



*Advising the Congress on Medicare issues*

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

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# Summary: Hospital payment adequacy indicators are generally positive

Beneficiaries' access to care	Quality of care	Hospitals' access to capital	Medicare payments and hospitals' costs
<ul style="list-style-type: none"><li>• Excess capacity, but increase in closures</li><li>• Slowing change in volume</li><li>• Positive marginal profits</li></ul>	<ul style="list-style-type: none"><li>• Risk-adjusted mortality and readmissions improved modestly</li><li>• Patient experience stable</li></ul>	<ul style="list-style-type: none"><li>• Strong all-payer profit margins in 2018 (6.8%), near all-time high</li><li>• Construction, bonds, mergers, and employment all strong</li></ul>	<ul style="list-style-type: none"><li>• Medicare margins improved in 2018, but still -9.3%</li><li>• Median efficient provider margin was -2% in 2018</li><li>• Expect 2020 margin to improve to -8%</li></ul>
Generally positive	Positive	Positive	Mixed

# Updates to inpatient operating and outpatient rates increased substantially starting in 2020

	2019	2020	2021*
Inpatient operating market basket	2.9%	3.0%	3.2%
Adjustment for productivity	-0.8	-0.4	-0.4
Other statutory adjustments	-0.75	0	0
<b>Annual update</b>	<b>1.35%</b>	<b>2.6%</b>	<b>2.8%</b>

*\*Based on 3<sup>rd</sup> quarter OACT projection of market basket increases and productivity adjustments for 2021. Inflation projections will be updated before a final update is made in August 2020.*

Note: Final net update to base rates will also reflect budget neutrality adjustments and other statutory updates (e.g. coding). Updates to inpatient capital base rate not shown.

# Rationale behind the draft recommendation

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