# Hospital Inpatient +3.3% Final 2023 Pay

## Improvement Over +2.3% Proposed

Today, the CMS issued the final '23 IPPS and LTCH payment rules. The payment rates and policies are for FY 2023 (starts Oct 1, 2022). The complete rule can be found here.

- **CMS announced final pay update of +3.3% for proprietary hospitals (THC, UHS, HCA, CYH, others) in 2023.** CMS would provide an overall bump of +2.6% for all hospitals- urban, rural, government, critical access – in 2023. This compares to the proposed payment updates of +2.3% for proprietary hospitals and a proposed overall update of +1.4%.

- **The increase in operating & capital hospital payment is offset by decreases in outlier payments (for very costly cases) but would increase hospital payments in 2023 by $2.6 B ($1.6 B proposed)**.
  - CMS projects Medicare disproportionate share hospital (DSH) payments and Medicare uncompensated care payments combined will decrease in 2023 by approximately $0.3 B ($0.8 B proposed).
  - CMS estimates that additional payments for inpatient cases involving new medical technologies will decrease by $0.75 B ($0.8 B proposed) in 2023.
  - Pay for Medicare Dependent Hospitals and the temporary change in pay for low-volume hospitals are set to expire in FY 2023. (In the past, these payments have been extended by legislation, but if they were to expire CMS estimates that payments to these hospitals would decrease by $0.6 B).

- **Medicare DSH pay comes down** & **Medicaid fraction of DSH is re-calculated**. Sec 1115 demonstration policies proposed will not be finalized by CMS.
  - CMS announces they will distribute $6.8 B in uncompensated care payments for 2023, a decrease of approximately $318 M from 2022. This total amount reflects CMS Office of the Actuary's projections that incorporate the estimated impact of the COVID-19 pandemic. CMS will use a 3-year average of the uncompensated care data from the 3 most recent fiscal years for which audited data are available. So, for 2024 CMS would use 2018, 2019, and 2020 cost reports to determine eligible hospitals' uncompensated care payments. This compares to the proposed $6.5 B distribution of uncompensated care payments, which would have been a decrease of ~ $654 M from 2022 stated in proposed rule.
  - CMS is not finalizing any changes regarding the treatment of Section 1115 demonstration days**.** CMS expects to revisit the treatment of Section 1115 demonstration days for purpose of the DSH adjustment in future rulemaking. The proposed changes were that CMS would explicitly reflect its interpretation of the language "regarded as eligible" for Medicaid only includes patients who receive health insurance through a section 1115 demonstration itself or purchase such insurance with the use of premium assistance (provided by a demonstration). Only the days of those patients who receive hospital health insurance that provides essential health benefits, and if bought with premium assistance, for which the premium assistance is equal to at least 90% of the cost of the insurance, would be included in the Medicaid fraction of DSH, and the patient is not entitled to Medicare A

- **"Birthing friendly hospitals" maternal health centers would be publicly reported on a CMS website**. This would be the first-ever hospital quality designation by HHS that specifically focuses on maternal health. CMS would initially give a designation to hospitals that report "yes" to the Maternal morbidity measure finalized in the FY 2022 final rule for adoption in the Hospital Quality Reporting (IQR) Program. CMS's goal is not simply to grant hospitals a maternal health


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"gold star," but to do so in a way that is meaningful for families in search of facilities with a demonstrated commitment to the delivery of high-quality, safe, and equitable maternity care. CMS is requesting feedback on other ways the agency can equity and reduce disparities in care. (unchanged from proposed to final rule).

- **OUR TAKE / NEXT STEPS**: The rule is better news for hospitals who complained the proposal (April 18) did not adequately reflect COVID related labor costs/issues and supply chain, increased equipment costs. New policies and rates start Oct 1, 2022, the start of the Gov FY23.


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## Background

- **Medicare margins for all Hospitals in 2020 was -8.5% (including relief funds).** For more efficient hospitals, the overall Medicare margin was +1%. “All-payer” margin for 2020 declined to 6.3%, down from record high of 7.6% in 2019.

- **Among the 6 largest hospital systems, 2021 operating profits reported to date *exceed* pre-pandemic levels.** This represents 20% of IPPS hospitals, according to MedPAC.

- **Medicare margins for all IPPS hospitals 2022 is projected to be -10%, with break-even (0%) for efficient hospitals.** This projection assumes decreased relief funds and uncompensated care payments, decreased COVID-19 costs, increased Medicare volume

- **Contract nursing, labor issues impact wages and therefore concern MedPAC**. Commissioner Brian DeBusk noted concerns with the market basket (MB of ~2.6%) not adequately reflecting increased labor costs as well as medical device market “equity.”

- **PHE loan repayment comes into play as a concern for rural providers**. Several commissioners noted the difficulty certain rural providers may have in federal loan repayment after COVID.

- **COVID makes access & quality analyses all the more difficult.** However the PHE had material effects on payment adequacy, making them more difficult to interpret (e.g., Mortality rates increased due to pandemic). Other areas of agreement & data points from MedPAC:

  - Excess inpatient capacity in aggregate across 2020, but stressed at times 62% aggregate occupancy rate
  - Fewer hospital closures in fiscal year 2020 (25) and 2021 (10) after a peak in 2019 (46)
  - Inpatient services per capita and outpatient services per capita declined in 2020
  - Large drop in Spring 2020: 40%-50%
  - COVID relief info (sequestration suspension, waivers)
  - Hospitals received over $32 B in federal support (primarily through Provider


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