

# Assessing payment adequacy and updating payments for hospital inpatient and outpatient services and redesigning Medicare's hospital quality incentive programs

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# Payment adequacy indicators

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- Beneficiaries' access to care
- Providers' access to capital
- Quality of care
- Provider payments and costs
  - Medicare margins (2017)
  - Efficient provider margin (2017)
  - Projected Medicare margin (2019)

# Overview of hospital inpatient and outpatient services, 2017

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- 2017 Medicare spending: \$190.1 billion
  - Inpatient: \$118.6 billion
  - Outpatient: \$65.5 billion
  - Uncompensated care: \$6.0 billion
- Hospitals: ~4,700
  - Inpatient admissions: ~10 million
  - Outpatient visits: ~200 million

# Indicators of Medicare payment adequacy are mostly positive

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- Access to care: Good
  - Inpatient and outpatient hospital use increased
  - Excess capacity with overall 62.5% occupancy
  - Marginal profit: +8% in 2017
- Access to capital: Strong (all-payer margin: +7.1%; strong access to capital markets)
- Quality: Improving (lower mortality, improved patient experience)
- Medicare margins: Declining
  - 2017 aggregate margin: -9.9%
  - 2017 efficient provider : -2%
  - 2019 projected aggregate margin: -11%

# Considerations for developing the draft recommendation

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- Maintain a level of financial pressure on hospitals to limit cost growth
- Minimize differential in payment rates across sites of care (e.g., on-campus versus off-campus provider payments)
- Move Medicare payments toward the cost of efficiently providing high quality care
- Reward high-performing hospitals

# Rewarding hospitals through the hospital value incentive program (HVIP)

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- In the June 2018 report to the Congress, the Commission outlined the HVIP, which links payment to hospitals providing high-quality care
- Last month the Commission discussed a draft recommendation to implement the HVIP and enhance HVIP payments to higher quality hospitals

# MedPAC's HVIP design

## Merge existing programs:

**Hospital Readmissions  
Reduction Program (HRRP)**

**Hospital Value-based  
Purchasing (VBP) Program**

**Hospital-Acquired Condition  
Reduction Program (HACRP)**

## Eliminate program:

**Inpatient Quality Reporting  
Program (IQRP)**

## New Hospital Value Incentive Program (HVIP)

- Include five measure domains
  - Readmissions
  - Mortality
  - Spending (MSPB)
  - Patient experience
  - Hospital-acquired conditions
- Set clear, absolute and prospective performance targets
- Use peer groups to account for social risk factors
- Distribute a pool of dollars to hospitals based on their performance

# Convert measure performance to HVIP points

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- Reward hospitals based on clear and prospectively set performance targets
- Each measure domain has a continuous performance-to-points scale (from 0 to 10 points)
  - Our model used a broad distribution of historical data to set the scale
- Total HVIP score is the average of all points across the five measure domains



# Use peer groups to account for social risk factors

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- Medicare should account for differences in the social risk of providers' patient populations through peer grouping
- Convert HVIP points to payment adjustments within peer groups
  - Use the same performance-to-points scale across all groups
  - Each peer group has a pool of dollars that is redistributed based on HVIP points
  - Each peer group has its own payment multiplier per HVIP point, based on the group's pool of dollars and HVIP points

# Distribute enhanced pool of dollars within peer group

- Modeled HVIP payments using 10 groups based on share of fully dual-eligible beneficiaries
  - Hospitals in peer group serving more dual-eligible beneficiaries have a larger percentage increase in payments per HVIP point
- Modeled two different sized enhanced pools of dollars for each peer group

<b>Withhold of total base inpatient spending from each hospital in the peer group</b>	<b>Portion of hospital payment update (inpatient spending)</b>	<b>Enhanced pool of dollars</b>
2%	1%	3%
5%	1%	6%

# HVIP modeling results

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- The majority of hospitals would receive a reward because
  - The pool of dollars is enhanced by a portion of the hospital payment update
  - The continuous performance-to-points scale gives hospitals across the whole spectrum of performance an incentive to improve
- Compared with the existing quality payment programs, the HVIP enhances payment adjustments for hospitals serving more fully dual-eligible beneficiaries
- Relatively efficient providers receive more of a reward from the HVIP compared with other hospitals

# HVIP Summary

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- Consistent with the Commission's principles, the HVIP links payment to quality of care to reward providers for offering high-quality care to beneficiaries
- The HVIP:
  - Rewards hospitals that deliver higher quality
  - Simplifies the current overlapping programs
  - Uses a small set of population-based outcome, patient experience, and value measures that encourage providers to collaborate across the delivery system
  - Reduces the differences in payment adjustments between groups of providers serving populations with different social risk factors