The coronavirus pandemic and Medicare

MedPAC staff
September 3, 2020
Motivations and roadmap

- The coronavirus pandemic has affected beneficiaries and their access to health care and service use, as well as providers’ revenues, costs, and financial performance.
- Today we will discuss the effects of the pandemic on:
  - Beneficiaries
  - The finances of hospitals, post-acute care providers, and clinicians
- We report on aggregate effects on providers’ finances, individual providers’ experiences will vary.
- Comprehensiveness and detail of data varies by sector.

Note: Data are preliminary and subject to change.
Effects on beneficiaries

- **Mortality**
  - 80 percent of COVID-19 deaths are in the 65 and older population
  - Over 40 percent of deaths are among residents of nursing homes and assisted living facilities

- **Access**
  - Many beneficiaries delaying or foregoing care
    - Some providers were closed temporarily
    - Some beneficiaries are reluctant to risk infection by seeking care
  - Ultimate effect on patient outcomes unknown

Note: Data are preliminary and subject to change.
Large hospital volume decline in April, followed by strong rebound in May and June

<table>
<thead>
<tr>
<th></th>
<th>April 2020</th>
<th>May 2020</th>
<th>June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>All-payer</strong></td>
<td>−40%</td>
<td>−10% to −20%</td>
<td>Close to fully</td>
</tr>
<tr>
<td>(more for elective, less for admissions)</td>
<td></td>
<td></td>
<td>recovered</td>
</tr>
<tr>
<td><strong>Medicare hip replacements</strong></td>
<td>−75%</td>
<td>−50%</td>
<td>Close to fully</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>recovered</td>
</tr>
</tbody>
</table>

Note: Data are preliminary and subject to change.
CARES Act grants to hospitals

- CARES Act grants are designed to partially replace lost revenue and help cover costs unique to the coronavirus pandemic.
- Grants are NOT limited to helping hospitals in financial distress.
- Because revenue declines can be offset by both cost reductions and grants, hospital profits could increase in 2020 relative to 2019 for some hospitals.

Note: CARES (Coronavirus Aid, Relief, and Economic Security) Act. Data are preliminary and subject to change.
CARES Act grants will cover short-term losses for many (but not all) hospitals

<table>
<thead>
<tr>
<th></th>
<th>AHA estimate</th>
<th>MedPAC estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced operating profit change in April (prior to grants)</td>
<td>−$50.7 B</td>
<td>−$20B to −$30B</td>
</tr>
<tr>
<td>Enacted grants and payment changes</td>
<td>N/A</td>
<td>$91.8 B</td>
</tr>
<tr>
<td>Months of April-level losses supported by grants (ON AVERAGE)</td>
<td>N/A</td>
<td>~ 3 to 5 months (higher for rural, CAH)</td>
</tr>
</tbody>
</table>

Note: AHA (American Hospital Association), CAH (Critical Access Hospital). Data are preliminary and subject to change.
A sample of large hospital systems suggests for-profit hospitals have reduced costs more than non-profit hospitals (Q2 2020)

<table>
<thead>
<tr>
<th>Type of systems</th>
<th>Aggregate patient revenue change, in millions (percent reduction)</th>
<th>Aggregate operating expense change (as a % of revenue decline)</th>
<th>Aggregate COVID-19 grants booked (as a % of revenue decline)</th>
<th>Change in operating income from 2019 (millions)*</th>
<th>Range of operating profit margins in Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three large non-profit systems</td>
<td>$1,565 (-17%)</td>
<td>$13 (1%)</td>
<td>$782 (50%)</td>
<td>$621*</td>
<td>-13% to +5%</td>
</tr>
<tr>
<td>Four large for-profit systems</td>
<td>$3,573 (-15%)</td>
<td>$2,307 (65%)</td>
<td>$1,999 (56%)</td>
<td>$634*</td>
<td>+1% to +14%</td>
</tr>
</tbody>
</table>

Note: All changes compare 2019 to 2020 second quarter results. The data for the sample of for-profit and non-profit systems were aggregated into one weighted average. *Changes in operating income also reflect some sources of revenue other than patient revenue and operating expenses, causing the columns to not exactly sum. Data are preliminary and subject to change.
Post-acute care (PAC) volume effects

**HHAs and IRFs**
- Large reductions (20 to 30%) January through March 2020 due to cancellation of elective surgery, fewer referrals
- Volume rebounded by late June to at least 95% of pre-pandemic levels

**SNFs**
- Facility volume declined about 10% from January through May 2020 in aggregate
- Continued volume decline through June
- Some volume may not return

