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**Medicare in Context: 2020-2025
Key Themes and Implications for
Hospital Financing**

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■ Agenda

- Medicare's Broader Context
 - Fiscal health
 - Growth of Medicare Advantage
 - Composition of Medicare FFS Spending
 - CMMI Results and Future Implications
- Medicare Hospital Policy: Key Policy Themes and Areas of Focus for 2020-2025

CONTEXT

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■ Context #1: Fiscal Health: Medicare's Financial Health Today is Worse than pre-ACA

2009

- Part A Insolvency: 2017 (8 years away)
- Projected 5-year per-capita cost growth: 3.9% (2010-2015)
- Share of Total Medicare costs of GDP: 3.6%

Congress enacted the Affordable Care Act that reduced Medicare Parts A and B spending by \$400 billion over 10 years:

- 10 years added to Part A Trust Fund
- Per-capita growth reduced to 0%

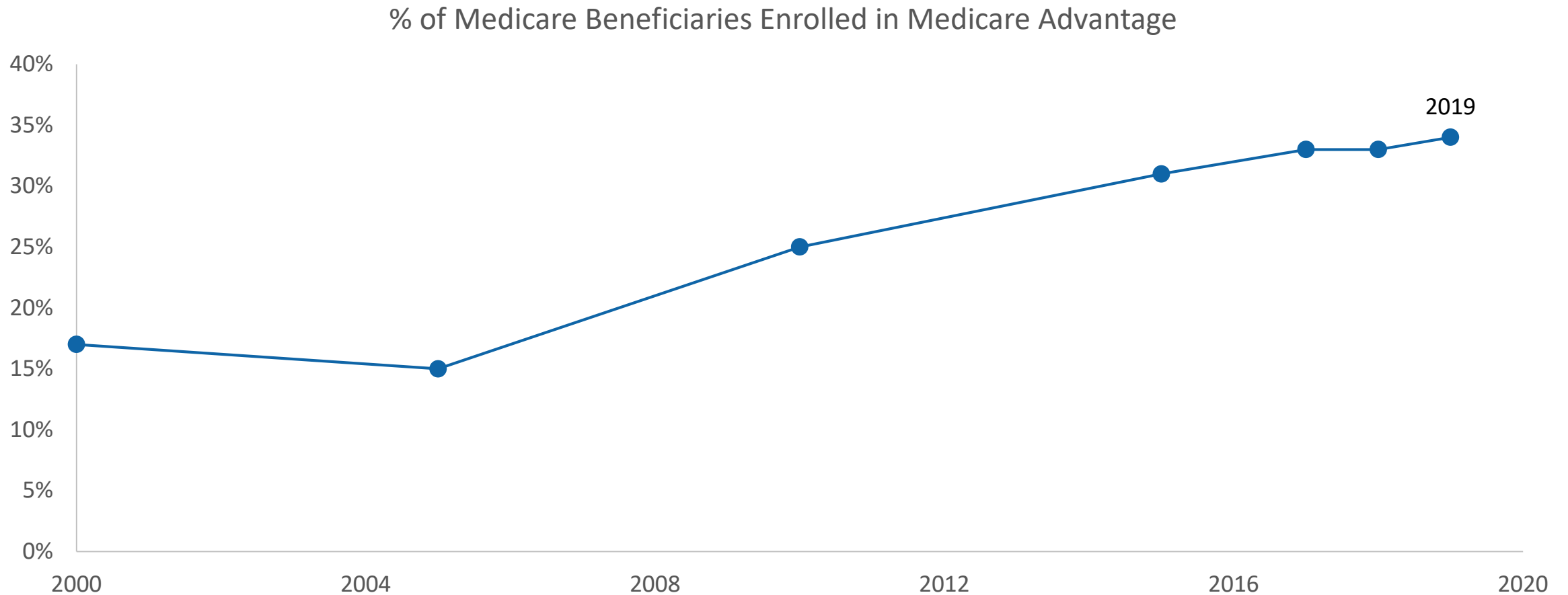
Today

- Part A Insolvency: 2026 (7 years away)
- Projected 5-year per-capita cost growth: 4.1% (2020-2025)
- Share of Total Medicare costs of GDP: 3.7%

