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Advising the Congress on Medicare issues

Reducing beneficiary cost sharing for outpatient services at critical access hospitals

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March 6, 2025

Overview of the Commission's recent work on CAH cost sharing

- September 2024: Discussion of CAH outpatient cost sharing
  - Set at 20% of charges
  - Does not have a cap
- January 2025: Discussion of Chair's draft recommendation
  - Set CAH outpatient coinsurance at 20% of the payment amount
  - Institute a cap on CAH outpatient coinsurance
- Today: Review findings and vote on draft recommendation

Note: CAH (critical access hospital).

Basing outpatient coinsurance on CAH charges increases beneficiaries' cost-sharing liabilities

- CAH program payment = 101% of costs minus coinsurance
  - Program payments decrease as beneficiary coinsurance increases
- CAH coinsurance = 20% of charges
  - Charges are list prices and are often far higher than costs or payment rates
  - Markup of charges over costs varies widely among hospitals and across services within hospitals
- OPPS hospital coinsurance = 20% of the payment rate

Note: CAH (critical access hospital), OPPS (outpatient prospective payment system). Does not include the effects of sequestration.

Half of CAHs' aggregate FFS Medicare outpatient payments are beneficiary coinsurance

	Total 2022 outpatient payments (billions)
Coinsurance billed	$3.3
Program payments	3.2
Total for outpatient services that require coinsurance	6.5

- In 2022, 1.9 million FFS Medicare beneficiaries (or their supplemental insurers) were billed an average of $1,750 in coinsurance for CAH outpatient services
- 16% of rural FFS beneficiaries do not have supplemental insurance
- On average, coinsurance represented 52% of all outpatient payments; in 4% of cases, the full cost was billed as coinsurance

Note: CAH (critical access hospital), FFS (fee-for-service). The $6.5 billion includes only outpatient claims for which coinsurance is set at 20% of charges; outpatient services such as certain labs and vaccines that do not have cost sharing are excluded.

Source: MedPAC analysis of Medicare CAH outpatient claims.

Illustrative example of how variance in markups can cause variation in coinsurance

	Low-markup CAH (10th percentile)	Median-markup CAH (50th percentile)	High-markup CAH (90th percentile)
Cost of line item (e.g., MRI)	$600	$600	$600
Charge for line item	1,000	1,500	2,400
Coinsurance payment (20% of charges)	**200**	**300**	**480**
Program payment*	406	306	126
Coinsurance share of total payment*	33%	50%	79%

Note: CAH (critical access hospital).
* Payments are presented as 101% of costs without factoring in the sequester. With the sequester, program payment would equal to 101% of costs, less coinsurance, multiplied by 98% if a 2% sequester is in place.

Source: MedPAC analysis of Medicare CAH outpatient claims.

No cap on CAH coinsurance, unlike in OPPS hospitals: Illustrative example

	OPPS coinsurance example (20% of OPPS rate); $1,676 cap	CAH coinsurance example (20% of charges); no cap
Cost of line item (e.g., joint replacement)	$13,000	$13,000
Charge for line item	26,000	26,000
OPPS payment rate	12,867	N/A
Billed as coinsurance	**1,676 (the cap)**	**5,200 (20% of charges)**

Note: CAH (critical access hospital), OPPS (outpatient prospective payment system), N/A (not applicable). In 2025, the coinsurance cap on any OPPS line item is $1,676 (the 2025 inpatient deductible). The OPPS base rate for an outpatient hip replacement coded under ambulatory payment classification code 5115 (Level 5 musculoskeletal procedures) is $12,867 at hospitals with a wage index of 1 in 2025).

How would setting CAH coinsurance at 20% of payments have affected spending in 2022?

- FFS beneficiaries: Coinsurance would have been $2.1 billion less for those using CAH outpatient services
  - Lower coinsurance billed to beneficiaries without supplemental insurance
  - Improved coinsurance fairness for beneficiaries
  - Reduced coinsurance billed to Medigap plans and state Medicaid programs
- Program: Total program spending would have been $3.2 billion higher
  - Higher program payments to CAHs (total payment to CAHs unchanged)
  - Higher MA benchmarks and MA spending

Note: CAH (critical access hospital), MA (Medicare Advantage). Total increase in program spending includes the cost of setting a cap on coinsurance.
Source: MedPAC analysis of claims and cost-report files.

Draft recommendation

For Medicare FFS beneficiaries, the Congress should:

- Set coinsurance for outpatient services at critical access hospitals equal to 20 percent of the payment amount for services that require cost sharing; and
- Place a cap on critical access hospital outpatient coinsurance equal to the inpatient deductible

Implications

Spending: Would increase program spending relative to current law

Beneficiary and provider: Would reduce cost-sharing liability for beneficiaries who use CAH outpatient services, reduce Medigap premiums for beneficiaries in states with CAHs, and increase Part B premiums for all beneficiaries. No material impact on CAHs' revenues or on their willingness or ability to treat beneficiaries

Note: CAH (critical access hospital).

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