

Future of Medicare Hospital Payment

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Health Policy R&D
National Health Policy Forum

Presentation for
Future Hospital Care:
How Will We Pay The Bill
A Hospital Payment Symposium

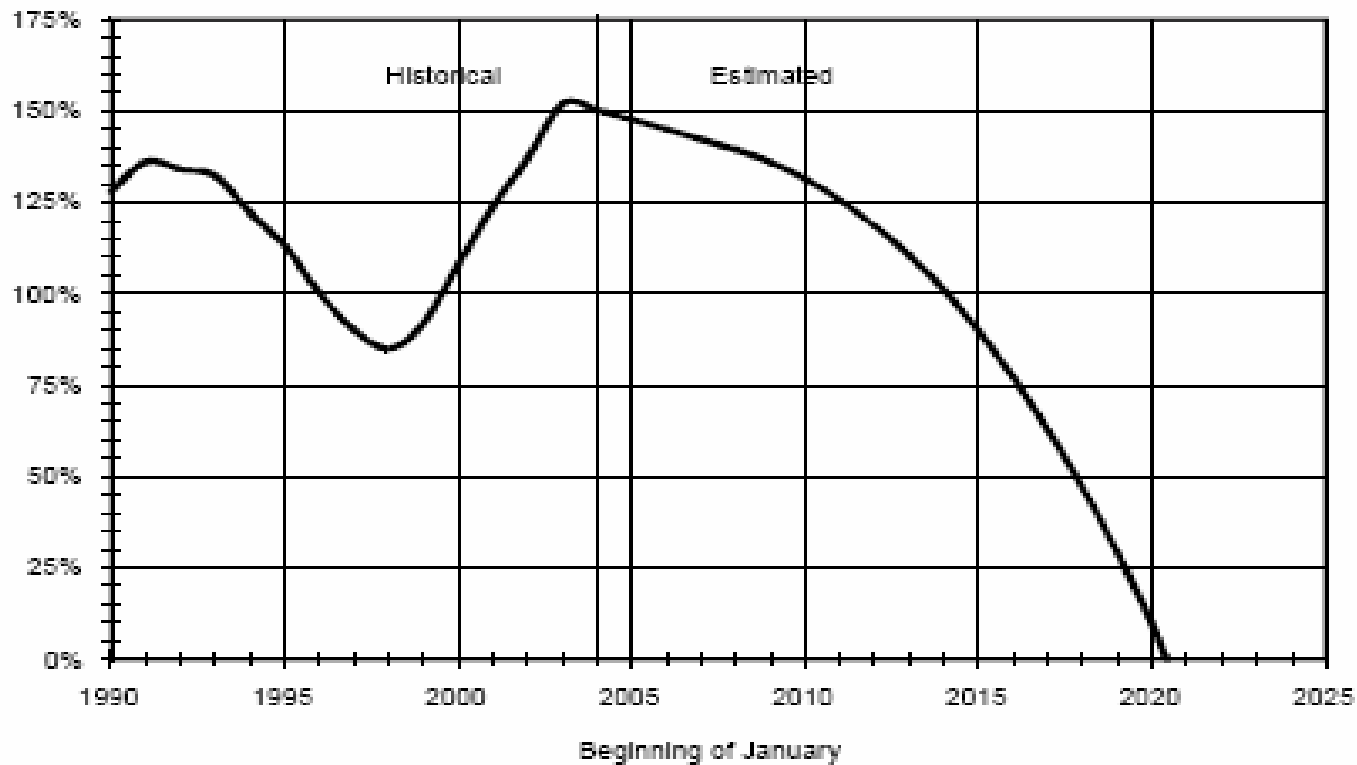
Washington, DC

July 15, 2005

Overview

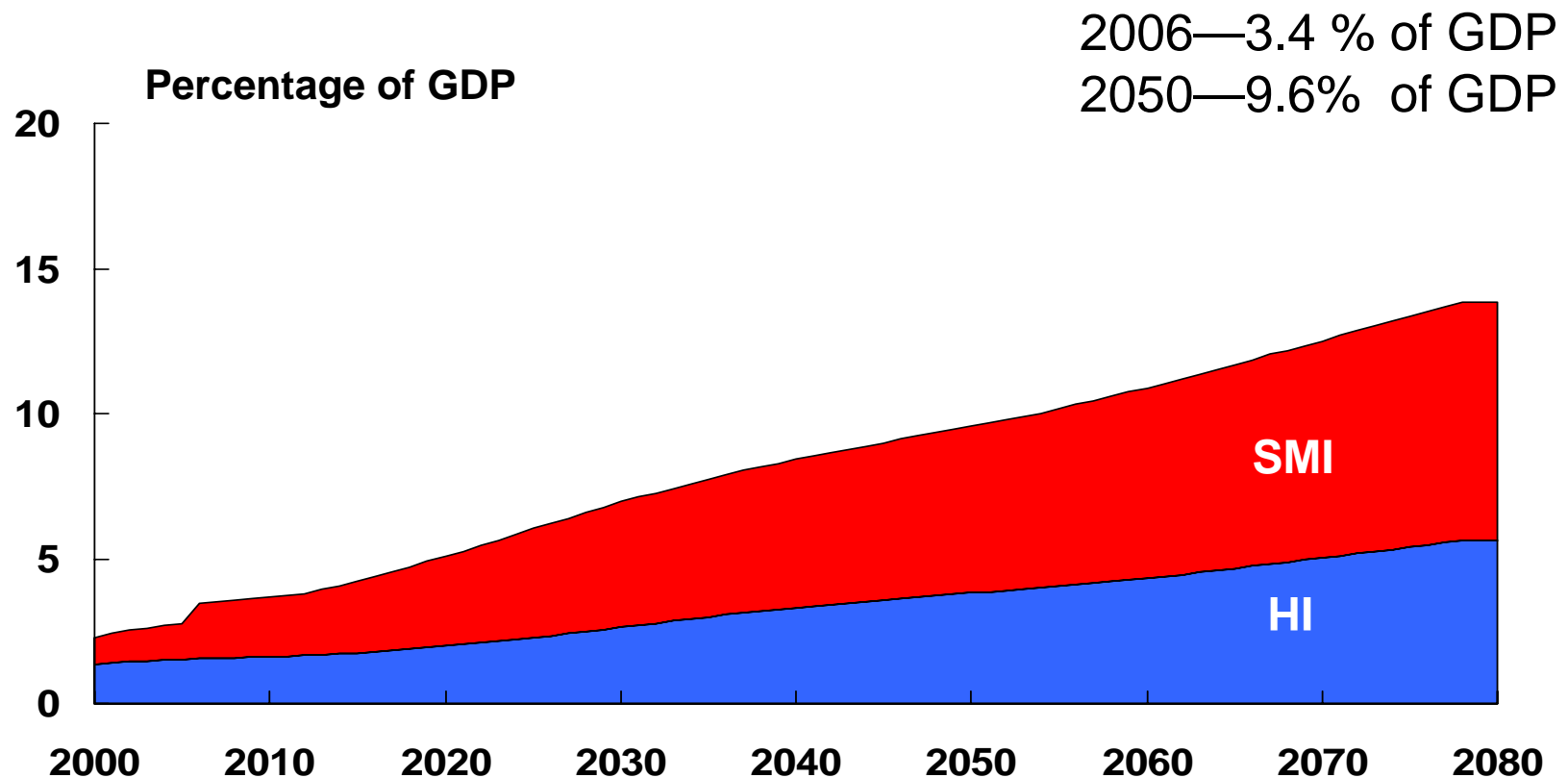
- Medicare's Fiscal Challenge
- Role of the Hospital
- The PPS
- Exercising Fiscal Restraint
- Targeting Payments
- What Next??

