Advising the Congress on Medicare issues

Hospitals: Assessment of payment adequacy

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Agenda

1. Payment adequacy and update for acute inpatient and outpatient services

2. Indirect medical education (IME) payments

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Most indicators of payment adequacy are positive

- Access to care remains strong
  - More hospitals have opened than closed
  - Share of hospitals offering services is increasing or stable
- Volume of services per beneficiary is increasing
- Quality of care generally is improving
- Access to capital is good

Overall Medicare margin

- Margin in 2006 was –4.8%
- Projected margin for 2008 is –4.4%

Costs and Medicare margin related to financial pressure from private payers

- High financial pressure is defined primarily by a non-Medicare margin less than 1%; low pressure is a non-Medicare margin over 5%
- Hospitals under high pressure have standardized costs more than 10% below those of hospitals under low pressure
- Over time, the industry’s cost growth has been higher during periods when financial pressure is relatively low

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High cost hospitals pull down the Medicare margin

- Hospitals with consistently high costs have standardized costs per discharge above those of their competitors
- Removing consistently high-cost hospitals from the margin calculation raises the industry's overall Medicare margin by 3 percentage points

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Quality pay for performance

- In 2005, the Commission recommended a quality incentive payment policy for hospitals funded with a 1 to 2 percent withhold pool.
- CMS recently released a mandated report to Congress outlining the value-based purchasing program it plans for FY 2009, although this will require Congressional action

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The indirect medical education adjustment

- In 2006, Medicare spent $5.8 billion on IME payments
- IME adjustment set at more than twice the documented impact of teaching on hospital costs
  - Costs increase 2.2 percent for each 10 percent increment in teaching intensity
  - Adjustment increases payments 5.5 percent for each 10 percent increment, resulting in a $3 billion subsidy to teaching facilities
- In 2006, the overall Medicare margin of major teaching hospitals was 11 percentage points higher than that of non-teaching hospitals

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Effect of a 1 percentage point reduction in IME

- Reduces the gap in margin between major teaching and non-teaching hospitals by 2 percentage points, if P4P rewards and penalties distributed equally by group
- Nearly $1 billion in payments would be redistributed

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