

Committee on Ways and Means

Medicare Prescription Drug and Modernization Act of 2003

Hospital Update

H.R. 1 Preserves Stable 3.1% Increases For Next 3 Years

Background - How Medicare Reimburses Hospitals:

Medicare reimburses hospitals differently depending on the delivery of service -- inpatient, outpatient, nursing home and home health services. Hospitals make a 5% profit, on average, for all services provided to Medicare patients (Medicare Payment Advisory Commission (MedPAC), which is the nonpartisan panel of experts that advises Congress on Medicare Policy.)

Inpatient hospital reimbursement is based on a number of complicated formulas. On average, hospitals make a 10 percent profit for Medicare inpatient services (MedPAC.)

Hospital Payment Increase

Inpatient hospital payments are increased annually. MedPAC makes a recommendation based on:

- Increase in hospital inflation. This is referred to as the hospital market basket. Inflation is not the same as costs, for instance in 2000, as hospitals faced high wage inflation, hospitals reacted and actual labor costs dropped (CMS);
- Increase in costs for new technology;
- Decrease in costs due to higher productivity.

The MedPAC Commission unanimously advised Congress to increase payments by 3.1 percent, about \$3 Billion in FY 2004. This payment increase is comparable to 0.4% less than current law. (Often referred to as market basket minus 0.4%.) CMS Administrator Tom Scully, in a letter to Chairman Thomas, supported this moderate recommendation.

HR 1 provides for, an average, 3.1% increase year by year, accumulating to a 9% increase in total. This is a total increase in payments of \$77 Billion over 10 years, according to CBO.

Key Points

There is little precedence for hospitals to receive a full market basket increase.

- Congress has only given hospitals the full inflationary increase twice since the start of the hospital payment system.

- Congress has legislated multiple year changes in every Medicare bill except OBRA 1989.
- Congress has historically reduced the inflationary offset by 1.2%, so the 0.4% is 66% lower than prior Congressional actions.

This bill will:

- Replace a saw tooth pattern of updates ranging from 0 to full inflation to put hospitals on a predictable stable path.
- Every hospital in the United States will see an increase in the check in the mail for the service to the Medicare patient on October 1, 2003.
- Many hospitals will see even larger increases in their October 1 paychecks if they are in a rural area or small city (under 1 million), located in a low wage area, or they are a small hospital that treats a disproportionate amount of poor people.