

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

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# Presentation roadmap

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# Overview of general acute care hospital use and spending under FFS Medicare, 2022



**Hospitals**

IPPS

3,160

OPPS

3,090



**Users**

4.3 million

16.3 million



**Services**

6.6 million stays

127.4 million services



**Payments for services**

\$103.9 billion

\$49.7 billion



**Other payments**

\$7.1 billion for uncompensated care

\$19.1 billion for separately payable drugs

**Note:** FFS (fee-for-service), IPPS (inpatient prospective payment systems), OPSS (outpatient prospective payment system).

**Source:** MedPAC analysis of Medicare Provider Analysis and Review data, IPPS final rule, and outpatient claims data.

# Payment adequacy framework: Hospitals



## Beneficiaries' access to care

- Hospital capacity and supply
- Volume of FFS Medicare inpatient and hospital outpatient services
- FFS Medicare marginal profit



## Quality of care

- FFS Medicare risk-adjusted mortality rate and readmission rate
- Patient experience



## Access to capital

- All-payer operating margin
- Current year partial financial statements
- Access to bonds



## FFS Medicare payments and costs

- FFS Medicare margin
  - Aggregate
  - By groups
  - Relatively efficient
- Projected FFS Medicare margin

**Update recommendation for IPPS and OPPS base rates**

**Note:** FFS (fee-for-service), IPPS (inpatient prospective payment systems), OPPS (outpatient prospective payment system).

# Access: Hospital capacity remained adequate in 2022 but varied



## Number of inpatient beds remained steady

- General ACHs continued to have about 650,000 inpatient beds



## Hospitals have available capacity in aggregate

- 67% of all general ACH beds were occupied
- Some hospitals had much higher or lower occupancy rates



