Updating and Setting Medicare Payment Rates

MedPAC's Update Framework

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MedPAC's Role in Updating Medicare Payments

- MedPAC is a 17 member Congressional advisory commission that makes recommendation to Congress on the Medicare program
- Recommendations made for:
  - Hospitals – Inpatient and outpatient
  - Physicians and other health professional services
  - Post-acute care providers – SNFs, Home Health, IRFs, LTCHs, Hospice
  - Other providers – ASCs, Outpatient Dialysis Services
  - Medicare Advantage
  - Medicare Part D

MedPAC's framework for assessing payment adequacy

Access to care

- Surveys
- Supply and capacity
- Volume
- Marginal profit

Quality of care

- Mortality and readmissions
- Other clinical outcomes
- Patient experience

Access to capital

- All-payer profitability
- Bonds and construction
- Mergers and acquisitions
- Employment

Medicare payments and providers' costs

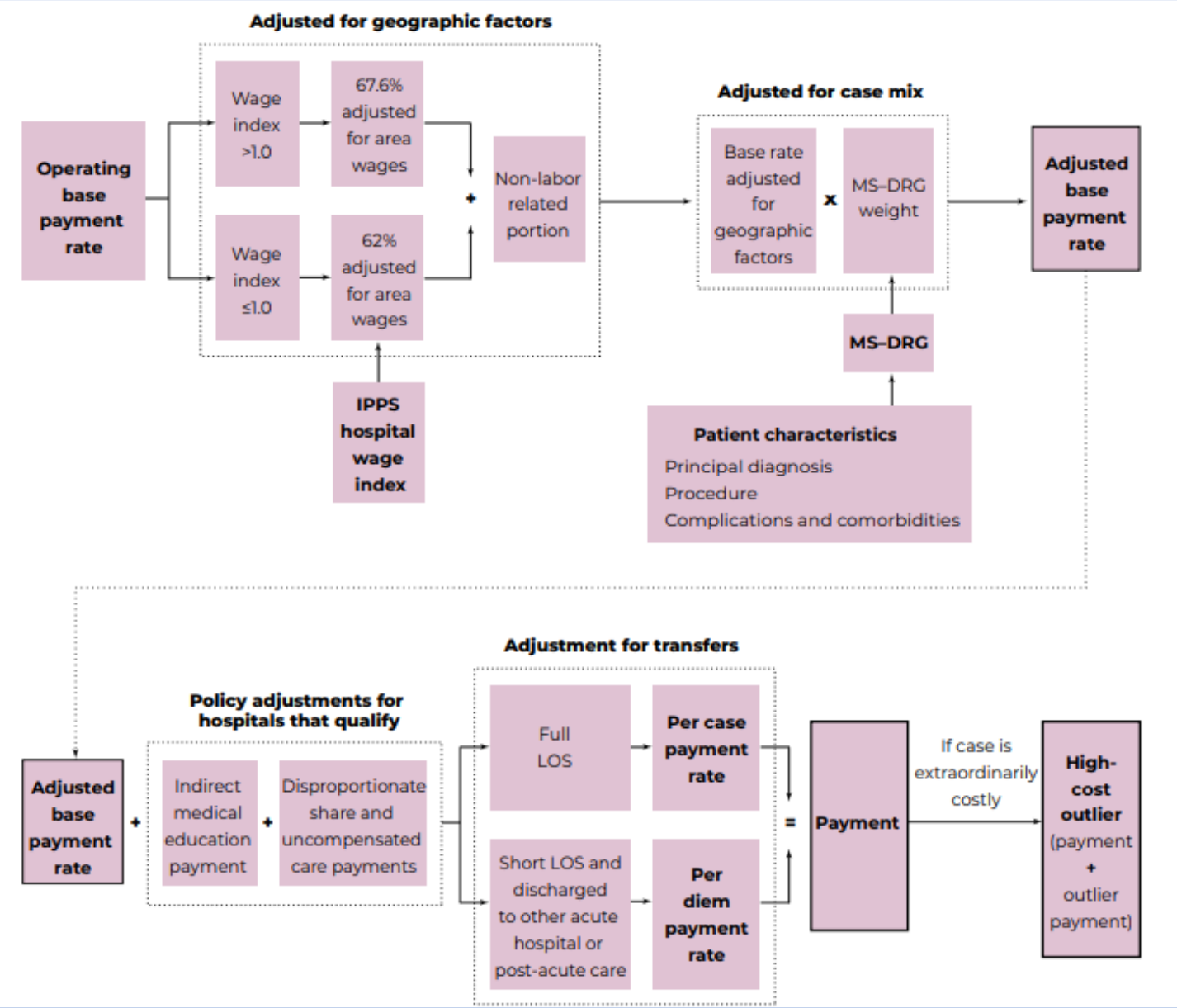
- Medicare payments and providers' costs
- Margins and projected margins

