

Assessing payment adequacy and updating payments: Hospital inpatient and outpatient services

Alison Binkowski, Jeff Stensland, Betty Fout, Dan Zabinski, Ledia Tabor

January 11, 2024

Presentation roadmap

- 1 Overview of general acute care hospital use and spending under FFS Medicare
- 2 Review of payment adequacy indicators
- 3 Draft recommendation

Overview of general acute care hospital use and spending under FFS Medicare, 2022



Hospitals

IPPS

3,160

OPPS

3,090



Users

4.3 million

16.3 million



Services

6.6 million stays

127.4 million services



Payments for services

\$103.9 billion

\$49.7 billion



Other payments

\$7.1 billion for uncompensated care

\$19.1 billion for separately payable drugs

Note: FFS (fee-for-service), IPPS (inpatient prospective payment systems), OPSS (outpatient prospective payment system).
Source: MedPAC analysis of Medicare Provider Analysis and Review data, IPPS final rule, and outpatient claims data.

Beneficiaries' access to hospital care remained generally positive



Relatively steady supply

- Number of inpatient beds steady at ~650,000
- Similar number of hospitals closed and opened in 2022
- In fiscal year 2023, 18 closed and 11 opened



Available capacity in aggregate

- 67% of all inpatient beds occupied, in aggregate, in 2022
- Hospital employment above prepandemic level
- Some hospitals neared capacity and some reported staffing shortages



Some hospital care shifted settings

- Inpatient stays per FFS Medicare beneficiary continued to decline as some care shifted to outpatient settings
- Outpatient services per capita remained near prepandemic level, but some ED visits shifted to urgent care visits



Financial incentive to treat FFS

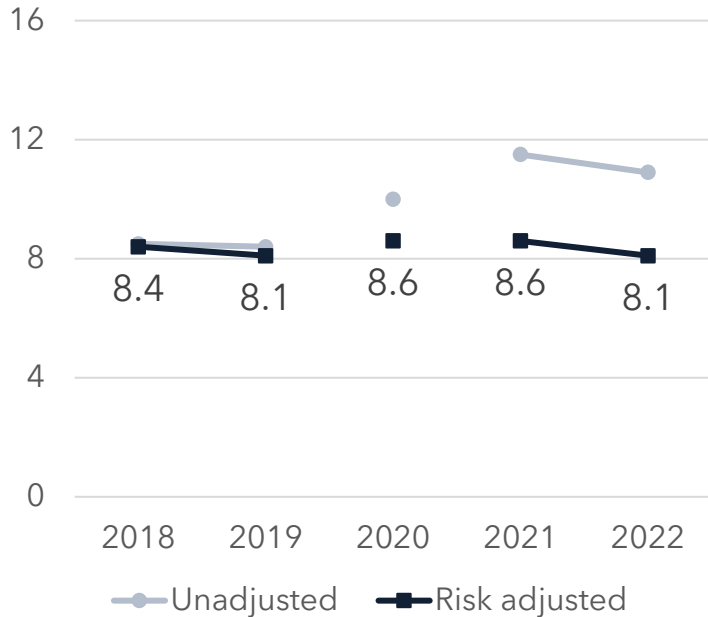
- 5% FFS Medicare marginal profit on inpatient and outpatient services

Note: FFS (fee-for-service), ED (emergency department). See December presentation for more notes and sources.

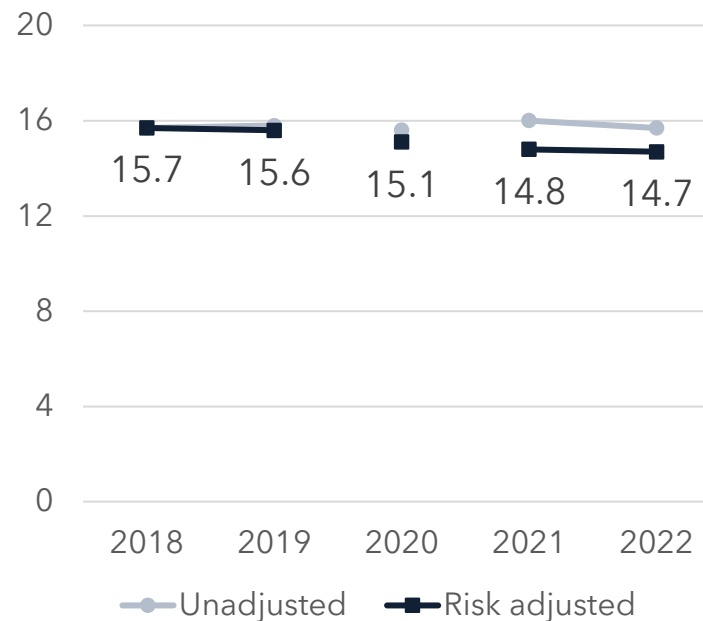
Quality of hospital care indicators were mixed



