



Advising the Congress on Medicare issues

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

Jeff Stensland, Stephanie Cameron, Alison Binkowski,
Dan Zabinski, Ledia Tabor, and Carolyn San Soucie

January 16, 2020

Summary: Hospital payment adequacy indicators are generally positive

Beneficiaries' access to care	Quality of care	Hospitals' access to capital	Medicare payments and hospitals' costs
<ul style="list-style-type: none">• Excess capacity, but increase in closures• Slowing change in volume• Positive marginal profits	<ul style="list-style-type: none">• Risk-adjusted mortality and readmissions improved modestly• Patient experience stable	<ul style="list-style-type: none">• Strong all-payer profit margins in 2018 (6.8%), near all-time high• Construction, bonds, mergers, and employment all strong	<ul style="list-style-type: none">• Medicare margins improved in 2018, but still -9.3%• Median efficient provider margin was -2% in 2018• Expect 2020 margin to improve to -8%
Generally positive	Positive	Positive	Mixed

Updates to inpatient operating and outpatient rates increased substantially starting in 2020

	2019	2020	2021*
Inpatient operating market basket	2.9%	3.0%	3.2%
Adjustment for productivity	-0.8	-0.4	-0.4
Other statutory adjustments	-0.75	0	0
Annual update	1.35%	2.6%	2.8%

**Based on 3rd quarter OACT projection of market basket increases and productivity adjustments for 2021. Inflation projections will be updated before a final update is made in August 2020.*

Note: Final net update to base rates will also reflect budget neutrality adjustments and other statutory updates (e.g. coding). Updates to inpatient capital base rate not shown.

Rationale behind the draft recommendation

- Maintain payments high enough to maintain access to care
- Maintain a level of financial pressure to limit hospital cost growth
- Minimize differential in payment rates across sites of care (e.g., on-campus versus off-campus provider payments)
- Reward high-performing hospitals
- Move Medicare payment rates toward the cost of efficiently providing high-quality care