Update recommendation for payment system base rates

MEDPAC

Source: MedPAC

Medicare Payments to Hospitals



Quality incentive payments and penalties

- Excess readmission penalty
- Value-based incentive payments
- Hospital acquired condition penalty

Adjustments made to the hospitals base payment rates or hospitals total operating payment. In CMS only applied the excess readmission penalty.

Source: October 2022 MedPAC Payment Basics for Hospital Acute Inpatient Services Payment System

MedPAC's payment adequacy framework: Acute care hospitals

Beneficiaries' access to care	Quality of care	Hospitals' access to capital	Medicare payments and hospitals' costs
• Capacity and supply of hospitals • Volume of services • Marginal profit	• Mortality and readmission rates • Patient experience	• All-payer profitability • Employment • Bonds and construction	• Payments and costs per service • Overall Medicare margin among all and efficient hospitals • Projected margin

Update recommendation for base payment rates

MEDPAC

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Source: https://www.medpac.gov/wp-content/uploads/2021/09/Hospital-update-MedPAC-Dec-2021.pdf

Beneficiary Access to Care

- Excess inpatient capacity in aggregate
- Fewer hospital closures in 2020 and 2021 after reaching a peak in 2019 – *Federal support provided to hospitals during the pandemic may have contributed to significant decline in closures*
- Hospital services per capita declined, driven by large drop in spring of 2020—*40% decline in inpatient 50% decline in outpatient in April, but by June 2021 decline in inpatient 15% and decline in outpatient 10%*
- Hospitals with excess capacity have a financial incentive to serve Medicare patients – *Marginal profit in treating Medicare patients around 5%*

Source: MedPAC Report to the Congress, Medicare Payment Policy, March 2022.

Quality of Care

- MedPAC concluded quality of care was difficult to assess:
  - *Temporary changes in the delivery of care from the public health emergency*
  - *Data limitations unique to the PHE rather than trends in the quality of care provided*
  - *Risk adjustment models did not include COVID-19 informat*ion
- Changes in quality measures for 2020
  - *Mortality increased*
  - *Readmissions declined slightly*
  - *Most patient experience measures declined slightly*

Source: MedPAC Report to the Congress, Medicare Payment Policy, March 2022.

Hospital Access to Capital – 2020

- IPPS hospitals all-payer total margins declined in 2020 but remained strong at 6.3%
  - *IPPS hospitals reported receiving over $32 billion in federal support, primarily through the Provider Relief Fund*
  - *Without relief funds, net income would have declined by $50 billion*
  - *Preliminary data indicate total margins strengthened in 2021*
- Rural hospitals all-payer total margin reached near a record high in 2020
  - *Rural hospitals received targeted relief funds*
  - *Rural IPPS margin reached a 20 year high*
- Among six largest hospital systems operating profits in late 2021 exceed pre-pandemic levels

