

Technical Notes to Estimates of Impact of Obama Budget On Hospitals

Please note: These numbers represent rough 10 year estimates for advocacy purposes based on publicly available data from CMS. These numbers should not be used for budgeting purposes.

Provisions Modeled:

- 75% cut to the disproportionate share hospital (DSH) program for **Medicaid** phased in from FY2014 to FY2019—STATE level impact. Data not available to estimate impact on individual hospitals.
- 75% cut to the disproportionate share hospital (DSH) program for **Medicare** phased in from FY2014 to FY2019—STATE and HOSPITAL SPECIFIC level impact.
- Annual productivity adjustment (a.k.a. reduction to the update) equal to half of the economy wide productivity growth for inpatient PPS, outpatient PPS, freestanding rehab hospitals and rehab units, SNF units and hospital-based home health – HOSPITAL SPECIFIC impact.
- MedPAC recommendations to provide no update in FY2010 for rehab and SNF services – HOSPITAL SPECIFIC impact.
- MedPAC recommendation to provide no update and advance the planned reductions for coding adjustments in 2011 to 2010 for home health so that payments in 2010 are reduced by 5.5% from 2009 levels – HOSPITAL SPECIFIC impact.
- MedPAC recommendation to adjust the update for LTACs in FY2010 by the full productivity factor. We assume an update reduced by half the productivity adjustment thereafter – HOSPITAL SPECIFIC impact.
- Above provisions include both cuts proposed in the June 13th radio address and cuts proposed in the original budget released by the President earlier this year.
- Other cuts relating to readmissions and Value Based Purchasing announced in the earlier budget release could not be modeled.

Data Sources

Medicare DSH: AHA FY2010 inpatient PPS model based on FY2010 IPPS proposed rule and FY2010 CMS inpatient PPS payment impact file

Medicaid DSH: FY2009 allotments prior to ARRA from HHS.GOV/Recovery (only available at state level)

Inpatient: AHA FY2010 inpatient PPS model based on FY2010 IPPS proposed rule and FY2010 CMS inpatient PPS payment impact file

Outpatient: CMS Final 2009 outpatient PPS payment impact file

SNF: FY2006 Medicare cost report data from 4th quarter 2008 HCRIS file prepared by Vaida Health Data Consultants

Home Health: FY2006 Medicare cost report data from 4th quarter 2008 HCRIS file prepared by Vaida Health Data Consultants

Rehab: CMS final FY2009 IRF rate setting file, Aug. 2008

LTAC: FY2006 Medicare cost report data from 2nd quarter 2008 HCRIS file prepared by Vaida Health Data Consultants

Notes

1. Medicaid DSH estimate not available for Puerto Rico.
2. Medicaid DSH loss for Maryland is estimated at approximately \$369 million over ten years. The state is not listed in the state or district summary tables due to their PPS waiver, however, this amount is included in the US total for Medicaid DSH losses.
3. Medicare DSH and inpatient PPS loss estimates include operating and capital payments.
4. Rehab totals include units and freestanding hospitals.
5. SNF and home health totals include critical access hospitals and are hospital based only.
6. The number of hospitals represents the total for which inpatient PPS payment can be calculated in each state. Because the estimates are coming from several different sources, the N may vary for other Medicare payment systems.

Proposed Reductions to Payment

- Inpatient: productivity adjustment of -0.73 in all years FY2010-2019
- Outpatient: productivity adjustment of -0.73 in all years FY2010-2019
- SNF: update of 0% for FY10, productivity adjustment of -0.73 in all years FY2011-2019
- Home Health: reduction of 5.5% for FY10, productivity adjustment of -0.73 in all years FY2011-2019
- Rehab: update of 0% for FY10, productivity adjustment of -0.73 in all years FY2011-2019
- LTAC: productivity adjustments of -1.46% for FY10 and -0.73 in all years FY2011-2019

Disproportionate Share (DSH) Cuts

The DSH payment proposal is to reduce payments by FY2019 to 25% of their inflated FY2013 level, although the method is not specified. This target amount is estimated to be \$3.860 billion for Medicare and \$4.477 billion for Medicaid. Reductions to DSH payment begin in FY2014.

The loss estimates assume the following reductions to Medicare and Medicaid DSH payment:

FY2014	25%	
FY2015	25%	
FY2016	25%	
FY2017	15%	
FY2018	10%	
FY2019	3%	<i>(Medicaid reduction in this year is 0.3%)</i>

Inflation Factors

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
IPPS - operating	3.1	3.2	3.2	3.1
IPPS - capital	1.5	1.6	1.5	1.6
OPPS	3.1	3.2	3.2	3.1
Rehab/LTAC	3.0	3.2	3.2	3.2
SNF Units	2.7	2.9	3.0	3.0
Home Health	2.7	2.9	3.1	3.1

For the years FY2015-2019 a uniform inflator of 7% was used in order to account for both the rate update and growth in Medicare utilization.