HI Trust Fund Balance as Percent of Annual Spending



Source: 2005 Medicare Trustees Report

Medicare Spending as a share of GDP



Source: GAO analysis based on data from the Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.
Note: Medicare projections based on the intermediate assumptions of the 2004 Trustees' Reports. Medicaid projections based on CBO's January 2004 short-term Medicaid estimates and CBO's December 2003 long-term Medicaid projections under mid-range assumptions. SMI consists of Part B and, beginning in 2004, Part D.

Objectives for Medicare Payment

- **Beneficiary access to medically necessary quality services efficiently purchased**
- **Subsidization of community benefits**
 - Medical education
 - Indigent care
 - Medical research and development
 - Standby capacity

Urban Hospitals Emergency Capacity

Isolation Beds per 100	Percent of Hospitals
Less than 2	18.6%
2 to less than 5	47.3
5 to less than 10	24.6
10 or more	9.5
Ventilators	
Less than 2	9.0%
2 to less than 5	33.9
5 to less than 10	39.7
10 or more	17.4

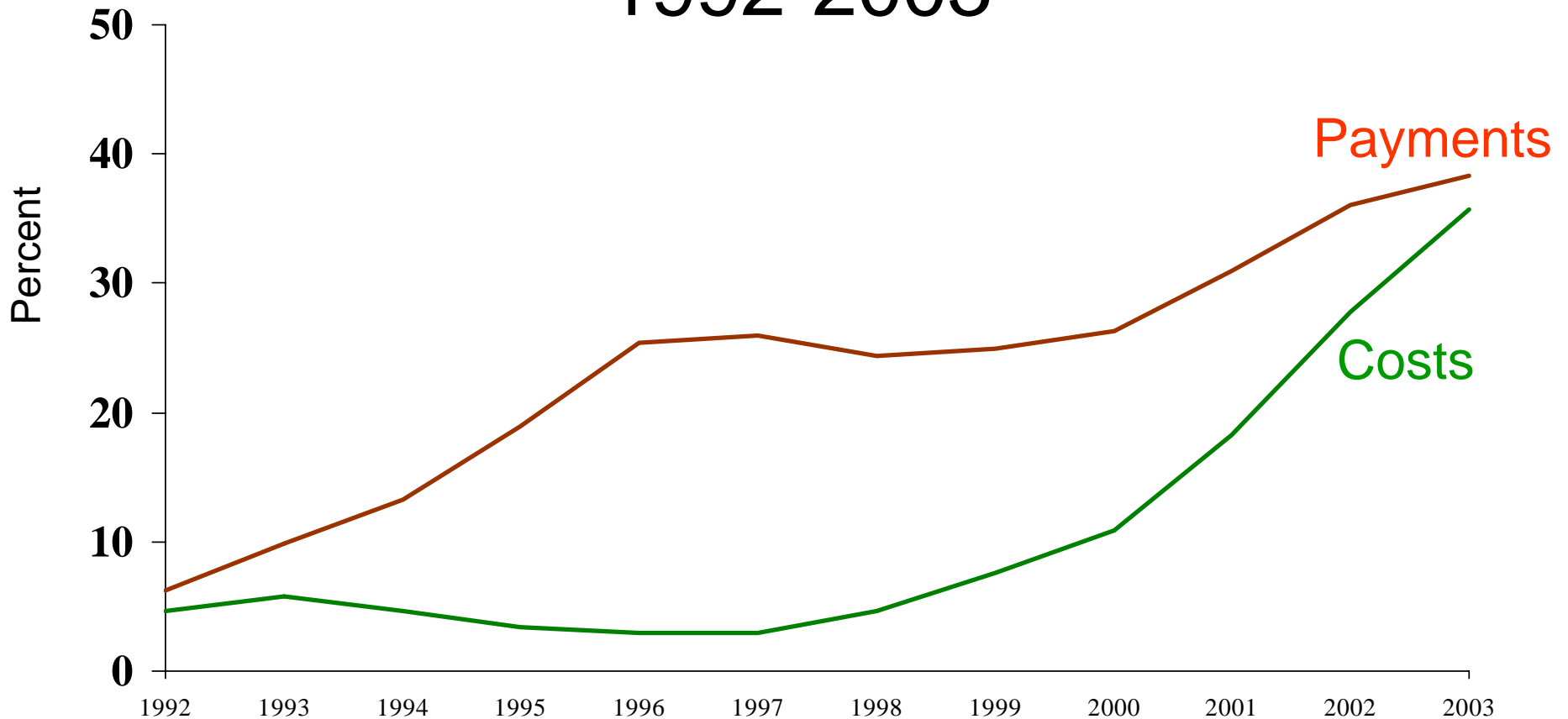
Source: GAO, 2003

Medicare Hospital Benefits Pre- and Post-PPS

- Average Increase in Hospital Spending per Beneficiary
 - » 1970-1983 14.9 %
 - » 1983-2003 4.9 %
- Length of Stay
 - » 1983 9.8 days
 - » 2001 5.9 days
- Outpatient Share of Spending
 - » 1983 7.2%
 - » 2001 16.7%