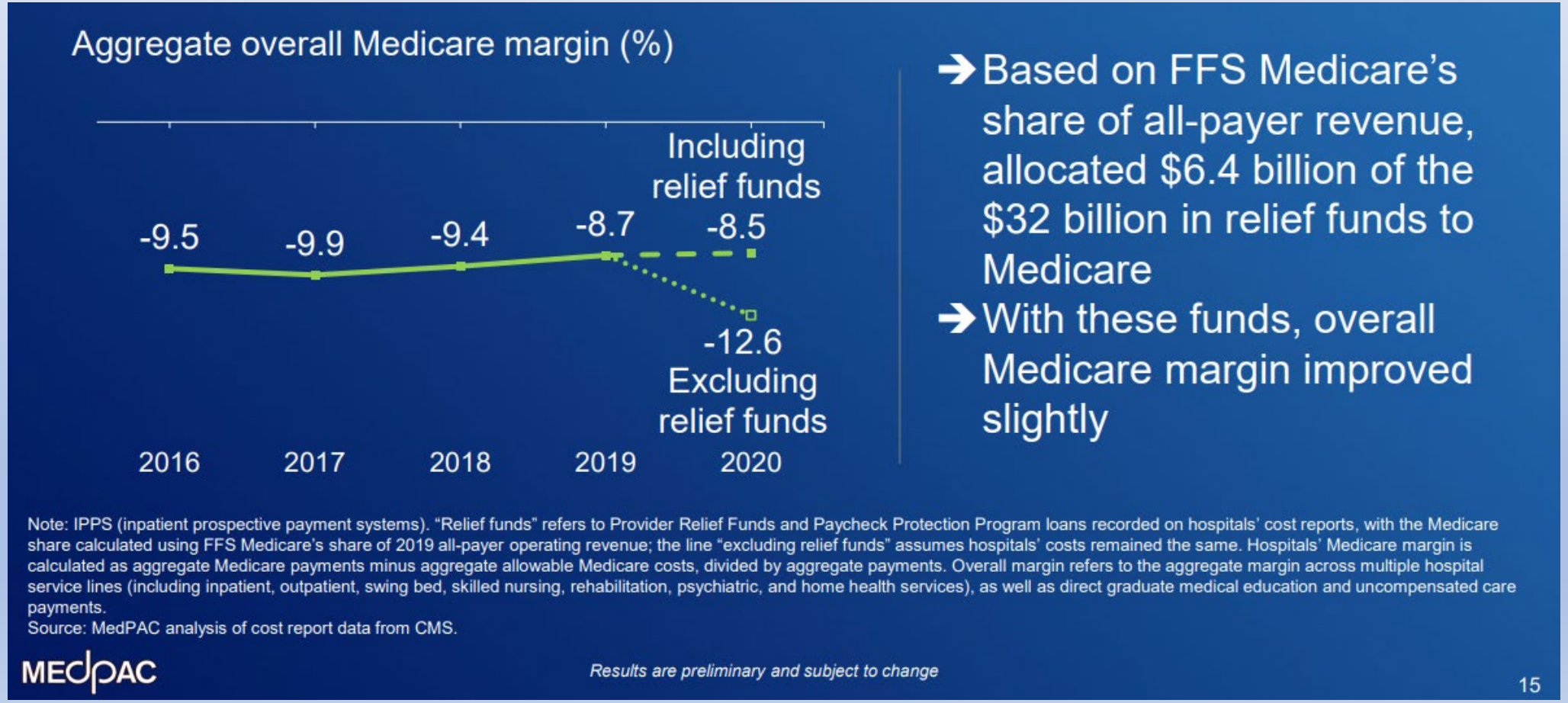
Source: MedPAC Report to the Congress, Medicare Payment Policy, March 2022.

Overall Medicare Margin

“Overall Medicare” margin refers to the aggregate margin across multiple hospital service lines (including inpatient, outpatient, swing bed, skilled nursing, rehabilitation, psychiatric, and home health services) as well as direct graduate medical education and uncompensated care payments.

Medicare Payments and Hospital Costs

- In 2020 costs per service grew faster than payments per service
- Overall Medicare margin at IPPS hospitals improved slightly in 2020



