INSTITUTE FOR STATISTICAL POLICY ANALYSIS

SITE-NEUTRAL MEDICARE PAYMENTS

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TOPLINE: Under the current Medicare system, the government often pays hospitals more than twice what it pays independent physician offices for comparable outpatient services. Congress should make payments the same across the board.

BACKGROUND: Since 1997, the cost of physicians' services has roughly doubled, while prices for hospital services are four-and-a-half times their 1997 level. The justification often cited is that hospitals tend to have more advanced equipment and many more amenities that add to a hospital's financial overhead. To account for this difference, the Medicare program often pays hospitals more than twice as much as physicians' offices for the same outpatient medical procedures, despite no evidence that they deliver higher-quality care.

To take advantage of this legislated pay differential, large hospital systems have increasingly consolidated by purchasing independent physicians' practices and making them "hospital outpatient departments" (HOPDs), allowing them to make more money per procedure. This increases out-of-pocket costs for Medicare beneficiaries and costs taxpayers tens of billions of dollars per year. This Medicare-induced consolidation also raises prices and limits choices for non-Medicare patients.

Action Item (Congress):

- **Enact site-neutral payments** for most non-emergency ambulatory procedures for the Medicare program, making payment schedules for HOPDs the same as for independent physician practices.
    - Congress should avoid repeating the mistake of the Bipartisan Budget Act of 2015, which enacted partial site-neutral payments but was mostly ineffective because it grandfathered in existing off-campus HOPDs and exempted new on-campus HOPDs.

How It Would Make Life More Affordable:

- Aligning payments across sites would reduce premiums and out-of-pocket expenses for beneficiaries and lower Medicare Part B spending by tens of billions of dollars annually.
- Fully implemented Medicare site-neutral payment reform would remove one of the incentives for the consolidation of hospitals and physician practices, leading to more competition and slower growth in overall health care costs.

Related Legislation: Same Care, Lower Cost Act (S. 1629).

BOTTOMLINE: Medicare shouldn't pay more for the same care simply because a hospital owns the building. Expanding site-neutral payments would reduce costs for taxpayers and seniors and reduce hospital consolidation.