

Advising the Congress on Medicare issues

Indirect Medical Education (IME): Current Medicare policy, concerns, and considerations for revising

Alison Binkowski and Jeff Stensland

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Roadmap

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IME
background

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IME
concerns and
potential revisions

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IME
illustrative
revised
policy

IME is one of two types of medical education payments to acute care teaching hospitals



Indirect medical education (IME):
Supports teaching hospitals' higher costs of patient care not otherwise accounted for in the IPPS; payments made as IPPS adjustments

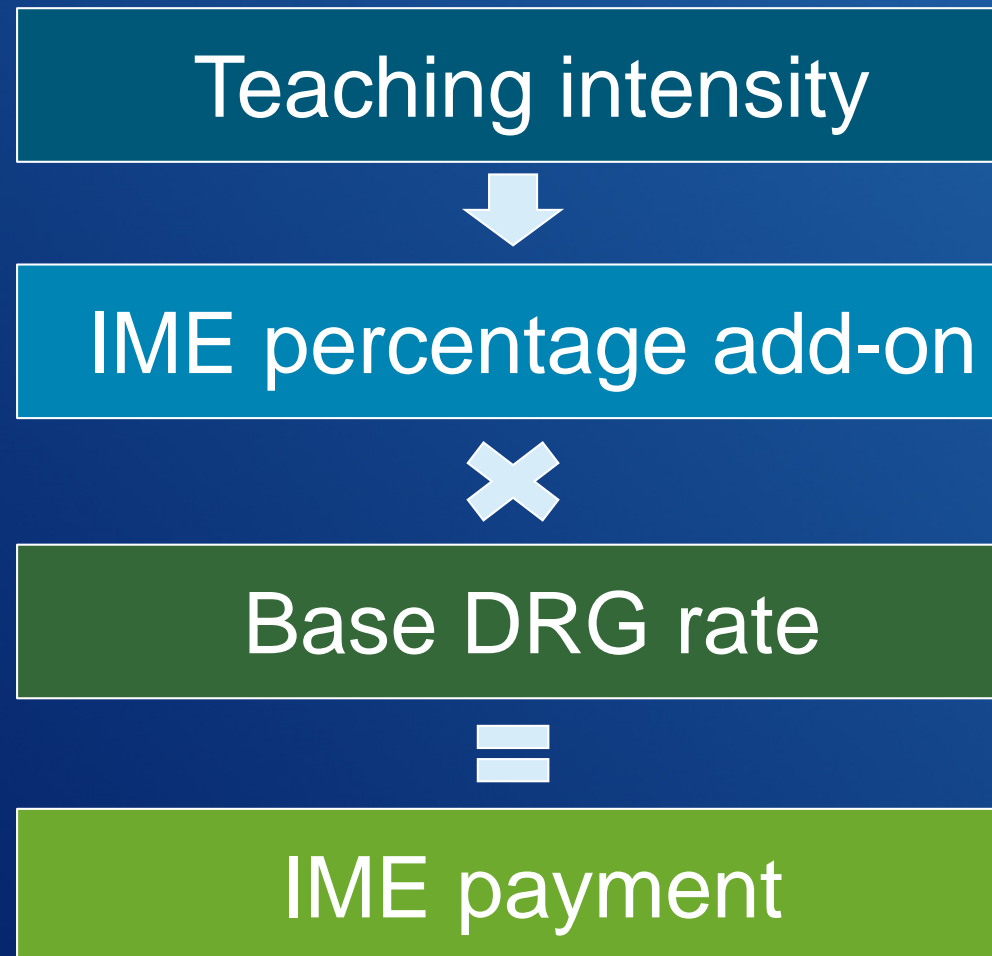
Direct graduate medical education (DGME):
Supports direct GME costs, such as resident stipends; payments outside of IPPS

Treatment of IME varies across inpatient operating and capital PPS

| | Inpatient operating PPS | Inpatient capital PPS |
|------------------------------------|--|---|
| IME adjustment required? | Yes, formula and level specified in law | Secretary's discretion |
| IME adjustment implemented? | Yes | Yes, different formula than inpatient operating |
| IME level changed since enactment? | Yes, originally set at twice empirically justified level, gradual reductions | No |

No IME adjustment in outpatient PPS

IME payments based on a hospital's teaching intensity and calculated as percentage add-on