**LTCHs**
- Through June 2020 compared to same period in 2019, largest publicly traded company reported
- Admissions flat
- 5% increase in patient days
- Increased occupancy

Note: HHA (home health agency), IRF (inpatient rehabilitation facility), SNF (skilled nursing facility), LTCH (long-term care hospital). Data are preliminary and subject to change.
Noteworthy Medicare PAC payment policy changes during the Public Health Emergency

- **LTCHs**
  - All cases paid the higher LTCH rates (no site-neutral payments)
- **SNFs**
  - Requirement for a 3-day prior hospitalization for coverage of a SNF stay temporarily waived for some cases
  - Coverage may be renewed without ending the current benefit period for some cases

Note: SNF (skilled nursing facility), LTCH (long-term care hospital).
Data are preliminary and subject to change.
## Post-acute care cost and revenue effects

<table>
<thead>
<tr>
<th>Costs</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Staffing: higher for SNFs and LTCHs, lower for HHAs</td>
<td>• CARES disbursements</td>
</tr>
<tr>
<td>• Supplies: Higher PPE, testing, and cleaning costs</td>
<td>• Temporary elimination of the sequester</td>
</tr>
<tr>
<td>• Other: Costs to establish isolation units in SNFs and LTCHs</td>
<td>• Pre-payment loans</td>
</tr>
<tr>
<td></td>
<td>• Paycheck protection and payroll tax deferral</td>
</tr>
<tr>
<td></td>
<td>• Targeted nursing home funds</td>
</tr>
</tbody>
</table>

Note: PPE (Personal Protective Equipment). Data are preliminary and subject to change.
In aggregate, enacted federal support offset nursing home losses in the short term

<table>
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<tr>
<th>MedPAC estimates</th>
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</thead>
<tbody>
<tr>
<td>Reduced monthly operating profit change</td>
<td>$-2.0 B</td>
</tr>
<tr>
<td>(prior to grants)</td>
<td></td>
</tr>
<tr>
<td>Enacted grants and payment changes</td>
<td>$16.5 B</td>
</tr>
<tr>
<td>Months of losses supported by grants (ON AVERAGE)</td>
<td>8.4 months</td>
</tr>
</tbody>
</table>

- Estimates are industry aggregate; impacts at facility level will vary
- Estimates are based on preliminary and incomplete data

Note: Data are preliminary and subject to change.
Coronavirus pandemic’s financial impact on physicians and other health professionals

- Volume of fee-for-service office visits paid by Original Medicare declined sharply starting in March, then steadily recovered
- The same phenomenon occurred among other types of payers
- Clinician revenue also declined, but not as much as volume
- Federal grants, loans, and payment increases offset a majority of lost revenue from March to May

Note: Data are preliminary and subject to change.
Number of weekly office visits for Original Medicare beneficiaries declined sharply in March, then rebounded.

Note: Number of visits is projected based on the number of processed claims and historic claims experience. Data are preliminary and subject to change. Source: MedPAC analysis of preliminary Medicare claims data.
The pandemic’s impact on outpatient visit utilization was similar across payers


Note: Data are Phreesia’s all-payer visit data for 50,000 providers. Data are preliminary and subject to change. Source: Mehrotra, et al. The impact of the COVID-19 pandemic on outpatient visits. Commonwealth Fund. August 2020.
Clinicians’ revenues did not decline as much as utilization

Note: Revenue values are estimated by FAIR Health based on claims. Shows utilization and revenue as percentage of the same month in 2019. Data are preliminary and subject to change.

Federal grants, loans, and payment increases have likely offset a majority of clinicians’ losses

<table>
<thead>
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<tbody>
<tr>
<td>Decrease in revenue (March through May 2020)</td>
</tr>
<tr>
<td>Provider Relief Fund (CARES Act grants)</td>
</tr>
<tr>
<td>Paycheck Protection Program (forgivable loans)</td>
</tr>
<tr>
<td>Suspension of sequestration (payment increase)</td>
</tr>
</tbody>
</table>

- Temporary expansion of coverage of, and increased payment for, telehealth services (including video visits and audio-only visits)

Note: Data are preliminary and subject to change. Source: MedPAC estimates
Review

- The coronavirus pandemic has had a significant impact on beneficiaries and providers
- Overall federal subsidies have offset the worst financial impacts on providers
- Individual provider experience may vary from averages
- Quality of data varies by sector
- We will continue to monitor the data to inform payment update recommendations