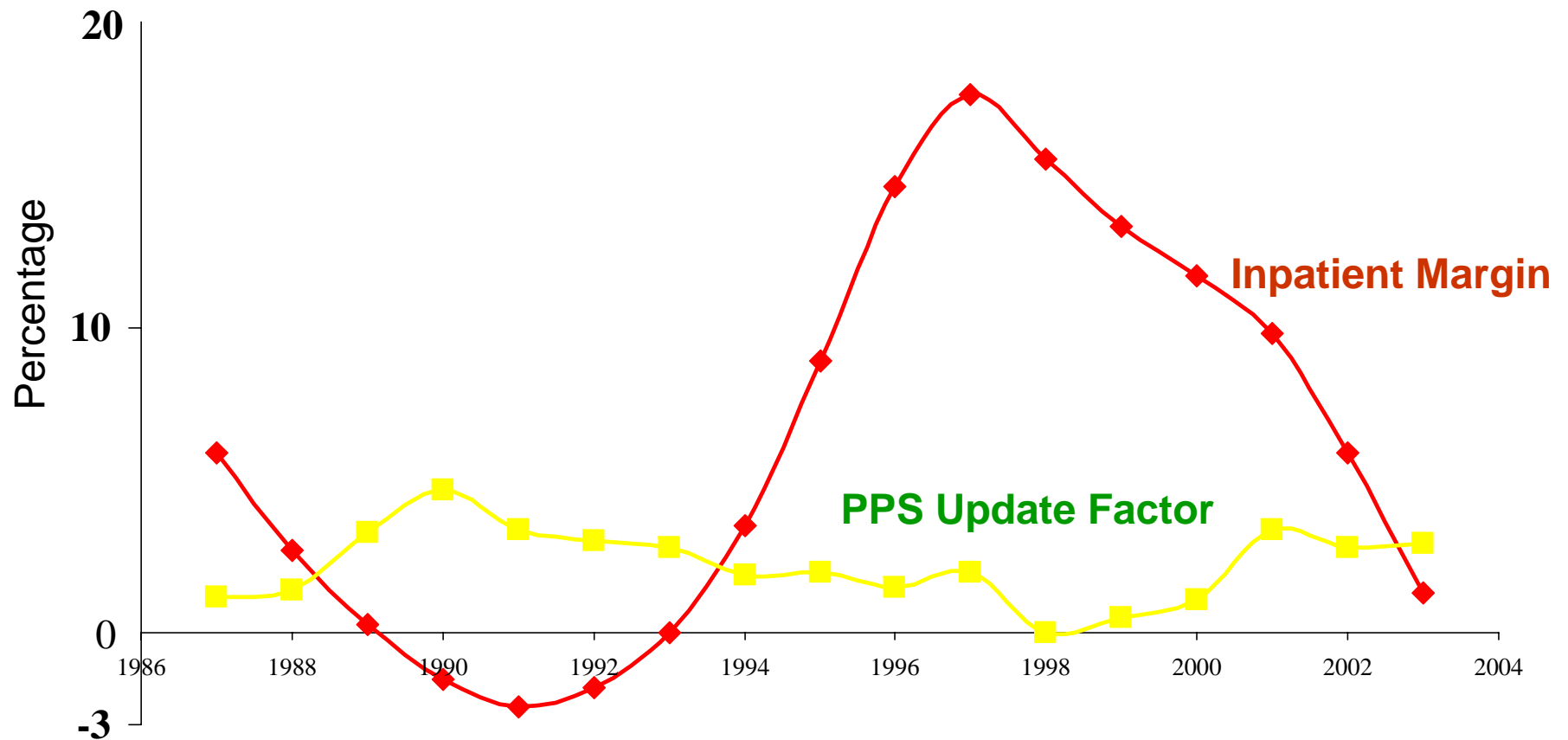
Source: CMS

Cumulative changes in Medicare PPS inpatient payments and costs 1992-2003



Source: Calculations based on data reported by MedPAC

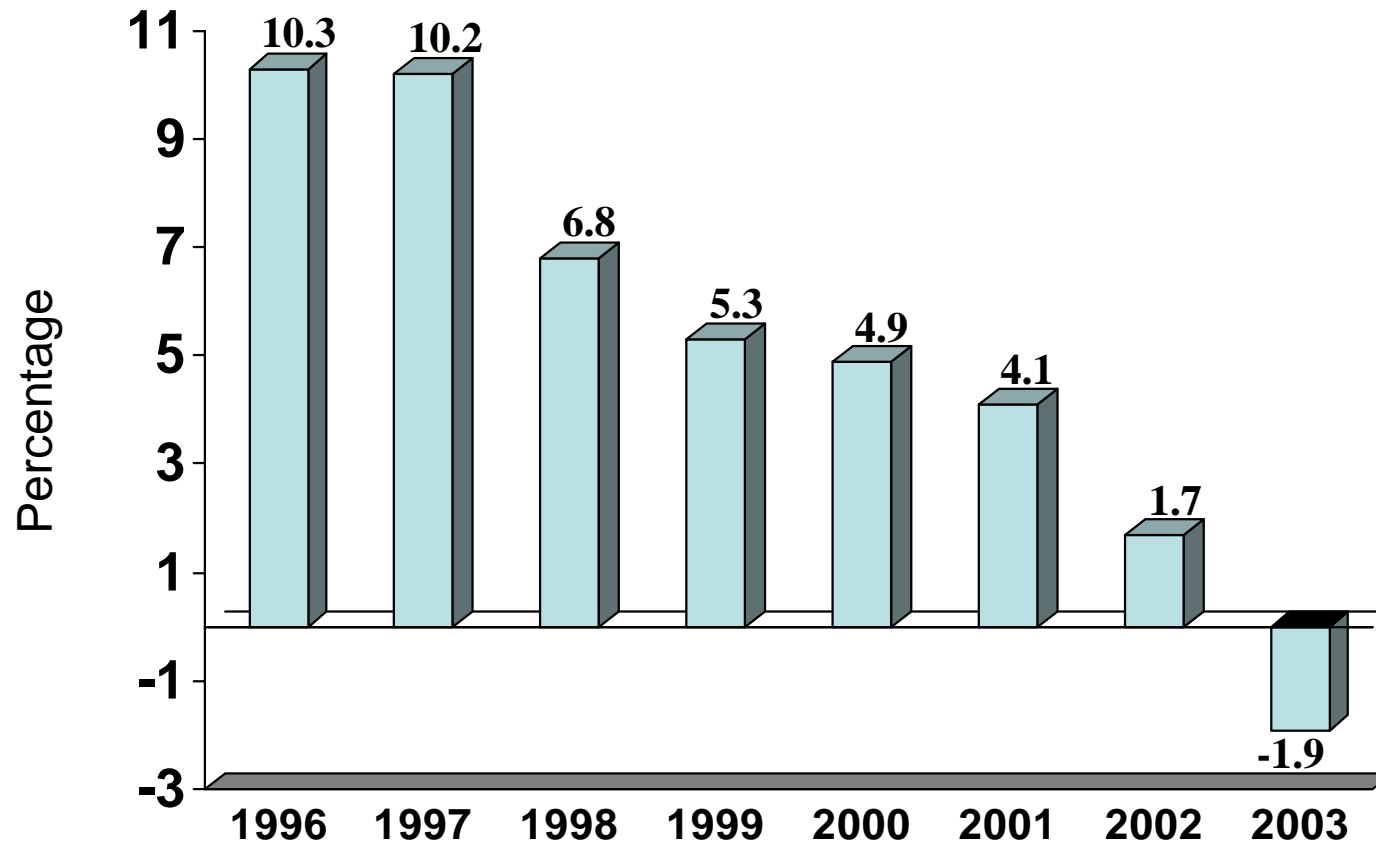
Medicare Inpatient Margins and PPS Update Factors 1987-2003



Note: The calculation of margins after 1992 differs from prior years. The year corresponds more closely to the federal fiscal year

Source: CMS and MedPAC

Overall Medicare Margins 1996-2003



Note: The calculation for 2003 differs from prior years. The year corresponds more closely to the federal fiscal year.

Source: MedPAC

MedPAC Framework for Update Recommendations

- Are current payments adequate?
 - Beneficiary access
 - Changes in volume of services
 - Hospitals' access to capital
 - Relationship of payments to costs (Margins)
- How much efficient provider costs will change?
 - Input price change (Market Basket)
 - Technological change
 - Productivity

Cost growth in periods of varying private sector fiscal pressure

Percent change in	1986-1992	1993-1999	2000-2003
Private Payer Payment to Cost Ratio	1.9%	-2.2%	1.3%
Medicare Cost per Discharge	8.3%	0.8%	5.6%
Market Basket Index	4.7%	3.3%	3.3%

Source: MedPAC, March 2005

A Drucker Principle

Successful companies:

COST TO THE PRICE,

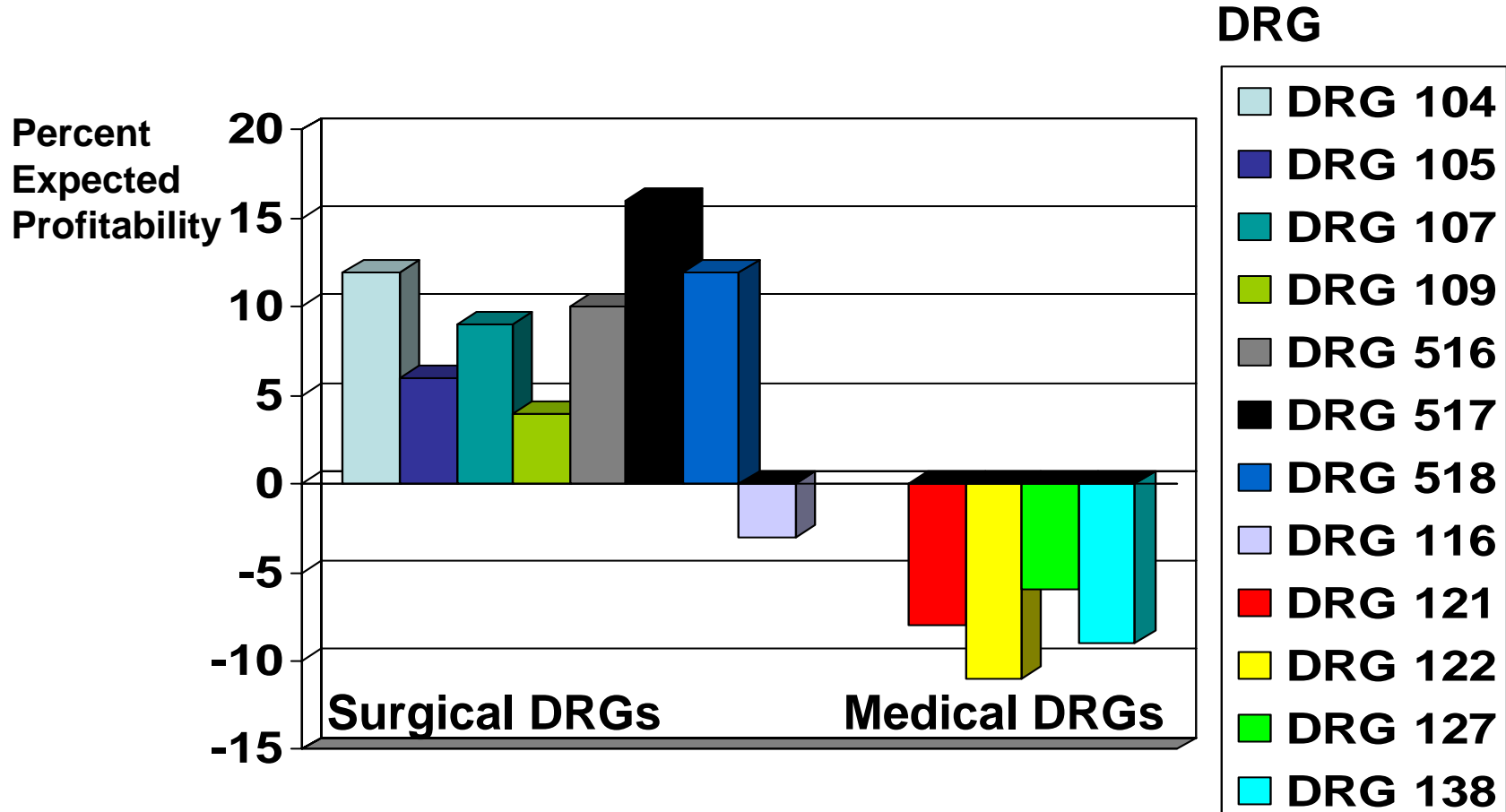
NOT PRICE TO THE COST

Fiscal Restraint Demands Precise Targeting

- Case-mix adjustment
- Labor market wages
- Other???

