

Hospital 2024 Pay Bump Needed +2.5%

DSH Reform Needed, Primary Care Bump, MA Pays More for Dialysis

HOSPITALS

- **REC #1: Congress should up pay for acute care hospitals (THC, UHS, HCA, CYH, others) by “current law” (+1.5%) + 1% in 2024.** This is compared to updates of +2.6% in 2020, +2.4% in 2021, and +2.5% in 2022.
- **REC #2: Congress should begin a transition to redistribute DSH and uncompensated care payments through the safety-net index (SNI).** This would help to eliminate the direct subsidy of Medicaid, reduce uncompensated care subsidy, and aligns Medicare funds more directly with hospitals serving low-income Medicare beneficiaries.
- **Rec #3: Congress should add an additional \$2 B to the SNI pool.** These would be from add-on %s scaled in proportion to each hospital’s SNI, FFS share of SNI funds distributed via a % add-on to IPPS and OPSS claims and commensurate amounts for MA paid directly to hospitals and excluded from MA benchmarks.
- **Medicare margin for all IPPS hospitals 2023 is projected to be -10% and is to be modestly below breakeven for relatively efficient hospitals.** This projection assumes hospital input prices grow faster than forecast, expiration of pandemic federal relief funds and Medicare payment changes, and decreases in uncompensated care payments.
- **Aggregate Medicare margin for IPPS hospitals in 2021 was -6.2% (including relief funds).** For more efficient hospitals, the overall Medicare margin was +1%. “All-payer” margin for 2021 rose to 8.7%, up from a low of 5.3% in 2020, as hospitals’ access to capital strengthened.
- **Medicare Safety Net Index (MSNI) would replace flawed Disproportionate Share Hospital (DSH) payments.** There was general support for funding directly to hospitals, and not contributing to Medicare Advantage benchmarks. Commissioners Jaewon Ryu and Larry Casalino shared concerns about winners and losers created, as some hospitals may not meet the SNI threshold.

PHYSICIANS

- **REC #1: MedPAC recommends that Congress update the Medicare base payment rate for physicians and other health professional services by 50% of the projected increase in the Medicare Economic Index (MEI) for 2024.** CMS forecasts a +2.5% MEI increase in 2024.
- **REC #2: MedPAC recommends Congress enact a non-budget neutral add-on payment, not subject to beneficiary cost sharing, under the physician fee schedule for services provided to low-income Medicare beneficiaries.** These add-on payments should equal a clinician’s allowed charges for these beneficiaries multiplied by 15% for primary care or 5% for non-primary care. The add-on payments are expected to increase new dollars spent on physicians to a total of +4% for 2024. Commissioners are supportive of both recommendations and are particularly enthusiastic about the add-on payment.

- **Median physician compensation from all payers grew by +3% per year from 2017 to 2021.** Commercial PPO payment rates were 134% of FFS Medicare rates in 2021, down from 138% in 2020. Link to slides is [here](#).
- **Primary care takes center stage in payment boost, particularly for low-income.** MedPAC noted that the add-on is expected to increase payments to north of \$10 K per clinician per year for the top 20% of physicians treating low-income subsidy enrollees. Pay to primary care would be +15% (primary care) versus +5% (specialty care physicians). Primary care is also expected to see increases in payment from the E/M coding changes in the 2023 PFS.
- **Workforce trends impact access to care and will be addressed in future meetings.** Nearly all commissioners discussed physician workforce shortages, particularly in primary care. They note that 6% of Medicare beneficiaries struggled to find a new primary care provider in 2022 and access is expected to worsen as the PCP supply shrinks from clinician burnout and retirements.

DIALYSIS

- **REC #1: MedPAC recommends that Congress update the Medicare ESRD base rate (DVA, FME) by the rate determined under current law for 2024 (+1.5%).** Commissioners are largely supportive of the recommendation, except for Commissioner Dana Gelb Safran who wants MedPAC to explore ways that payments may curb the duopolies in dialysis and incentivize new entrants / small players.
- **MedPAC predicts a 2023 Medicare margin of -0.4% (down from +2.3% in 2021) for outpatient dialysis services.** Costs are anticipated to increase more than statutory payment rate increases and the sequester was reinstated. Medicare margin for dialysis services in 2021 was +2.3%. All-payer margin in 2021 of +17%.
- **The dialysis market continues to grow with an increasing number of for-profit and freestanding facilities.** MedPAC notes that there was a net increase of 120 facilities between 2020 and 2021. This is a result of both large and small organizations having access to private capital with the large dialysis organizations continuing to grow with acquisitions and mergers. Link to slides [here](#).
- **Large dialysis organizations (LDOs) are wielding their market power in negotiations.** In 2018, MA contracts paid +14% more per dialysis treatment on average than FFS. Commissioners noted that this is a result of negotiation dynamics between MA and dialysis organizations. MA is unable to use some of the traditional levers of cost control like networks due to the LDO duopoly. Despite the higher costs, MA plans (UNH, HUM, ELV) must engage with dialysis orgs. to continue to market products in small and medium sized communities with limited dialysis access.

AMBULATORY SURGERY CENTERS (ASCs)

- **REC #1: No payment update. MedPAC plans to republish recommendations from March 2022 (+3.8% from current law).** This is because ASCs are a small part of Medicare spending, MedPAC has made similar recommendations since 2010, ASCs do not submit cost data (no cost-related measures), and ASC quality measures need to be improved. The Commission has recommended since 2010 that ASCs collect and submit cost data. CMS has shown some interest in this but has not acted. The industry has protested, saying that this is not important for payment setting. Current ASC Quality Reporting (ASCQR) measures are limited.

- **ASCs have rebounded from effects of the pandemic.** Slides can be found [here](#). In 2021, the number of ASCs increased. The volume of services and Medicare revenue were above pre-pandemic levels.
- **REC #2: MedPAC recommends that the Secretary should require cost data from ASCs.** This recommendation has been made over the past 10 years but has been faced by a lack of action from Congress and CMS. There was also general concern about the growing involvement of private equity in the industry.
- **NEXT UP:** The Commission will vote on recommendations in its January 2023 meeting. Next up tomorrow: skilled nursing facility services, home health, and inpatient rehabilitation facility margins and recommendations.