*Advising the Congress on Medicare issues*

# Hospitals:
# Assessment of Payment Adequacy

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# Payment adequacy indicators

- Beneficiaries’ access to care
- Capacity and supply of providers
- Volume of services
- Quality of care
- Access to capital
- Payments and costs for 2009

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# Agenda

1. Payment adequacy and update for acute inpatient and outpatient services

2. Indirect medical education (IME) payments

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# Most indicators of payment adequacy are positive

- Access to care remains strong
  - More hospitals have opened than closed
  - Hospitals are increasing service offerings
- Volume of outpatient services per beneficiary is increasing
- Quality of care generally is improving
- Access to capital is affected by financial market volatility
  - Record breaking level of construction in 2007
  - Economy declined and interest rates rose in 2008

# Overall Medicare margin

- Overall Medicare margin was –5.9% in 2007
- The Commission will vote on 2010 payment rates
- We project margins would fall to -6.9% in 2009, if hospitals were paid under the 2010 payment rates in current law
- The fall in margins from 2007 to 2009 reflects cost growth in excess of projected increases in the market basket of input prices

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# Costs and Medicare margin related to financial pressure from private payers

- High financial pressure is defined primarily by a non-Medicare margin less than 1%; low pressure is a non-Medicare margin over 5%
- Hospitals under high pressure have standardized costs 10% below those of hospitals under low pressure

# Costs are associated with revenues

Abundant Financial Resources → High cost structure → Lower Medicare margins

Limited Financial Resources → Low cost structure → Higher Medicare margins

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# Relative efficiency

- Categorize hospitals as “relatively efficient” if they meet both criteria:
  - Either risk-adjusted mortality or risk-adjusted costs in the best one-third during every year (2004, 2005, and 2006), and
  - Middle third or better performance on all measures (risk-adjusted mortality, readmission rates, and costs)
- Future criterion: overall annual Medicare spending per patient

# Relatively efficient providers

| 2007 performance | Top performers during 2004-2006 | Other hospitals |
|---|---|---|
| Number of hospitals | 338 | 2,535 |
| 30-day mortality (relative to national median ) | 14% below | 3% above |
| Standardized costs (relative to national median ) | 11% below | 2% above |
| 2007 Medicare margin | 0.5% | -7.4% |
| Share of patients rating the hospital highly | 63% | 63% |

Preliminary data subject to change

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# The indirect medical education adjustment

- Medicare IME payments totaled $6 billion in 2007
- IME adjustment set at more than twice the documented impact of teaching on hospital costs
  - Costs increase roughly 2.2 percent for each 10 percent increment in teaching intensity
  - Payments increase 5.5 percent for each 10 percent increment in teaching intensity
- Overall Medicare margin of major teaching hospitals was 10 percentage points higher than that of non-teaching hospitals in 2007

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# Shifting payments from IME to P4P

One percentage point reduction in IME would:

- Provide roughly $1 billion for P4P and more focused/accountable use of funds
- Reduce the gap in margin between major teaching and non-teaching hospitals by up to 2 percentage points
- Move IME payments closer to the patient-care costs associated with training residents
  - However, payments would still be roughly double costs

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