Relative Profitability across DRGs

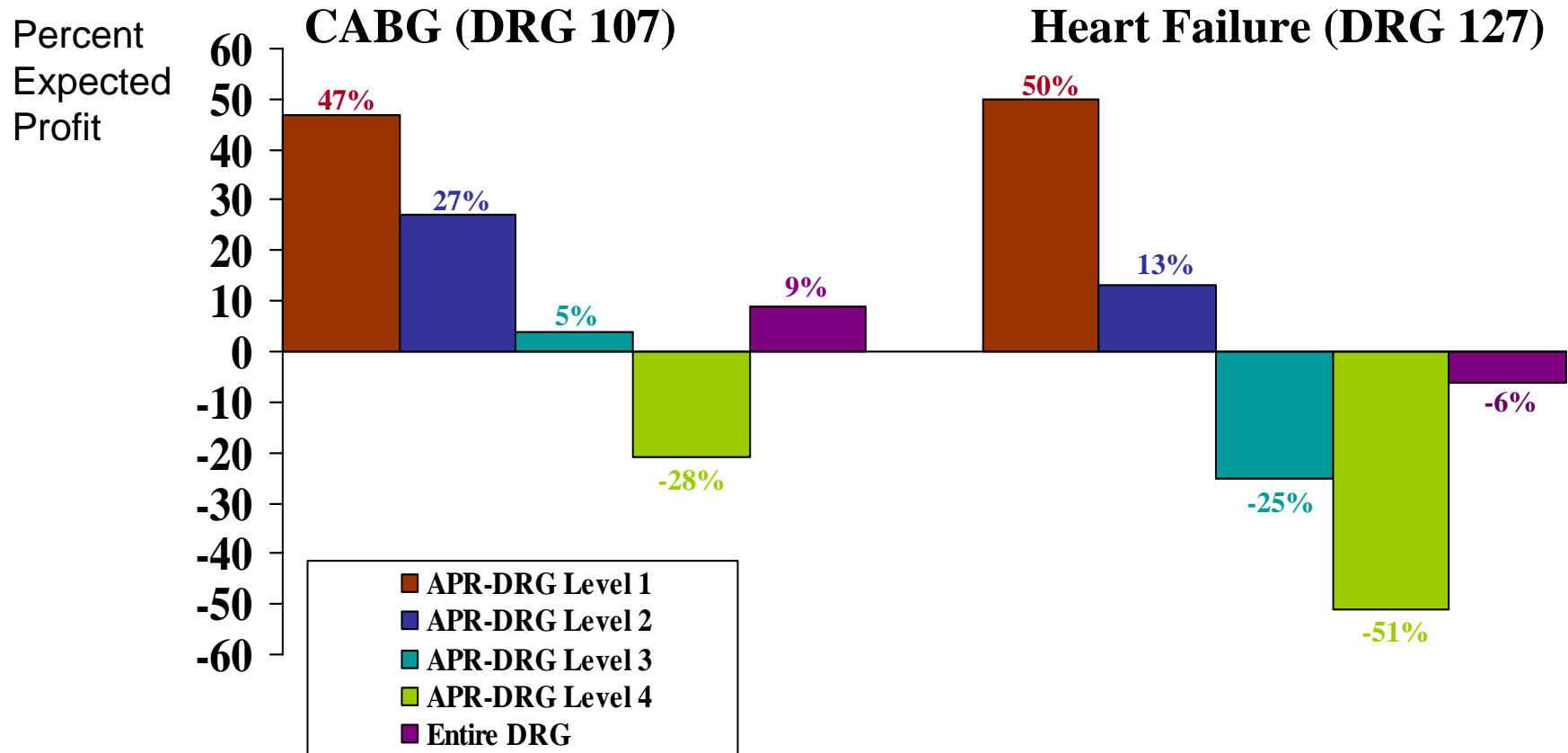
Cardiac DRGs



Source: MedPAC

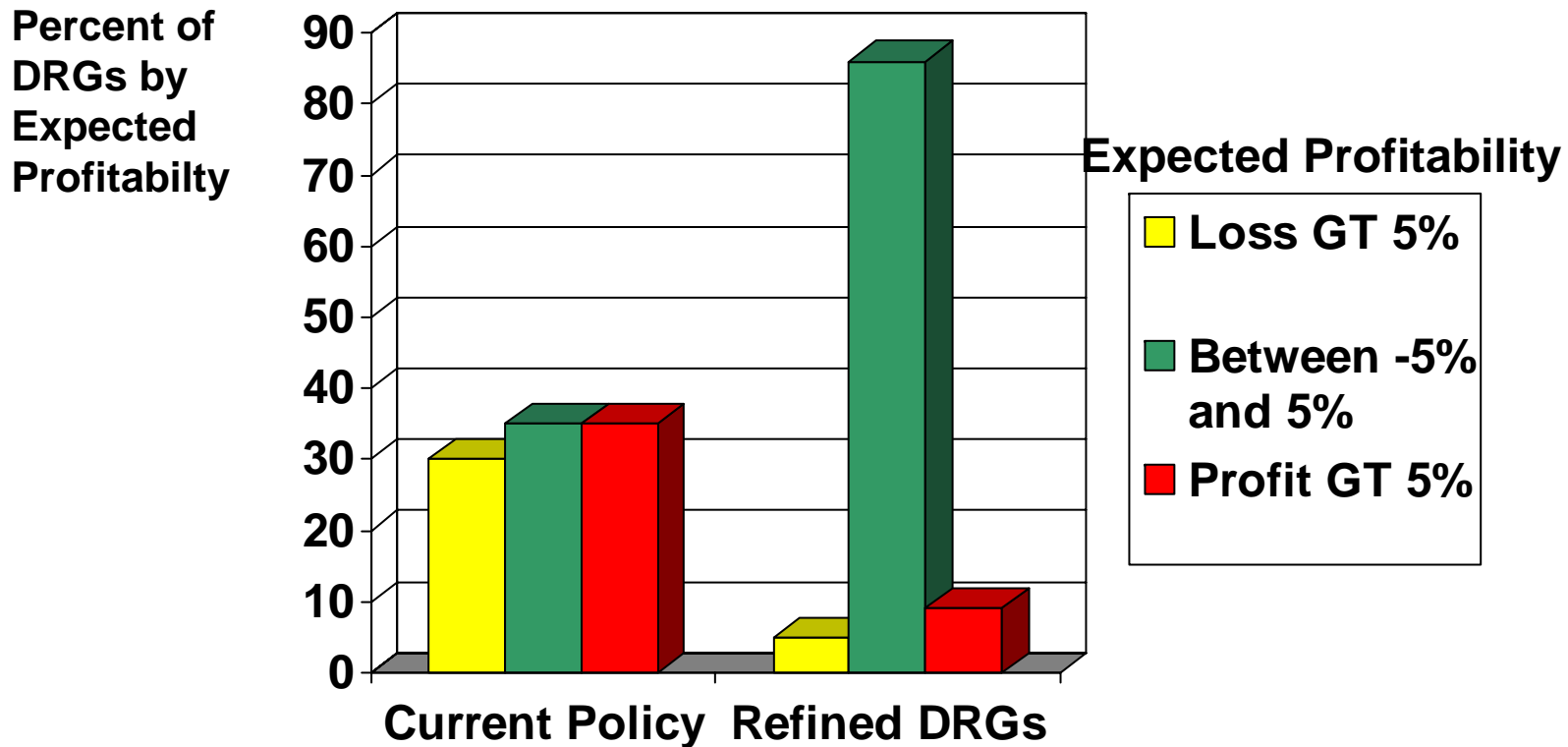
Relative Profitability Within DRGs