HMA estimates that Congress would need to reduce Part A spending by:

- \$500 billion to extend solvency 5 years
- \$800 billion to extend solvency 10 years

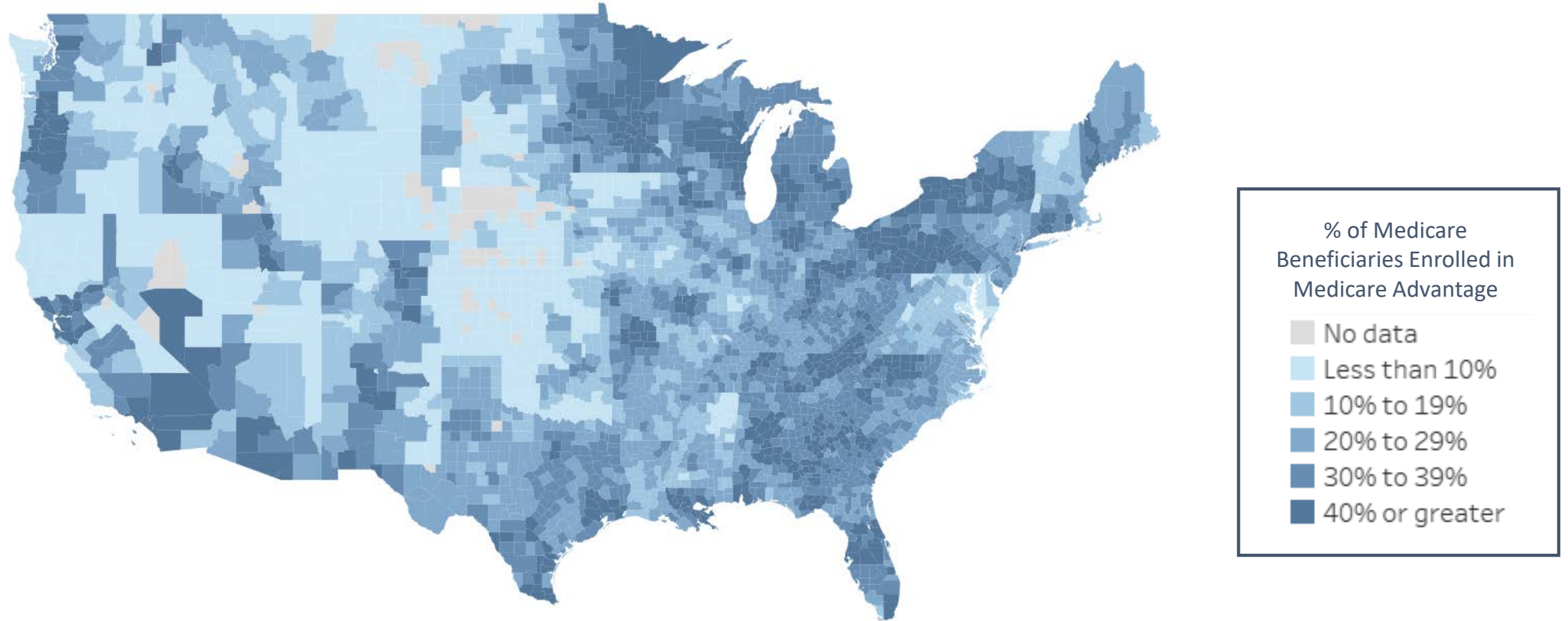
■ Context #2: Federal Policy and Market Dynamics Are Driving Rapid Enrollment into Medicare Advantage Plans



Source: HMA Analysis of CMS Enrollment Files, 2019

■ Medicare Advantage Enrollment is Highly Concentrated, Largely in Select Urban Areas

