Advising the Congress on Medicare issues

Assessing payment adequacy and updating payments: hospital inpatient and outpatient services

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MEDPAC

Payment adequacy indicators

- Beneficiaries' access to care
- Providers' access to capital
- Quality of care
- Cost growth and margins
  - Costs and margins
  - Marginal profits
  - Efficient providers
  - Projected Medicare margins for 2016

Medicare fee-for-serice hospital spending increased in 2014

Type of service	**2013** (in billions)	**2014** (in billions)	**Percent change per beneficiary**
Inpatient services	$118	$110	-7%
Outpatient services	$49	$54	+11%
Uncompensated care payments		$9	---
Total	**$167**	**$173**	**+4%**

Note: Spending includes FFS payments received by hospitals from the Medicare program and Medicare beneficiaries. Hospitals in this analysis include those paid under the Medicare prospective payment system and critical access hospitals.
Source: MedPAC analysis of Medicare hospital cost report dataset

Access to hospital care is good

- Volume: Overall use of hospital services is stable
  - Inpatient use declined -4% per beneficiary (2013 to 2014)
  - Outpatient use increased +4% per beneficiary (2013 to 2014)
- Occupancy rates demonstrate excess inpatient capacity
  - Overall rates are low at 61% (2014), down from 64% (2006)
  - Small rural hospitals lower at 37% (2014), down from 45% (2006)

Access to capital, construction spending, and hospital employment strong

- Capital availability maintained for most hospitals
  - Interest rates low, led to $22 billion in bonds in 2014
  - Industry reports contain several positive financial indicators
    - Uncompensated care costs and self-pay patients declined
    - All-payer volume and revenue growth
    - Private-payer prices increasing faster than costs
- Mergers and acquisitions continue
- Construction spending increased, focused on outpatient
- Hospital employment increased 3.5% in FY2015, fastest growth in 10 years

Quality improving—larger share of payments subject to quality performance incentives

- Readmission reduction program (up to -3 percent penalty)
  - Readmission rates declining across all conditions
  - Only a quarter of decline attributable to increased use of outpatient observation (≥24 hour)
- Hospital value based purchasing (VBP) program (-1.75 to +3 percent performance adjustment)
  - In-hospital and 30-day post-discharge mortality rates improving
  - Hospital-acquired infections declining
- Hospital acquired condition program (-1 percent penalty for 25 percent of hospitals with poorest performance)
  - AHRQ study shows 17 percent decline in HACs from 2010 to 2014

Cost growth, relative to price growth, remains relatively low

	Annual percent change		
	2001-2008	2012-2014	2014
Cost per discharge	5.7%	2.7%	2.2%
Case-mix change	<0.5	1.8	2.0
Case-mix adjusted cost growth	5.2	0.9	0.2
Input price inflation	3.7	1.9	1.7

- Input price inflation relatively low
- Cost increases closer to input price inflation

