

THE ISSUE

Given that Medicare and Medicaid comprise more than 20 percent of all federal spending, some policymakers are advocating cuts to Medicare and Medicaid payments for hospital services as part of deficit reduction options. Hospitals already are absorbing more than \$155 billion in Medicare and Medicaid payment reductions. These reductions come on top of regulatory actions by CMS that excessively reduce inpatient payments. And the pressure is expanded beyond the federal government with state Medicaid programs cutting Medicaid payments for hospital services to help balance their state budgets.

AHA POSITION

Reject any additional Medicare and Medicaid payment reductions for hospital services.

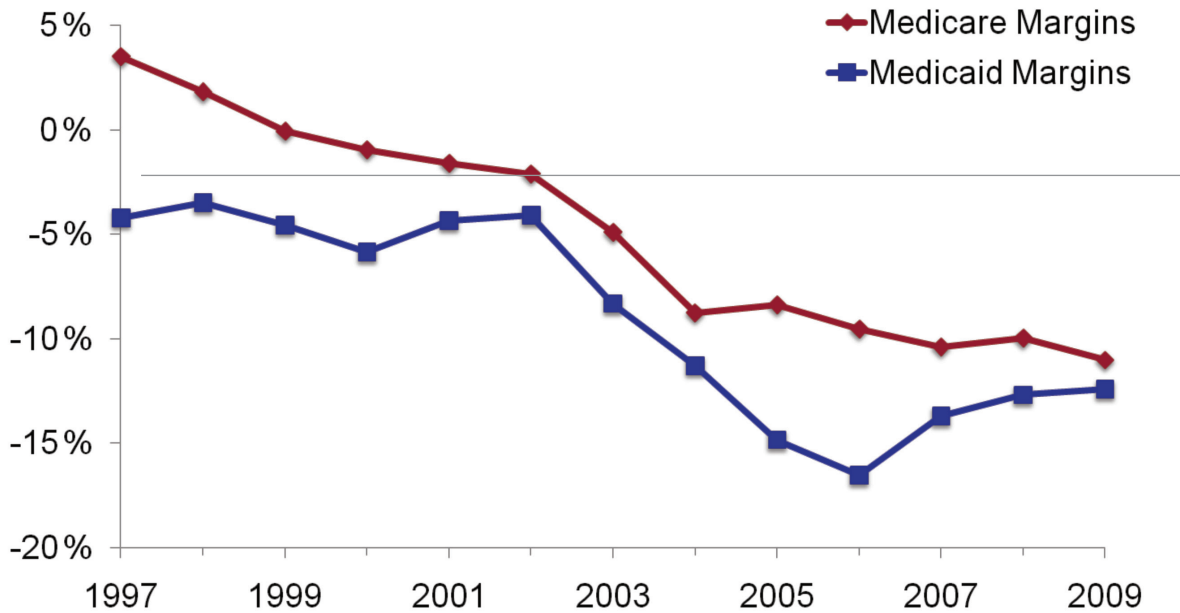
WHY?