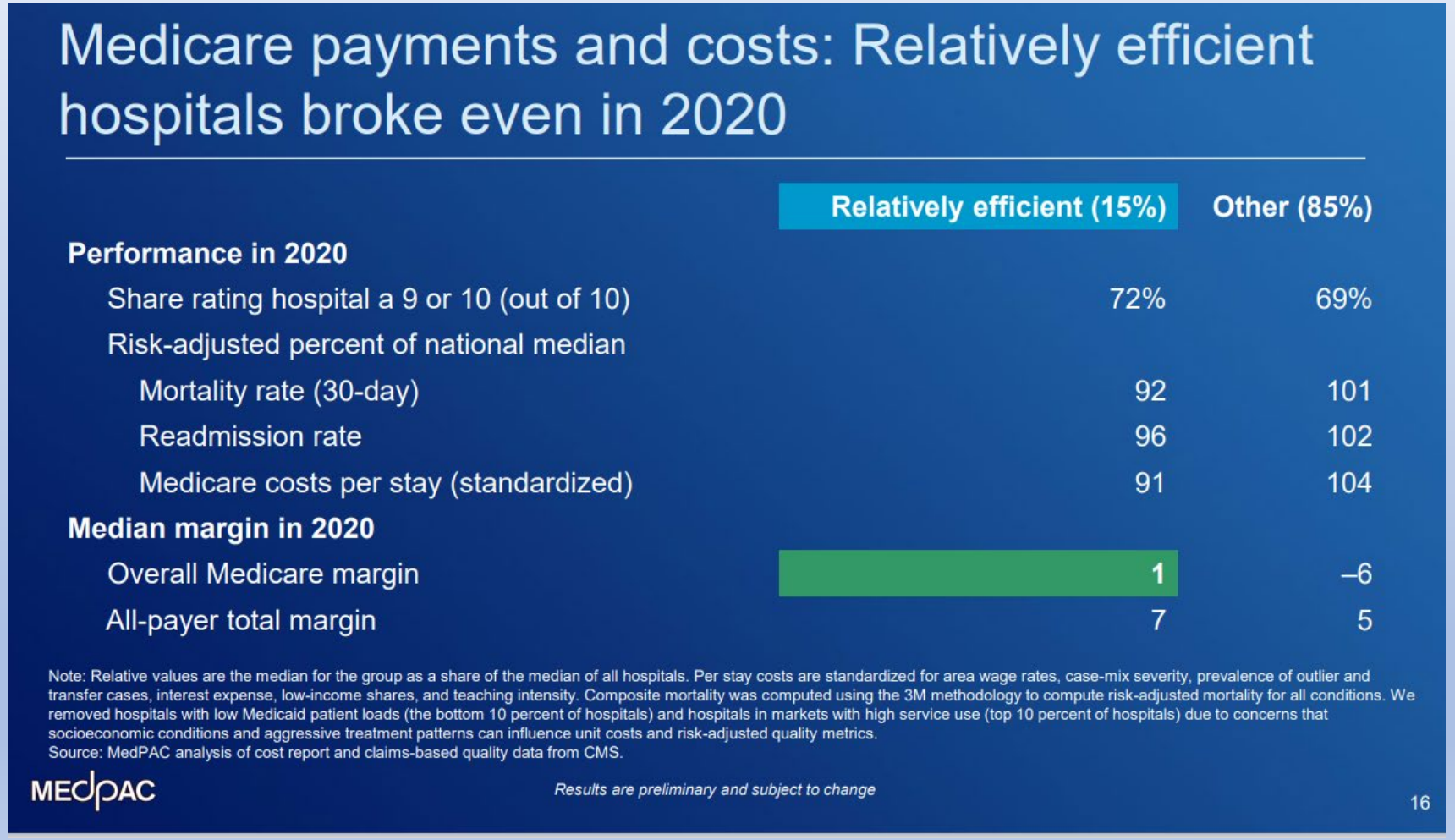
Source: https://www.medpac.gov/wp-content/uploads/2021/09/Hospital-update-MedPAC-Dec-2021.pdf

Medicare Payments and Hospital Costs – Relatively Efficient Hospitals

Relatively Efficient Hospitals*

- Risk-adjusted mortality rates were among the best two-thirds of all hospitals
- Risk-adjusted readmission rates were among the best two-thirds of all hospitals
- Standardized costs per inpatient stay were among the best two-thirds of all hospitals
- Risk-adjusted mortality or standardized costs per stay were among the best one-third of all hospitals

*Hospitals were identified as relatively efficient if they met these four criteria in each of the three prior years.



