

MedPAC Final -7% Home Health & -3% IRF Cut DSH Redistribution & Safety Net Funds Needed; Primary Care Pay Healthy

While MedPAC is a non-partisan commission of experts that provides payment recommendations to Congress (and agencies), its policies do not always see the light of day. Given that Congress is constantly looking for pay-fors in the current budget environment, along with eventual deficit reduction in 2023+.

HOSPITALS = +2.5% & MORE DSH PAY ITH REDISTRIBUTION OF FUNDS

- **REC #1: MedPAC voted that 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. This will increase spending relative to current law by between \$750 M and \$2 B in 2024 and by over \$10 B over five years.
- **REC #2: MedPAC voted that 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 #2 (Continued): MedPAC voted that 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. See slides [here](#).
- **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.

PHYSICIANS FEE SCHEDULE UPDATE = 50%

- **REC #1: MedPAC voted that Congress update the 2023 Medicare base payment rate for physicians and other health professional services by 50% of the projected increase in the Medicare Economic Index (MEI) for CY 2024.** CMS forecasts a +2.9% MEI increase in 2024. Physician practice expenses are approximately half of MEI costs. This anticipates growth in physician practice costs. One-year cost is projected to be \$750 M to \$2 B, with an approximated 5-year cost of \$5 B to \$10 B.
- **REC #2: MedPAC voted that 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 for fee schedule services furnished to low-income beneficiaries. The add-on payments are expected to increase new dollars spent on physicians to a total of +4% for 2024. The projected 1-year cost is greater than \$2 B and a 5-year cost is expected to be greater than \$10 B. See slides [here](#).

DIALYSIS = +1.5%

- **REC #1: MedPAC voted that Congress update the Medicare ESRD base rate by the rate determined under current law for CY 2024 (+1.5%).** No impact relative to current law. See slides [here](#).
- **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%.

HOME HEALTH CARE SERVICES = -7%

- **REC #1: For 2024, MedPAC voted that Congress reduce the Medicare base payment rate for home health agencies by -7%.** Relative to current law, spending would decrease by \$750 M to \$2 B over 1 year and over \$10 B over 5 years. This should not impact willingness of providers to serve beneficiaries, but may increase cost pressure for some providers.
- **MedPAC predicts a 2023 Medicare margin of +17% (down from +24.9% in 2021) for home healthcare services.** Decline is attributed to an assumed cost growth equal to market basket for 2022 and 2023 (~5% per year). Margins for 2023 could be higher if actual cost growth is lower than current projections.
- **Medicare margin for home healthcare services in 2021 was +24.9%, +25.9% with relief funds.** For relatively efficient home health agencies (HHA), Medicare margin was +28.4%. All-payer margin for 2021 was +11.9%.
- **Medicare marginal profit for home healthcare services was +26%.** Payment per in-person visits increased to \$219, up from \$180 in 2019. The increase in per-visit payment reflects payment updates and the decline in average visits per period. Cost per 30-day period declined -2.3% in 2021.

INPATIENT REHAB FACILITIES (IRFs) = -3%

- **REC #1: Congress should reduce the Medicare base payment rate for inpatient rehabilitation facilities (IRF) by -3% for 2024.** Relative to current law, spending would decrease by between \$750 M and \$2 B in 2024, and by between \$5 B and \$10 B over 5 years.
- **MedPAC predicts a 2023 Medicare margin of +11% (down from +17% in 2021) for IRF services.** Decline is attributed to Medicare payment sequester in effect in 2022 and an assumed cost growth equal to current market basket projections for 2022 and 2023. These projections are above recent actual cost growth and margins may be higher if actual growth is lower than projected.

- **Medicare margin for IRF in 2021 was +17%.** For relatively efficient IRFs, the Medicare margin was +20.4%. Medicare margin for freestanding facilities was +25.8%, significantly higher compared to +5.8% for hospital-based IRFs. All-payer margin for 2021 for freestanding facilities was +14%.
- **Marginal profit for IRF was +41% for freestanding facilities, +22% for hospital-based.** Both hospital-based units and freestanding facilities appear to have access to capital. M&A activity rebounded in 2021 for freestanding facilities.

SKILLED NURSING FACILITIES (SNF) = -3%

- **REC #1: MedPAC voted that Congress reduce the Medicare base payment rate for skilled nursing facilities by -3% in 2024.** Relative to current law, spending would decrease by over \$2 B in one year and over \$10 B over 5 years. Adverse impacts on beneficiaries are not expected. Providers should continue to be willing and able to treat patients.
- **MedPAC predicts a 2022 Medicare margin of +11% (down from 17.2% in 2021) for SNF services.** Costs are expected to increase more than payment rate updates in 2022, 2023, the sequester was reinstated in 2022, and there is an adjustment for overpayments resulting from a new case mix.
- **Medicare margin for SNF services in 2021 was +17.2%.** This is the 22nd consecutive year where margins are above 10%. For relatively efficient SNFs, Medicare margins were +22%. “All-payer margin” for 2021 was +3.4%, up from +3.1% in 2020.
- **Medicare makes up 10% of days, but 16% of revenue for SNFs.** The average cost per day for Medicare increased +4% in 2021. Average FFS payments per days were +25% higher than the average MA payments per day. Note that SNFs also experienced an increased shift in payments from other payers to Medicare due to Medicare coverage waivers. Marginal profit was +26%.

HOSPICE = +3.8%

- **REC #1: MedPAC voted that Congress update the 2024 Medicare base payment rates for hospice by the amount specified in current law (3.8%) and wage adjust and reduce the hospice aggregate cap by 20% for 2024.** This is the same recommendation made in January 2022. There is a 2023 projected margin of 8%. The cap wage adjustment would promote equity across providers. It is expected that this would cause a decrease in Medicare spending relative to the current law of \$250 M to \$750 M over 1 year and between \$5 B to \$10 B over 5 years.