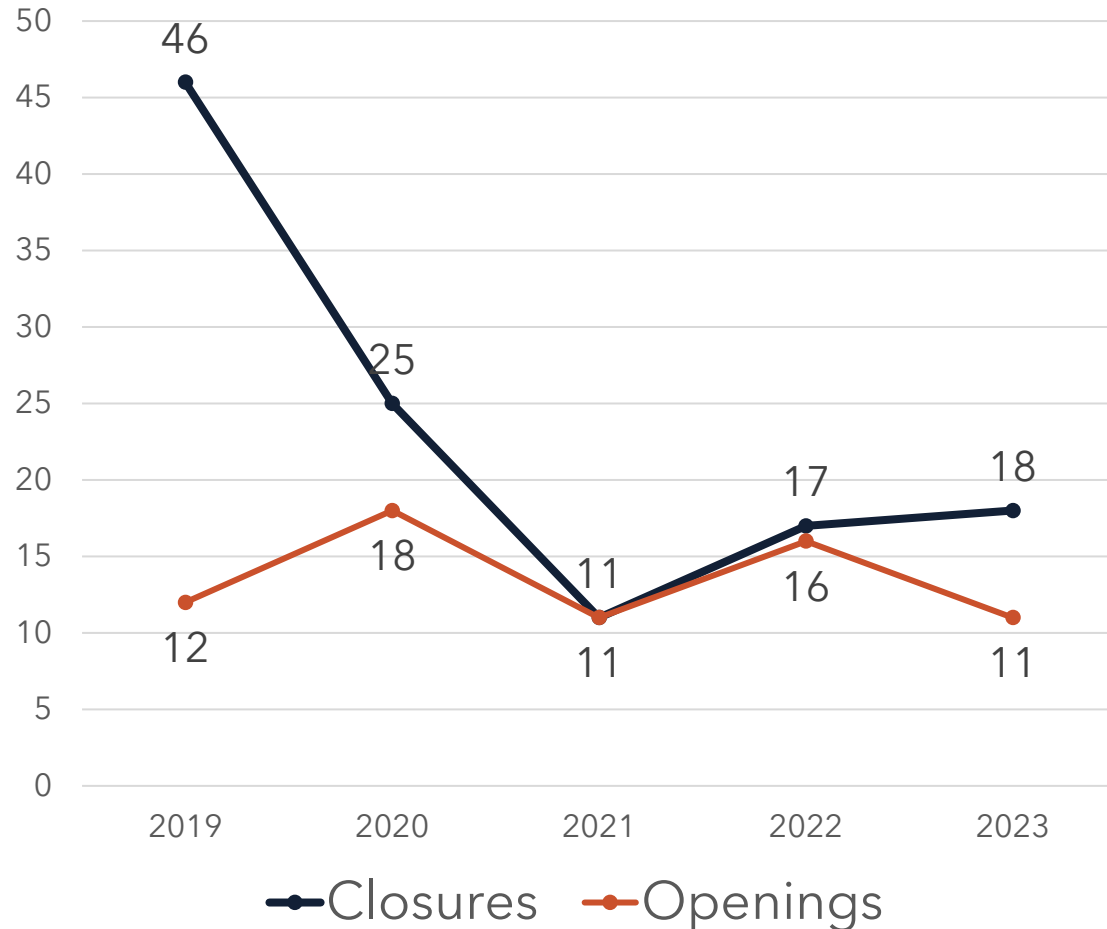
## Hospital employment increased

- Rebounded to above prepandemic levels
- Some hospitals continued to report staffing shortages

**Note:** ACH (acute care hospital).

**Source:** MedPAC analysis of hospital cost reports, inpatient provider-specific files, and Bureau of Labor Statistics data.

# Access: Slight decrease in supply of hospitals in fiscal year 2023



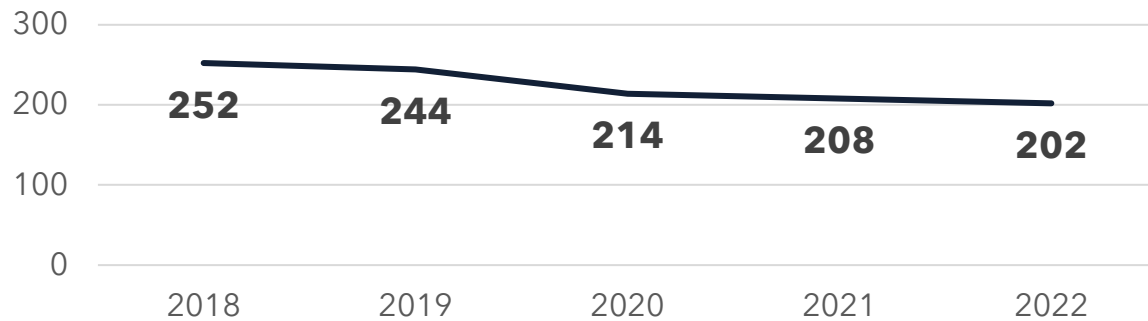
- In fiscal year 2022, supply of general ACHs was steady
- However, in 2023, slightly more hospitals closed than opened, and 17 converted to REHs
- Many hospitals cited low patient volume as a driver of closure

**Note:** ACH (acute care hospital), REH (rural emergency hospital). "Closure" refers to a general acute care hospital that ceased inpatient services and did not convert to a rural emergency hospital, while "opening" refers to a new location for general acute care inpatient services. The counts do not include the relocation of inpatient services from one hospital to another under common ownership within 10 miles, nor does it include hospitals that both opened and closed within a 5-year period.

