

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

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Payment adequacy indicators

- Beneficiaries' access to care
- Providers' access to capital
- Quality of care
- Cost growth and margins for 2016
 - Medicare and all-payer margins
 - Efficient provider margins
 - Medicare marginal profits
 - Projected Medicare margins (2018)

Medicare fee-for-service hospital spending increased in 2016

Type of service	2015 (in billions)	2016 (in billions)	Percent change per beneficiary
Inpatient services	\$111.7	\$116.0	+2.9%
Outpatient services	\$57.9	\$60.9	+3.3%
Uncompensated care payments	\$7.6	\$6.4	-16.0%
Total	\$177.2	\$183.0	+2.3%

Note: Spending includes FFS payments received by hospitals from the Medicare program and Medicare beneficiaries. Hospitals in this analysis include those paid under the Medicare prospective payment system and critical access hospitals.

Source: MedPAC analysis of Medicare hospital cost report dataset

Access to hospital care is good: Service use (2015 to 2016)

- Inpatient hospital use decreased
 - Overall: -2.8 percent per beneficiary
 - Medical cases: -5.2 percent
 - Surgical cases: +4.3 percent
- Outpatient hospital use increased
 - Overall: +1.1 percent per beneficiary
 - Chemo therapy administration: +7.3 percent
 - Clinic visits: +3.9 percent
 - Emergency department visits: +1.9 percent

Access to hospital care is good: Excess capacity exists

- Occupancy rates remain low
 - Overall: 62% in 2016, unchanged from 2015
 - Rural: 40% in 2016, down slightly from 2015
- National inpatient beds per capita declined slightly from 2010 to 2015
- Closures outnumbered openings in 2016, but both remain rare
 - 21 hospital closures: Small, rural, near other facilities
 - 11 hospital openings: Small and urban

Access to capital is strong

- Construction spending stable (\$24 billion in 2016)
- Bond issuances increased (\$25 billion in 2015 and \$37 billion in 2016)
 - New financing (\$22 billion) and refinancing (\$15 billion) (2016)
 - Low interest rates
 - Strong financial position (all-payer profits)
- From 2015 to 2017, hospital employment increased faster than the rest of the economy, 4 percent

Quality of care improving

- **Readmission rates declining** (all-condition, 30-day):
 - 2010: 17.1 percent
 - 2015: 15.2 percent
 - 2016: 14.4 percent
- **Mortality rates declining** (all-condition, 30-day):
 - 2010: 8.4 percent
 - 2015: 7.0 percent
 - 2016: 6.7 percent

