

Eli's Hospice Insider

Budget: What Is Marginal Profit?

Get to know the new term that's helping policymakers decide your fate.

"Marginal profit" is a new financial indicator the **Medicare Payment Advisory Commission** is using this year, and it's higher than the traditional straight profit margin figure.

The figure is "the profit margin that can accrue to a provider for seeing the next incremental Medicare beneficiary," MedPAC Chair and physician **Francis Crosson** explained in the December meeting. "We use that information to help us understand the range of financial performance that we're viewing, but we use it advisedly."

"We basically ask the question of whether providers have an incentive to take another Medicare patient," explained MedPAC staffer **Craig Lisk** in the meeting. "If payments are more than marginal cost, a provider has a financial incentive to take the patient, but if marginal payments do not cover the marginal cost, the provider may have a disincentive to take the patient."

"To operationalize this concept, we compare Medicare fee-for-service payment rates to the marginal cost of providing those services," Lisk said. "Marginal cost exclude[s] expenses for building and fixed equipment."