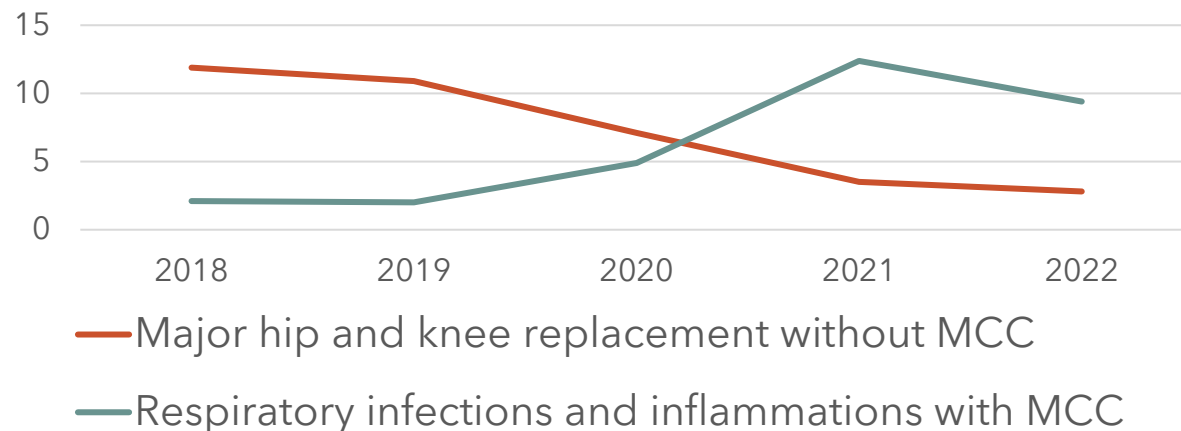
**Source:** MedPAC analysis of the CMS Provider of Services file and internet searches.

# Access: Inpatient hospital stays per capita continued prepandemic decline but varied by type of stay

**Inpatient stays per 1,000 FFS Medicare beneficiaries**



**Selected types of stays**

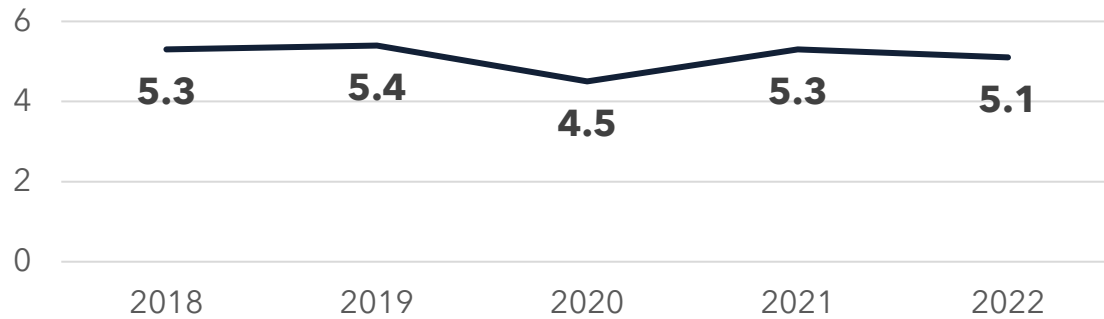


- From 2018 to 2022, inpatient stays per FFS Medicare beneficiary steadily declined
- Variation by type of stay
  - Shift of care, such as joint replacements, to outpatient settings
  - Increase in stays for respiratory infections, such as COVID-19, with decline beginning in 2022

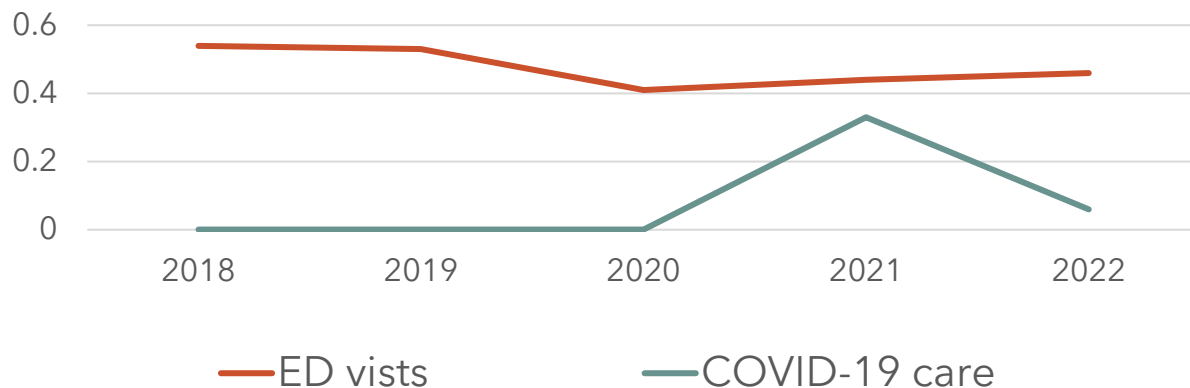
**Note:** FFS (fee-for-service), MCC (major complication or comorbidity).  
**Source:** MedPAC analysis of Medicare Provider Analysis and Common Medicare Environment data.

