

MedPAC Recommends Hospital & Physician Payment Updates

During its January 2025 meeting, the Medicare Payment Advisory Commission (MedPAC) reviewed and endorsed recommendations for Medicare payment reform and updates.¹ Among other decisions, the commission recommended revisions to the annual Medicare Physician Fee Schedule (MPFS) update methodology and increased pay rates to hospitals under the Inpatient Prospective Payment System (IPPS). This Health Capital Topics article reviews MedPAC's recommendations, responses from industry stakeholders, and the likelihood that the commission's recommendations will be enacted by Congress.

MedPAC is an independent congressional agency that advises Congress on issues affecting the Medicare program, such as "payments to private health plans participating in Medicare and providers in Medicare's traditional fee-for-service program, [as well as] access to care, quality of care, and other issues affecting Medicare."² Additionally, MedPAC is required by law to annually assess the adequacy of Medicare payments for various healthcare delivery sectors and make payment update recommendations.³ In making that assessment, the commission analyzes factors such as patient access to care, provider access to capital, quality of care, Medicare payments, and provider costs.⁴

On January 16, 2025, MedPAC met to assess "payment adequacy and updating payments" for physician and other health professional services.⁵ In providing context to the landscape of physician reimbursement, the presentation to the commission noted several statistics, including that:

- Payment rates for evaluation and management visits increased in 2021, requiring offsetting decreases to the conversion factor to maintain budget neutrality;
- Spending per Medicare fee-for-service (FFS) beneficiary increased 4.2% in 2023;
- Median physician compensation grew 3% in 2023;
- Median advanced practice provider (APP) compensation grew 6% in 2023; and
- The Medicare Economic Index (MEI) peaked at 4.4% in 2022, but is expected to decrease to 2.3% by 2026.⁶

In consideration of the above, two recommendations were proposed to and approved by the commission. The first recommendation was to replace the current FFS updates required by law with a single update to the MEI, minus 1%; this would result in a projected 1.3% increase to physician payments in 2026.⁷ The MEI was developed in 1975 by the Centers for Medicare & Medicaid Services (CMS) to measure annual changes in physicians' operating costs and earnings levels, and is currently a significant (but not the only) factor in determining the annual payment update for the MPFS.⁸ Similar, bipartisan legislation was proposed in 2024 to tie future MPFS updates directly to the MEI, but did not progress in Congress for a myriad of political reasons.⁹ The second recommendation was to enact MedPAC's prior proposal to implement a clinician safety net, which would increase average MPFS payments by 1.7%.¹⁰ MedPAC recommended in 2023 that add-on payments should be established for all MPFS services rendered to low-income beneficiaries. Specifically, MedPAC recommended that primary care physicians receive a 15% boost for services rendered to those beneficiaries, and all other clinicians receive a 5% boost.¹¹ If both recommendations are ultimately enacted, MedPAC predicts that average MPFS payments would increase by approximately 3% – primary care clinicians' pay would increase 5.7%, while all other clinicians' pay would increase 2.5%.¹² This would increase government spending \$2 to \$5 billion in the first year, and \$10 to \$25 billion over five years.¹³

During its January 2025 meeting, MedPAC also voted to recommend an increase in hospital payments (both inpatient and outpatient) for 2026. Specifically, the commission voted in favor of the recommendation to increase the inpatient and outpatient base payment rates for general acute care hospitals by an additional 1%.¹⁴ The commission also approved re-recommending that existing payments to safety-net hospitals be redistributed and that \$4 billion be added to that fund.¹⁵ First proposed in 2023, the so-called Medicare Safety-Net Index would direct more funds to hospitals serving more FFS Medicare patients; as a result, those hospitals serving fewer FFS Medicare patients may experience a decrease in funding.¹⁶ The result of this recommendation would increase spending \$5 to \$10 billion in the first year, and \$25 to \$50 billion over five years.¹⁷

The recommendations approved by MedPAC commissioners will become part of MedPAC's June 2025 report to Congress; as noted above, while MedPAC is required to make recommendations to Congress, Congress is not required to follow those recommendations, i.e., draft and pass legislation.

