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June 9, 2003

Dear Member of the House Rural Caucus:

On behalf of the American Hospital Association's (AHA) more than 5,000 member hospitals, health systems, networks and other providers of care, I am writing to express our grave concern about misleading information regarding rural hospital payments that was presented by the Medicare Payment Advisory Commission (MedPAC) at a briefing you may have attended in April.

We have obtained a copy of a MedPAC presentation and we are particularly concerned that it inaccurately portrays prospective payment changes for rural hospitals. Some have said that, ***if the MedPAC scenario as outlined in this presentation were enacted, rural hospitals would get a 7 percent increase in their Medicare payment in FY 2004. This is simply untrue!***

- ❑ What some are calling MedPAC's 7 percent "increase" in Medicare payments to rural hospitals includes a reference to a 1.6 percent increase that was made by Congress in prior years to help offset BBA cuts that were widely acknowledged as far too deep. ***These provisions are already in place, and certainly cannot be counted as part of any FY 2004 "increase."***
- ❑ MedPAC data prove very clearly that rural hospitals are treated unfairly when caring for Medicare patients. The aggregate Medicare margin for rural hospitals was *negative 2.9* percent in 2000 and 60% of all rural hospitals are losing money serving Medicare patients—this from the most recent data published in MedPAC's March 2003 Report to Congress.
- ❑ Inflationary pressures, as measured by the hospital market basket, will push hospital costs up by an estimated 3.5 percent in FY 2004. Yet, MedPAC is recommending that rural hospitals get less than a full inflationary update – which translates into a real cut.
- ❑ Anything less than a full inflationary update (3.5 percent) means that Medicare payments to rural hospitals will fall even further behind – creating even more financial hardship for rural hospitals and those they serve. An update of market basket minus 0.4 percent, as some have suggested be included in upcoming Medicare reform legislation, would again force Medicare payments in FY04 further below the costs of providing care—this is clearly a CUT, not an increase!

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- You should also know that MedPAC's update recommendation is for one year only. We believe some in Congress may be considering a reduction to the inflationary update for as many as each of the next 10 years, plus the permanent expansion of the post-acute care transfer provision – yet another cut to rural hospitals. ***The enactment of these two proposals alone would significantly negate help provided from the passage of rural payment relief.***

With an aggregate Medicare margin of *negative 2.9* percent and more than 60% of all rural hospitals losing money serving Medicare patients, the Medicare program fails its obligation to be a reliable partner in serving the health care needs of more than 54 million people living in rural America.

We know that you are committed to ensuring that your rural hospitals receive adequate Medicare payment. To this end, we urge you to advocate, as part of Medicare reform, for the rural hospital policy provisions passed by the Senate in the "Jobs and Growth Tax Act of 2003," which was supported overwhelmingly by 86 members of the Senate. President Bush also pledged his support for these provisions as part of this year's Medicare reform legislation. As an advocate for rural health care concerns, you should not settle for anything less, and you should oppose any cuts, including reductions in the inflationary adjustment rural hospitals are already scheduled to receive, that would undermine the advances we hope to achieve.

We appreciate your steadfast support for rural hospitals and look forward to working with you to ensure that the Congress enacts an adequate package of payment reforms for rural America.

Sincerely,



Rick Pollack

Executive Vice President