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
Overview of hospital inpatient and outpatient services, 2016

- 2016 Medicare spending:
  - Inpatient: $116 billion
  - Outpatient: $61 billion
  - Uncompensated care: $6.4 billion

- Hospitals: ~4,700
  - Inpatient admissions: ~10 million
  - Outpatient visits: ~200 million

Results are preliminary and subject to change.
Indicators of payment adequacy

- Access to care: Good
  - Inpatient hospital use decreased
  - Outpatient hospital use increased
  - Excess capacity with overall 62% occupancy
- Access to capital: Strong
- Quality: Improving (lower readmissions, mortality)
- 2016 Medicare margins
  - Aggregate margin: $-9.6\%$
  - Efficient provider: $-1\%$
  - Marginal profit: $+8\%$
- 2018 projected aggregate Medicare margin: $-11\%$

Results are preliminary and subject to change.
Trend in Medicare marginal profit

- Compares Medicare fee-for-service payment rates to marginal costs of providing those services
- Indicates whether providers have a financial incentive to take additional Medicare patients
- Marginal profit has decreased since 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Medicare marginal profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>14%</td>
</tr>
<tr>
<td>2014*</td>
<td>10%</td>
</tr>
<tr>
<td>2015</td>
<td>9%</td>
</tr>
<tr>
<td>2016</td>
<td>8%</td>
</tr>
</tbody>
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Note: The decrease in Medicare marginal profit between 2013 and 2014 reflects, in large part, the change in how Medicare pays for uncompensated care. Source: Medicare cost reports.

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Medicare share of total revenue remains flat as Medicare share of discharges increases

![Graph showing Medicare fee-for-service and Medicare Advantage discharges as a share of total discharges, Medicare fee-for-service and Medicare Advantage payments as a share of operating revenue, and all-payer operating margin.]

Source: AHA survey data on discharges and revenue

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Overall Medicare margins vary across hospital groups

<table>
<thead>
<tr>
<th>Hospital group</th>
<th>2016 Medicare Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>All hospitals</td>
<td>−9.6%</td>
</tr>
<tr>
<td>Urban</td>
<td>−9.8</td>
</tr>
<tr>
<td>Rural PPS</td>
<td>−7.4</td>
</tr>
<tr>
<td>Not DSH (Few poor patients)</td>
<td>−15.5</td>
</tr>
<tr>
<td>High DSH (Many poor patients)</td>
<td>−6.2</td>
</tr>
<tr>
<td>Major teaching</td>
<td>−8.6</td>
</tr>
<tr>
<td>Other teaching</td>
<td>−8.5</td>
</tr>
<tr>
<td>Non-teaching</td>
<td>−11.3</td>
</tr>
<tr>
<td>Nonprofit</td>
<td>−11.0</td>
</tr>
<tr>
<td>For-profit</td>
<td>−2.4</td>
</tr>
</tbody>
</table>

Source: Medicare cost reports.

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