Source: MedPAC analysis of Medicare claims

Case-mix growth contributes to relatively high cost growth in 2016

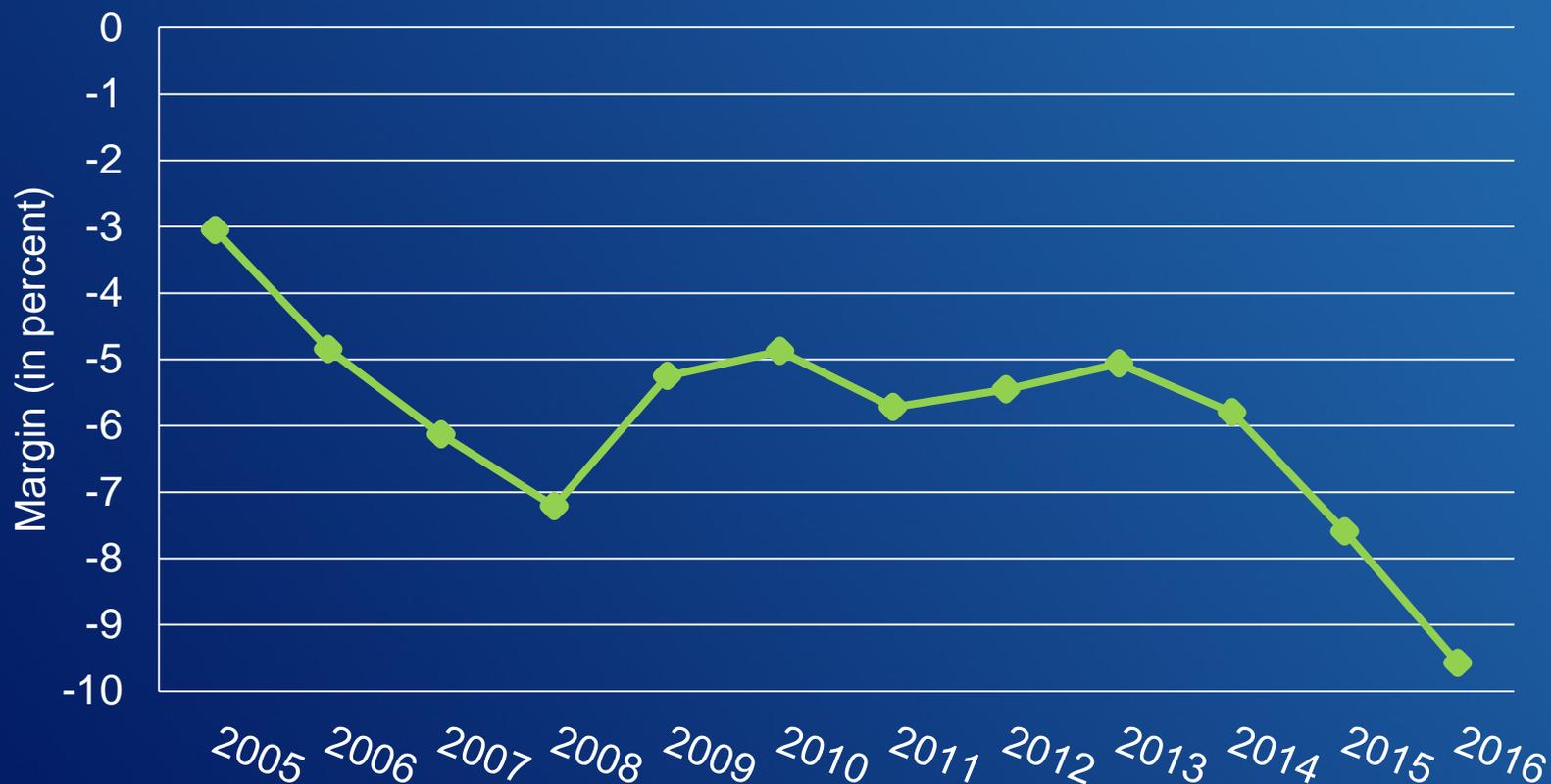
	Annual percent change 2012-2015	2016
Cost per discharge	2.6%	4.2%
Case-mix change	1.6	3.4
Case-mix adjusted cost growth	1.1	0.8
Input price inflation	1.9	1.6

Note: Case-mix adjusted cost growth includes rounding

Source: MedPAC analysis of Medicare hospital claims and cost report dataset

- Case-mix index growth largely reflects a shift in service toward inpatient surgeries
- Adjusted cost growth remains low

Overall Medicare margin continues to trend downward in 2016



Note: Margins = (payments – costs) / payments; excludes critical access hospitals. The overall Medicare margin, covers inpatient, outpatient, hospital-based post-acute care in IPPS hospitals, GME, and other payments such as payments for the adoption of electronic medical records.

Source: Medicare cost reports.