Source: https://www.medpac.gov/wp-content/uploads/2021/09/Hospital-update-MedPAC-Dec-2021.pdf

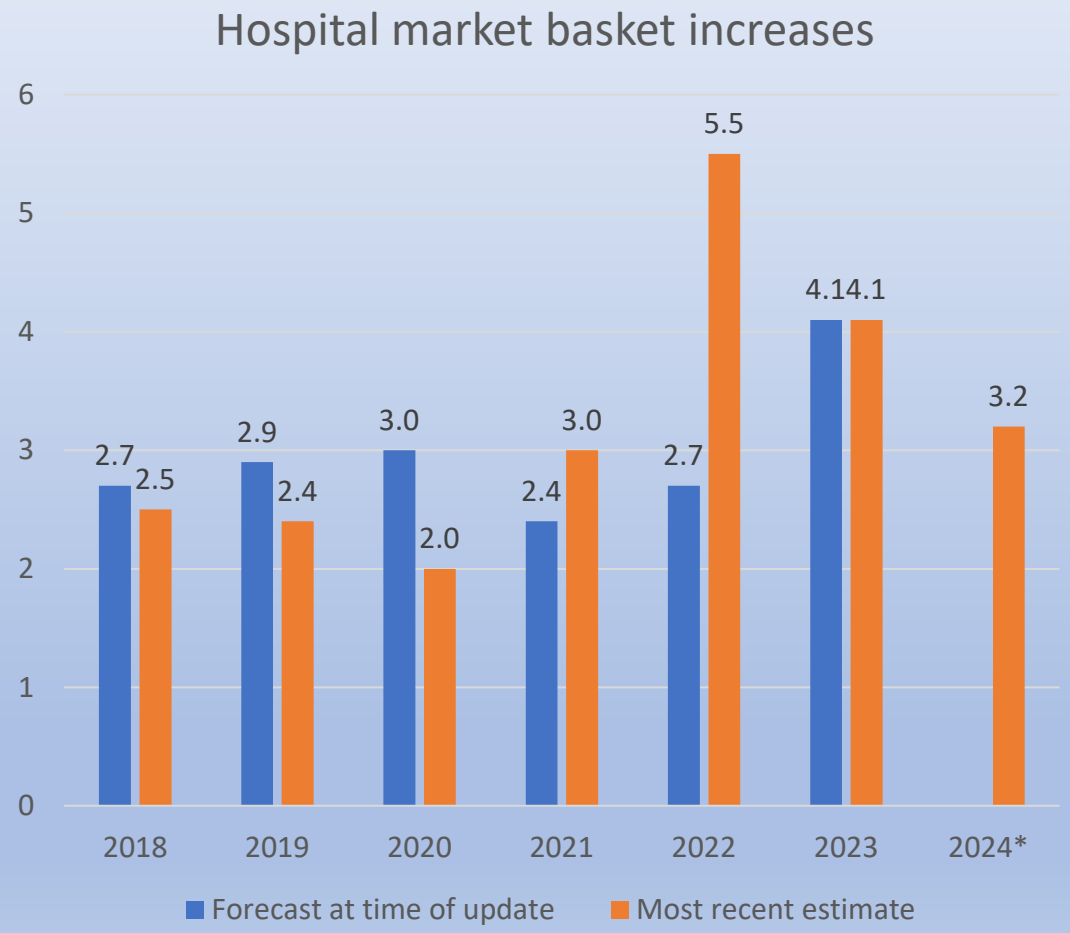
Projected 2022 Medicare Margin

- As part of its update framework MedPAC projects estimated changes in payments and costs for the current payment year (2022) for IPPS hospitals'
  - 2022 Medicare margin estimated to be about –10% excluding relief funds; -9% percent with relief funds
  - Relatively efficient hospitals' median Medicare margin estimated to be about 0% percent excluding relief funds; 1% with relief funds

Source: MedPAC Report to the Congress, Medicare Payment Policy, March 2022.