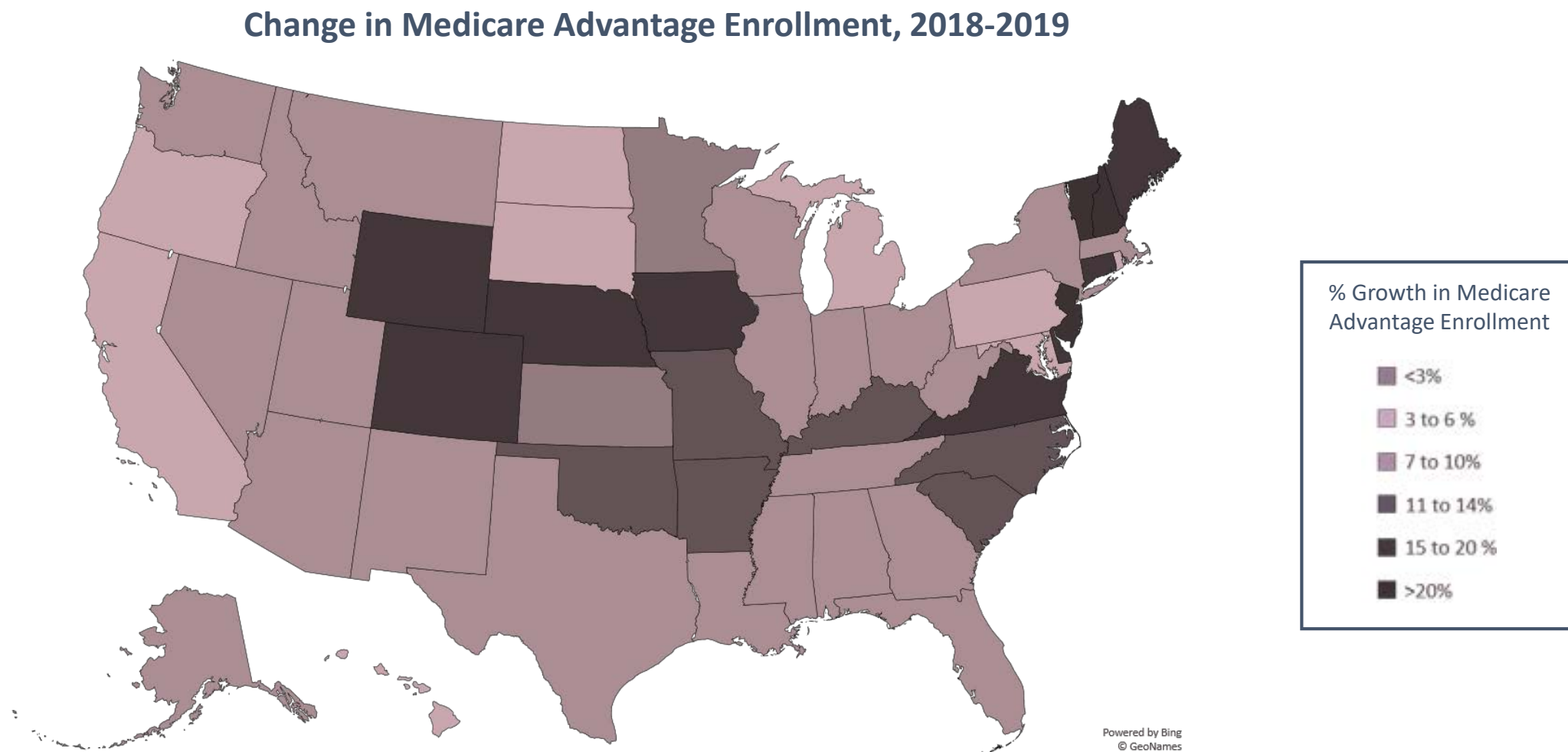
Medicare Advantage Penetration by County, 2019, Share of Total Medicare Beneficiaries



