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MedPAC Recommends Increasing Hospital & Physician Payments for 2024

On March 15, 2023, the Medicare Payment Advisory Commission (MedPAC) published its annual Report to Congress regarding the status of the Medicare program.[1] Among other areas, the report detailed policy recommendations for the Medicare fee-for-service (FFS) payment systems, the Medicare Advantage (MA) program, and the Medicare prescription drug program (Medicare Part D). This Health Capital Topics article will review the recommendations made by MedPAC and responses from industry stakeholders.

MedPAC is an independent congressional agency that advises the U.S. 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, quality of care, hospital access to capital, Medicare payments, and hospital costs.[4]

In Chapter 3 of its Report to Congress, MedPAC reported that in 2021, the all-payor margins for hospitals participating in the Inpatient Prospective Payment System (IPPS) reached a record high of 8.7%, indicating a stronger access to capital.[5] However, hospitals' average Medicare margins were -6.2% with federal relief funds, and -8.3% without federal relief.[6] MedPAC also noted that costs increased for hospitals in 2022, and will likely continue in 2023, resulting in lower Medicare margins of approximately -10%.[7] As regards quality of care measures, hospital readmission rates for Medicare FFS beneficiaries improved, but risk-adjusted hospital mortality rates remained higher than in 2019 and patient experience scores declined.[8] In consideration of the above, MedPAC suggested that Congress update the Medicare IPPS base payment rates for fiscal year (FY) 2024.[9] MedPAC additionally stated that the statutorily-required annual base payment rate increase should be increased by an additional 1% for FY 2024. Because MedPAC does not believe this 1% increase will be financially sustainable for safety-net hospitals (which typically have a poorer payor mix), the commission addressed these hospitals separately.[10] In addition to the outlined recommendations, MedPAC recommended payments should be redistributed through a new Medicare Safety-Net Index (MSNI), which would calculate a score for each hospital based on the hospital's proportion of Medicare beneficiaries, low-income Medicare beneficiaries, and uncompensated care.[11] MedPAC explains that the MSNI would be structured as a percentage add-on payment to current IPPS payments, so those safety-net facilities with a higher proportion of low-income patients would receive enhanced payments.[12] To fund the anticipated cost of MSNI add-on payments, MedPAC suggests that Congress "add $2 billion to the MSNI pool."[13]

In Chapter 4 of its Report to Congress, MedPAC further recommended that for FY 2024, Congress update the Medicare Physician Fee Schedule (MPFS) "by 50 percent of the projected increase in the Medicare Economic Index [MEI]."[14] The MEI was developed by the Centers for Medicare & Medicaid Services (CMS) to measure annual changes in physicians' operating costs and earnings levels, and is a significant factor in determining the annual payment update for Medicare fee schedules.[15] In making this recommendation, MedPAC cited concerns that current payment levels may make it difficult for clinicians to absorb increasing costs due to inflation.[16] Because half of the projected MEI is designated to practice expenses, MedPAC suggested increasing the payment rates by 50% of the MEI, or 1.45%, to account for those increased practice costs.[17] By doing so, MedPAC expects that the recommended increased payments will be able to sufficiently keep up with practice costs.[18]

As relates to Medicare Part C, also known as MA (where Medicare coverage is offered by private companies), MedPAC called for a "major overhaul of MA policies," citing concerns that there is not enough financial pressure on MA plans to ensure they continue to reduce costs and improve quality of care.[19] While MedPAC reaffirmed their support for MA, they expressed concern that Medicare overpays MA plans.[20] Under the current payment policies, the report established that continuing to overpay MA plans would worsen the fiscal sustainability of Medicare overall, especially as the proportion of Medicare beneficiaries who enroll in MA plans grows.[21] The MA program enrolled 49% of Medicare beneficiaries in 2022, with Medicare paying MA an estimated $403 billion.[22] While MA plans have offered "a historically high level of benefits" to enrollees

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for the seventh straight year, with average rebates reaching $2,350 per enrollee in 2023 (double the rebate amounts in 2018), taxpayers are not realizing any savings from MA plan efficiencies.[23]

Reporting on the status of Medicare Part D, Medicare's prescription drug program, MedPAC reported that in 2021, total Part D spending was $110.8 billion; of total, Part D enrollees paid $14.9 billion in premiums for basic benefits, $7.5 billion in premiums for enhanced benefits, and $17.9 billion in cost sharing, accounting for 55% of the total program spending.[24] Despite this extensive spending, the value of the benefits that enrollees have received through the program has "plummeted" in recent years.[25] Consequently, MedPAC renewed its previous recommendations significantly change Part D's benefit design "to limit enrollee out-of-pocket spending; realign plan and manufacturer incentives to help restore the role of risk-based, capitated payments; and eliminate features of the current program that distort market incentives."[26]

Stakeholders quickly responded to MedPAC's report, with the general consensus that MedPAC's suggested payment updates would not be sufficient. The American Medical Association (AMA) agreed with MedPAC's acknowledgment of the rising costs to practice medicine, which it claimed to be a good first step.[27] AMA President, Jack Resneck, Jr. M.D., stated that the AMA feels "strongly that an update tied to just 50% of MEI will cause physician payment to chronically fall even further behind increases in the cost of providing care. Congress should adopt a 2024 Medicare payment update that recognizes the full inflationary growth in healthcare costs."[28] The Medical Group Management Association (MGMA) agreed that this update would not be enough.[29] The Senior Vice President of Government Affairs of MGMA, Anders Gilberg, said that "[i]n the best of times, such a nominal increase would not cover annual medical practice cost increases. In the current inflationary environment, it is grossly insufficient. Medical practices have been suffering from significant staffing shortages and cost increases across the board. An update of any amount less than the full MEI will not adequately remedy the negative impact of the broader economy on practices' financial stability."[30] The AMA, along with 134 other organizations, memorialized these sentiments in a letter that was sent to Congress urging legislators to tie future MPFS payment updates to the full MEI rate, rather than just half.[31] Congress's response to the letter – and to MedPAC's recommendations – will most likely be included in CMS's proposed payment updates for these payment systems, which are typically released in the late spring/summer.

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