

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

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Presentation roadmap

- ① Overview of hospital use and spending under FFS Medicare
- ② Assessment of payment adequacy
- ③ Draft recommendation

Hospital use and spending under FFS Medicare, 2024

		<u>IPPS</u>	<u>OPPS</u>
Hospitals		3,095	3,060
	Users	4.2 million	15.8 million
	Services	6.5 million stays	70.8 million encounters
	Payments for services	\$104.6 billion	\$52.7 billion
	Other payments	\$5.9 billion for uncompensated care	\$22.0 billion for separately payable items

Note: FFS (fee-for-service), IPPS (inpatient prospective payment systems), OPPTS (outpatient prospective payment system). "Hospitals" refers to Subsection (d) hospitals paid under the IPPS and/or OPPTS.

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

Beneficiary access to hospital care was positive in FY 2024



Available capacity in aggregate

- 674,000 beds (relatively stable)
- 71% occupancy rate, but some exceeded capacity at times
- 150 minutes from ED arrival to departure
- 4.8 million employees



Relatively stable supply

- 4,500 hospitals (relatively stable)
- 8 more hospitals closed than opened in each of FY 2024 and 2025
- Others converted to rural emergency hospitals



FFS Medicare volume increased

- 208 stays per 1,000 beneficiaries in FY 2024 (1.5% increase)
- 3.0 outpatient encounters per beneficiary in CY 2024 (4.0% increase)

Note: FY (fiscal year), ED (emergency department), FFS (fee-for-service). Most access indicators include critical access hospitals. See December presentation for more notes.

Source: MedPAC analysis of hospital cost reports, Provider of services file, internet searches, claims data, and Common Medicare Environment files.

Quality of hospital care was mixed in FY 2024



FFS mortality rate improved slightly

- 7.4% risk-adjusted mortality rate (−0.2% percentage points)



FFS readmission rate worsened slightly

- 15.4% risk-adjusted readmission rate (+0.3 percentage points)



Patient-experience results stable

- Most measures were stable, but many remained low

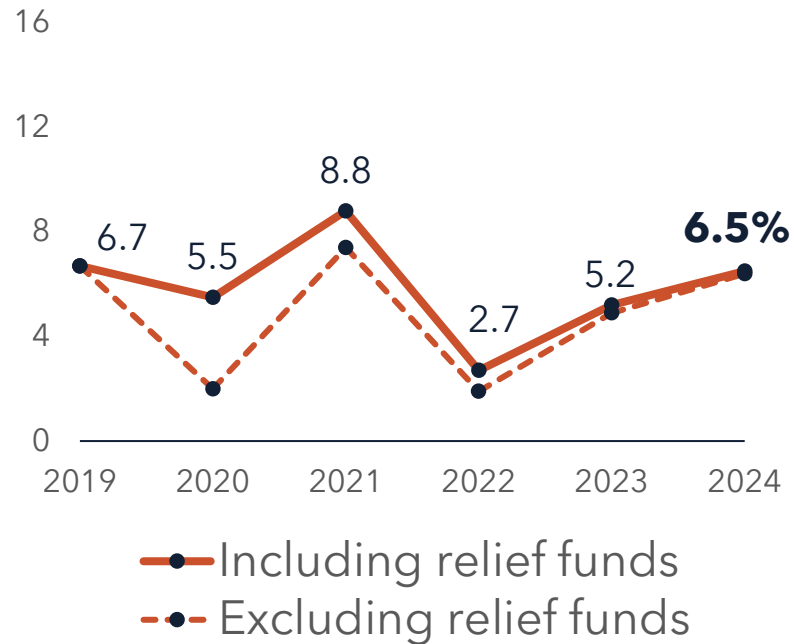
Note: FY (fiscal year), FFS (fee-for-service). See December presentation for additional notes.

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

Hospitals' access to capital was positive and improved



All-payer operating margin positive, increased



Expect continued increase

- Financial statements from 8 large hospital systems' statements suggest hospitals' all-payer operating margin continued to increase in FY 2025



Other measures of access to capital improved

- Investment income increased in both FY 2024 and FY 2025
- Investor's risk premium on hospital bonds decreased to near zero

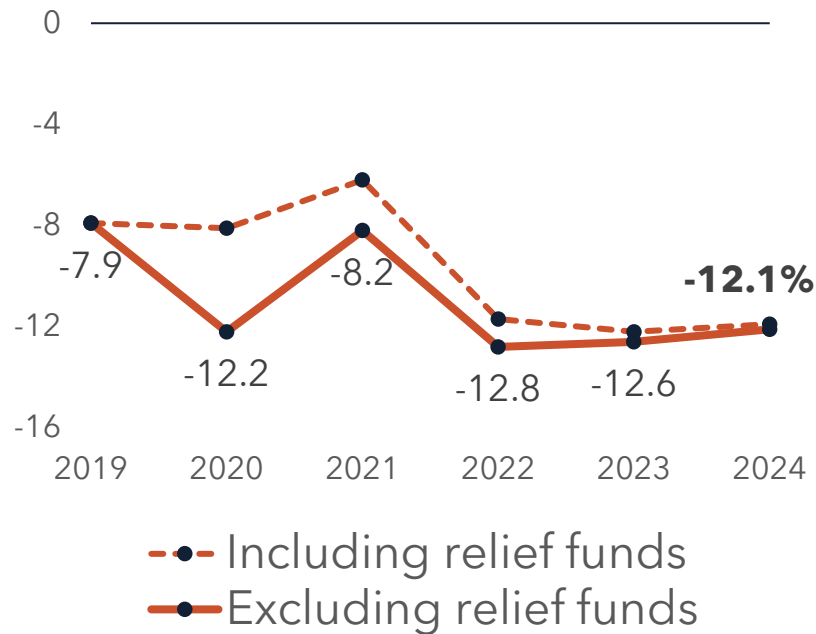
Note: FY (fiscal year). The all-payer operating margin excludes investment and donation income. See December presentation for additional notes.