2019 National Average = 35%

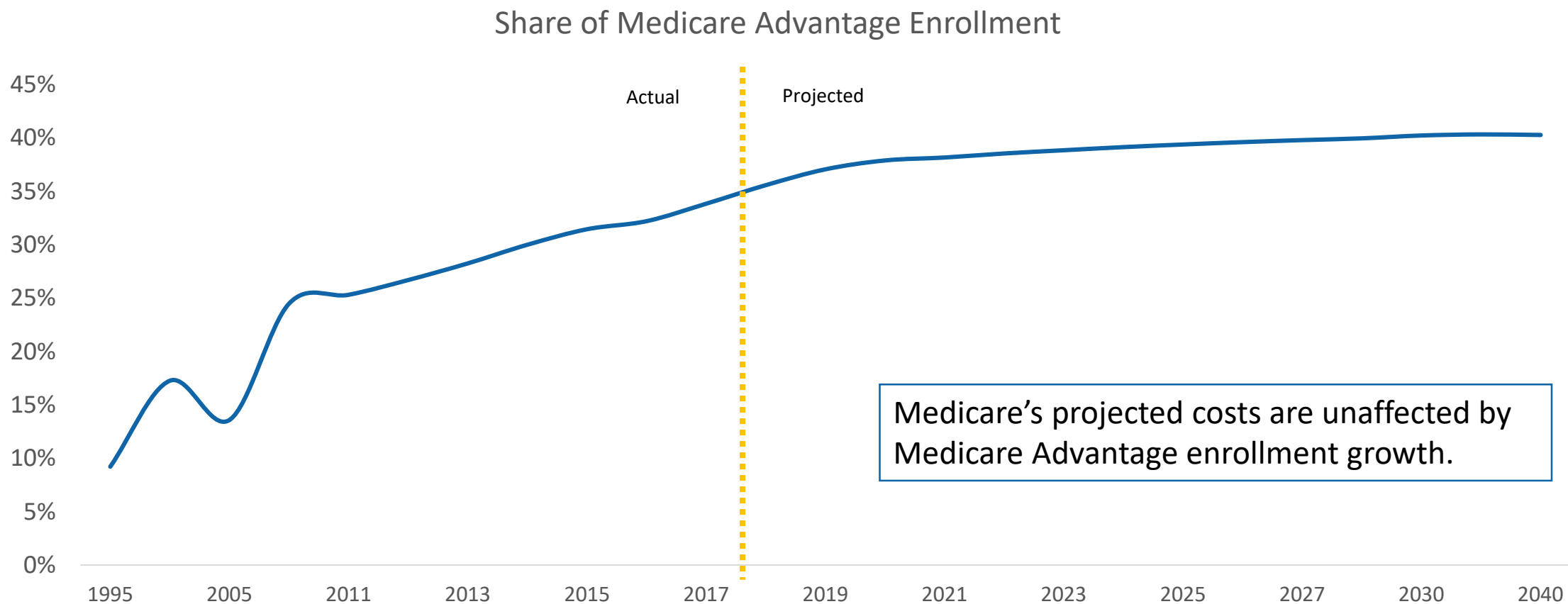
Source: HMA Analysis of CMS State/County Market Penetration Files, 2019

■ Growth is Occurring in Areas with Historically Lower Levels of Medicare Advantage Enrollment



