative of the spectrum of such hospitals that participate in the Medicare program.

(B) WAIVER AUTHORITY.—The Secretary may waive such requirements of titles XI and XVIII of the Social Security Act as may be necessary to carry out the demonstration program under this paragraph.

(C) BUDGET NEUTRALITY REQUIREMENT.—In conducting the demonstration program under this section, the Secretary shall ensure that the aggregate payments made by the Secretary do not exceed the amount which the Secretary would have paid if the demonstration program under this section was not implemented.

(D) REPORT.—Not later than 18 months after the completion of the demonstration program under this paragraph, the Secretary shall submit to Congress a report on the demonstration program together with—

(i) recommendations on the establishment of a permanent value-based purchasing program under the Medicare program for critical access hospitals with respect to inpatient critical access hospital services; and

(ii) recommendations for such other legislation and administrative action as the Secretary determines appropriate.

(2) VALUE-BASED PURCHASING DEMONSTRATION PROGRAM FOR HOSPITALS EXCLUDED FROM HOSPITAL VALUE-BASED PURCHASING PROGRAM AS RESULT OF INSUFFICIENT NUMBERS OF MEASURES AND CASES.—

(A) ESTABLISHMENT.—

(i) IN GENERAL.—Not later than 2 years after the date of enactment of this Act, the Secretary shall establish a demonstration program under which the Secretary establishes a value-based purchasing program under the Medicare program under title XVIII of the Social Security Act for applicable hospitals (as defined in clause (ii)) with respect to inpatient hospital services (as defined in section

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1861(b) of the Social Security Act (42 U.S.C. 1395x(b))) in order to test innovative methods of measuring and rewarding quality and efficient health care furnished by such hospitals.

(i) APPLICABLE HOSPITAL DEFINED.—For purposes of this paragraph, the term "applicable hospital" means a hospital described in subclause (III) or (IV) of section 1886(o)(1)(C)(ii) of the Social Security Act, as added by subsection (a)(1).

(ii) DURATION.—The demonstration program under this paragraph shall be conducted for a 3-year period.

(iv) SITES.—The Secretary shall conduct the demonstration program under this paragraph at an appropriate number (as determined by the Secretary) of applicable hospitals. The Secretary shall ensure that such hospitals are representative of the spectrum of such hospitals that participate in the Medicare program.

(B) WAIVER AUTHORITY.—The Secretary may waive such requirements of titles XI and XVIII of the Social Security Act as may be necessary to carry out the demonstration program under this paragraph.

(C) BUDGET NEUTRALITY REQUIREMENT.—In conducting the demonstration program under this section, the Secretary shall ensure that the aggregate payments made by the Secretary do not exceed the amount which the Secretary would have paid if the demonstration program under this section was not implemented.

(D) REPORT.—Not later than 18 months after the completion of the demonstration program under this paragraph, the Secretary shall submit to Congress a report on the demonstration program together with—

(i) recommendations on the establishment of a permanent value-based purchasing program under the Medicare program for applicable hospitals with respect to inpatient hospital services; and

(ii) recommendations for such other legislation and administrative action as the Secretary determines appropriate.