Assessing payment adequacy: hospital inpatient and outpatient services

Jeff Stensland, Craig Lisk and Dan Zabinski

January 12, 2012

MEDPAC

Payment adequacy indicators

- Beneficiaries' access to care
  - Capacity and supply of providers
  - Volume of services
- Quality of care
- Access to capital
- Payments and costs
  - For average providers
  - For relatively efficient providers
  - For rural providers (PPACA mandate)

Capacity, capital, and service volume

- Capacity and supply are growing
- Access to capital is adequate
- Medicare outpatient volume increased by 4 percent per year from 2004 to 2010
- Medicare inpatient volume declined by 1 percent per year from 2004 to 2010

Quality of care metrics are either improving or remain steady

- 30-day mortality and patient safety measures generally improved (2007 to 2010)
- Patient satisfaction improved slightly
- However, readmission rates have not changed significantly; readmission penalties will start in 2013

Margins improved due to documentation changes and slower cost growth

Medicare margin	2006	2007	2008	2009	2010
Overall Medicare	– 4.6%	– 6.0%	– 7.1%	– 5.1%	– 4.5%
Inpatient	– 2.2	– 3.7	– 4.7	– 2.3	– 1.7
Outpatient	–11.0	–11.5	–12.7	–10.7	–9.6

Note: Margins = (payments – costs) / payments; excludes critical access hospitals.
Source: Medicare cost reports.

Medicare margins will fall in 2012 due to documentation and coding recoveries

	2010 (actual)	2012 (projection)
Aggregate overall Medicare margin	–4.5%	–7.0%

We project margins will fall due to:

- Reduced updates to adjust for documentation and coding
- Projection of higher cost growth

Source: Medicare cost reports, claims files, and FY 2012 impact file.

Comparing 2010 performance of relatively efficient providers to others

Measure	Relatively efficient hospitals	Other hospitals
Number of hospitals	188	1,943
30-day mortality	17% lower	1% above
Readmission rates (3M)	5% lower	1% above
Standardized costs	11% lower	2% above
Overall Medicare margin	4%	-5%
Share of patients rating the hospital highly	69%	66%

Note: medians for each group are compared to the national median

Preliminary data subject to change

Shift of services from free-standing practices to OPDs

- Hospitals have been increasing employment of physicians; services likely to shift from free-standing practices to OPDs
- Problem: OPPS rates typically much higher than physician fee schedule (PFS) rates; mid-level E&M visit 80 percent higher in OPD
- Result: Increase program spending and beneficiary cost sharing; may not change clinical aspects of care

Addressing higher payment rates in OPDs

- Set OPPS rates so that payment rates are equal whether service is in OPD or freestanding practice?
- For specific services, do OPDs:
  - Have more complex patients?
  - Maintain standby capacity?
  - Have greater packaging of ancillaries than PFS?

Rationale for equal rates across sectors for E&M visits

- Patient complexity addressed through CPT codes
- Cost of standby capacity allocated to other parts of the hospital
- Level of packaging only slightly higher in OPPS than in PFS

Effect on overall Medicare revenue of equalizing payment for E&M office visits

	Impact on overall Medicare revenue	
Hospital group	Fully phased in	Per transition year
All hospitals	0.6%	0.2%
Urban	0.6	0.2
Rural	0.7	0.3
Major teaching	1.1	0.4
Other teaching	0.4	0.1
Non-teaching	0.4	0.1
5th percentile	0.0	0.0
10th percentile	0.0	0.0
90th percentile	1.2	0.4
95th percentile	2.6	0.9

Preliminary data subject to change.

Transition to fully-implemented policy

- Concern about transition for hospitals that are critical source of primary care for low-income patients
- To ease transition, phase-in policy over three years
- Features of phase-in
  - Limit impact of policy to 2% of Medicare revenue for hospitals with disproportionate share percentage of .25 or higher (median)
  - Affects about 4% of hospitals in the final year

Characteristics of hospitals protected during phase-in

Characteristic	Protected hospitals (120 hospitals)	All other hospitals
Percent gov't owned	40%	16%
Percent major teaching	39%	7%
Avg. Medicaid percent	26%	13%
All-payer margin	5.0%	6.6%
Overall Medicare margin	-3.8%	-4.7%

Preliminary data subject to change.