

United States Senate

WASHINGTON, DC 20510

Leslie V. Norwalk, Esquire
Acting Administrator
Centers for Medicare and Medicaid Services
200 Independence Avenue, SW
Washington, D.C. 20201

RE: CMS Proposed Inpatient Prospective Payment System Rule

Dear Ms. Norwalk:

We write to express our strong opposition regarding two provisions in the proposed Inpatient Prospective Payment System (IPPS) regulation which, if promulgated, would severely restrict beneficiary access to critical hospital services in both rural and urban areas, and thwart medical technology and capital investments that promote quality and reduce health care costs in urban areas.

As you are aware, the IPPS regulation adopts the Medicare Severity Diagnosis-Related Groups (MS-DRGs), which bases hospital reimbursements on the complexity of medical diagnosis and services. The regulation, however, imposes a 2.4 percent cut to all inpatient hospital services for Medicare patients in FY08 and FY09 based on the assumption that hospitals will change coding practices, resulting in higher payments. MS-DRGs are simply a refinement of an existing classification system that hospitals have been using for 23 years. Hospitals are already expert in coding for payment; they have little ability to change their coding and classification practices. The proposed cut, also called a "behavioral offset," will result in a \$24 billion cut in operating and capital payments to hospitals over the next five years.

CMS is not mandated by law to impose a behavioral offset in the IPPS regulation, yet has chosen to do so. There is no precedent in other payment systems for making a prospective adjustment of this magnitude without any evidence of actual changes in coding. These draconian cuts in reimbursements, which are based on conjecture, will impose an added burden on all hospitals. As a result, many hospitals in rural and urban areas, which operate on thin margins, may be forced to reduce their services, leaving patients without a sufficient level of access to hospital services. As you know, hospitals in underserved areas, and oftentimes in rural communities, form the cornerstone of the fragile health care delivery system. The reductions in this regulation could result in unmet needs of thousands, potentially millions of patients living in both rural and urban areas.

In addition, the proposed rule restricts beneficiary access to hospital services by freezing and/or altogether eliminating reimbursements to hospitals for capital-related costs of inpatient hospital services. As you are aware, for years, the Medicare program has paid for its share of the capital-related costs of inpatient hospital services. The proposed rule would freeze capital payments for all hospitals in urban areas and would eliminate additional capital payments made to large hospitals in urban areas. Taken together, these cuts would amount to nearly \$1 billion over the next five years.

Payment reductions of this magnitude would make it difficult for hospitals to buy advanced technology and equipment and would slow clinical innovation in the hospitals most likely to conduct cutting edge research. Additionally, freezing capital payments would stall much-needed health information technology and the long-term commitments that hospitals have made to capital acquisitions. As you know, health care reform is predicated on our ability to increase quality care and efficiency through technological advances, including health information technology. We strongly urge CMS to take actions that foster health care innovation through technology.

The proposed rule will jeopardize beneficiary access to critical hospital services. In addition, the proposed rule will stifle hospital investment in technology that will increase patient quality and reduce health care costs. We therefore urge CMS to eliminate the behavioral offset and restore Medicare reimbursements to hospitals for capital investments in your final regulation.

Sincerely,