# Access: Hospital outpatient services per capita remained near prepandemic levels

Hospital outpatient services per FFS Medicare beneficiary



Selected types of services



- In 2020, hospital outpatient services per FFS Medicare beneficiary declined substantially
- In 2021 and 2022, volume largely rebounded but varied by type of service
  - ED visits remained below 2019
  - COVID-19 care peaked in 2021 and fell in 2022

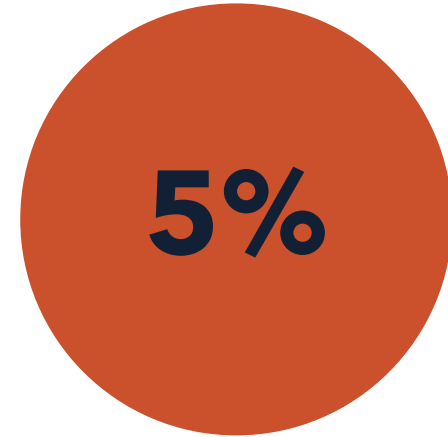
**Note:** FFS (fee-for-service), ED (emergency department).

**Source:** MedPAC analysis of hospital outpatient claims and Common Medicare Environment data.



# Access: Hospitals continued to have a financial incentive to serve FFS beneficiaries

- Hospitals with available capacity have a financial incentive to serve FFS Medicare beneficiaries
- FFS Medicare marginal profit varied across hospitals, including higher at for-profit than nonprofit hospitals and higher at rural than urban hospitals



## FFS Medicare marginal profit on IPPS and OPPS services

**Note:** FFS (fee-for-service), IPPS (inpatient prospective payment systems), OPPS (outpatient prospective payment system). We calculate hospitals' FFS Medicare marginal profit by comparing Medicare's IPPS and OPPS payments with the variable cost of treating an additional FFS Medicare patient.

**Source:** MedPAC analysis of Medicare hospital cost reports.

# Quality: Hospital indicators in 2022 were mixed relative to prepandemic levels



## Mortality rate improved

- After peaking during the pandemic, FFS Medicare beneficiaries' risk-adjusted mortality rate decreased to 8.1%, the same as in 2019



## Readmission rate improved

- FFS Medicare beneficiaries' risk-adjusted readmission rate decreased to 14.7%, below 2019 rate