Source: MedPAC analysis of hospital cost reports, financial statements from eight large hospital systems, and S&P global bond data.

Hospitals' FFS Medicare margin remained low but increased in FY 2024, and continued increase projected



FFS Medicare margin low, but slight increase



Note: FFS (fee-for-service), FY (fiscal year). See December presentation for additional notes.

Source: MedPAC analysis of hospital costs reports, claims data, H-CAHPS survey results, and market basket data.



Slightly negative margin for relatively efficient hospitals

- “Relatively efficient”: 13% of hospitals that performed relatively well on both quality and cost, in at least 3 of 4 prior years
- –1% median FFS Medicare margin



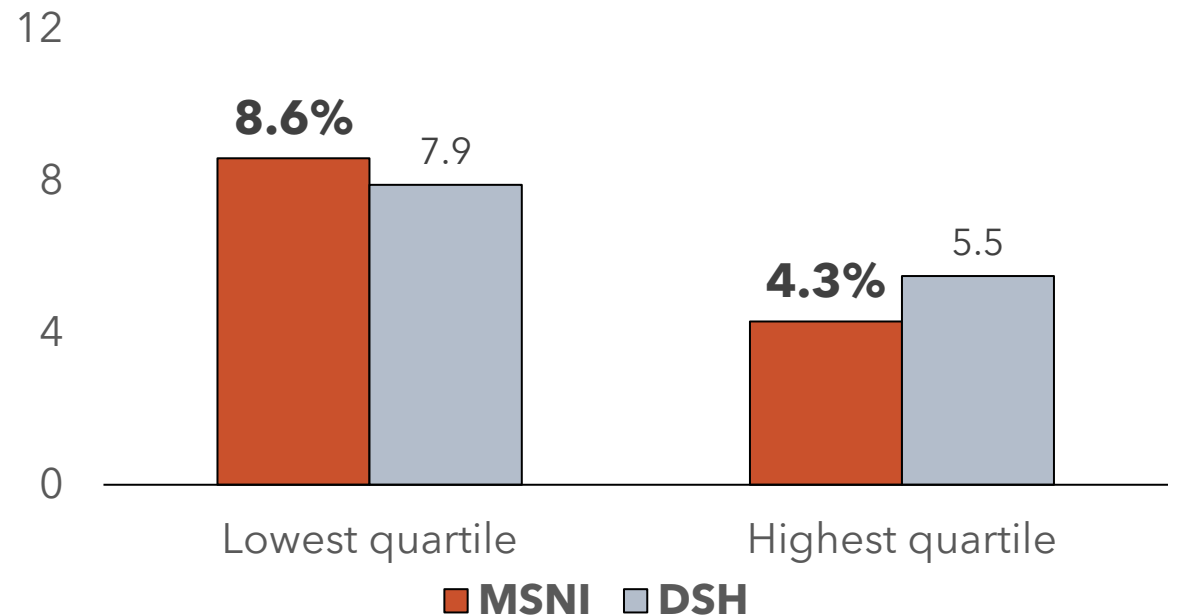
Project margin to increase

- Project increase FFS Medicare margin in FY 2026:
 - –10% in aggregate
 - 1% for median relatively efficient hospital
- Drivers include:
 - \$1.8 billion increase in uncompensated care payments
 - Growth in outpatient drugs

Since 2023, MedPAC has recommended implementing the Medicare Safety-Net Index

- Recommended MSNI:
 - Better targets safety-net hospitals that serve large shares of low-income Medicare patients;
 - Better targets hospitals with lower all-payer margins; and
 - Has other advantages, including direct payments to hospitals for both their FFS and MA patients
- Other safety-net programs could continue to use other metrics

Hospitals' FY 2024 all-payer operating margin, by MSNI and DSH quartiles



Note: FY (fiscal year), MSNI (Medicare safety-net index), DSH (disproportionate-share). See December presentation for additional notes.

Source: MedPAC analysis of cost-report and MSNI data.

Draft recommendation involves balancing objectives

- 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 and beneficiaries
- Maintain fiscal pressure on hospitals to constrain costs
- Limit the need for large, across-the-board payment rate increases by better targeting Medicare payments to Medicare safety-net hospitals serving large shares of vulnerable Medicare patients



Draft recommendation

Draft recommendation

The Congress should:

- for 2027, update the 2026 Medicare base payment rates for general acute care hospitals by the amount specified in current law, and
- implement the Medicare Safety-Net Index (MSNI) described in our March 2023 report, with \$1 billion added to the MSNI pool.

Implications

Spending:

- Relative to current law, spending would increase by \$750 million to \$2 billion in one year and by \$5 billion to \$10 billion over five years
- Estimated to increase hospitals' FFS Medicare margin by < 1 percentage point above current law in aggregate, and 3 percentage points for hospitals in highest MSNI quartile

Beneficiary and provider:

- Will help maintain hospitals' willingness to treat fee-for-service Medicare beneficiaries and maintain beneficiaries' access to care by improving the financial stability of hospitals serving large shares of low-income Medicare beneficiaries

Note: FFS (fee-for-service), MSNI (Medicare safety-net index).



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