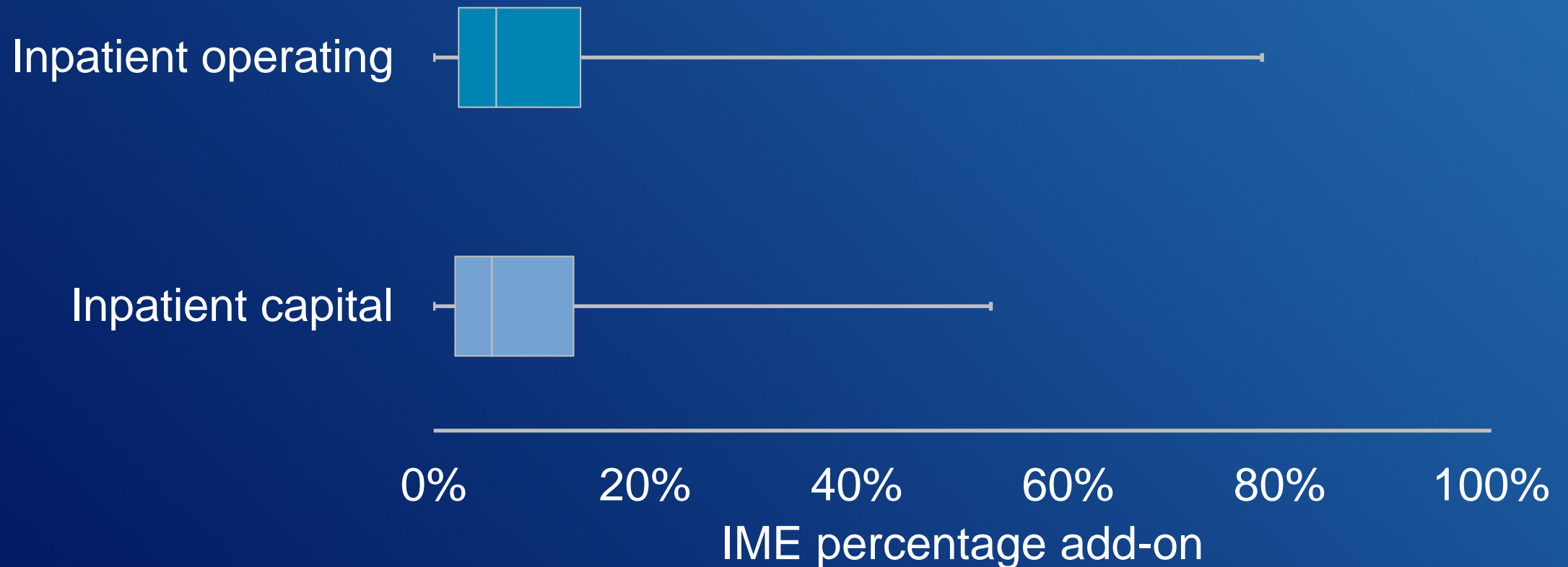


IME policies under the inpatient operating and inpatient capital PPSs differ

| | Inpatient operating PPS | Inpatient capital PPS |
|--------------------------------|---|--|
| Teaching intensity | Residents-to-bed ratio (RBR) | Residents-to-average daily census (RADC) |
| Numerator | Allowable resident FTEs (3 yr avg) | <i>Same</i> |
| Denominator | Inpatient beds | Average daily inpatient census |
| Maximum | Prior year RBR | 1.5 |
| Percentage add-on to base rate | $1.35 * [(1 + RBR)^{0.405} - 1] +$ $0.66 * [(1 + RBR_MMA)^{0.405} - 1]$ | $e^{(0.2822 * RADC)} - 1$ |
| Treatment of FFS and MA | Medicare pays IME for both FFS and MA patients | Medicare pays IME for FFS MA plans may pay IME for MA |

