

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

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# Payment adequacy indicators

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- 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

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- 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

# Indicators of payment adequacy

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- 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%

# Trend in Medicare marginal profit

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- 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

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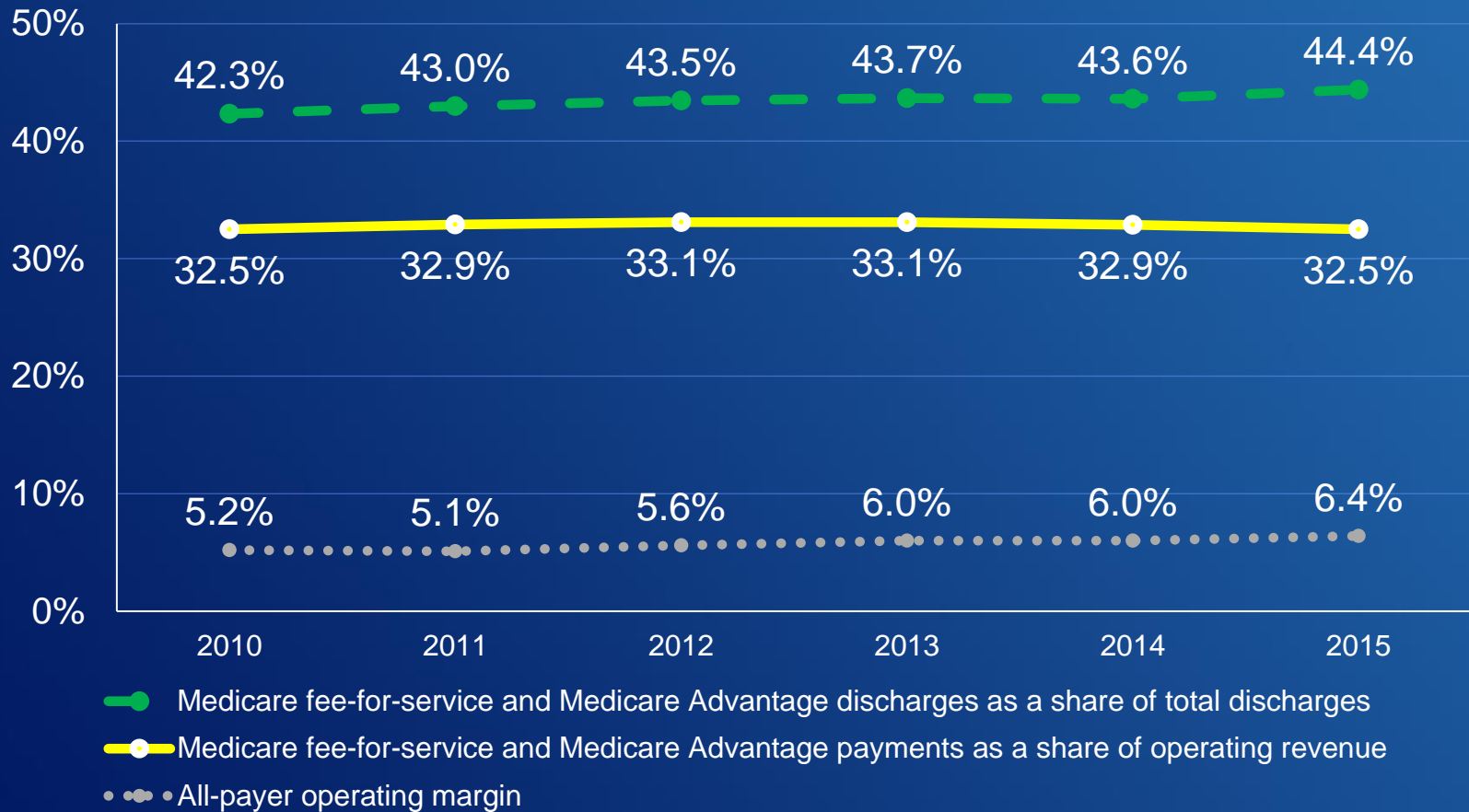
	2013	2014*	2015	2016
Medicare marginal profit	14%	10%	9%	8%

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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.

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



Source: AHA survey data on discharges and revenue

# Overall Medicare margins vary across hospital groups

Hospital group	2016 Medicare Margin
All hospitals	-9.6%
Urban	-9.8
Rural PPS	-7.4
Not DSH (Few poor patients)	-15.5
High DSH (Many poor patients)	-6.2
Major teaching	-8.6
Other teaching	-8.5
Non-teaching	-11.3
Nonprofit	-11.0
For-profit	-2.4

Source: Medicare cost reports.