Medicare Hospital Market Basket

- Measure of input price inflation for hospitals
- Fixed basket of goods and services *(2018 cost weights)*
- Major components
  - *Compensation (wages & benefits)*
  - *Utilities (electricity, fuel, water)*
  - *Professional liability insurance*
  - *All other products (pharmaceuticals, food, medical instruments)*
  - *Labor related services (professional fees, maintenance and repair)*
  - *All other costs (professional fees, financial services*



Current Law Updates for 2023

Current law updates to IPPS and OPPS rates

	2018	2019	2020	2021	2022	2023*
Market basket	2.7%	2.9%	3.0%	2.4%	2.7%	2.6%
Productivity offset	–0.6	–0.8	–0.4	0	–0.7	–0.6
Budgetary reduction	–0.65	–0.75	0	0	0	0
Annual update	1.35	1.35	2.6	2.4	2.0	2.0*
Statutory increase (IPPS only)	0.46	0.5	0.5	0.5	0.5	0.5

**2023 estimate based on 2021 3rd quarter forecasts from CMS, including an estimated 3.1% growth in hospital wages and benefits; forecasts used to set actual update will be revised to reflect most recent economic data at the time the final rule is published in summer 2022.*

Note: IPPS (inpatient prospective payment systems); OPPS (outpatient prospective payment system). Final net update to base rates will also reflect budget neutrality adjustments. Separate updates to inpatient capital base rate not shown.
Source: MedPAC analysis of IPPS final rules and market basket forecasts from the Office of the Actuary.

MEDPAC *Results are preliminary and subject to change* 17

CMS 2023 Updates

- Inpatient: 4.3%
  - MB 4.1 %
  - Productivity -0.3 %
  - Statutory 0.5 %
- Capital: 2.7 %
- Outpatient: 3.7 %

Source: https://www.medpac.gov/wp-content/uploads/2021/09/Hospital-update-MedPAC-Dec-2021.pdf and CMS

MedPAC Hospital Update Recommendations

For fiscal year 2023, the Congress should update the 2022 Medicare base payment rates for acute care hospitals by the amount specified in current law.

Source: MedPAC Report to the Congress, Medicare Payment Policy, March 2022.

MedPAC 2023 Update Recommendations Across Sectors and Actual Update and Payment Increase Provided by CMS

Sector	MedPAC Recommendation	Actual Update*
Inpatient hospital	Current law	4.3% / 2.6%
Outpatient hospital	Current law	3.8%
Physician	Current law	0% / -4.5%
Skilled Nursing Facilities	Reduce base payment by 5%	2.7%
Home Health Agencies	Reduce base payment by 5%	4.0% / 0.7%
Inpatient Rehabilitation	Reduce base payment by 5%	3.9% / 3.2%
Long-term Care Hospitals	MB minus productivity	2.7% / 0.7%
Hospice	Eliminate update	3.8%
Ambulatory Surgery Centers	Eliminate update	3.8%
Outpatient Dialysis Services	Current law	3.1%

*Update given by CMS / actual payment increase after other adjustments made to payment rates

Source: MedPAC Report to the Congress, Medicare Payment Policy, March 2022 and Federal Register.

IPPS changes in payments and costs

TABLE 3–3

In 2020, IPPS payments per stay grew 8.7 percent while costs per stay grew 12.6 percent

	Annual change 2020	Average of annual changes, 2016–2019
IPPS payments per stay	**8.7%**	**3.2%**
Annual update to IPPS operating rates	2.6	1.5
Other non-budget-neutral updates to operating rates	0.5	–0.3
Reported case mix (net)	3.5	1.5
Sequestration suspension and increase for COVID-19 stays	1.4	0.0
All other factors	0.4	0.4
IPPS costs per stay	**12.6**	**2.8**
Input prices	2.0	2.3
Reported case mix (net)	3.5	1.5
All other factors	6.7	–1.0

Note: IPPS (inpatient prospective payment systems). "IPPS payments per stay" exclude those for uncompensated care because these are not payments for Medicare fee-for-service beneficiaries' inpatient stays. The "annual update to IPPS operating rates" includes estimates of changes in market basket and productivity as of the time of the final rule, as well as the budgetary reductions required by the Affordable Care Act of 2010 in each of 2010 to 2019. "Other non-budget-neutral updates" includes the statutory adjustments for coding and documentation improvements. "Reported case mix (net)" reflects the change in average relative (transfer-adjusted) weight assigned to inpatient stays, less the change anticipated and accounted for through budget neutrality factors. "Input prices" reflects CMS's estimate of actual change in inpatient hospital market basket as of the third quarter of 2021 (and does not include change in the capital market basket). Components may not sum due to rounding.

