Assessing payment adequacy and updating payments: Hospital inpatient and outpatient services; and Mandated report on Bipartisan Budget Act of 2018 changes to the low-volume hospital payment adjustment

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MEDPAC

MedPAC's payment adequacy framework: Acute care hospitals

Beneficiaries' access to care	Quality of care	Hospitals' access to capital	Medicare payments and hospitals' costs
• Capacity and supply of hospitals • Volume of services • Medicare marginal profit	• Mortality and readmission rates • Patient experience	• All-payer total margin • Employment • Bonds and construction	• Payments and costs per service • Aggregate Medicare margin • Projected Medicare margin

Update recommendation for base payment rates

Payment adequacy framework and the coronavirus public health emergency (PHE)

- COVID-19 has had tragic and disproportionate effects on Medicare beneficiaries and the health care workforce, including recent increases from omicron variant
- PHE has also had material effects on payment adequacy indicators, making them more difficult to interpret
- Temporary or highly variable coronavirus effects are best addressed through targeted, short-term funding policies rather than permanent changes to all providers' payment rates in 2023 and future years

Summary: COVID-19 affected hospital adequacy indicators, but they remained generally positive

Beneficiaries' access to care	Quality of care	Hospitals' access to capital	Medicare payments and hospitals' costs
• Excess capacity • Fewer closures • Decline in volume reflects PHE • Medicare marginal profit positive	• Measure changes not indicative of changes in quality or payment adequacy	• All-payer total margin remained strong, due to substantial federal support • Near record high margin for rural hospitals	• Aggregate Medicare margin still negative but remained steady • Relatively efficient hospitals' median Medicare margin 1%

Note: Provider Relief Funds (PRF).

Policy changes since December meeting

- Congress extended the suspension of the 2% sequester
  - Full suspension through March 31, 2022
  - 1% suspension through June 30, 2022
- HHS began distributing $9 billion in PRF Phase 4 payments

➔Our projected 2022 Medicare margins were unchanged:

- ➔Without relief funds: -10% for IPPS hospitals, 0% for relatively efficient hospitals
- ➔With relief funds: -9% for IPPS hospitals, 1% for relatively efficient hospitals

Note: Provider Relief Funds (PRF).

Considerations for the draft recommendation

- Maintain payments high enough to ensure beneficiaries' access to care
- Maintain payments close to hospitals' cost of efficiently providing high-quality care
- Maintain fiscal pressure on hospitals to constrain costs
- Minimize differences in payment rates for similar services across sites of care

➔ *To the extent coronavirus public health emergency continues, any needed additional financial support should be separate from annual update and targeted to affected hospitals that are necessary for access*

Mandated report: Effects of BBA of 2018 modifications to low-volume hospital (LVH) policy

- BBA of 2018 required LVH eligibility be based on all-payer volume and modified the statutorily set adjustment for 2019 through 2022
- In 2019, the number of LVHs rose, as did the average number of FFS Medicare inpatient stays per LVH, and average LVH adjustment

➔ The requirement to base LVH eligibility on all-payer volume is consistent with MedPAC's prior recommendation, and LVH policy will become more consistent beginning in 2023 when CMS's authority to determine an empirically justified LVH adjustment is restored

➔ Still, concerns remain that LVH policy is not well-targeted to isolated hospitals and is duplicative for the subset of LVHs that already receive cost-based payments

Note: Bipartisan Budget Act (BBA).
Source: MedPAC analysis MedPAR and cost report data from CMS.