

NAUH Seeks Special Payments for Selected Urban Hospitals

NAUH will ask Congress to create new “safety-net access preservation payments” to provide supplemental assistance to selected non-profit urban safety-net hospitals that care for especially high proportions of low-income patients.

Approximately 300 hospitals nation-wide would benefit from the payments, which would be made as part of hospitals’ Medicare payments via a new safety-net access preservation index that would become part of the Medicare DRG formula for qualified hospitals.

The poor financial performance of urban safety-net hospitals in the face of growing demand for their services justifies the call for additional help, according to NAUH executive director Ellen Kugler.

“The operating margins of urban hospitals are consistently worse than those of rural hospitals,” she explains. “When you look at large urban hospitals that care for significant proportions of Medicaid patients, the operating margins of those urban hospitals average literally ten percentage points lower than comparable rural hospitals. Those low margins are a clear sign of hospitals in danger of closing their doors.”

The situation is even worse, Kugler notes, for hospitals that would qualify for NAUH’s proposed supplemental payments.

“Our analysis suggests that the operating margins of privately owned hospitals as a whole are nearly five times greater than those of the 300 non-profit urban hospitals that would qualify for safety-net access preservation payments. Clearly, these hospitals are in trouble, and we’re asking Congress for some very modest assistance.

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The National Association of Urban Hospitals advocates for adequate recognition and financing of the nation’s private, urban, safety-net hospitals, which serve America’s needy urban communities.

For further information about the Association, or the information presented in this document, please contact Ellen Kugler at 703-444-0989.

Budget Resolution Calls for Medicaid Cuts

Congress’s budget resolution for fiscal year 2006 calls for \$10 billion in Medicaid cuts over the next five years – but none in the coming year.

The budget resolution calls for \$10 billion in cuts in spending under the jurisdiction of the Senate Finance Committee – cuts specifically targeted for Medicaid.

At one point, it appeared unlikely that Congress would be able to pass any budget resolution – a common occurrence in recent years. Medicaid was one of the major sticking points during reconciliation negotiations, with the House calling for aggressive reductions and the Senate resisting any Medicaid cuts at all.

In the end, a three-part compromise was reached: the budget resolution called for \$10 billion in Medicaid cuts and not the \$20 billion proposed by the House; Medicaid would not be cut at all in the coming fiscal year; and a bipartisan national commission will be established to examine the future of Medicaid.

The next step will be for Congress to seek to pass a reconciliation budget bill, which is expected in the fall. As Congress considers that legislation, NAUH will work to ensure that the anticipated future Medicaid cuts – and any possible Medicare cuts, which, although not directed in the budget resolution, remain a possibility – do not come from hospital payments. ♦

FY 2006 Medicare Inpatient Regulation Released

The federal Centers for Medicare & Medicaid Services (CMS) has released its proposed annual regulation governing Medicare inpatient payments. Highlights include the following:

- A 2.8% market basket update, or 3.2% for hospitals that comply with CMS’s proposed quality reporting requirements. A 3.2% update raises the standardized amount to \$4714.69.

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FY 2006 Medicare Inpatient Regulation Released (continued)

- An FY 2006 outlier threshold of \$26,675, up from \$25,000 this year.
- A reduction in the labor-related share of the standardized amount for areas with wage indexes greater than 1.0.
- Expansion of the post-acute-care transfer policy to 223 additional DRGs.
- Equalization of Medicare Part A and Part B reimbursement for blood-clotting factor products, with both now using the current Part B formula.

NAUH is particularly concerned about two of these provisions.

First, NAUH believes that CMS should reduce rather than raise the outlier threshold. Outliers are supposed to constitute 5.1 percent of all Medicare inpatient payments, but this year, they are on target to account for only about 4.4 percent of those payments. Consequently, NAUH is concerned that CMS has once again set the outlier threshold too high, is intentionally underpaying hospitals for highly specialized services, and is using regulations to cut Medicare spending.

Second, the proposed reduction in the labor-related share for areas with wage indexes greater than 1.0 will have the effect of reducing hospitals' previously expected area wage indexes in those areas. This policy change targets hospitals in higher-cost geographic areas, which tend to be large urban areas, while not affecting lower-cost areas, which are more likely to be rural. CMS has offered no technical or policy rationale for this approach, and it seems instead to be another instance of CMS using regulations to cut hospital payments and reduce Medicare spending.

The draft regulation was published in the Federal Register on May 4. CMS will accept written comments about its proposal until the close of business on June 24, and NAUH intends to take advantage of that opportunity to comment about various aspects of the proposed regulation. To add your input or learn more about the proposed regulation, please feel free to contact Ellen Kugler, NAUH's executive director, at ellen@nauh.org. ♦

NAUH Seeks Special Payments for Selected Urban Hospitals (continued)

“After years of seeing Congress provide a great deal of much-needed help to rural hospitals, our message is very simple: ‘We need help, and it’s our turn.’”

Currently, NAUH is seeking congressional co-sponsors for its proposal. ♦

GAO Urges Changes in 75% Rehab Rule

The federal Government Accountability Office (GAO) has called on CMS to modify its 75% rule governing Medicare reimbursement for services provided in rehab hospitals.

Last year, CMS clarified its interpretation of the 75% rule, doing so in a manner that made it much more difficult for providers to maintain their designation as inpatient rehabilitation facilities and receive more generous Medicare payments. In response to protests from the hospital industry, Congress directed CMS to delay implementation of its new interpretation until the GAO could complete a study about the issue.

In its study, the GAO noted that fewer than half of all Medicare patients treated in rehab hospitals in 2003 had a medical condition that would count toward their provider retaining its status as a rehab hospital under CMS's new interpretation of its own regulation. As a result, more than half of the country's rehab hospitals would have lost their status as rehab hospitals that year. While acknowledging that some Medicare patients may be admitted unnecessarily to rehab facilities, the GAO recommended that CMS refine its criteria, perhaps by describing more definitively the subgroups of patients suffering the 13 conditions that would qualify for rehab hospital care and by paying more attention to patients' functional status.

The next step is up to CMS, which has 60 days to act on GAO's findings. ♦

For further information about the news and views presented in NAUH Update, or to learn about membership, please contact Ellen Kugler, executive director, at 703-444-0989.