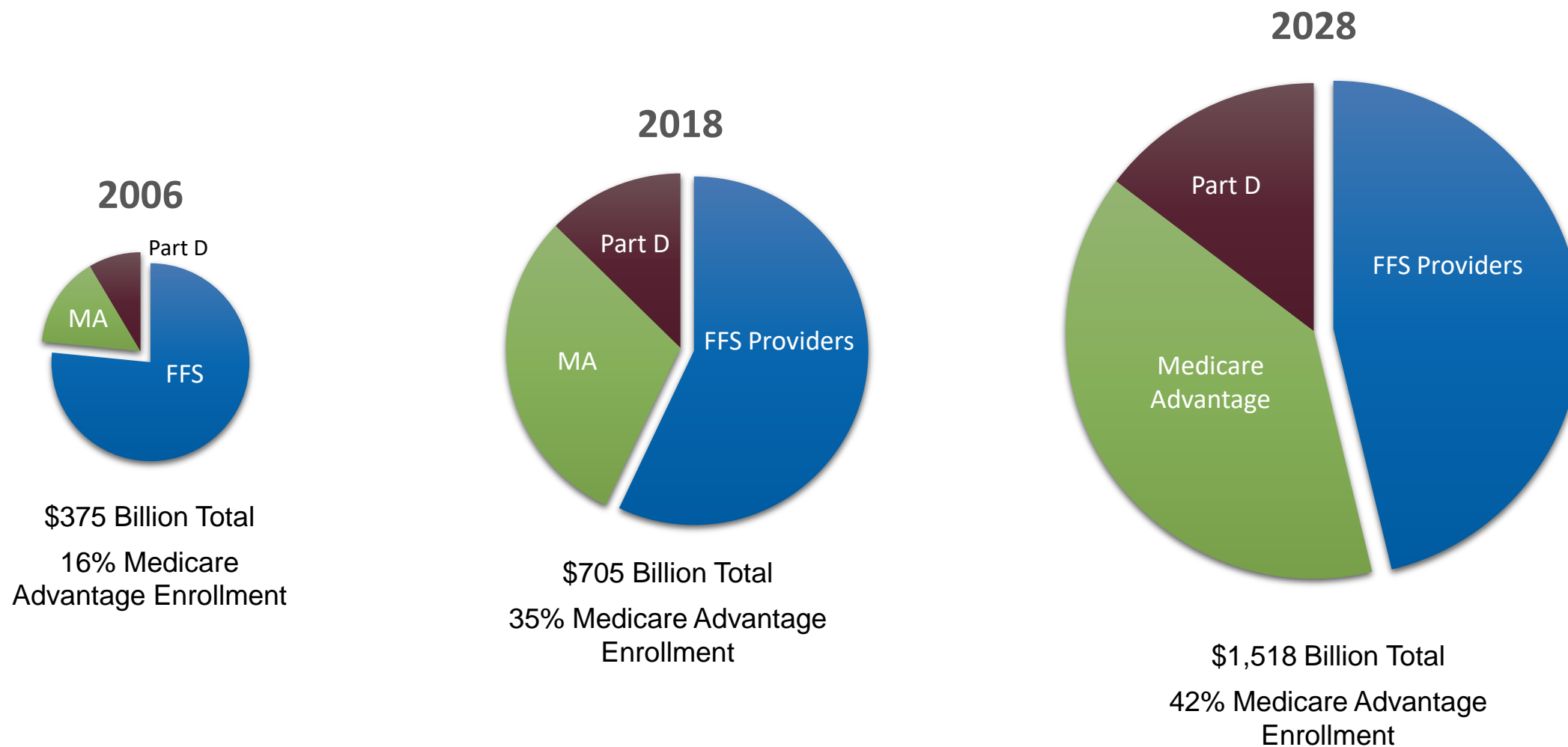
Source: HMA Analysis of CMS State/County Market Penetration Files, 2019