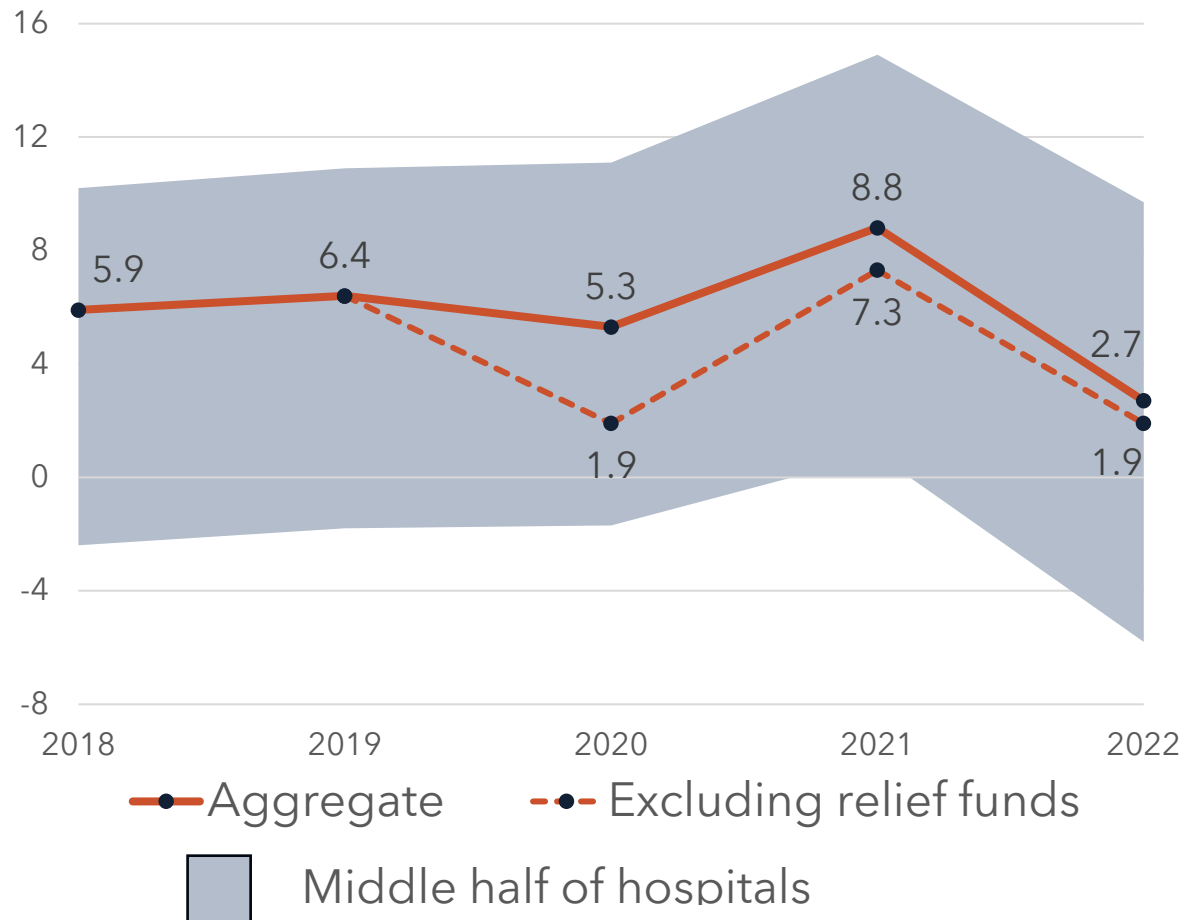
## Patient experience results declined

- Most measures declined relative to 2019

**Note:** FFS (fee-for-service). "Mortality rate" refers to the share of inpatient stays that resulted in a death during or within 30 days after the stay. "Readmission rate" refers to the share of inpatient stays that resulted in a readmission during or within 30 days after the initial stay. H-CAHPS® (Hospital Consumer Assessment of Healthcare Providers and Systems) survey data collected from patients discharged between January and December 2022.

**Source:** MedPAC analysis of Medicare Provider Analysis and Review data and CMS summary of H-CAHPS public report of survey results tables.

# Capital: IPPS hospitals' all-payer operating margin declined in 2022 from a record high



- Decline driven by about 8% growth in operating costs
- Varied across hospitals
  - For profit: 12.7%
  - Nonprofit: 1.2%
  - Metropolitan: 2.8%
  - Micropolitan: 1.1%
  - Other rural: -0.2%

**Note:** "All-payer operating margin" includes payments from all payers, with revenue limited to patient care and other operating revenue. For 2020 through 2022, these margins are reported with and without federal coronavirus relief funds. Data are for IPPS hospitals that had a cost report with a midpoint in the fiscal year and was complete and had non-outlier data as of our analysis.

