MEDPAC Medicare Payment Advisory Commission

MEETING BRIEF

December 4–5, 2003

Inpatient and outpatient services: assessing payment adequacy and updating payments

ISSUE: MedPAC is charged with making an assessment of payment adequacy for Medicare's hospital inpatient and outpatient prospective payment systems and recommending payment updates for 2005.

KEY POINTS: Our approach for updating payments consists of two steps:

- assessing whether current payments are adequate, and
- making a judgement about how much hospital payments should change in 2005.

Based on the findings from these steps, the update recommendation for 2005 reflects MedPAC's judgement about how much Medicare's hospital payment rates should change in 2005 to ensure beneficiaries' continued access to high quality hospital services.

We consider various market indicators of payment adequacy, the relationship of Medicare's current payments to providers' costs, and the appropriateness of providers' current costs. The market indicators we consider include beneficiary access to care, entry and exit of providers, the volume of hospital services, quality of care, and access to capital. Cost allocation and other accounting practices make it difficult to assess the relationship between current Medicare payments and costs for a single service line in the hospital. Consequently, we assess this relationship for the hospital as a whole, including all of the inpatient, outpatient, home health, skilled nursing facility, psychiatric, and rehabilitation services that hospitals furnish to beneficiaries.

At the December meeting we will present draft update recommendations for inpatient and outpatient services. We will also present analyses of 2002 margins and projections of costs and payments for 2004.

ACTION: Commissioners should review the draft discussion of payment adequacy for hospitals. We will revise the section based on your discussion and present a final chapter for approval at the January 2004 meeting.

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MEETING BRIEF

December 4-5, 2003

Outpatient PPS: Outlier and transitional corridor payments

ISSUE: In addition to considering an update recommendation for the outpatient PPS, MedPAC will consider two distributional issues: transitional corridor payments and the outlier policy.

KEY POINTS:

For our discussion of the outlier policy, we make the following points:

- The outpatient PPS currently has an outlier payment policy that applies to almost all services. Does the outpatient PPS need an outlier policy? If it does, should the current policy be refined?
- The services provided under the outpatient PPS are generally narrowly defined (e.g., a diagnostic test or a clinic visit) and low cost. However, some sophisticated procedures that are more costly are currently performed in the outpatient setting, and trends suggest that more high-cost procedures will be performed in this setting in the future.
- Services that are narrowly defined and inexpensive, such as x-rays and electrocardiograms, received a larger share of the outlier payments than more complex and higher cost services.
- Urban hospitals received a greater share of outlier payments compared to their overall payments than their rural counterparts did.

For our discussion of the transitional corridors, we make the following points:

- Transitional corridor payments provided a cushion to hospitals that received lower payments under the outpatient PPS than they would have under previous payment policy. For most hospitals, Medicare paid only a share of the difference. For rural hospitals with 100 or fewer beds, however, the full difference was paid; they were "held harmless".
- Transitional corridor payments expire for all hospitals at the end of 2003. Small rural hospitals also lose their hold-harmless payments (cancer and children's hospitals do not) .
- According to analysis of 2001 and 2002 cost reports, small rural hospitals, sole community hospitals, and major teaching hospitals received a greater share of their total outpatient PPS payments from the transitional corridor payments than other hospitals.
- The recently-passed Medicare legislation continues the hold-harmless payments for two years and extends them to sole community hospitals, regardless of size.

ACTION: Commissioners should provide feedback on the direction and content of the analysis to date. Draft recommendations will be presented at the December meeting.

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