Projected Share of Medicare Advantage Enrollees



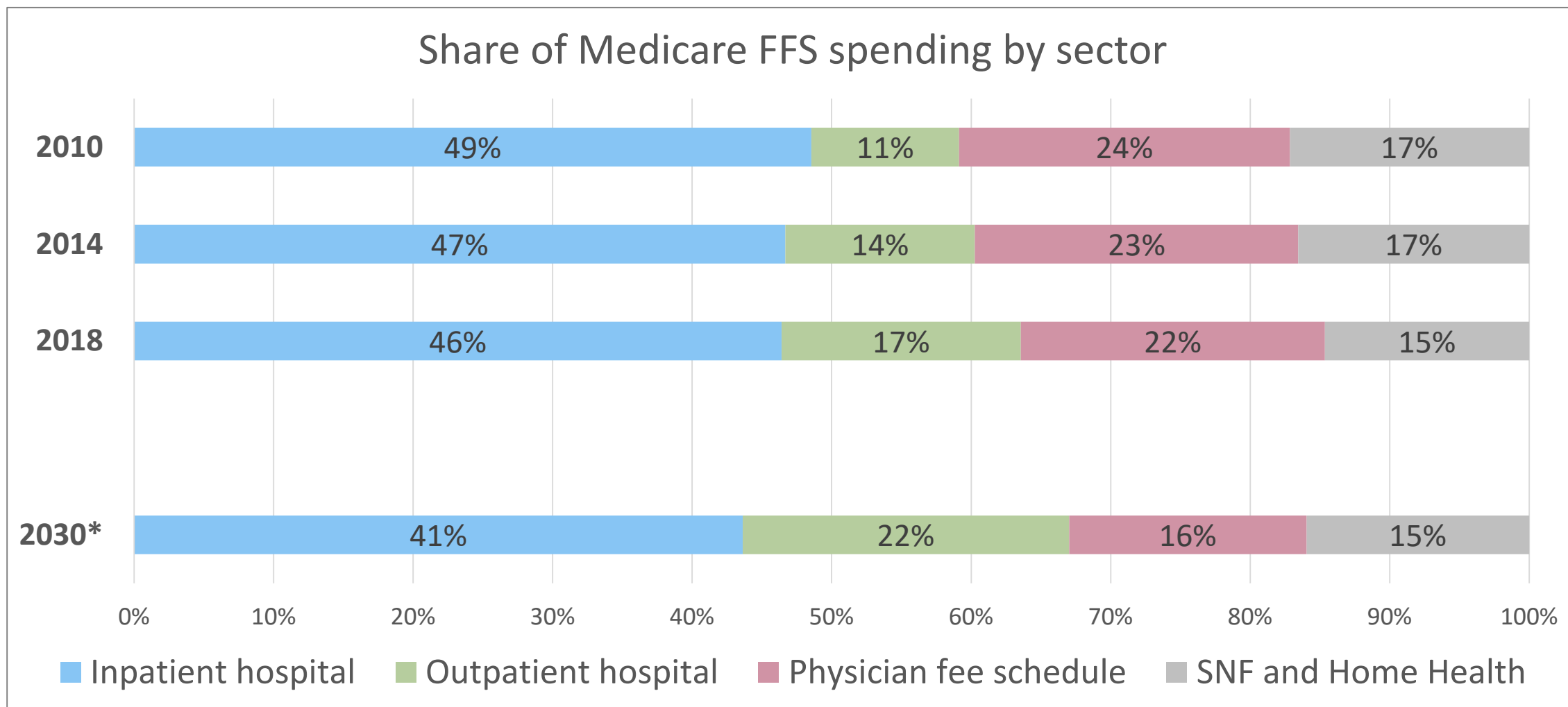
Source: 2019 Medicare Trustees Report

■ Medicare Program's Role as Managed Care Purchaser will Dramatically Increase



Source: 2019 Medicare Trustees Report

■ **Context #3: The hospital is projected to remain the dominant (and growing) setting of Medicare FFS spending, though proportions are shifting**



Source: HMA analysis of MedPAC's June 2019 Databook and the 2019 Medicare Trustees Report

■ Context #3: CMMI programs show modest savings to date; no clear delivery model

	CMMI Program	Type	CMMI Reported Savings (Compared to Projected Target)
	Comprehensive ESCD Care (CEC) Model	ACO	2%
	Next Generation ACO Model	ACO	1.7%
➡	Medicare Shared Savings Program	ACO	0%-0.7%
	Comprehensive Care for Joint Replacements (CJR)	Bundled payment	0.5%
➡	Bundled Payments for Care Improvement (BPCI)	Bundled payment	0%
	Maryland All-Payer Model	Global Budget	0%
	Money Follows the Person Rebalancing Demonstration	Care coordination	0%
➡	Comprehensive Primary Care Plus (CPC+)	Bonus payments	0%

Source: HMA Analysis of CMMI Evaluations

MEDICARE HOSPITAL PAYMENTS: KEY POLICY THEMES

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■ Hospital Wage Index Reform May Be Coming

Current state of affairs:

- 30 percent of hospitals reclassify their wage index
- MedPAC has recommended wage index system reform using Bureau of Labor Statistics data