Overall Medicare margins relatively steady since 2009

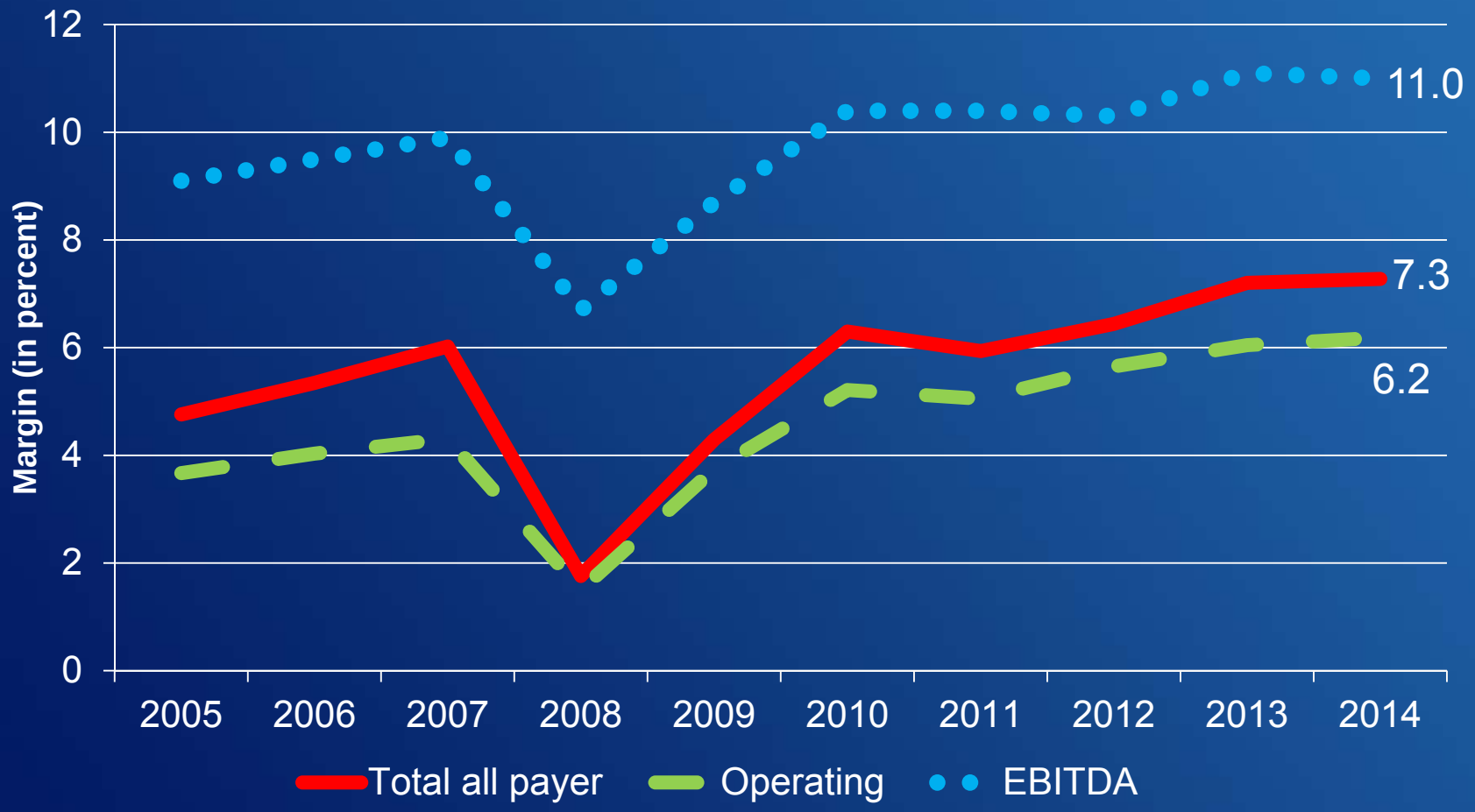
Hospital group	2014 Margin
All hospitals	–5.8%
Urban	–6.0
Rural PPS	–3.6
Rural with CAH	–1.9
Major teaching	–4.0
Other teaching	–5.7
Non-teaching	–7.5
Nonprofit	–7.4
For-profit	1.0

Source: Medicare cost reports

New measure—Marginal profit

- Compares Medicare fee-for-service payment rates to marginal costs of providing those services
  - Excludes expenses for building and fixed equipment
  - Only includes revenues for Medicare patient services (e.g., excludes uncompensated care payments)
- Indicates whether providers have incentive to take additional Medicare patients
- Marginal profit was 10 percent in 2014
  - Hospitals with excess capacity therefore have incentive to take additional Medicare patients

All-payer margins reach a 30-year high in 2014



Source: Medicare cost reports.

Comparing 2014 performance of relatively efficient hospitals to others

Measure	Relatively efficient hospitals	Other hospitals
Number of hospitals	302 (15%)	1,651
30-day mortality (rel. to avg.)	12% lower	1% above
30-day readmissions (rel. to avg.)	5% lower	2% above
Standardized costs (rel. to avg.)	9% lower	2% above
Overall Medicare margin	1%	-5%

Note: Hospitals are classified as efficient based on 2011 to 2013 performance. In this slide, 2014 medians for each group are compared to the national median
Source: Medicare cost reports, claims data, and Hospital Compare

Redistributing part of the savings on 340B drugs

- Issue: 340B hospitals' acquisition costs for Part B drugs are much lower than Medicare rates
  - Prior estimate: average 340B discount at least 23% of ASP
  - Discussed beneficiaries and the program sharing in savings
    - Reduce rates by 10% of ASP
    - Concerns over support for uncompensated care
- New information
  - OIG estimate: Average 340B discount was 34% of ASP
  - Many 340B hospitals do not provide high levels of charity care
    - The median 340B hospital had charity care and bad debt costs equal to 4.3% of expenditures in 2014
    - 40 percent of 340B hospitals provided less than the national median share (3.6%) of uncompensated care in 2014

Uncompensated care payments

- $6.4 billion in uncompensated care payments in 2016 (and $3.4 billion in traditional DSH payments)
- CMS uses Medicaid days as a proxy for uncompensated care costs*
- Data from the Medicare cost reports (form S-10)
  - S-10 directly measures uncompensated care costs
  - A better indicator of charity care than the current proxy
  - Using the S-10 would increase payments to public hospitals and rural hospitals.

*A fixed payment of $160 per day is paid to hospitals for each Medicaid day and each Medicare-SSI patient day. Medicaid days represent 85 percent of Medicare funded "uncompensated care" payments, and Medicare-SSI days reprensent 15 percent.