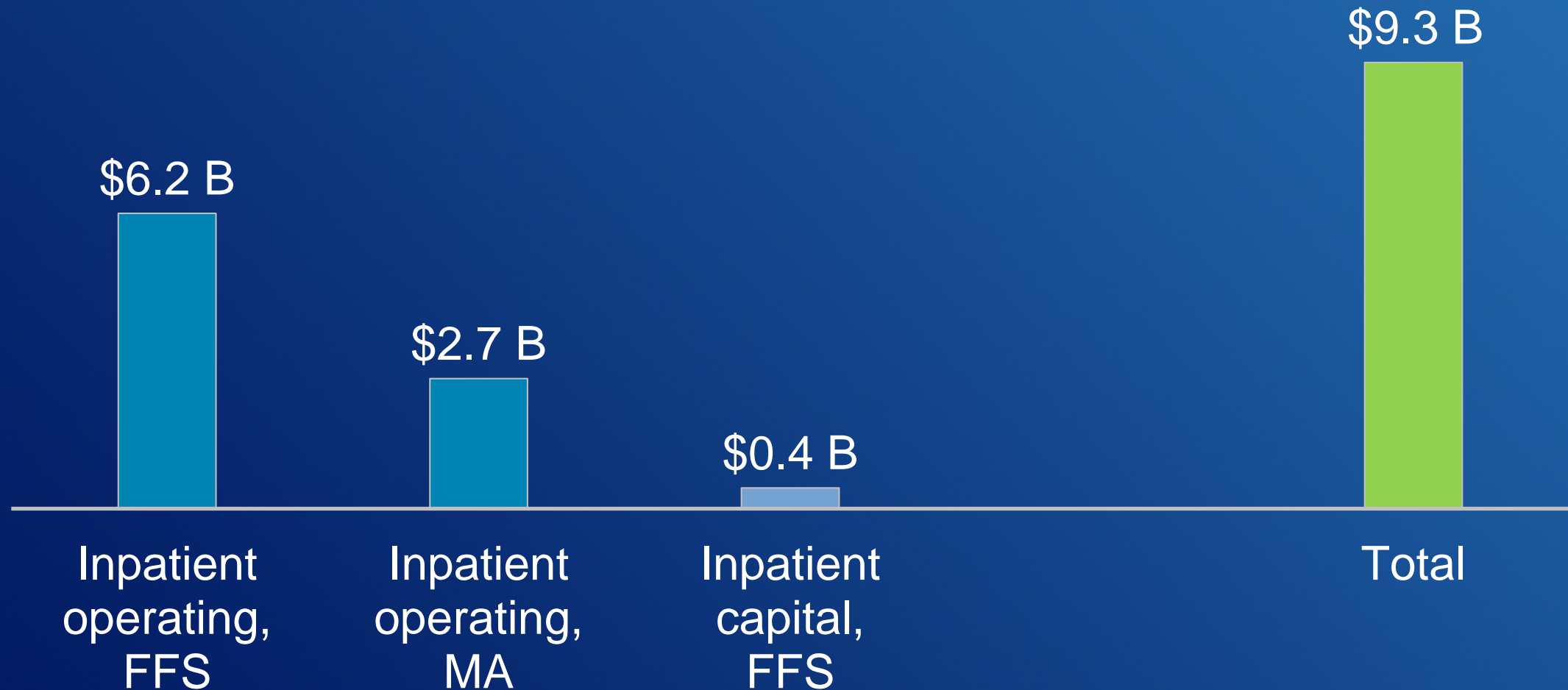
Note: FTEs (full-time equivalents), RBR_MMA (resident-to-bed ratio among residents in additional slots added through the redistribution in the Medicare Modernization Act), FFS (fee for service), MA (Medicare Advantage).

IME percentage add-ons vary substantially, as result of variation in teaching intensity



