

FY 2000 of 10.8 percent (down from 12.3 percent for FY 1999).

MedPAC also projects margins through FY 2003, making certain assumptions about changes in payments and costs. On the payment side, MedPAC applied the annual payment updates (as specified by law for FYs 2001 through 2003) and then modeled the effects of other policy changes that have affected the level of payments. On the cost side, MedPAC estimated the increases in cost per unit of output over the same time period at the rate of inflation as measured by the applicable market basket index generated by CMS adjusted downward, anticipating improvements in productivity. While no specific Medicare inpatient margin is identified for a calendar year beyond 2000, MedPAC projected an overall Medicare margin for FY 2003 of 3.9 percent (page 41). The FY 2000 overall Medicare margin, as estimated by MedPAC, was 5.0 percent.

In addition to considering the relationship between estimated payments and costs, MedPAC also considered the following three factors to assess whether current payments are adequate (page 42):

- Changes in access to or quality of care;
- Changes in the volume of services or number of providers; and
- Change in providers' access to capital.

MedPAC's assessment of aggregate Medicare payments finds that payments were at least adequate as of FY 2003.

MedPAC's recommendation related to updating payments under the IPPS is that the Congress should increase the payment rates for the IPPS by the rate of increase in the hospital market basket, less 0.4 percent, for FY 2004. MedPAC focuses on the operating update exclusively because operating costs account for about 92 percent of total hospital costs and because the operating update is of most interest to Congress. Based on the

current market basket estimate for FY 2003 of 3.5 percent, this update would increase Medicare inpatient payments to hospitals covered by IPPS by 3.1 percent.

Response: As described above, we are recommending a full market basket update for FY 2004 consistent with current law. We believe this will appropriately balance incentives for hospitals to operate efficiently with the need to provide sufficient payments to maintain access to quality care for Medicare beneficiaries.

Because the operating and capital prospective payment systems remain separate, CMS continues to use separate updates for operating and capital payments. The proposed update to the capital payment rate is discussed in section III. of the Addendum to this proposed rule.

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