**Source:** MedPAC analysis of hospital cost reports.

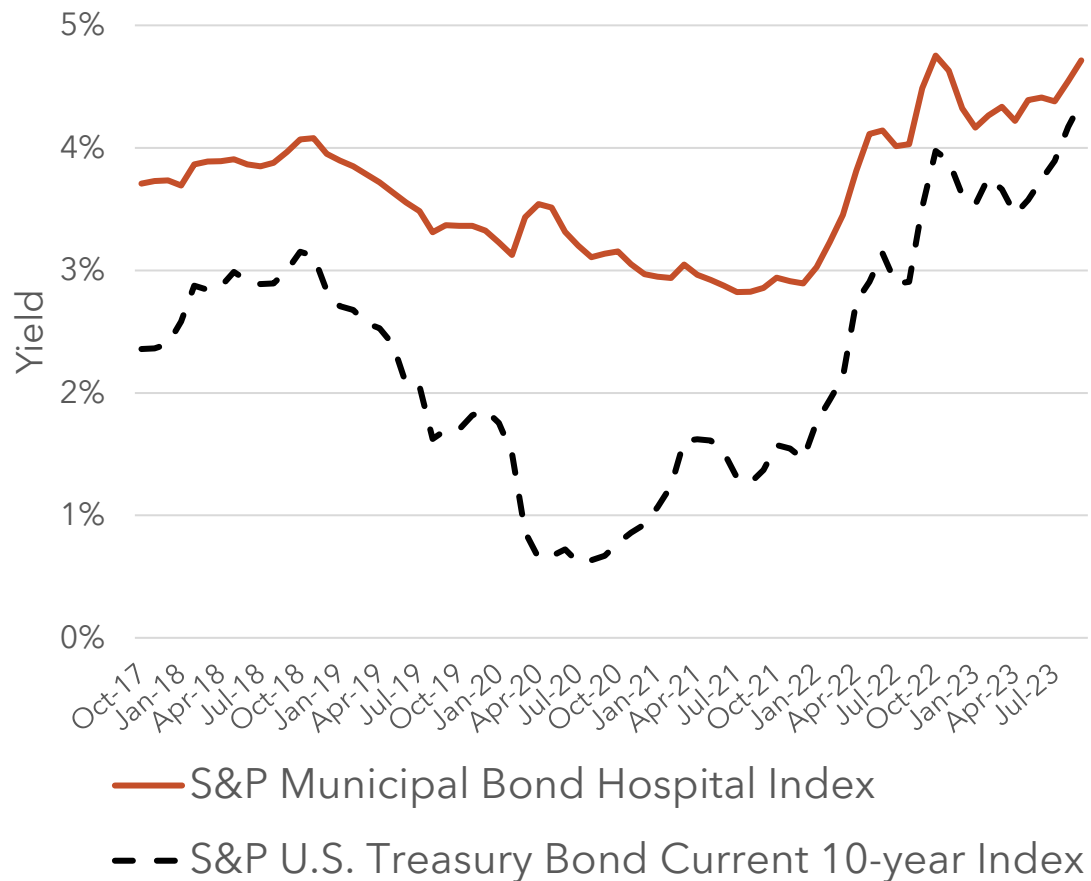
# Capital: Preliminary data suggest all-payer operating margin has started to improve slightly in late 2023

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- Aggregated data for six large hospital systems suggest that hospitals' all-payer operating margin:
  - Remained positive in 2023 but slightly lower than in 2022
  - Improved in the most recent quarter of 2023, driven by nonprofit hospitals, which cited improvements in patient volume and declines in contract labor and supply costs
- Rating agencies also project nonprofit hospitals' finances will gradually improve in 2024

**Source:** MedPAC analysis of financial statements for six large hospital systems (three nonprofit and three for profit) and Fitch and Moody's publications.