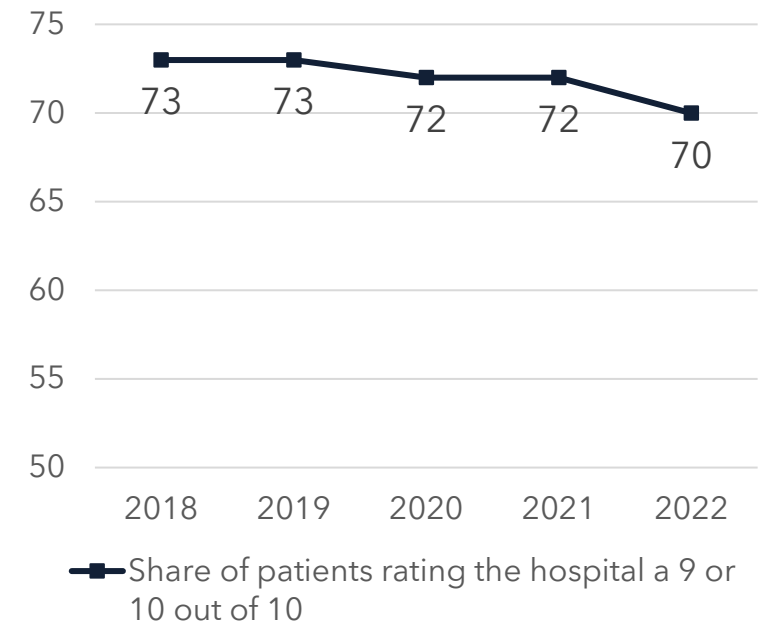
Mortality rate improved



Readmission rate improved



Patient experience results declined

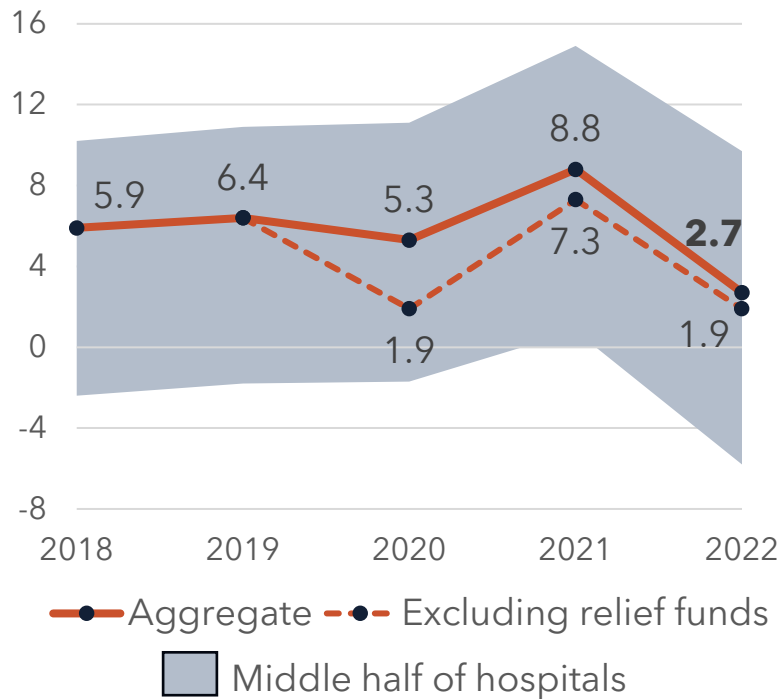


Note: See December presentation for more notes and sources.

Hospitals' access to capital measures were generally negative, though demand for bonds remained strong



All-payer operating margin fell from record high to low



Note: See December presentation for more notes and sources.

