

# **Dissertation Proposal**

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## **“Essays on Hospital Quality Decisions”**

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1:30 pm

259 Posner Hall

As a part of the Affordable Care Act of 2010, Medicare introduced the Hospital Readmission Reduction Program (HRRP). This program is intended to save Medicare money on hospital readmissions by penalizing hospitals with excess readmissions. Starting in fiscal year 2013 the program works by monitoring specific high-volume Medicare diseases in each hospital and applying penalties of up to 1% of the hospital's total Medicare revenue (2% in FY 2014 and 3% in FY 2015). In response to these penalties, hospital administrators are finding themselves under pressure to implement strategies to address excess readmissions in their hospitals. My proposed dissertation will investigate the cost of readmission reduction efforts and will seek to offer policy recommendations to increase the efficiency of the program.

While the HRRP has been lauded by many for stimulating a decrease in readmission rates, some researchers have found problems with the structure of the program. They have provided evidence that patients living in low-income households are more likely to be readmitted to a hospital, and also that safety-net hospitals have been more likely to be penalized under the program. In my first chapter, I estimate the hospital's marginal cost of a 1% readmission reduction for a single disease. I use a trans-log function cost form and a GMM estimation structure to find that hospitals with a higher proportion of low-income patients have a higher marginal cost of reducing readmissions. Furthermore, I estimate the total financial burden placed on hospitals by the HRRP to assess the additional impact to safety-net hospitals.

Given that safety-net hospitals have a higher marginal cost of reducing readmissions, certain hospitals will not find it cost-effective to make readmission reduction efforts. Additionally, reductions in readmission rates will impact the patient population through better quality of care or potential cost-shifting behavior by hospitals. In my second chapter, I seek to empirically investigate the welfare implications HRRP by estimating full-structural model using patient-level and hospital level discharge and financial data. I specify a hospital objective function that considers incentives of both cost minimization and changes to demand due to readmission reduction efforts. The efficiency of the current penalty mechanism can be examined using the model estimates and adjustments to the mechanism can be analyzed; specifically increases to the total penalty rate, monitoring of additional diseases, or adjustments for the socioeconomic status of patients. My analysis will offer an insight into the total welfare implications of the HRRP as well as a better understanding of methods to increase the efficiency of the HRRP penalty mechanism.