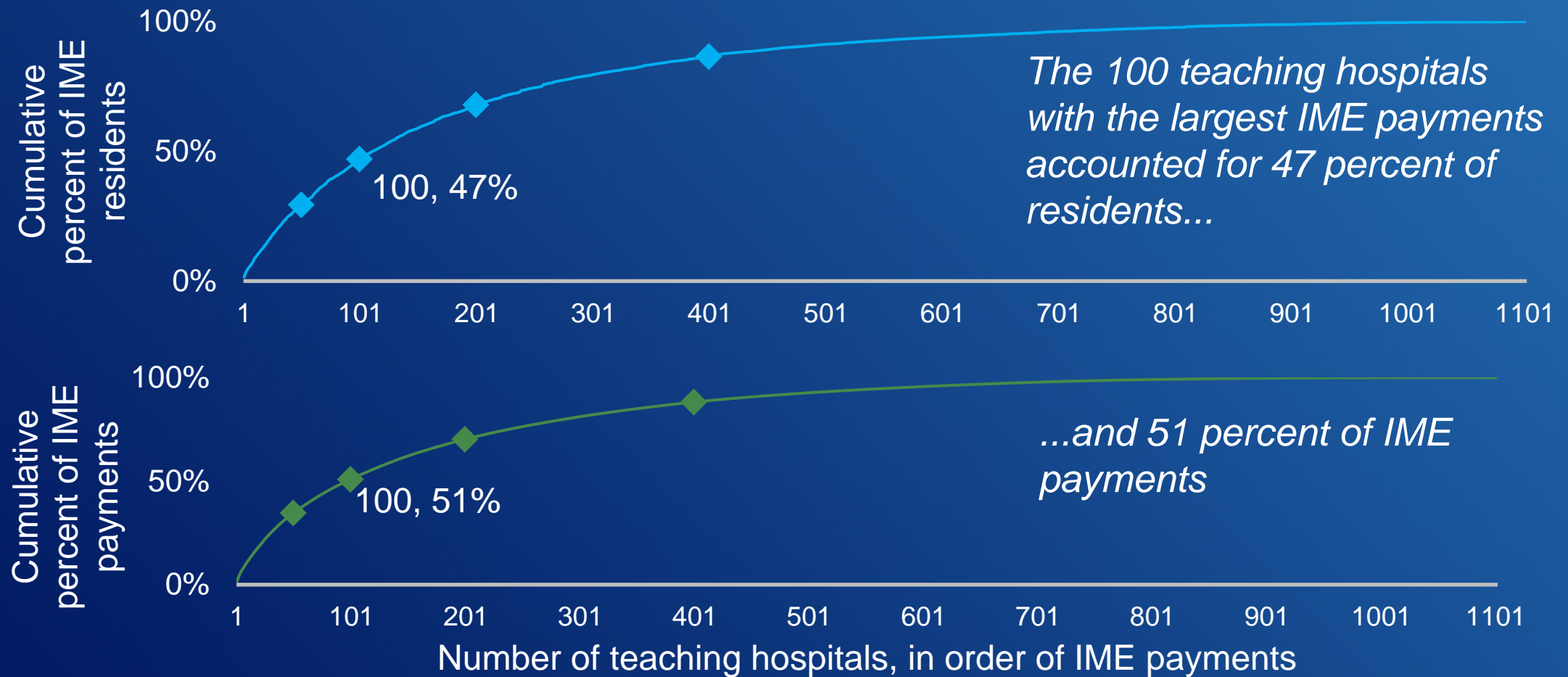
Note: IME (indirect medical education). The box represents the interquartile range (the range that the middle 50 percent of teaching hospitals fall into), the line in the box represents the median, and the whiskers show the minimum and maximum.

IME percentage add-on to inpatient operating rates accounts for nearly all IME payments



Note: IME (indirect medical education), FFS (fee-for-service), MA (Medicare Advantage).

Residents and IME payments concentrated in subset of teaching hospitals



Note: IME (indirect medical education).

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The Commission and others have noted several concerns with IME policy

| | |
|-------------------------|--|
| Clinical setting | Inpatient only |
| Payment level | Above justified level in inpatient, none in outpatient |
| Tie to performance | None |
| Treatment of FFS and MA | Inconsistent |

To address concerns and inconsistencies, could transition to revised IME policy

| | | | |
|-------------------------|--|---|---|
| Clinical setting | Inpatient only | ➔ | Inpatient and hospital outpatient |
| Payment level | Above justified level in inpatient, none in outpatient | ➔ | At justified level in each setting |
| Tie to performance | None | ➔ | Performance-based teaching payments |
| Treatment of FFS and MA | Inconsistent | ➔ | Consistent (Medicare pays IME for both) |

➔ Revisions could maintain aggregate medical education payments while aligning IME payments with the settings in which care is provided

Revising IME policy would involve key implementation decisions

Measuring MA outpatient use

Could require hospitals to submit informational outpatient claims

→ *Would support more accurate IME payments and be valuable data source to validate encounter data*

Until available, could estimate
(E.g., FFS outpatient * MA/FFS inpatient ratio)

Measuring teaching intensity

Could construct inpatient + outpatient measure
(E.g., residents-to-average daily total equivalent census)

Revising IME policy would involve key implementation decisions (continued)

Maintaining budget neutrality

Could maintain aggregate payments to teaching hospitals by adding new performance-based program that rewarded teaching hospitals meeting educational standards

- Standards could be established by the Secretary, after consultation with stakeholders
- Level of payment could be tied to performance

→ Support workforce skills needed in a delivery system that reduces cost growth while maintaining or improving quality

