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

Zach Gaumer, Craig Lisk, and Jeff Stensland,

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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 2017

Medicare fee-for-service hospital spending increased in 2015

Type of service	2014 (in billions)	2015 (in billions)	Percent change per beneficiary
Inpatient services	$110	$112	+2%
Outpatient services	$54	$58	+7%
Uncompensated care payments	$9	$8	-19%
Total	**$173**	**$178**	**+3%**

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

- Medicare hospital service use increased (2014 to 2015)
  - Inpatient use increased 0.4% per beneficiary following eight years of decline
  - Outpatient use increased 2.2% per beneficiary, slightly slower than previous years
- Occupancy rates remain low
  - Overall: 62% in 2015, up from 61% in 2014
  - Rural: 41% in 2015, unchanged from 2014
- More closures than openings, equal numbers of urban and rural closures (2015)

Access to capital, construction, mergers, and hospital employment strong

- Capital availability maintained for most hospitals
  - Interest rates low, bond issuances up to $36 billion in 2016
  - Strong all-payer profits
    - Revenue: Increases in volume and private-payer prices
    - Costs: Decreases in uncompensated care costs and self-pay patients
- Construction spending high ($25 billion in 2015)
- Mergers and acquisitions continue
- Hospital employment increased 6.5% (2014 to 2016), faster than the rest of health care sector and economy

Quality of care improving

- 30-day potentially preventable readmissions declining through 2015
  - Fell for conditions covered by readmission reduction program
  - Fell across all conditions
- 30-day post-discharge risk-adjusted mortality rates have declined steadily over the past five years
  - Fell 0.9 percentage points from 2011 to 2015
  - Unadjusted mortality increased due to shift of patients to outpatient settings

Cost increases closer to input price inflation

	Annual percent change		
	2001-2008	2011-2015	2015
Cost per discharge	5.7%	2.5%	2.2%
Case-mix change	<0.5	1.4	0.8
Case-mix adjusted cost growth	5.2	1.1	1.4
Input price inflation	3.7	2.0	1.8

- Input price inflation relatively low

Overall Medicare margin trending downward after holding relatively steady since 2009

Note: Margins = (payments – costs) / payments; excludes critical access hospitals. The overall Medicare margin, covers inpatient, outpatient, hospital-based post-acute care in IPPS hospitals, GME, and other payments such as HIT payments.
Source: Medicare cost reports.

