

Congress of the United States
Washington, DC 20515

July 28, 2008

The Honorable Kerry Weems
Acting Administrator
Centers for Medicare & Medicaid Services
Hubert H. Humphrey Building, Room 443-G
200 Independence Avenue, S.W.
Washington, D.C. 20201

Dear Administrator Weems:

We are writing regarding a scheduled cut included in this year's proposed rule for the inpatient prospective payment system (IPPS) that significantly affects teaching hospitals across the country. Specifically, your agency has proposed to eliminate the indirect medical education (IME) adjustment in the capital PPS over the course of two years, beginning on October 1, 2008. This policy will result in about \$375 million in aggregate annual losses and subsequently threatens the financial viability of teaching hospitals that serve a high volume of Medicare beneficiaries and provide critical services unavailable elsewhere in communities across the country. Such a policy fails to consider the overall margins of teaching institutions, and does not reflect the appropriate ways these hospitals receive and utilize their capital IPPS payments. Hence, we urge you to withdraw this harmful policy in your FY 2009 final IPPS rule.

While the inpatient PPS is the only payment system in Medicare that does not provide a single payment for total cost (i.e., operating and capital), hospitals have used these payments as if they were a single, combined payment ever since capital cost-based reimbursement ended. As such, hospitals have appropriately made their own decisions to efficiently deploy their financial resources to meet their most urgent needs, as is the intent of the prospective payment system. Therefore, it is inappropriate for your agency to base a decision to eliminate capital IME payments on a capital margin analysis alone, a decision that is further skewed because your analysis ignores the capital expenditure cycle by which hospitals plan and make capital investments. CMS should instead examine Medicare margins across both capital and operating payment systems. Given that the Medicare Payment Advisory Commission found in 2006 that major teaching hospitals faced low overall Medicare margins of 2.8% and other teaching hospitals faced an even

lower margin of -5.4%, unwarranted reductions to these hospitals would have deleterious consequences on the communities they serve.

Furthermore, teaching institutions have inherently higher capital costs when compared to non-teaching hospitals. This is due to the need to have classroom space, extra equipment to train medical residents, basic physical plant requirements (e.g., additional electrical outlets), as well as more sophisticated physical plant needs such as advanced electrical, heating, and cooling systems to support (and back-up in emergencies) this technology. As in the operating PPS, the capital IME adjustment recognizes that teaching hospitals must meet the demands of treating sicker patients, as well as meet the financial demands of operating emergency and trauma care, providing highly specialized services, and treating uninsured patients.

It is for these reasons, that it is imperative that your agency withdraw this harmful policy in the FY 2009 final IPPS regulation.

Sincerely,

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