



**American Hospital
Association**

Liberty Place, Suite 700
325 Seventh Street, NW
Washington, DC 20004-2802
(202) 638-1100 Phone
www.aha.org

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Glenn M. Hackbarth, J.D.
64275 Hunnell Road
Bend, OR 97701

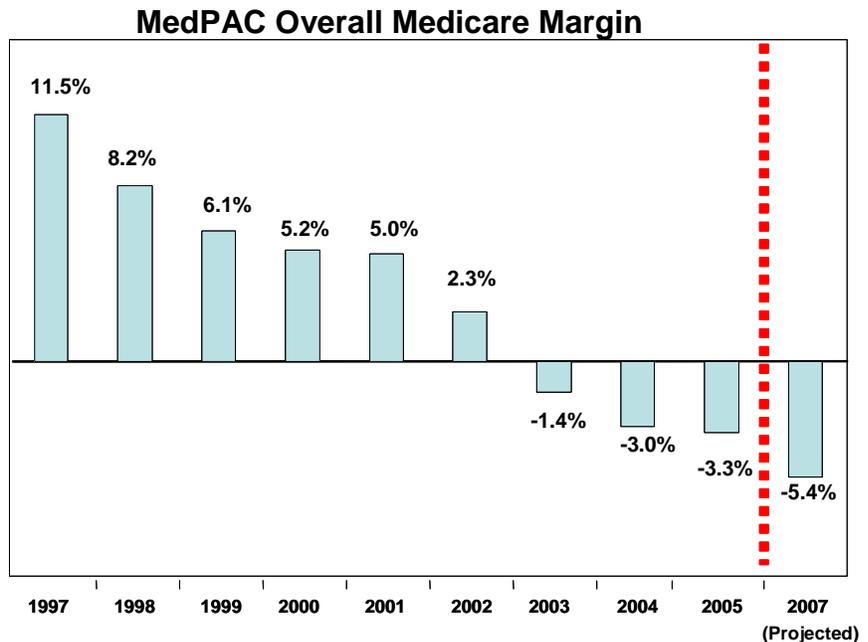
Dear Mr. Hackbarth:

At the January meeting, the Medicare Payment Advisory Commission (MedPAC) will vote on payment recommendations for fiscal year (FY) 2008. Before making final recommendations, we ask that you consider the following issues that have a significant impact on hospitals, other providers and beneficiaries.

Medicare Payments to Hospitals Are Inadequate

Commissioners at the last meeting suggested that, if payment updates in the past were inadequate, it would be reflected in the margins. According to MedPAC estimates, overall Medicare margins — including the costs of inpatient, outpatient and post-acute care services — will reach a ten-year low in 2007 at *negative* 5.4 percent.

Looking at American Hospital Association (AHA) annual survey data, a staggering 65.1 percent, or 3,214 hospitals, lost money in 2005 serving Medicare patients. This clearly indicates that Medicare payments are inadequate and *a full market basket increase for inpatient and outpatient hospital services is absolutely necessary.*



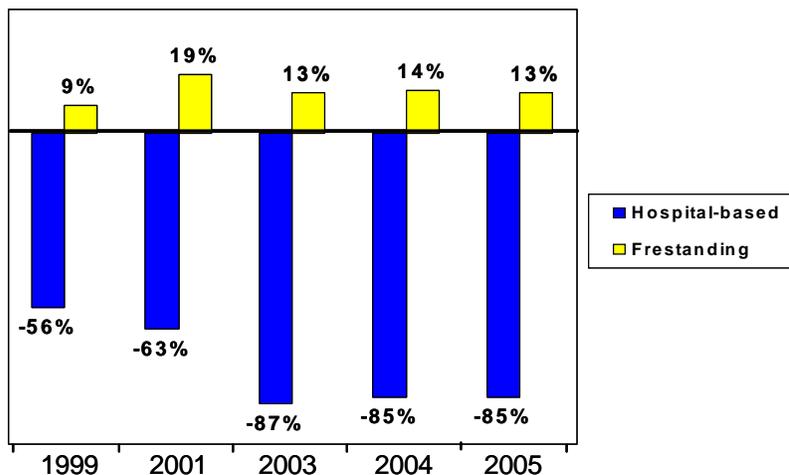
Sources: Healthcare Spending and the Medicare Program: A data (June 2006).
December 2006 MedPAC Meeting.



Payment to Hospital-based SNFs

Hospital-based skilled nursing facilities (SNFs) provide a fundamentally different model of care than freestanding SNFs. They treat sicker patients requiring more extensive services and have higher nurse staffing ratios per bed than freestanding SNFs. According to MedPAC, Medicare margins for hospital-based SNFs declined to *negative* 85 percent in FY 2005, compared to a positive 13 percent margin for freestanding facilities. With deplorably low margins and hospital-based SNFs continuing to retreat from the market, ***a full market basket update for all hospital-based SNFs is critical.***

Medicare Margins for Hospital-based and Freestanding SNFs



Sources: Healthcare Spending and the Medicare Program: A data book (June 2006).
December 2006 MedPAC Meeting.

Payments to IRFs

Inpatient rehabilitation facilities (IRFs) are run by specially trained doctors and staff who treat both their patients' *rehabilitation* and *medical* needs. While the number of IRFs is stable, the strict enforcement of the "75% Rule" reduced patient volume by 10 percent and increased the severity of patients seen by 6 percent in 2005. The 75% Rule, with two more years before it is fully phased in, has already changed the course of IRF payment. As a result, ***a full market basket increase to account for inflation is warranted.***

Indirect Medical Education

During the last meeting, the commission discussed reducing the inpatient indirect medical education (IME) adjustment by one percentage point when classification system changes to better account for patient severity are implemented. But it is not yet clear what, if any, changes will be made for patient severity, the size of these changes or how these changes will affect the IME adjustment. We suggest that MedPAC consider the value the Medicare program receives from related services provided by teaching facilities such as ambulatory training and the portion of IME and direct graduate medical education costs associated with other payers who do not provide financial assistance for such activities, as well as other uncompensated activities. Arbitrarily targeting IME payments for reductions may lead to reduced access to high-caliber medical education for our future physicians. ***We urge the commission to thoughtfully consider how to best measure the benefits provided by teaching hospitals and, until that is done, reject IME cuts.***

We appreciate your consideration of these very important issues. If you have any questions, please feel free to contact me at (202) 626-2266 or Danielle Lloyd at (202) 626-2340.

Sincerely,

Carmela Coyle
Senior Vice President, Policy

cc: Mark Miller, Ph.D.