Stakeholders quickly responded to MedPAC's report, with the general consensus that MedPAC's suggested physician payment methodology and hospital payment updates did not go far enough. The American Medical Association (AMA) commended MedPAC for the recommendation to tie Medicare physician updates to an inflation-based index, i.e., the MEI, and expressed its hope that Congress "heed[s] MedPAC's analysis concluding that Medicare payment to physician practices under current law is inadequate and downright threatening to patient access to care."¹⁸ The American Hospital Association (AHA) expressed appreciation for the proposed 1% increase to hospital payment rates, but asserted that "even after the recommended payment

update, Medicare's payments to hospitals would remain inadequate."¹⁹ America's Essential Hospitals, speaking on behalf of safety-net hospitals, lauded the additional \$4 billion for the hospital safety-net fund, but concern with the "flawed" Medicare Safety-Net Index.²⁰ Specifically, the organization "opposed" the Index because it "would shift funding away from the largest safety net providers that serve the highest numbers of low-income Medicare patients."²¹

Once MedPAC's recommendations are incorporated into its June 2025 report and delivered to Congress, it will be legislators' turn to take action and pass legislation on these topics. The likelihood of it passing the physician payment recommendations appears high given that similar bipartisan bills have been proposed previously. There is less clarity on the likelihood of legislation taking up MedPAC's hospital payment update recommendations. Providers will have to simply have to wait (or lobby) and see.

- 1 "January 16-17, 2025: Public Meeting" Medicare Payment Advisory Commission, <https://www.medpac.gov/meeting/january-16-17-2025/> (Accessed 2/13/25).
- 2 "What We Do" Medicare Payment Advisory Commission, <https://www.medpac.gov/what-we-do/> (Accessed 2/13/25).
- 3 "Chapter 2: Assessing payment adequacy and updating payments in fee-for-service Medicare" in "Report to the Congress: Medicare Payment Policy Medicare Payment Advisory Commission, March 2024, available at: https://www.medpac.gov/wp-content/uploads/2024/03/Mar24_Ch2_MedPAC_Report_To_Congress_SEC.pdf (Accessed 2/13/25), p. 35.
- 4 *Ibid.*
- 5 "Assessing payment adequacy and updating payments: Physician and other health professional services" MedPAC, January 16, 2025, available at: <https://www.medpac.gov/wp-content/uploads/2024/08/Tab-C-Physician-payment-adequacy-January-2025-SEC.pdf> (Accessed 2/13/25).
- 6 *Ibid.*
- 7 *Ibid.*
- 8 "Report to the HHS Secretary: Review of the Medicare Economic Index" 2012 Medicare Economic Index Technical Advisory Panel, August 2021, available at: <https://www.cms.gov/Regulations-and-Guidance/Guidance/FACA/Downloads/MEI-Review-Report-to-HHS.pdf> (Accessed 2/13/25).
- 9 For more information, see "Looking into the Crystal Ball: 2025 Healthcare Industry Outlook" Health Capital Topics, Vol. 17, Issue 12 (Dec. 2024), https://www.healthcapital.com/hcc/newsletter/12_24/HTML/OUTLOOK/what-to-expect-in-2025.php (Accessed 2/13/25).

- 10 MedPAC, January 16, 2025.
- 11 *Ibid.*
- 12 *Ibid.*
- 13 *Ibid.*
- 14 "MedPAC votes to recommend hospital pay increases for 2026" By Dave Muoio, Fierce Healthcare, January 17, 2025, <https://www.fiercehealthcare.com/providers/medpac-votes-recommend-hospital-pay-increases-2026> (Accessed 2/13/25).
- 15 *Ibid.*
- 16 *Ibid.*
- 17 *Ibid.*
- 18 "MedPAC gets it: Tie Medicare payments to inflation" American Medical Association, January 16, 2025, <https://www.ama-assn.org/press-center/press-releases/medpac-gets-it-tie-medicare-payments-inflation> (Accessed 2/18/25).
- 19 "AHA Comments in Advance of MedPAC January 2025 Meeting" American Hospital Association, January 10, 2025, <https://www.aha.org/2025-01-10-aha-comments-advance-medpac-january-2025-meeting#:~:text=HOSPITAL%20PAYMENT%20UPDATE%20RECOMMENDATIONS&text=Simply%20put%2C%20even%20after%20the, fact%20that%20the%20commission%20recognize s.> (Accessed 2/18/25).
- 20 Letter dated January 15, 2025, from America's Essential Hospitals to Paul Masi, MPP, Executive Director, Medicare Payment Advisory Commission, Re: Effects of proposed Medicare Safety-Net Index on Essential Hospitals, available at: <https://essentialhospitals.org/wp-content/uploads/2025/01/MedPAC-MSNI-Letter.pdf> (Accessed 2/18/25).
- 21 *Ibid.*



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