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MedPAC Recommends Raising Hospital Payments

On March 15, 2019, the *Medicare Payment Advisory Commission* (MedPAC), an entity established by the *Balanced Budget Act of 1997* to assist the U.S. Congress in evaluating various Medicare program issues, released the 2019 edition of its annual *Report to Congress: Medicare Payment Policy*.[1] The report identifies issues and presents recommendations to Congress that are aimed at providing high-quality care to Medicare beneficiaries while helping to control Medicare spending.[2] The majority of these recommendations involve reimbursement rate changes for providers paid under *fee-for-service* (FFS) Medicare, in which modifications are expressed as a percentage change in base payment relative to the prior year.[3] For 2020, MedPAC recommends positive payment updates for hospitals, *long-term care hospitals* (LTCHs), and dialysis centers; zero updates for physicians, *skilled nursing facilities* (SNFs), and *ambulatory surgical centers* (ASCs); and, negative updates for *home health agencies* (HHAs), *inpatient rehabilitation facilities* (IRFs), and hospice agencies.[4]

Hospital Medicare margins for both inpatient and outpatient services tend to be negative (i.e., costs are greater than reimbursement); margins were approximately -9.9% in 2017, and industry experts project these margins to decrease to -11.0% in 2019.[5] Historically, MedPAC has not recommended a positive payment update for hospitals; however, in light of high-quality hospitals losing money under Medicare, MedPAC is recommending a payment increase.[6] In 2017, there were 291 highly-efficient hospitals, i.e., low cost and high quality, with Medicare margins that were negative (-2.0%), despite their efficiency.[7] As a result, MedPAC recommends increasing payments to hospitals by 2.0%, to counteract the negative margins.[8]

MedPAC also recommends an additional 0.8% payment increase to hospitals (resulting in a total payment increase of 2.8%) to fund a new proposed quality program, the *Hospital Value Incentive Program* (HVIP), which would consolidate four exiting programs.[9] The proposed quality program that MedPAC Commissioners approved in January 2019 would merge: the *Hospital Inpatient Quality Reporting Program* (IQRP), the *Hospital Readmissions Reduction Program* (HRRP), the *Hospital-Acquired Condition Reduction Program* (HACRP), and the *Hospital Value-Based Purchasing* Program (VBP).[10]

Through the elimination of two penalty-only programs, i.e., HRRP and HACRP, the proposed quality program would eradicate approximately $1 billion in overall hospital penalties per year.[11] The proposed quality program considers the overlapping reporting measures that hospitals currently face through the four payment programs, and the belief that some of the reported measures in these programs are not appropriate to assess hospital performance.[12] The HVIP would set standards to assess hospital performance in order to determine incentive payments or penalties upon comparing a hospital to its respective peer group.[13] This proposed program would be patient-centric, focus on population-based outcomes, and encourage coordination of care, measuring five domains administered by the *Centers for Medicare and Medicaid Services* (CMS), including mortality, readmissions, *Medicare spending per beneficiary* (MSPB), patient experience, and hospital acquired conditions.[14] Further, MedPAC believes that HVIP would reduce the administrative burden for hospitals and would be easier to administer.[15]

Beyond the 2.8% hospital inpatient and outpatient services payment adjustment, for year 2020, MedPAC recommends that Congress:

(1) Increase the LTCH base payment rate by 2.0%;

(2) Increase outpatient dialysis services *prospective payment system* (PPS) base rate by the amount determined under current law (1.9%);

(3) Maintain the current base rate for SNFs (MedPAC also recommends that Congress revise the entire SNF PPS);

(4) Maintain the current base rate for physician and other health professional services;

(5) Maintain the current payment rate for ASCs, as well as urge the Secretary of *Health and Human Services* (HHS) to collect cost data from ASCs – without this data, MedPAC cannot adequately calculate a Medicare margin as they do for other provider types in order to assess payment adequacy;

(6) Reduce the HHA PPS base payment rate by 5.0%;

(7) Reduce the IRF PPS base payment rate by 5.0%; and,

(8) Reduce hospice payment rates by 2.0%.[16]

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Additionally, in order to "*cross-cut*" issues in *post-acute care* (PAC) providers, i.e., SNFs, HHAs, IRFs, and LTCHs, MedPAC has long promoted a uniform payment system for all PAC providers to increase equity of payments in these settings.[17] MedPAC believes that the current separate FFS payment systems for different PAC providers may not align costs and payments, reducing payment accuracy.[18] In three of the four PAC settings (SNF, HHA, and IRF), Medicare payments are extremely high relative to the costs of treating beneficiaries, and has created inequities among patients with different healthcare needs.[19] There are currently overpayments to these facilities, and MedPAC has expressed concern about the accuracy and reliability of the information given on provider-reported quality measures.[20] Unifying the PAC payment system is projected to mitigate these overpayment concerns and increase the equity of payments across PAC settings.

Overall, MedPAC's recommendations have a significant influence on Medicare updates and changes.[21] However, it is important to note that these are only recommendations; MedPAC's analysis has to be sufficiently compelling for Congress to move forward with the recommendations.[22] For example, MedPAC has recommended reductions in HHA payment in the past, calling for a 5.0% reduction to HHA payments in 2020, which would lower home health spending by $750 million to $2 billion in 2020.[23] However, CMS has instead increased funding for these services, finalizing a 2.2% increase in payment to HHAs in 2019.[24] Although it is unclear whether these recommended reductions will occur in 2020, the HHA payment increase in 2019 indicates that CMS and HHS may choose to proceed in contradiction to MedPAC recommendations.

As healthcare spending keeps increasing, MedPAC will continue to scrutinize Medicare spending inefficiencies, in order for the Medicare program to have greater fiscal sustainability.[25] Going forward, the aging *Baby Boomer* generation will continue to influence the Medicare program, as well as the taxpayers who finance it.[26] Over the next 15 years, Medicare enrollment will surge; however, the number of tax paying workers is projected to decline over the same timeframe.[27] These forces create a critical financing challenge for Medicare, the entire federal budget, and, in turn, healthcare organizations, which may potentially face further reductions in Medicare payments as the federal government seeks to decrease federal spending and implements initiatives to combat current incentives to provide high-cost care.[28] In response, healthcare entities may pursue precautionary steps to ensure that their services are not only high-quality, but highly-efficient, in order to survive (and thrive) in this most recent era of healthcare reform.

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3 Medicare Payment Advisory Commission, March 2019, p. xiv.

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