Overall Medicare margins vary across hospital groups

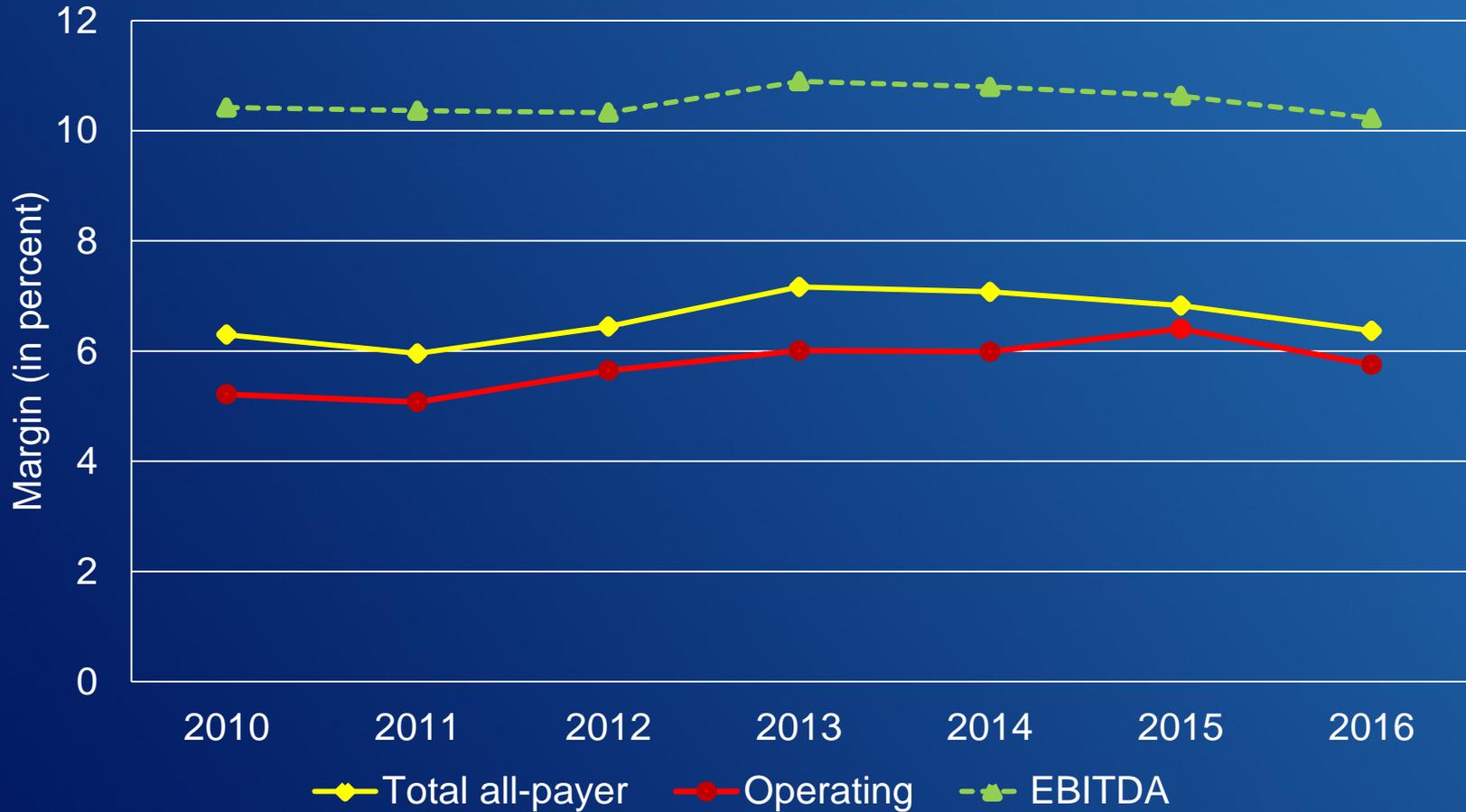
Hospital group	2016 Margin
All hospitals	-9.6%
Urban	-9.8
Rural PPS	-7.4
Rural with CAH	-5.3
Major teaching	-8.6
Other teaching	-8.5
Non-teaching	-11.3
Nonprofit	-11.0
For-profit	-2.4

Source: Medicare cost reports.

Marginal profit

- Compares Medicare fee-for-service payment rates to marginal costs of providing those services
 - Excludes expenses for building and fixed equipment
 - Only includes revenues for Medicare patient services (e.g., excludes uncompensated care payments)
- Indicates whether providers have a financial incentive to take additional Medicare patients
- 2016 Marginal profit: +8 percent
 - Hospitals with excess capacity have incentive to take additional Medicare patients

All-payer margins remain high



Source: Medicare cost reports.



Data are preliminary and subject to change

Comparing 2016 performance of relatively efficient hospitals to others

Measure	Relatively efficient hospitals	Other hospitals
Number of hospitals	331 (15%)	1,859 (85%)
30-day mortality (rel. to median)	7% lower	1% above
30-day readmissions (rel. to median)	6% lower	1% above
Standardized costs (rel. to median)	8% lower	2% above
Overall Medicare margin	-1%	-9%

Note: Hospitals are classified as efficient based on 2013 to 2015 performance. In this slide, 2016 medians for each group are compared to the national median.

Source: Medicare cost reports and claims data

Summary of payment adequacy

- Access to care is good
- Access to capital is strong
- Quality is improving
- Medicare margins 2016
 - Aggregate margin: -9.6%
 - Marginal profit: +8%
 - Efficient provider: -1%

Estimated current law update FY 2019

Market basket*	2.8%
Productivity*	-0.8
<u>PPACA adjustment</u>	<u>-0.75</u>
Net update	1.25

**Based on CMS Q3-2017 forecast from CMS, forecast used to set actual update will be revised to reflect most recent economic data at the time the final rule is published in August 2018.*