Cardiac DRGs



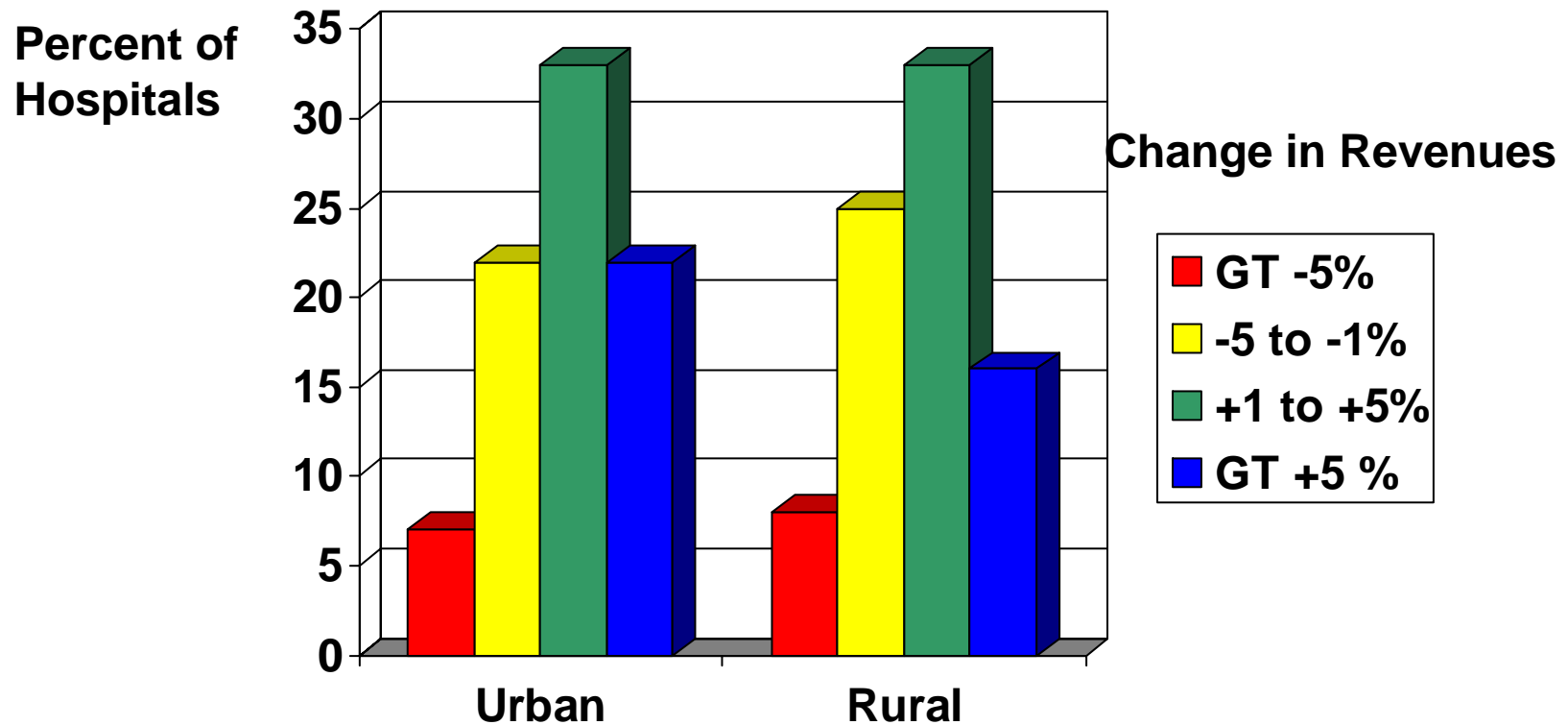
Source: MedPAC

Improved Payment Accuracy Resulting from MedPAC Recommendations regarding DRG Refinement



