

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

**ISSUE:** Each year MedPAC assesses the adequacy of current hospital payments and recommends payment updates for hospital inpatient and outpatient services.

**KEY POINTS:** Our approach for updating payments consists of two steps:

- Assessing whether current (FY 2006) payments are adequate, and
- Making a judgment about how much hospital payments should change in FY 2008.

Our determination of payment adequacy considers:

- Beneficiaries' access to care and changes in the capacity of providers
- Changes in the volume of services
- Changes in the quality of care
- Providers' access to capital
- Medicare payments and providers' costs for FY 2006

At this meeting, we will review analyses related to each of these factors as well as the growth in hospital costs and the relationship of costs and financial performance. We will present a draft update recommendation for inpatient and outpatient services. In addition, we will discuss the potential use of the portion of IME payments above the empirical level and present a draft recommendation on reducing IME payments. Finally, we will present a draft recommendation on the collection of uncompensated care data.

**ACTION:** Commissioners should review the findings presented in the draft chapter in preparation for final votes on the three potential recommendations. Commissioners are also encouraged to provide comments on the draft chapter for the March report.

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