Overall Medicare margins vary across hospital groups

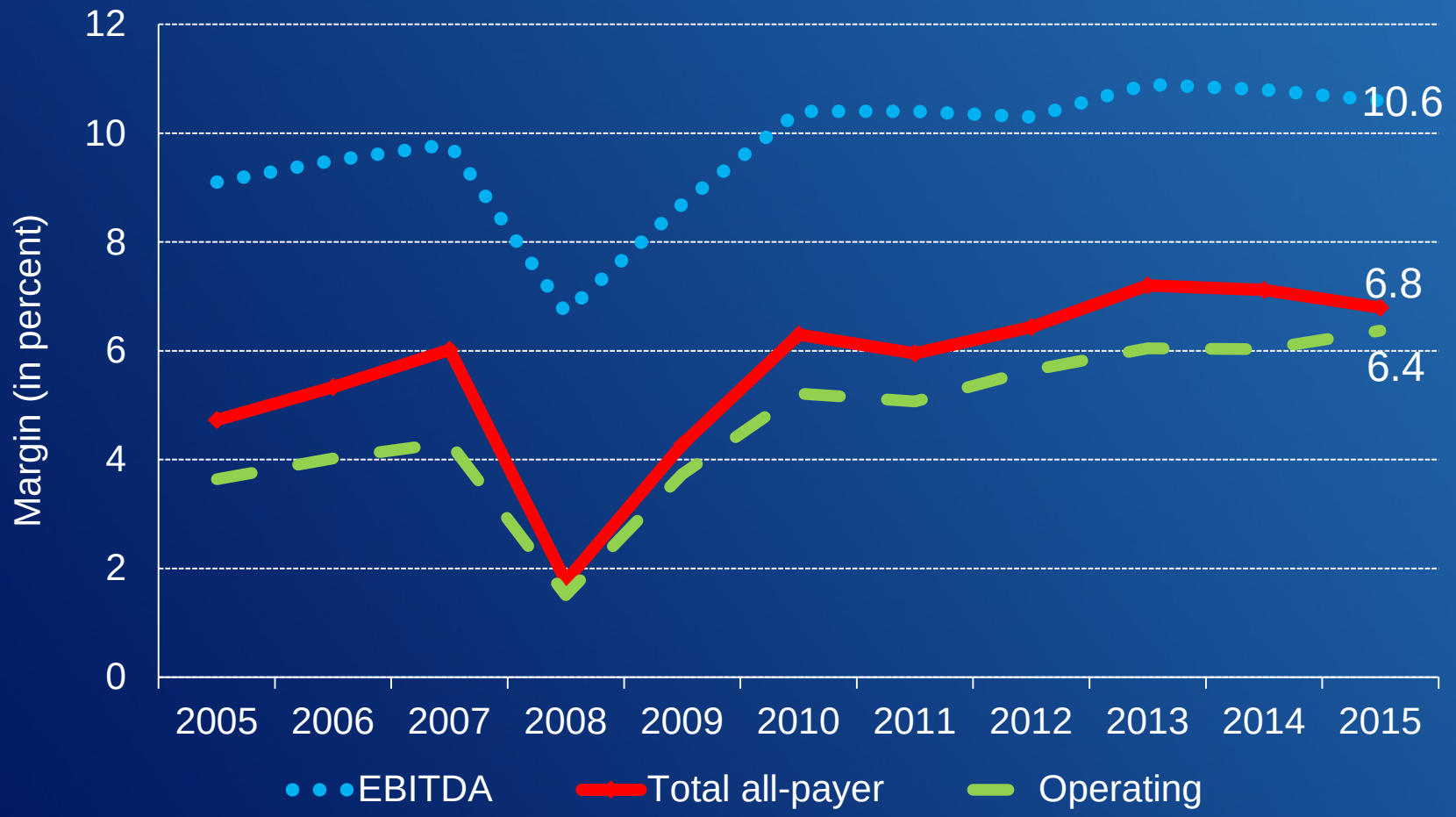
Hospital group	2015 Margin
All hospitals	–7.1%
Urban	–7.3
Rural PPS	–4.9
Rural with CAH	–3.2
Major teaching	–5.2
Other teaching	–5.8
Non-teaching	–9.6
Nonprofit	–8.5
For-profit	–1.3

Source: Medicare cost reports

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 9 percent in 2015
  - Hospitals with excess capacity therefore have incentive to take additional Medicare patients

All-payer margins remain at historically high levels



Source: Medicare cost reports.

Data are preliminary and subject to change

Comparing 2015 performance of relatively efficient hospitals to others

Measure	Relatively efficient hospitals	Other hospitals
Number of hospitals	285 (14%)	1,712
30-day mortality (rel. to median)	6% lower	1% above
Standardized costs (rel. to median)	9% lower	2% above
Overall Medicare margin	0%	-6%

Note: Hospitals are classified as efficient based on 2012 to 2014 performance. In this slide, 2015 medians for each group are compared to the national median.
Source: Medicare cost reports and claims data

Summary of payment adequacy

- Access to care is good
- Access to capital is strong
- Quality is improving
- Medicare margins 2015
  - Aggregate margin -7.1%
  - Marginal profit +9%
  - Efficient provider 0%

Estimated current law update FY 2018

Market basket*	3.0%
Productivity*	-0.4
PPACA adjustment	-0.75
Net update	1.85

**Based on CMS Q3-2016 forecast from CMS, forecast used to set actual update will be revised to reflect most recent economic data at the time the final rule is published in August 2017.*

Off-campus stand-alone emergency departments (ED): Collecting claims data

- Services: emergency, imaging, lab, some non-ED
- Location: Urban/suburban, higher-income Zip codes
- 400 hospital-affiliated bill Medicare, expect growth
- Payment incentive to serve patients in ED versus urgent care or office setting
- Colorado and Maryland research: Patient acuity similar to urgent care centers
- Exempted from site-neutral law, paid as a hospital for all ED and non-ED services
- Claims not distinguishable from affiliated hospital claims