Source: MedPAC

Impact on Hospital Revenues from Refined DRGs

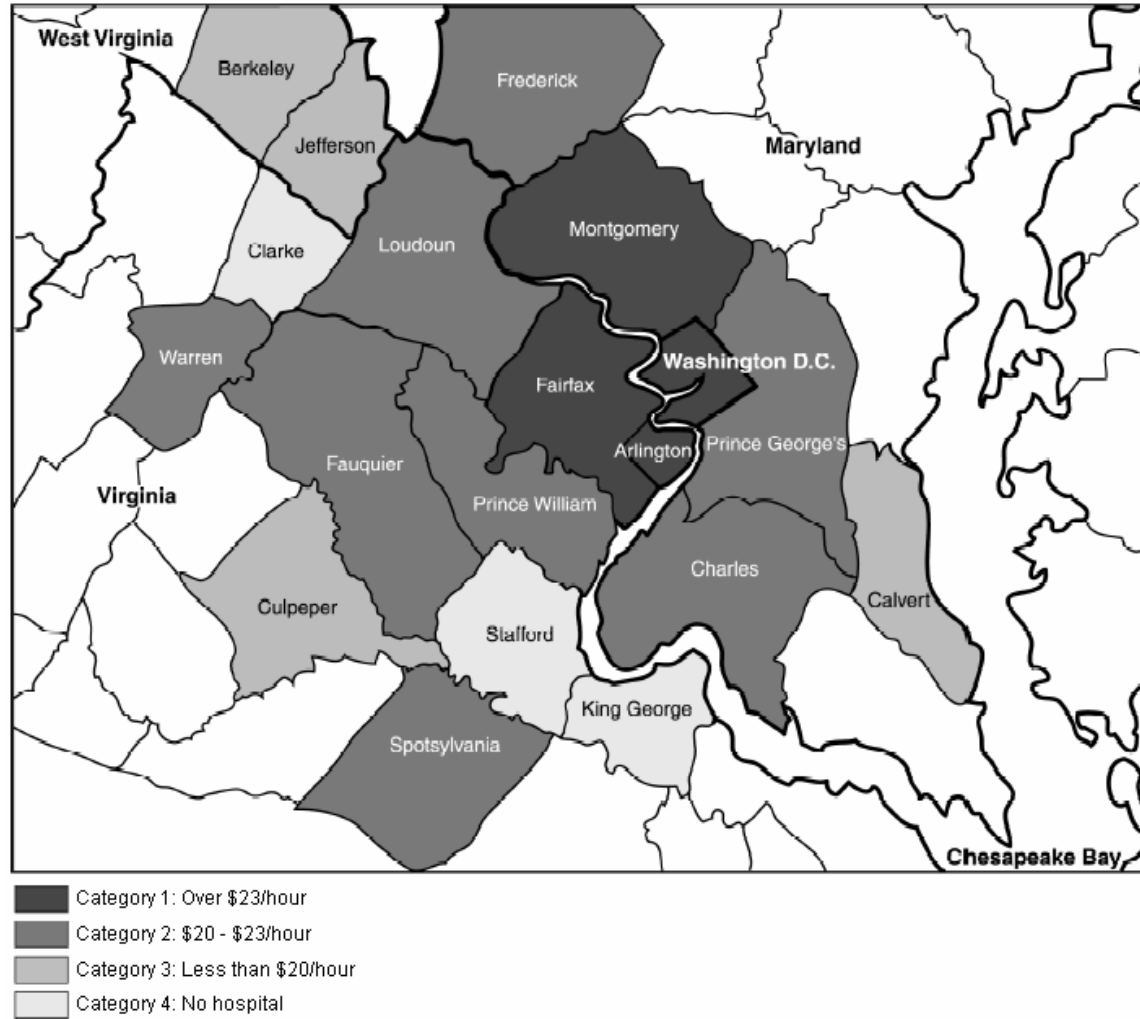


Source: MedPAC

Additional Refinements?

- Labor Market Definitions
- Occupancy
- Scope of services
- ?