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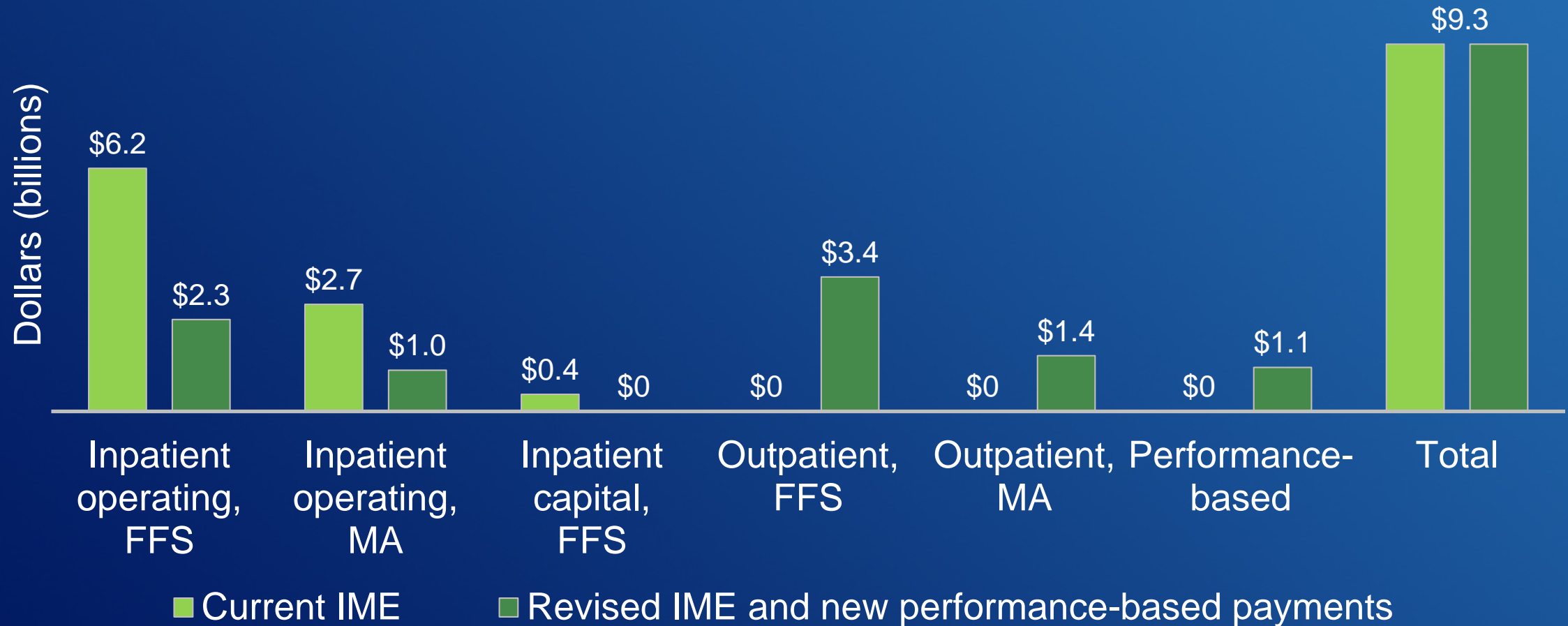
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Aggregate medical education payments would be maintained, but change across settings



Note: IME (indirect medical education), FFS (fee-for-service), MA (Medicare Advantage).

Source: MedPAC analysis of IPPS teaching hospital cost reports with a midpoint in fiscal year 2017 and a length of 10-14 months.

Results preliminary; subject to change

Revisions would materially affect hospitals' IME, but small effect on overall Medicare payments

- Many teaching hospitals would have material changes in their IME payments, consistent with
 - Wide variation in ratio of hospitals' inpatient-to-outpatient use
 - Reduction in aggregate IME and shift to performance-based
 - ➔ More outpatient-centric teaching hospitals and those with better performance would have largest increases in payments
- However, most teaching hospitals' overall Medicare payments would change by < 2 percent (+/-)
- Financial impacts could be mitigated through transition policies

Summary and discussion

Current IME policy does not reflect the increasing shift towards hospital outpatient care nor the empirically-justified effect of residents on patient care costs

Discussion

- Move to empirically justified inpatient-outpatient IME policy
- Maintain aggregate payments to teaching hospitals
- Develop new performance-based medical education payments
- Require submission of information-only MA outpatient claims

Next steps