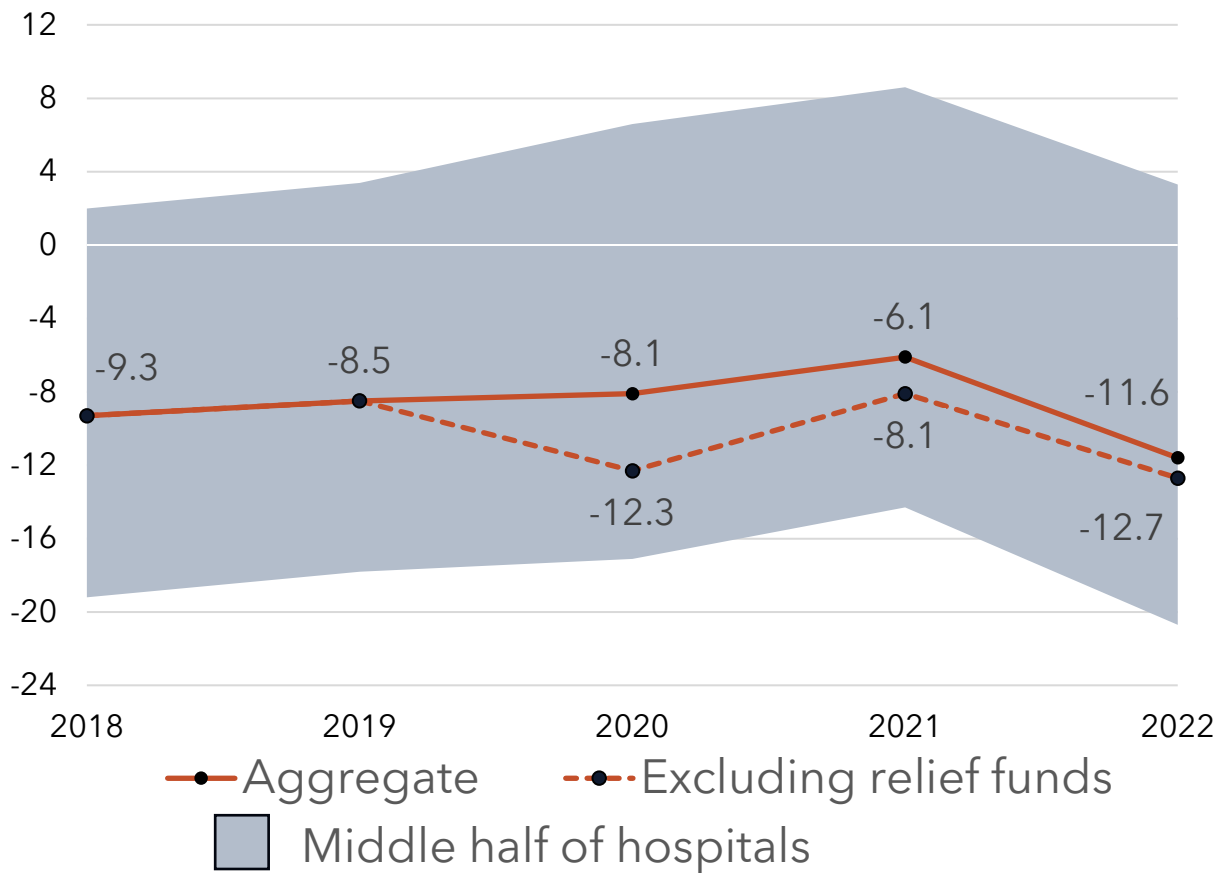
# Capital: Hospitals' borrowing costs increased, but by less than the general market



- Lower risk premium for hospital bonds suggests that demand for bonds remains strong
- Since end of fiscal year 2023, borrowing costs have started to fall (data not shown)

**Note:** "Yield" is the average monthly yield to maturity.  
**Source:** MedPAC analysis of S&P bond data.

# Payments and costs: IPPS hospitals' overall FFS Medicare margin declined to a record low in 2022



- Decline driven by higher-than-expected inflation; other factors include decline in uncompensated care payments and reinstatement of sequestration
- Offsetting factor was higher payments for 340B drugs

**Note:** IPPS (inpatient prospective payment systems), fee-for-service (FFS). "Overall FFS Medicare margin" includes payments and costs from multiple hospital service lines (including inpatient, outpatient, swing bed, skilled nursing, rehabilitation, psychiatric, and home health services) as well as direct graduate medical education and uncompensated care payments, and, for 2020 through 2022, these margins are reported with and without federal coronavirus relief funds. Data are for IPPS hospitals that had a cost report with a midpoint in the fiscal year and was complete and had non-outlier data as of our analysis. "340B" refers to 340B drug payment program.

