Weekly Checkup

The Ins and Outs of IPPS and OPPS

JACKSON HAMMOND | MARCH 24, 2023

Recently, the Medicare Payment Advisory Commission (MedPAC) released its annual report to Congress on Medicare payment policy. The report is massive, but the most important part for our nation's hospitals can be found in MedPAC's recommendation that the Inpatient Prospect Payment System (IPPS) and Outpatient Prospective Payment System (OPPS) payment updates only need a 1 percent increase from current law in 2024. **Let's unpack what that means, both as a policy and for the health care system as a whole.**

First, the fun part: Medicare payments. IPPS sets the payment rates for inpatient care (covered by Medicare Part A) while OPPS sets the payment rates for outpatient care (covered by Part B). IPPS payments are built on two separate base payment rates: the operating base payment rate, based on labor and supply costs for a given episode of care, and the capital base payment rate, based on depreciation, interest, rent, and property-related costs, including insurance and taxes. OPPS payments have a single base payment rate, covering operating and capital costs directly related to furnishing an outpatient service. **The Centers for Medicare and Medicaid Services (CMS) updates the base payment rates for IPPS and OPPS every year using a statutory formula and accounting for factors outside of a hospital's control –** regional wage rates and patient characteristics, for instance. **For 2024, based on current CMS forecasts, both the IPPS and OPPS operating base payment rates are expected to increase 2.9 percent, while the IPPS capital base payment rate is expected to increase 2.4 percent.**

MedPAC proposes adding an additional percentage point increase to all three base payment rates on top of CMS' expected increases. **MedPAC notes that, based on the most recent available data from 2021, preliminary data from 2022, and projections for 2023, hospitals are doing alright in the United States. Indicators for payment adequacy in 2021 were solid**: Hospitals closed and new ones opened in equal proportion, the all-payer operating margin "increased to a record high," IPPS' hospitals Medicare payment margins also increased, and notably, patient access to services didn't suffer. Staffing constraints and capacity challenges certainly existed in 2021, but overall, to quote MedPAC, "federal relief funds and increased Medicare payments more than offset pandemic-induced costs." All told, MedPAC expects implementing this recommendation to cost $2 billion in 2024 and $10 billion over five years.

Additionally, MedPAC does not believe that the current law, plus 1 percent recommendation, will be enough funding for Medicare safety-net hospitals. So, for those hospitals, it recommends that payment structure changes be made to better target payments to hospitals serving a large portion of low-income Medicare enrollees, and that an additional $2 billion be added to safety-net funds. MedPAC expects implementing this recommendation to increase spending by between $750 million and $2 billion in 2024 and by over $10 billion over five years.

Hospitals are not thrilled by this, claiming that their financial challenges have only gotten worse since the pandemic, and low Medicare payments have been hospitals' villain of choice for years. But as far as Medicare is concerned, the numbers disagree. MedPAC notes that IPPS hospitals' marginal profit on IPPS and OPPS services was about 8 percent, similar to pre-pandemic levels. In fact, some of the largest hospital systems have very strong balance sheets. Safety-net hospitals are criticizing MedPAC's proposal for them as being too Medicare-centric and not focusing on non-Medicare patients, but it should come as no surprise that the *Medicare* Payment Advisory Commission wants to focus *Medicare* spending on *Medicare* beneficiaries. **MedPAC is doing what it's supposed to do: ensuring that Medicare provides value for the beneficiaries that matches the federal dollars spent. Congress and CMS would do well to pay close attention to its recommendations.**