

Assessing payment adequacy and updating payments for hospital inpatient and outpatient services and redesigning Medicare's hospital quality incentive programs

Stephanie Cameron, Ledia Tabor, and Jeff Stensland

January 17, 2019

Payment adequacy indicators

- Beneficiaries' access to care
- Providers' access to capital
- Quality of care
- Provider payments and costs
 - Medicare margins (2017)
 - Efficient provider margin (2017)
 - Projected Medicare margin (2019)

Overview of hospital inpatient and outpatient services, 2017

- 2017 Medicare spending: \$190.1 billion
 - Inpatient: \$118.6 billion
 - Outpatient: \$65.5 billion
 - Uncompensated care: \$6.0 billion
- Hospitals: ~4,700
 - Inpatient admissions: ~10 million
 - Outpatient visits: ~200 million

Indicators of Medicare payment adequacy are mostly positive

- Access to care: Good
 - Inpatient and outpatient hospital use increased
 - Excess capacity with overall 62.5% occupancy
 - Marginal profit: +8% in 2017
- Access to capital: Strong (all-payer margin: +7.1%; strong access to capital markets)
- Quality: Improving (lower mortality, improved patient experience)
- Medicare margins: Declining
 - 2017 aggregate margin: -9.9%
 - 2017 efficient provider : -2%
 - 2019 projected aggregate margin: -11%

Considerations for developing the draft recommendation

- Maintain a level of financial pressure on hospitals to limit cost growth
- Minimize differential in payment rates across sites of care (e.g., on-campus versus off-campus provider payments)
- Move Medicare payments toward the cost of efficiently providing high quality care
- Reward high-performing hospitals

Rewarding hospitals through the hospital value incentive program (HVIP)

- In the June 2018 report to the Congress, the Commission outlined the HVIP, which links payment to hospitals providing high-quality care
- Last month the Commission discussed a draft recommendation to implement the HVIP and enhance HVIP payments to higher quality hospitals

MedPAC's HVIP design

Merge existing programs:

**Hospital Readmissions
Reduction Program (HRRP)**

**Hospital Value-based
Purchasing (VBP) Program**

**Hospital-Acquired Condition
Reduction Program (HACRP)**

Eliminate program:

**Inpatient Quality Reporting
Program (IQRP)**

New Hospital Value Incentive Program (HVIP)

- Include five measure domains
 - Readmissions
 - Mortality
 - Spending (MSPB)
 - Patient experience
 - Hospital-acquired conditions
- Set clear, absolute and prospective performance targets
- Use peer groups to account for social risk factors
- Distribute a pool of dollars to hospitals based on their performance

Convert measure performance to HVIP points

- Reward hospitals based on clear and prospectively set performance targets
- Each measure domain has a continuous performance-to-points scale (from 0 to 10 points)
 - Our model used a broad distribution of historical data to set the scale
- Total HVIP score is the average of all points across the five measure domains

Use peer groups to account for social risk factors

- Medicare should account for differences in the social risk of providers' patient populations through peer grouping
- Convert HVIP points to payment adjustments within peer groups
 - Use the same performance-to-points scale across all groups
 - Each peer group has a pool of dollars that is redistributed based on HVIP points
 - Each peer group has its own payment multiplier per HVIP point, based on the group's pool of dollars and HVIP points

Distribute enhanced pool of dollars within peer group

- Modeled HVIP payments using 10 groups based on share of fully dual-eligible beneficiaries
 - Hospitals in peer group serving more dual-eligible beneficiaries have a larger percentage increase in payments per HVIP point
- Modeled two different sized enhanced pools of dollars for each peer group

Withhold of total base inpatient spending from each hospital in the peer group	Portion of hospital payment update (inpatient spending)	Enhanced pool of dollars
2%	1%	3%
5%	1%	6%

HVIP modeling results

- The majority of hospitals would receive a reward because
 - The pool of dollars is enhanced by a portion of the hospital payment update
 - The continuous performance-to-points scale gives hospitals across the whole spectrum of performance an incentive to improve
- Compared with the existing quality payment programs, the HVIP enhances payment adjustments for hospitals serving more fully dual-eligible beneficiaries
- Relatively efficient providers receive more of a reward from the HVIP compared with other hospitals

HVIP Summary

- Consistent with the Commission's principles, the HVIP links payment to quality of care to reward providers for offering high-quality care to beneficiaries
- The HVIP:
 - Rewards hospitals that deliver higher quality
 - Simplifies the current overlapping programs
 - Uses a small set of population-based outcome, patient experience, and value measures that encourage providers to collaborate across the delivery system
 - Reduces the differences in payment adjustments between groups of providers serving populations with different social risk factors