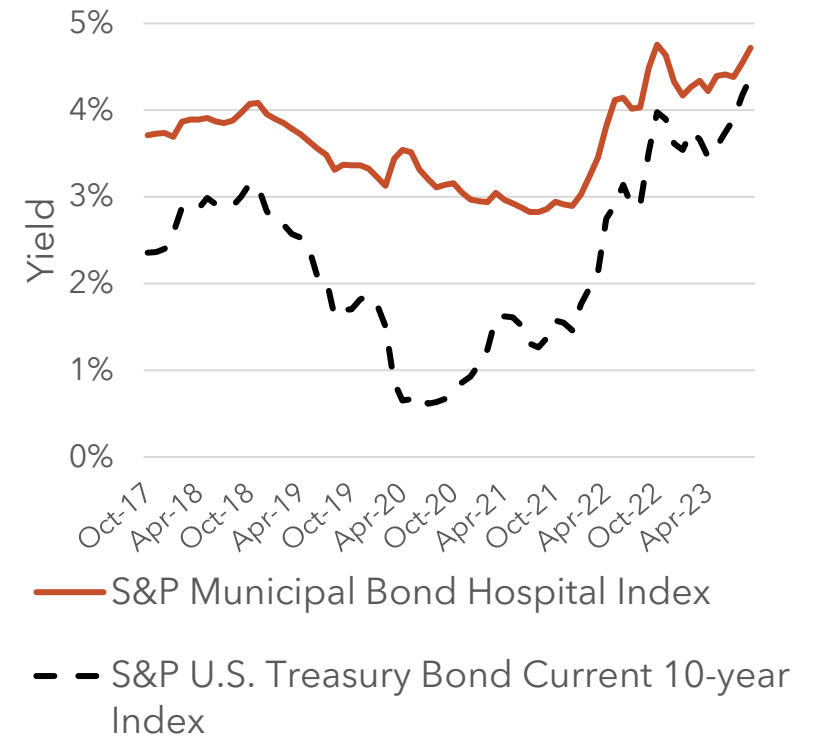


Preliminary data suggest margin will remain low

- Most recent quarter of data (July-Sept 2023) from 6 large hospital systems suggest all-payer margin remained below prepandemic level in aggregate, but not for all systems
- Rating agencies have mixed outlooks for nonprofits in 2024



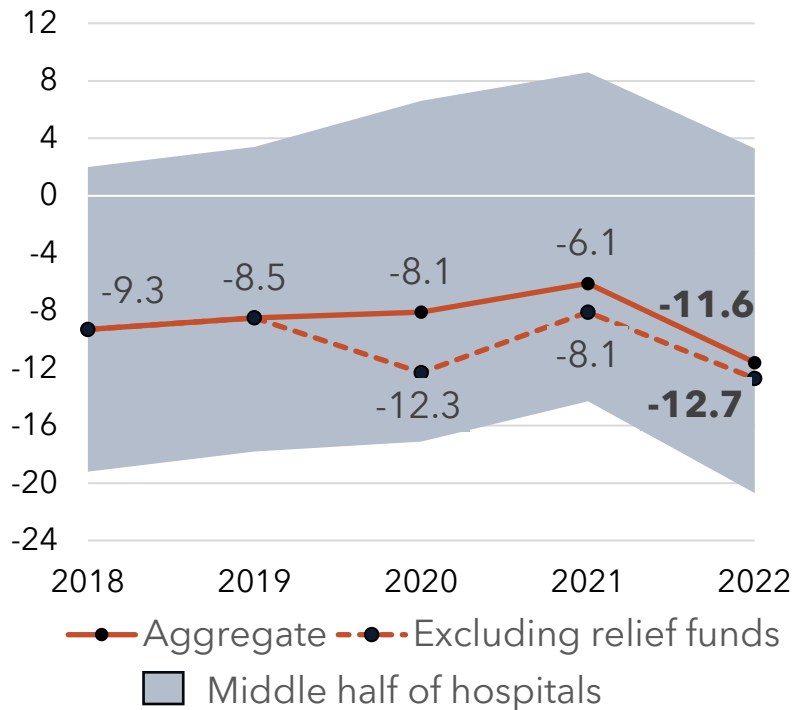
Demand for hospital bonds remained strong



Hospitals' overall FFS Medicare margin declined to record low and is projected to remain low



Record-low FFS Medicare margin



Note: FFS (fee-for-service). See December presentation for more notes and sources.



Negative median margin for relatively efficient hospitals

- Among a subset of hospitals that consistently had relatively low costs and relatively high quality, median FFS Medicare margin was negative
 - -2% with federal coronavirus relief funds
 - -3% excluding relief funds



Projected margin to remain low

- Hospitals scheduled to receive \$9 billion in 340B remedy payments in 2024
- However, excluding these one-time payments, we project FFS Medicare margin in 2024 to remain near the 2022 margin:
 - \approx -13% in aggregate
 - \approx -3% for relatively efficient

Draft recommendation involves balancing objectives

- Support hospitals with payments high enough to ensure beneficiaries' access to care
- Maintain payments close to hospitals' cost of providing high-quality care efficiently to ensure value for taxpayers
- Maintain fiscal pressure on hospitals to constrain costs
- Minimize differences in payment rates for similar services across sites of care
- Be cautious about how much emphasis is placed on a single year of data, especially in volatile periods
- Avoid large, across-the-board payment rate increases to support a subset of hospitals with specific needs

Medicare Payment Advisory Commission

✉ meetingcomments@medpac.gov

🌐 www.medpac.gov

✂ [@medicarepayment](https://twitter.com/medicarepayment)