**Source:** MedPAC analysis of hospital cost reports.

# Payments and costs: Updated methodology to identify relatively efficient hospitals

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- Goal: To identify a sample of hospitals that consistently performs at or above average in cost or quality
- This year we reviewed methods and made improvements:
  - **Incorporated outpatient costs** due to the growing outpatient share of hospital services
  - **More rigorously defined thresholds for quality of care** by setting quality thresholds based on hospitals with sufficient volume
- Fewer hospitals identified as relatively efficient (7%) compared with last year (15%)

# Payments and costs: Relatively efficient hospitals' median FFS Medicare margin was negative in 2022

2022	Relatively efficient (7%)	Other (93%)
Median margin		
FFS Medicare margin with relief funds	-2%	-9%
FFS Medicare margin excluding relief funds	-3	-10
All-payer operating margin with relief funds	4	3
Performance metrics (percent of national median)		
Mortality rate (within stay plus 30 days)	90	101
Readmission rate (within 30 days after discharge)	94	101
Medicare costs per unit (inpatient and outpatient)	91	102
Share of patients rating hospital a 9 or 10 (out of 10)	103	100

**Note:** FFS (fee-for-service). “Relatively efficient” and “other” hospitals were identified based on performance during 2018, 2019, and 2021. Medicare cost per unit combines standardized costs per inpatient stay and per outpatient service (relative to their respective national medians) using two-thirds and one-thirds weighting. Costs are standardized for area wages, case-mix severity, prevalence of outlier and transfer cases, interest expense, low-income shares, and teaching intensity.

**Source:** MedPAC analysis of CMS cost report and claims data and CMS’s summary of Hospital Consumer Assessment of Healthcare Providers and Systems® public reports of survey results tables.



# Payments and costs: One-time 340B Drug Pricing Program remedy amount will increase 2024 payments

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- In 2018, CMS reduced OPPS payments to hospitals for drugs obtained through the 340B Drug Pricing Program
- In 2022, courts decided that the approach CMS used to establish the reduced payment rates violated parts of the Social Security Act, and CMS reestablished the higher rates
- In 2024, CMS will provide \$9 billion in lump sum, one-time payments to hospitals affected by the lower payments in 2018 through 2021

**Note:** OPPS (outpatient prospective payment system). The reduced OPPS payments for drugs obtained through the 340B Drug Pricing Program from 2018 to 2021 were offset by increases in Medicare payments for nondrug OPPS items and services. CMS will begin to recoup these increases in calendar year 2026.

# Summary: Hospital payment adequacy indicators



## Beneficiaries' access to care

- Available capacity in aggregate
- Steady supply in 2022 but slight decrease in 2023
- Volume declines reflect shifts in care
- Positive FFS Medicare marginal profit

**Mostly positive**



## Quality of care

- FFS Medicare beneficiaries' risk-adjusted hospital mortality rate improved
- FFS beneficiaries' risk-adjusted hospital readmission rate improved
- Patient experience measures declined

**Mixed**



## Access to capital

- Hospitals' all-payer operating margin fell from a record high
- Demand for hospital bonds remained strong
- Preliminary data suggest slight improvements

**Mixed**



## FFS Medicare payments and costs

- Hospitals' FFS Medicare margin declined to a record low
- Negative median FFS Medicare margin among relatively efficient hospitals

**Mostly negative**

# Draft recommendation involves balancing objectives

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- Maintain payments high enough to ensure beneficiaries' access to care
- Maintain payments close to hospitals' cost of providing high-quality care efficiently to ensure value for taxpayers
- Maintain fiscal pressure on hospitals to constrain costs
- Minimize differences in payment rates for similar services across sites of care
- Be cautious in how much emphasis is placed on a single year of data, especially in volatile periods
- Avoid implementing large, across-the-board payment rate increases to support a subset of hospitals with specific needs

# MedPAC's recommendation to update IPPS and OPPS payments for 2024 was a record high

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- Current law update +1%
- Redistribute existing Medicare safety-net payments via the Medicare Safety-Net Index (MSNI) developed by the Commission
- Adding \$2 billion to MSNI pool (combined for FFS and MA)

**Note:** IPPS (inpatient prospective payment systems), OPPS (outpatient prospective payment system), FFS (fee-for service), MA (Medicare Advantage).

# Medicare Payment Advisory Commission

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