Medicare policy for FY 2020

- Increased wage indexes for hospitals in bottom 25th percentile for at least the next 4 years (2020 to 2023): 800 hospitals will receive higher wage indexes
- Modified rural floor to exclude urban hospitals reclassified to rural: 100 fewer hospitals receive rural floor adjustment in 2020
- Placed 5 percent cap on any single-year wage index decrease: 150 hospitals capped
- Impact: Budget neutral across the industry, rurals win and urbans lose

Future: Added complexity and exceptions may lead to wage index system reform

■ Indirect Medical Education (IME) Could Be Considered in Next Major Medicare Legislation

Current state of affairs:

- DSH add-on moved outside of DRG payment, IME policy largely unchanged for many years

MedPAC: Flaws in IME formula (September 2019), proposed solutions:

- Link IME add-on payments to both inpatient and outpatient cases
- Lower IME payments for inpatient cases, begin payments for outpatient cases
- Incorporate pay-for-performance into IME add-on payments
- Consistent IME payments across FFS and Medicare Advantage cases
- Impact: Budget neutral for industry, +/- 2 percent change in total Medicare payments, depends on inpatient/outpatient mix

Future: IME reform could be considered in the next major Medicare legislation, GME reform next?

■ Medicare Will Continue to Drive Care to Lower-Cost Settings; Promote Site Neutrality

Current state of affairs:

- CMS policy has encouraged case migration to lower-cost settings
- Federal court ruling that CMS exceeded authority in expanding site-neutral policy to existing off-campus hospital clinics, may avoid \$760 million cut to hospitals, but appeal likely and Congress could always legislate

Case migration to lower-cost settings:

- Total Knee Arthroplasty and cardiac stents: Now in outpatient setting (2018), proposed for the ASC (2020)
- CMS proposed total hip arthroplasty in the outpatient setting (2020)
- MedPAC: Low-acuity cases served in hospital EDs, and revise five ED levels
- CMMI: ET3 Demo will permit ambulances to transport cases to urgent care centers

Future: Continued migration to outpatient and ASCs

■ Drug Pricing Reform: Top Legislative Priority, Action Highly Uncertain

Current state of affairs:

- High drug costs in the inpatient and outpatient settings
- House, Senate, and White House developing separate legislative proposals; press reporting some coordination
 - House Democrats pushing for direct Medicare price negotiations; non-starter among most Senate Republicans
- White House/HHS considering proposed rules to link Medicare reimbursement to International Price Index (IPI)

340B drugs:

- CMS proposes to keep reimbursement rates for Part B drug payments to hospitals and off-campus departments at the average sale prices minus 22.5 percent for CY 2020.
- Ongoing legal dispute

Future: Potential legislation this Fall

■ Medicare Policy Incentivizing New Drugs and Technologies

Current state of affairs:

- Influx of new drugs, devices and technologies with high prices

Inpatient: New Technology Add-on Payments (NTAP)

- Add-on payment increased: 65% of the cost or 65% of the amount costs exceed the DRG
- Alternative pathway for approval: Eligible if FDA deems product a breakthrough device
- Loosened 'substantial clinical improvement' criterion
- CAR-T: One of 18 newly approved NTAP drugs or devices

Outpatient Payment system: Proposed to loosen 'substantial clinical improvement' for outpatient pass-through payments

ESRD payment system: Mimics NTAP payment formula home-dialysis equipment

Future: More drugs/devices approved for add-on payments in various payment systems

■ Post-acute care (PAC) Viewed by Policymakers with Unified Lens

Current state of affairs:

- PAC providers (HHA, SNFs, LTCHs, IRFs) have experienced dramatic changes in revenues due to Medicare payment cuts, delivery reform and alternative payment models, and growth of managed care impact

Unified PAC prospective payment system: MedPAC and CMS Congressional mandates to develop new payment system

- Stay or episode-based payments?

MedPAC discussing a uniform PAC value incentive program (VIP):

- Quality measurement and pay-for-performance variable across PAC sectors
- 5 percent payment withhold to fund incentive payments
- Small number of risk-adjusted, claims-based measures

Future: Unified PAC prospective payment system could be implemented in the next 5 years.

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