

**Statement for the Record
of the
American Hospital Association
before the
Subcommittee on Health of the Committee on Ways and Means
of the
U.S. House of Representatives**

The Medicare Payment Advisory Commission's March 2007 Report to Congress

March 1, 2007

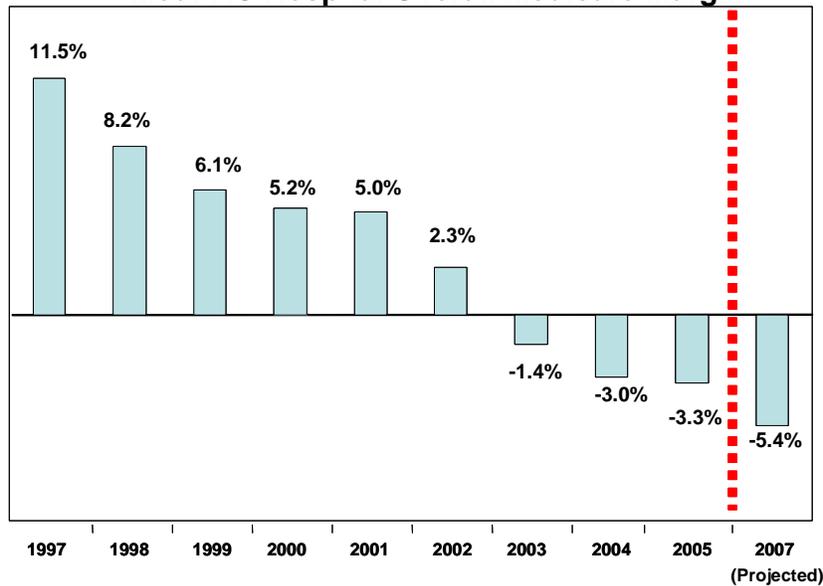
The American Hospital Association (AHA), representing nearly 5,000 member hospitals, health systems, networks and other providers of care, is pleased to submit this statement for the record regarding the hearing on the Medicare Payment Advisory Commission's (MedPAC) Annual March Report to Congress.

Inpatient and Outpatient Update. The AHA commends MedPAC for recommending at its January 2007 meeting that Congress implement a full market basket update, currently estimated at 3.1 percent, for both the inpatient and outpatient prospective payment systems (PPS) in fiscal year (FY) 2008. A full market basket update is essential if America's hospitals are to keep up with inflation and fulfill our roles of caring for patients, preserving the safety net, being ready for unexpected emergencies and disasters, and modernizing the health care system.

According to MedPAC estimates, hospitals' overall Medicare margins – including the costs of inpatient, outpatient and post-acute care services – will reach a 10-year low in 2007 at *negative* 5.4 percent.



MedPAC Hospital Overall Medicare Margin



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

According to AHA annual survey data, a staggering 65 percent, or more than 3,000 hospitals, lost money in 2005 serving Medicare patients. These statistics clearly indicate that Medicare payments are inadequate and ***full market basket increases for both inpatient and outpatient hospital services are critical.***

Despite MedPAC’s recommendation, the president’s FY 2008 budget request would reduce hospital inpatient PPS reimbursements by \$13.8 billion and outpatient PPS payments by \$3.4 billion over five years. ***These cuts would jeopardize the ability of hospitals to serve their patients and their communities and should be rejected by Congress.***

In addition to recommending a full market basket update for inpatient and outpatient hospital services, MedPAC made a series of other payment recommendations.

Inpatient Rehabilitation Facilities Update. The commission recommended an update of only 1 percent for inpatient rehabilitation facilities – only about a third of the actual expected 3.1 percent increase in costs due to inflation. These facilities are run by specially trained doctors and staff who treat both patients’ *rehabilitation* and *medical* needs. While the number of inpatient rehabilitation facilities is stable, the strict enforcement of the “75% Rule,” which sets key conditions a facility must meet to qualify for reimbursement under Medicare, reduced patient volume by 10 percent and increased the severity of patients seen by 6 percent in 2005. The 75% Rule, even at a transitional level, has already changed the course of inpatient rehabilitation facility payment. ***To avoid further erosion of beneficiary access to quality inpatient rehabilitation care, a full market basket update to account for inflation is warranted.***

Indirect Medical Education. In January, the commission recommended that Congress reduce the indirect medical education adjustment in FY 2008 by 1 percentage point – from 5.5 percent to 4.5 percent – concurrent with the Centers for Medicare & Medicaid Services’ efforts to implement a payment system based on severity-adjusted diagnosis related groups. However, it is not clear at this time what, if any, adjustments will be made for patient severity, the size of these changes or how these changes will affect the indirect medical education adjustment.

The AHA opposes this recommendation, as a one percentage point reduction equates to a 20 percent cut in indirect medical education payments.

The indirect medical education adjustment is intended to help compensate teaching hospitals for the higher costs of training physicians, research-related patient care costs, treating sicker patients and providing more complex and costly services. Many teaching hospitals have trauma centers, transplantation services, and most use cutting-edge new technologies. In addition, teaching hospitals are also preparing to be first-line responders in the event of a flu pandemic, or biological or chemical attack.

Arbitrarily targeting indirect medical education payments for reductions may lead to reduced access to high-caliber medical education for our future physicians. ***We urge Congress to consider the benefits provided by teaching hospitals and reject any cuts to indirect medical education.***

We appreciate the opportunity to submit this statement for the record and look forward to working with members of the Subcommittee and the MedPAC commissioners to ensure that Medicare reimbursement keeps pace with inflation and the changing needs of our health care system. Americans depend on hospitals to be there, ready to serve, 24 hours a day, 365 days a year. Reversing the dramatic decline in hospitals’ Medicare margins is essential to ensuring hospitals’ ability to fulfill this expectation.