Source: MedPAC analysis of Medicare Provider Analysis and Review claims, IPPS final rules, hospital cost reports, and CMS market basket data.

Source: MedPAC Report to the Congress, Medicare Payment Policy, March 2022.

OPPS changes in payments and costs

TABLE 3–4

In 2020, OPPS payments per service grew 13.5 percent while costs per service grew 24.4 percent

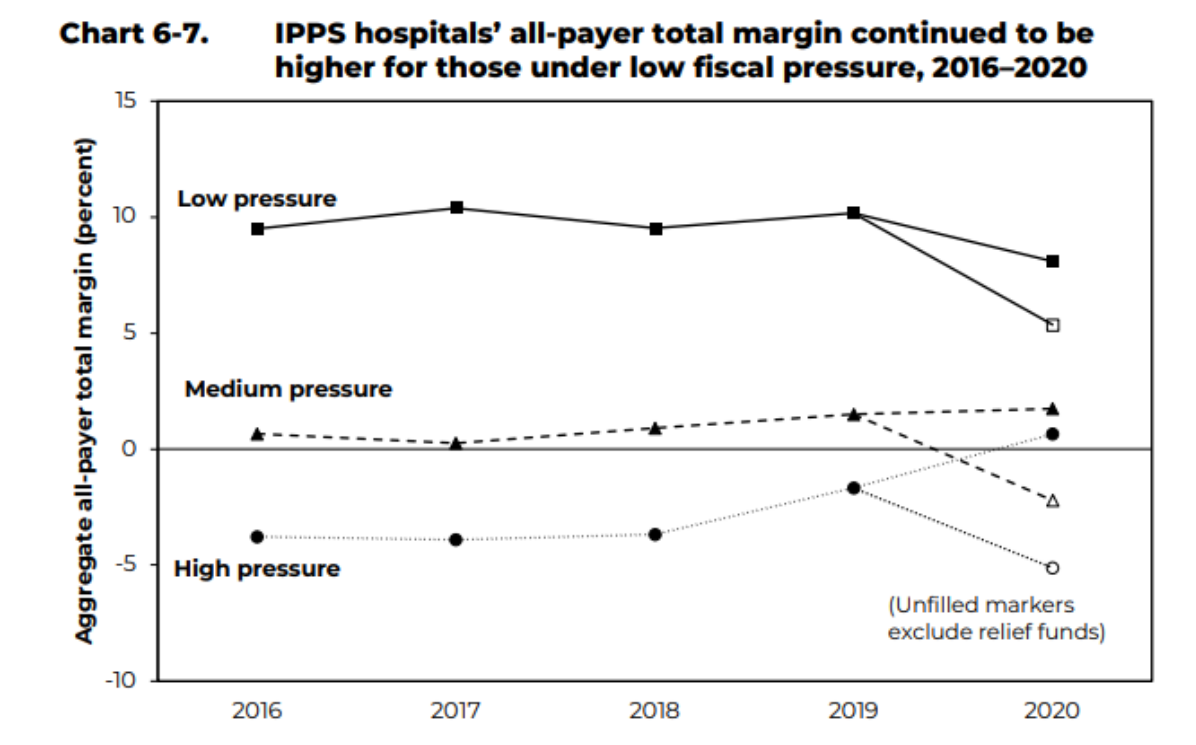
	Annual change 2020	Average of annual changes, 2016–2019
OPPS payments per service	**13.5%**	**7.2%**
Annual update to OPPS rates	1.2	2.1
Average relative weight of services	4.6	2.3
Separately payable drugs and devices	6.6	2.9
PHE payment changes: suspension of sequestration	0.9	0.0
All other factors	0.0	0.0
OPPS costs per service	**24.4**	**6.1**
Input prices	1.6	1.8
Resource requirements of services provided	6.2	2.8
Separately payable drugs and devices	5.7	2.5
All other factors	9.0	–1.0

