

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 present 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 present additional information on the impact of reducing DSH payments and redistributing the savings among all hospitals, in follow-up to our November presentation on IME and DSH payment issues.

ACTION: No decisions are needed. Commissioners should review the preliminary findings in preparation for the January meeting. This material will be included in the March report.

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