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

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#### Presentation roadmap

- Overview of general acute care hospital use and spending under FFS Medicare
- (2) Review of payment adequacy indicators
- (3) Draft recommendation

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

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**Hospitals** 

<u>IPPS</u>

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: Source: FFS (fee-for-service), IPPS (inpatient prospective payment systems), OPPS (outpatient prospective payment system). MedPAC analysis of Medicare Provider Analysis and Review data, IPPS final rule, and outpatient claims data.

# Beneficiaries' access to hospital care remained generally positive



#### Relatively steady supply

- Number of inpatient beds steady at ~650,000
- Similar number of hospitals closed and opened in 2022
- In fiscal year 2023, 18 closed and 11 opened



#### Available capacity in aggregate

- 67% of all inpatient beds occupied, in aggregate, in 2022
- Hospital employment above prepandemic level
- Some hospitals neared capacity and some reported staffing shortages



#### Some hospital care shifted settings

- Inpatient stays per FFS Medicare beneficiary continued to decline as some care shifted to outpatient settings
- Outpatient services per capita remained near prepandemic level, but some ED visits shifted to urgent care visits



#### Financial incentive to treat FFS

 5% FFS Medicare marginal profit on inpatient and outpatient services

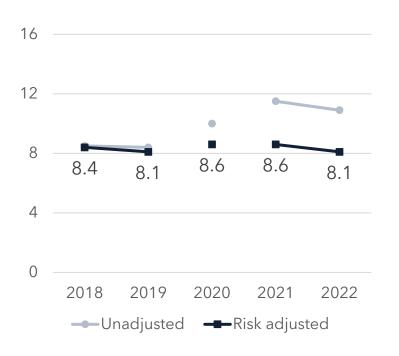
Note:

FFS (fee-for-service), ED (emergency department). See December presentation for more notes and sources.

#### Quality of hospital care indicators were mixed



### Mortality rate improved



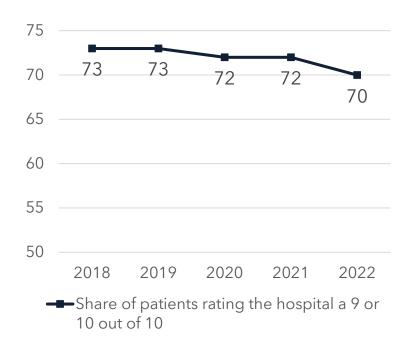


### Readmission rate improved





#### Patient experience results declined



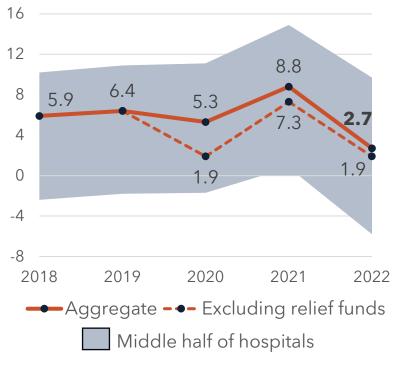
Note:

See December presentation for more notes and sources.

## Hospitals' access to capital measures were generally negative, though demand for bonds remained strong



## All-payer operating margin fell from record high to low



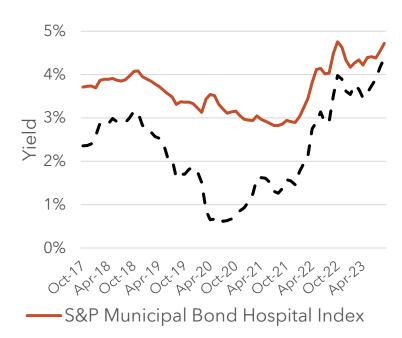


### Preliminary data suggest margin will remain low

- Most recent quarter of data (July-Sept 2023) from 6 large hospital systems suggest allpayer margin remained below prepandemic level in aggregate, but not for all systems
- Rating agencies have mixed outlooks for nonprofits in 2024



## Demand for hospital bonds remained strong



 S&P U.S. Treasury Bond Current 10-year Index

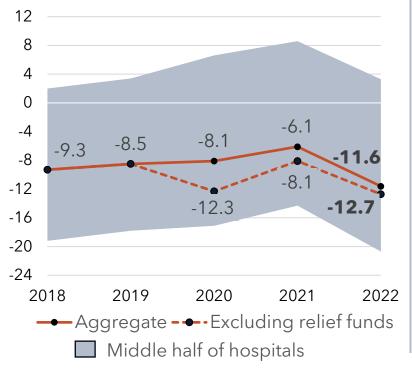
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See December presentation for more notes and sources.

## Hospitals' overall FFS Medicare margin declined to record low and is projected to remain low



#### Record-low FFS Medicare margin





## Negative median margin for relatively efficient hospitals

- Among a subset of hospitals that consistently had relatively low costs and relatively high quality, median FFS Medicare margin was negative
  - -2% with federal coronavirus relief funds
  - -3% excluding relief funds



#### Projected margin to remain low

- Hospitals scheduled to receive \$9 billion in 340B remedy payments in 2024
- However, excluding these onetime payments, we project FFS Medicare margin in 2024 to remain near the 2022 margin:
  - ≈ -13% in aggregate
  - $\approx$  -3% for relatively efficient

Note:

FFS (fee-for-service). See December presentation for more notes and sources.

#### Draft recommendation involves balancing objectives

- Support hospitals with payments high enough to ensure beneficiaries' access to care
- Maintain payments close to hospitals' cost of providing highquality 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 about how much emphasis is placed on a single year of data, especially in volatile periods
- Avoid large, across-the-board payment rate increases to support a subset of hospitals with specific needs



 $Advising \, the \, Congress \, on \, Medicare \, issues$ 