DC MSA Wage Rate Variation

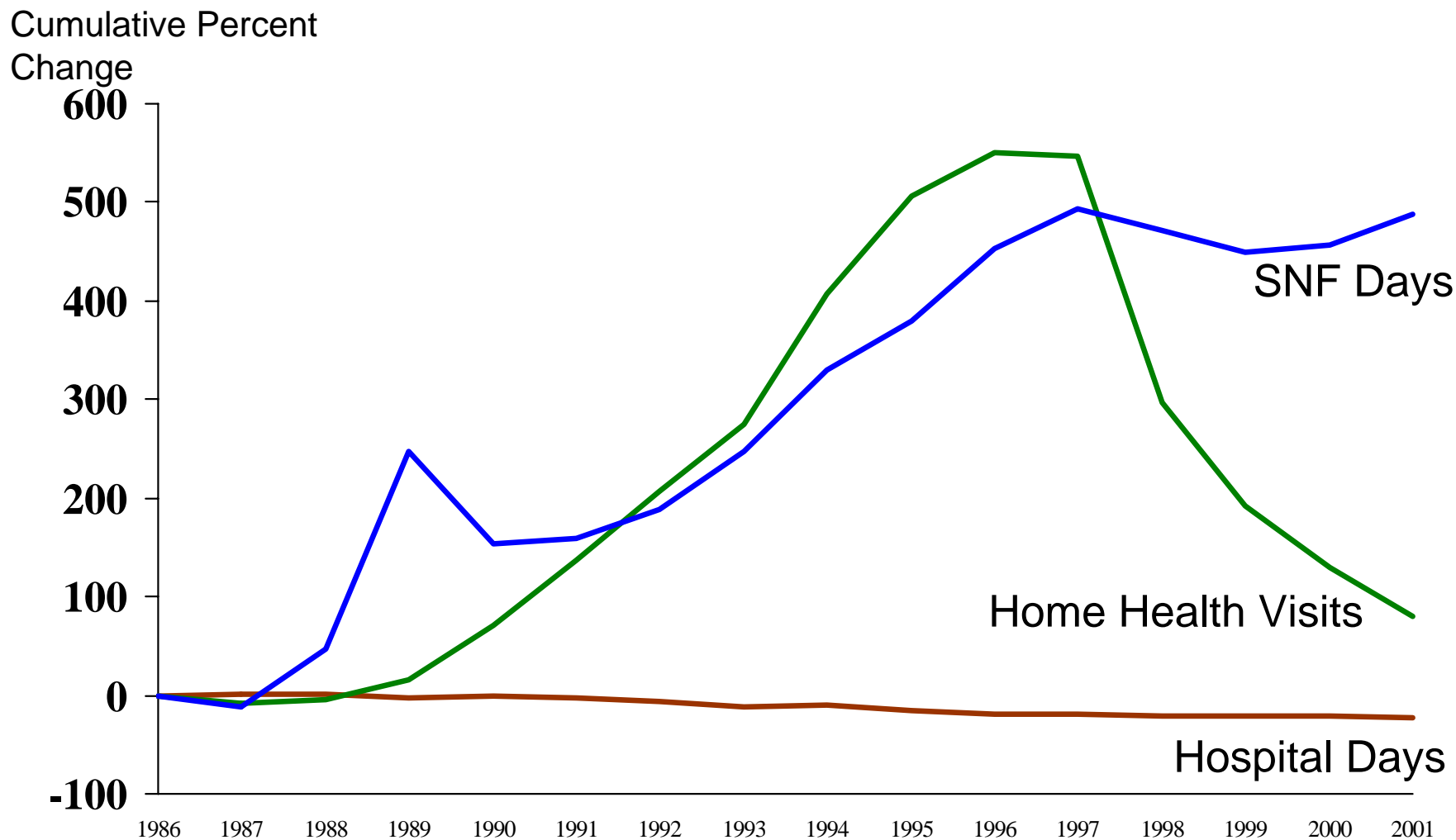


Source: GAO

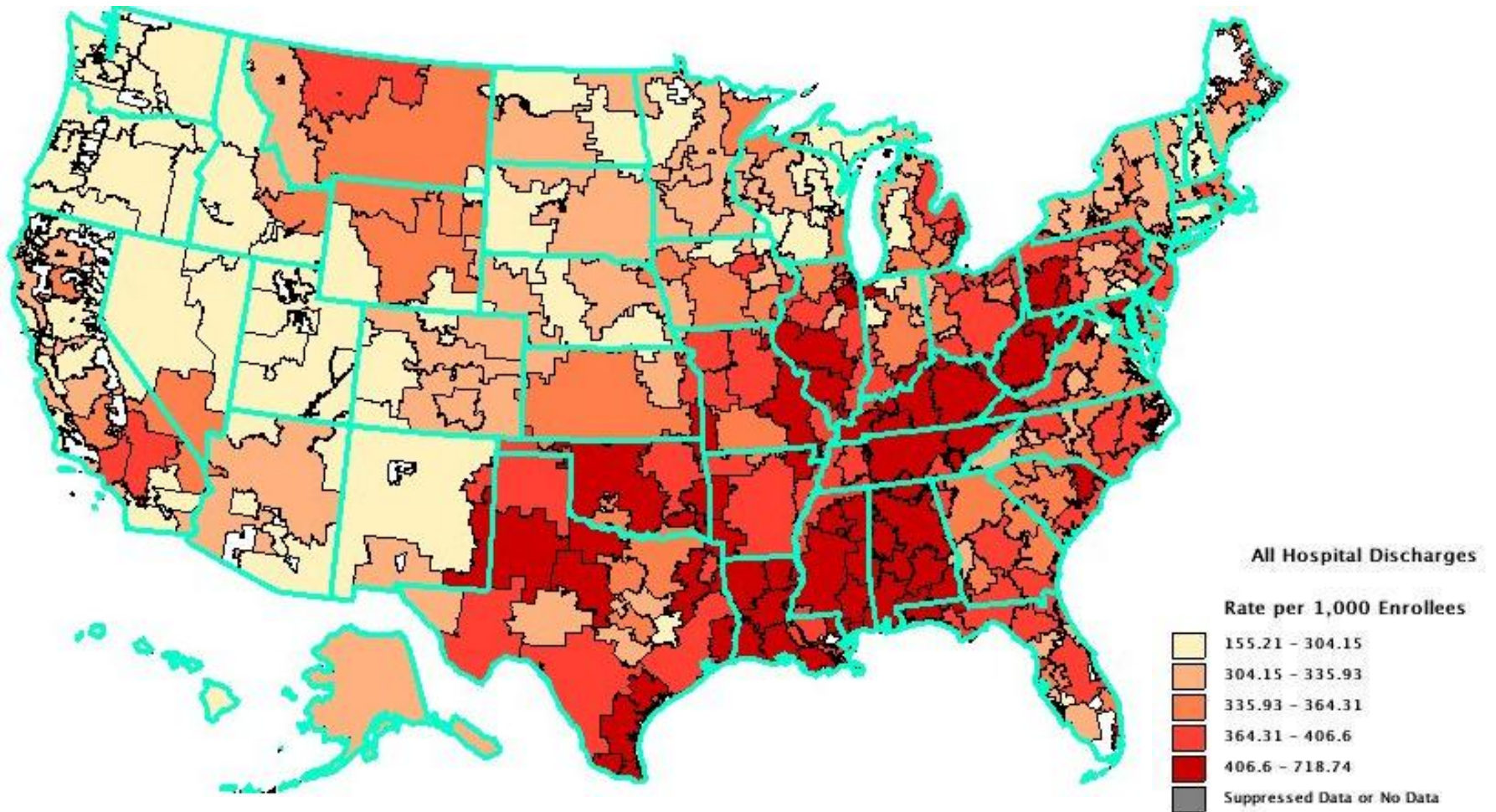
Next Steps???

- Pay for Performance
- Managing Quantity and Price

Cumulative Percentage Change in Inpatient and Post-Acute Services per Beneficiary



Geographic Variation in Medicare Discharges



Source: Dartmouth Atlas of Health Care