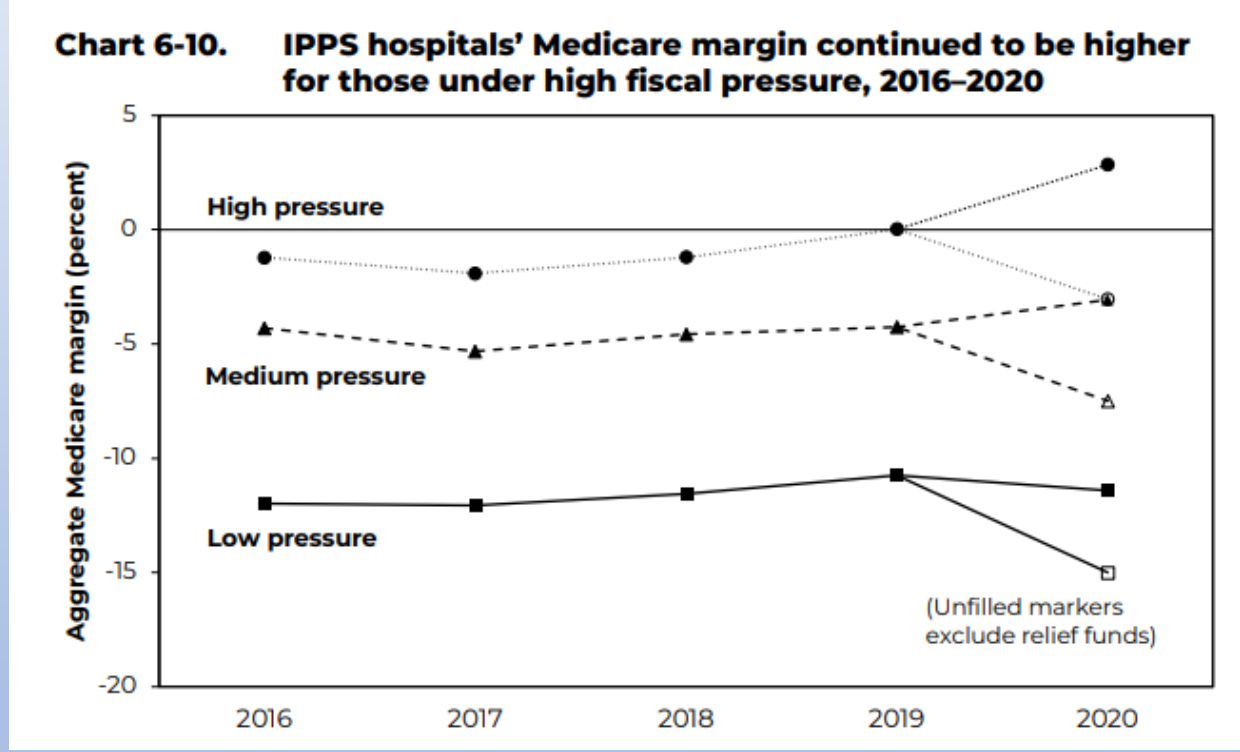
Note: OPPS (outpatient prospective payment system). Components may not sum due to rounding. "Annual update to OPPS rates" includes estimates of changes in the inpatient operating market basket and productivity as of the time of the final rule, budgetary reductions required by the Affordable Care Act of 2010 in each year from 2010 to 2019, adjustments for year-to-year changes in OPPS spending on outliers and pass-through items to maintain budget neutrality, and the share of OPPS payments for separately payable drugs that are not affected by the annual update. "Input prices" reflects CMS's estimate of actual change in inpatient market basket as of the third quarter of 2021. The effect of separately paid drugs and devices is smaller on costs than on payments because we assumed the payments for separately paid drugs and costs for separately paid drugs are equal. The costs for outpatient care are higher than the payments, so the increase in drug costs from 2019 to 2020 had a smaller effect on costs than on payments.

Source: MedPAC analysis of OPPS claims, OPPS final rules, hospital cost reports, and CMS market basket data.

Source: MedPAC Report to the Congress, Medicare Payment Policy, March 2022.

Hospitals under high fiscal pressure have lower all-payer margins but higher Medicare margins





Source: MedPAC Data Book, July 2022

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