- Hospitals face more than \$155 billion in Medicare and Medicaid payments reductions, including:
 - \$112 billion in reduced market basket updates to hospitals,
 - \$36 billion in reduced Medicare and Medicaid disproportionate share hospital payments,
 - \$7.1 billion reduction for readmissions,
 - \$1.4 billion reduction related to health care acquired conditions.
- CMS inappropriately reduced inpatient payments for hospital care by more than \$16.8 billion to account for changes in coding and documentation due to the adoption of a new set of Medicare DRGs in 2008. While evidence shows that CMS' methodology has ignored that today's patients are sicker and overestimates the necessary coding adjustment, CMS has moved forward with these excessive cuts.
- In 2011, 43 states have taken action to cut Medicaid, with 24 states including provider cuts. For 2012, 46 governors have proposed Medicaid cuts, with provider cuts in 33 states.
- Medicare and Medicaid already underpay hospitals for services to America's poor, disabled and aged. Medicare paid only 90 percent of patient costs on average in 2009, while Medicaid paid only 89 percent of patient costs on average.
- Hospitals have made great progress in controlling costs and improving quality and are investing significant resources in health information technology to improve care and efficiency even further. But hospitals cannot continue this trend and absorb further cuts to federal programs, which already pay less than cost.
- On average, services to Medicare and Medicaid beneficiaries account for 55 percent of hospital revenues. Additional Medicare and Medicaid payment reductions for hospital services are unwarranted and they can have a disproportionate impact on the nation's urban and rural hospitals serving as America's health care safety net.
- Hospitals are investing in infrastructure and system improvements that will allow them to pursue and succeed in making patient care more accountable and coordinated by adding electronic health records, taking on new efforts to reduce inpatient readmissions, health care acquired conditions and infections, and experimenting with new models such as accountable care organizations and bundling. Additional Medicare and Medicaid payment reductions will hamper these efforts that will ultimately lead to greater quality improvements and lower costs.
- Two out of every three dollars spent on hospital care goes to wages and salaries of caregivers and other workers. Cutting Medicare and Medicaid payments will not only jeopardize the provisions of services, but also the jobs of those who provide them.

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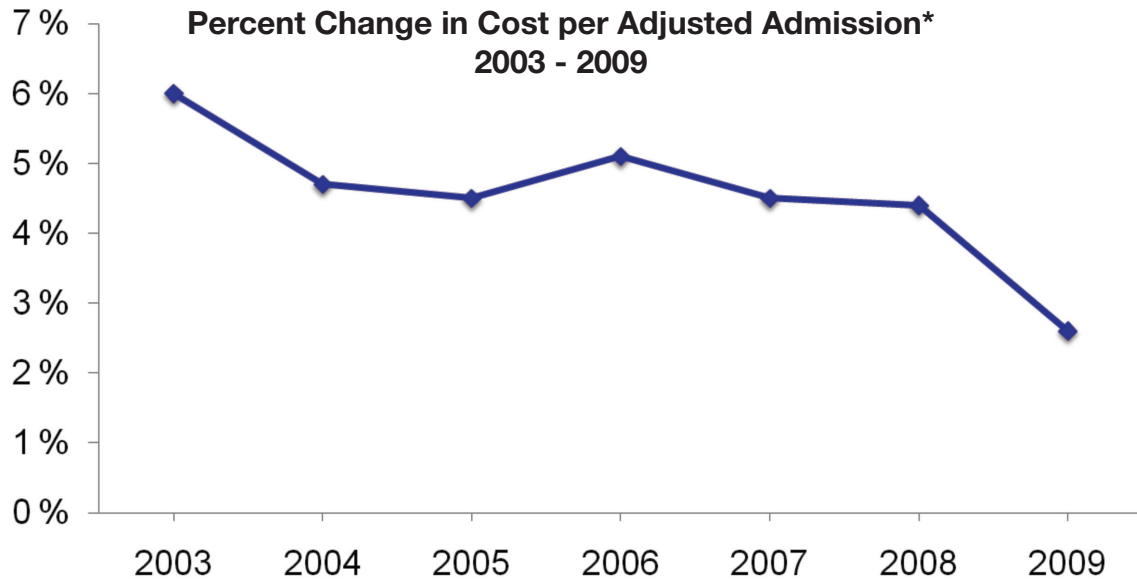


Hospital Medicare & Medicaid Margins



Source: Health Forum, American Hospital Association Annual Survey of Hospitals, 1997-2009. Includes reported and estimated data for registered community hospitals.

Cost growth slowed in 2009



*An aggregate measure of workload reflecting the number of inpatient admissions, plus an estimate of the volume of outpatient services, expressed in units equivalent to an inpatient admission in terms of level of effort.

Source: Avalere Health analysis of American Hospital Association Annual Survey data, 2009, for community hospitals.