

Assessing payment adequacy and updating payments:  
Hospital inpatient and outpatient services  
and  
Mandated report: Expanding the post-acute care  
transfer policy to hospice

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# MedPAC's payment adequacy framework – hospital inpatient and outpatient services

## Beneficiaries' access to care

- Capacity and supply of hospitals
- Volume of services
- Marginal profit

## Quality of care

- Mortality and readmission rates
- Patient experience

## Hospitals' access to capital

- All payer profitability
- Bonds and construction
- Mergers and acquisitions
- Employment

## Medicare payments and hospitals' costs

- Payments and costs
- Overall Medicare margins among all and efficient hospitals
- Projected overall Medicare margins

Update recommendation for IPPS and OPPS base rates

# Payment adequacy framework and the coronavirus public health emergency

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- The coronavirus has had tragic effects on beneficiaries and the health care workforce and material effects on providers
- We start with 2019 data; consider information gained in 2020; and evaluate current law for 2020, 2021 and 2022
- Temporary or highly variable coronavirus effects are best addressed through targeted, short-term funding policies rather than permanent changes to all providers' payment rates in 2022 and future years

# Summary: Current payment adequacy indicators for hospitals 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"><li>• Occupancy stable in 2019</li><li>• Positive marginal profit</li><li>• Fewer closures in 2020</li><li>• Continued shift to outpatient</li></ul>	<ul style="list-style-type: none"><li>• Risk-adjusted mortality and readmissions improved modestly</li><li>• Patient experience stable</li></ul>	<ul style="list-style-type: none"><li>• All-payer margin at record high</li><li>• Construction, bonds, acquisitions, and employment all strong</li></ul>	<ul style="list-style-type: none"><li>• Medicare margin still negative but improved</li><li>• Efficient provider margin near zero</li><li>• Projected margin to improve in 2021</li></ul>
Generally positive	Positive	Positive	Mixed

# Changes in forecasts since December meeting

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- CMS reduced its forecast of 2022 updates to hospital rates under current law
- Suspension of sequestration extended, which affects our projections of hospitals' Medicare margin in 2021

# Starting in 2020, current law updates to IPPS and OPPS rates increase substantially

	2019	2020	2021	2022*
Inpatient operating market basket	2.9%	3.0%	2.4%	2.7%*
Productivity offset	-0.8	-0.4	0	-0.3*
Budgetary reduction	-0.75	0	0	0
<b>Annual update</b>	<b>1.35%</b>	<b>2.6%</b>	<b>2.4%</b>	<b>2.4%*</b>
Additional statutory increase (IPPS only)	0.5	0.5	0.5	0.5

*\*2022 estimate based on CMS Q3-2020 forecasts from CMS; forecasts used to set actual update will be revised to reflect most recent economic data at the time the final rule is published in summer 2021.*

Note: IPPS (inpatient prospective payment system). OPPS (outpatient prospective payment system). Final net update to base rates will also reflect budget neutrality adjustments. Separate updates to inpatient capital base rate not shown.

# Medicare payments and costs: Projected Medicare margin expected to increase

	Overall Medicare margin	
	2019	2021 projection
All IPPS hospitals	-8.7%	-6%
Relatively efficient hospitals	-1%	Slightly positive

Why do we expect hospitals' Medicare margin to increase in 2021?

- Higher payment growth than past years, due to substantially higher payment rate updates in 2020 and 2021, and suspension of Medicare sequestration from May 2020 *through March 2021*
- Cost growth less certain, but anticipate will continue to be less than combined growth in input prices and case-mix

# Effect of pandemic on hospital services

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- Inpatient and outpatient volume declined in April 2020, followed by partial Summer rebounds, and then a spike in coronavirus cases this Fall and Winter; 2021 uncertain
  - Quality uncertain, as collection of data suspended
  - Hospitals' access to capital remained strong in aggregate in part due to federal support
  - Medicare payments and costs per stay increased
- We do not anticipate any long-term changes that will persist past the end of the public health emergency*



# Considerations for the draft recommendation

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- Maintain payments high enough to ensure beneficiaries' access to care
- Maintain payments close to hospitals' cost of efficiently providing high-quality care
- Maintain fiscal pressure on hospitals to constrain costs
- Minimize differences in payment rates for similar services across sites of care

*→ To the extent coronavirus public health emergency continues, any needed additional financial support should be separate from annual update and targeted to affected hospitals that are necessary for access*

# Mandated report: Expanding the post-acute care transfer policy to hospice

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- The post-acute care (PAC) transfer policy reduces IPPS payments for short stays followed by transfer to PAC
- Starting in 2019, hospice was added to list of PAC settings to which transfer policy applies
- Final results:
  - Savings to Medicare program (about \$300M in FY 2019)
  - No evidence of discernable changes in timely access to hospice care

Note: IPPS (inpatient prospective payment system).