

# United States Senate

WASHINGTON, DC 20510

July 12, 2006

The Honorable Mark B. McClellan, M.D., Ph.D.  
Administrator  
Centers for Medicare and Medicaid Services  
Hubert H. Humphrey Building  
200 Independence Avenue, SW  
Room 314-G  
Washington, D.C. 20201

Dear Administrator McClellan:

We are writing to communicate concerns that have been raised regarding the Medicare hospital inpatient prospective payment system (IPPS) proposed rule for FY07 (CMS-1488-P) issued on April 12, 2006. Specifically, we have heard concerns regarding the methodology used and the timeframe for implementing these significant changes to the IPPS. We urge you to delay these changes until FY08 in order to work with stakeholders in addressing any underlying methodological issues, and to allow hospitals time to adjust their planning and business operations accordingly.

As you know, the proposed rule calls for two significant changes in the way inpatient payments are set: new DRG weights based on estimated costs rather than charges in FY07, and a new severity-based patient classification system in FY08 or earlier. While we support CMS's efforts to ensure that payments are fair and adequate, we are hearing that the 60-day comment period has not provided appropriate opportunity to analyze potential improvements to this complex reform proposal. Furthermore, stakeholders have reported that some of the information needed to evaluate the proposed rule, including important details regarding the severity-based patient classification system, was not readily available from CMS.

While the policy of revising DRG weights to better reflect costs is laudable, we are hearing concerns that the methodology in the proposed rule may inhibit adoption of new technology. Also, some stakeholders have expressed concerns about the ability of CMS to accurately implement the severity adjustments in the timeframe set forth in the proposed rule. These changes could have a significant effect on hospital payments and we believe that more time is needed to evaluate the impact, particularly on rural hospitals. Moreover, an approach that moves to cost-estimated weights in one year and then severity adjustments in the following year could create significant fluctuations in hospital payments in consecutive years. We urge you to adopt MedPAC's recommendation of doing both reforms together to minimize the potential "whipsaw" effect of wide swings in hospital payments. In addition, we ask that you give full consideration to MedPAC's recommendation that the new payment system be phased in over several years, given the magnitude of payment redistribution across DRGs and hospitals.

We encourage CMS to engage in an open and constructive dialogue with stakeholders regarding their concerns with the proposed rule, and give full consideration to suggestions and ideas to adjust and improve the methodology and timeframe for implementation. To allow time for consideration, and any necessary modifications or improvements, we believe it is prudent to delay implementation until FY08. While we support your goal of improving the payment system, we believe that it is important that we do everything possible to ensure that the best policy be implemented in the most appropriate timeframe.

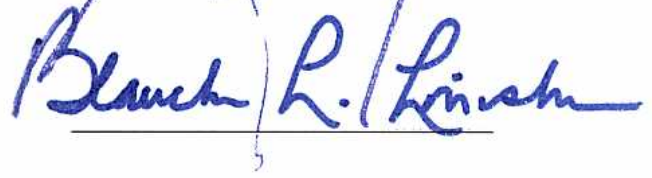
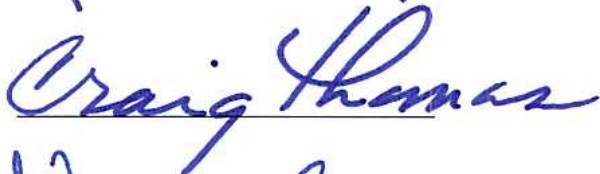
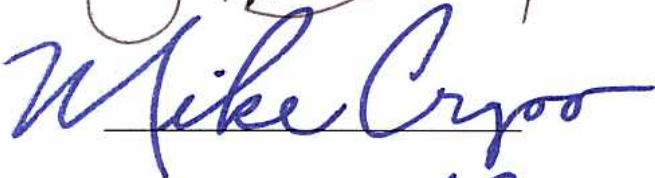
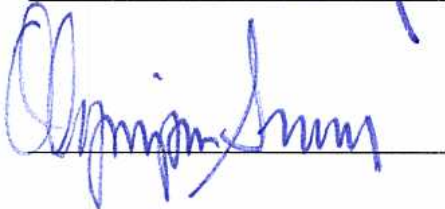
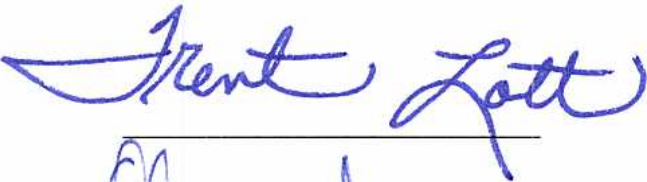
Sincerely,



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