MedPac Summary: Hospital Inpatient and Outpatient Services

In a previous “PYA Alert,” a summary of the Medicare reimbursement recommendations made by MedPac in their “Annual Report to the Congress: Medicare Payment Policy” regarding seven medical provider categories was presented. Within the same document, MedPac discusses the implications of these recommendations specifically to hospital inpatient and outpatient services. To assess the Medicare reimbursement environment in hospital settings, MedPac considers six factors:

- Access to care
- Changes in supply and provider capacity
- Changes in volume
- Changes in quality
- Provider access to capital
- Payments vs. cost (Medicare Margin)

In some instances, MedPac condenses the six point assessment into fewer sections. **MedPac concludes that in general, hospitals are receiving adequate payments; however, programs that improve quality need to be implemented.**

Access, Supply, and Capacity: In terms of hospital inpatient and outpatient services, MedPac observed that Medicare beneficiaries are experiencing good access, supply, and capacity. In the past year, more hospitals opened than closed. Due to changes in medical technology and improvement in the ease of post-op recovery, many hospital procedures shifted in categorization from inpatient to outpatient. Inpatient services saw a decline in volume; however, outpatient volume increased at the same rate. Total procedural utilization did not significantly change. The diversity of services offered by hospitals is also expansive with a shortage in psychiatric care only (which is prompting follow-up research from MedPac).

Quality: The quality of the services offered by hospitals is an important area of focus for MedPac. Although MedPac observed a general improvement in quality, they stressed that there is room for improvement. In this study, hospital quality was judged by two metrics:

- In-hospital and 30 day mortality rates
- In-hospital safety or Patient Safety Indicators (PSI)

**Data showed a general improvement in both quality metrics. In order to incentivize hospitals to focus on improving their quality of service, MedPac recommends that payment increases be tied to the implementation of quality improvement programs. MedPac and CMS have made it clear in their statements that quality is the primary focus of future medical policy and reimbursement.**
Access to Capital: MedPac concedes that the current economic downturn makes it difficult to assess hospitals’ past and future access to capital. There was a decline in accessed capital during the middle of 2008, but MedPac can not verify if this decline was due to the general negative economic environment or Medicare payment inadequacy. Whether Medicare payment was a factor in this decline or not, interest rates have increased across the board, making total financial management of limited assets a challenge for most hospitals. Our country’s current unstable economy is also making it difficult to predict next year’s ability to access capital. MedPac concluded that whatever the reason, in FY 2009, access to capital will be difficult and the cost of capital will be higher.

Payment vs. Cost: In the hospital environment, payment and cost interrelation is expressed in terms of the “Medicare Margin.” Simply explained, the Medicare Margin is the difference between the cost of executing medical services and the reimbursement made by Medicare in exchange for delivery of that service. Even though the Medicare Margin has been consistently trending downward since 1997, MedPac admits that with our unstable economy it is difficult to determine if the Medicare Margin will improve without an increase in Medicare reimbursement. MedPac points to several reasons for the downward trend:

- Fierce competition for nurses and other employees
- Supplementation of pensions and other benefits to offset the economy
- Decline in volume due to lack of medical insurance
- Higher capital interest rates
- Declining Indirect Medical Education (IME) adjustments for teaching hospitals over the next two years

Efficiency: MedPac took special interest in assessing hospital efficiency. Efficiency is not a new topic for MedPac, but it was defined differently this year. In the past, hospital efficiency was only measured in financial terms. This year, MedPac used quality indicators in addition to traditional financial metrics. Quality was defined in terms of patient mortality, hospital re-admission, and cost per discharge. Findings revealed that patient mortality and cost per discharge were much better in efficient hospitals as opposed to inefficient hospitals. In addition, efficient hospitals performed consistently better on all quality indicators than did inefficient ones. Re-admission ratios were similar in both.
**Recommendations:** It is currently predicted that the market basket (a benchmark tool used for tracking the progress of general economic inflation via a fixed list of commodities) for hospitals will increase by 2.7%; however, two more rate assessments will be released before the MedPac recommendations need to be finalized.

**MedPac Recommendation:** Increase the hospital payment rate equal to the market basket increase and implement a quality incentive payment program.

**MedPac Recommendation:** Decrease the IME in 2009 and eliminate it in 2010. These unclaimed funds should be allotted for quality improvement programs.

**2010 Upcoming Policy Changes:**
Several policy changes are slated for 2010 that could influence hospital financial outcomes:

- **MS DRG coding changes implemented**- in 2010 through 2012; HHS is required by law to increase or decrease hospital payments to insure that this coding change is budget neutral.

- **Hospital reclassification options**- the offer to hospitals for reclassification in the labor market is extended through 2009.

- **CMS elimination of 3% capital add-on**- payments for hospitals in urban areas will not be eligible for the 3% capital add-on fund as in the past.

- **Hold harmless payments**- rural hospitals will still receive hold harmless payments in 2009 but not 2010.

- **Medicare Dependent Hospitals**- rural hospitals will get “bumped-up” payments due to increases dedicated to Medicare Dependent Hospitals (MDH’s).

In summation, MedPac recommends that no significant payment changes are due to hospitals (only one equal to the predicted 2.7% market basket change). The emphasis is on the concern for quality. As healthcare organizations read this report, note should be taken concerning the attention to quality. **MedPac emphasizes that their future recommendations will link financial rewards to implementation of quality programs and health outcomes that are efficient and effective.**

The entire text of the MedPac Report can be found at [www.medpac.gov](http://www.medpac.gov).
If you would like more information, please contact the expert listed below at (800) 270-9629.