

Bush Budget Would Hurt Urban Safety-Net Hospitals

The Bush administration's proposed FY 2009 budget would launch years of Medicare and Medicaid cuts that would pose a serious threat to the financial health of the nation's urban safety-net hospitals.

Among the proposed reductions are massive cuts in Medicare DSH and bad debt reimbursement and significant cuts in annual Medicare updates and indirect medical education and capital payments.

In all, the administration's budget calls for a \$200 billion reduction in the growth of Medicare and Medicaid spending over the next five years, with most of the cuts – \$183 billion worth – coming out of Medicare.

The cuts with the greatest potential impact on urban hospitals are a proposed 30 percent reduction in Medicare DSH payments over the next two years and the complete phase-out of Medicare bad debt reimbursement over the next five. Together, these two cuts alone would cost qualified hospitals nearly \$30 billion.

Both proposals strike at the heart of the mission of urban safety-net hospitals, according to Ellen Kugler, executive director of the National Association of Urban Hospitals (NAUH).

“These payments were specifically designed to help hospitals deal with the financial impact of serving large numbers of low-income patients,” Kugler explained. “This proposed budget seeks to save money by taking away resources from the very hospitals that play the biggest role in caring for low-income, uninsured, and underinsured patients.”

The administration's budget also calls for reducing capital payments by five percent in FY 2009, cutting indirect medical education (IME) payments by more than half,

– Continued on Page 2

Wage Index Changes Could Hit Urban Hospitals

Proposed changes in the Medicare area wage index system could have a damaging impact on many urban hospitals.

Under the revised wage index system envisioned by MedPAC (the Medicare Payment Advisory Commission, which advises Congress on Medicare payment issues), most high-cost urban areas could see their area wage indexes decline while lower-cost, non-urban areas would see their wage indexes rise, according to an NAUH analysis.

MedPAC submitted its recommendation to Congress last year, as required by Congress in the Tax Relief and Health Care Act of 2006. The Centers for Medicare & Medicaid Services (CMS) is required to act on those recommendations this spring.

Under the MedPAC proposal, calculation of hospitals' wage indexes would be based on county-wide data, derived from Bureau of Labor Statistics data, instead of on hospital-specific data and census data based on Core-Based Statistical Areas, as is currently the case. This would lead to less variation in wage index between adjacent counties, and because the proposal would be budget-neutral, it would tend to cause the wage index of higher-cost urban areas to fall while increasing the wage index in lower-cost rural areas.

– Continued on Page 2

Congress, Administration Spar Over Medicaid Regulations

The fate of six Medicaid regulations proposed by the administration could have a major impact on many urban hospitals in the near future.

If implemented, the regulations could reduce the growth of federal Medicaid spending by \$12 billion over the next four years.

One of the regulations would limit state Medicaid payments to public providers to the cost of the services those providers deliver. This limit would make it more difficult for states that use intergovernmental transfers to raise their share of Medicaid costs – and this would affect private hospitals as well.

– Continued on Page 2

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.

Wage Index Changes . . . (continued)

Hospitals dissatisfied with their classification, moreover, would no longer be able to apply for reclassification.

“NAUH has developed a computer simulation of the MedPAC proposal,” explained NAUH executive director Ellen Kugler, “and we found that for the most part, the proposal would hurt urban safety-net hospitals. It’s not a totally uniform impact, but by and large, by using BLS instead of census data, reducing variations in wage index among adjacent counties, and making any change budget-neutral, the proposal tends to lower the wage index of most urban safety-net hospitals.

“That index, in turn, has a significant impact on Medicare payments to hospitals. If this proposal becomes law, most urban safety-net hospitals would be hurt and many would be clobbered.”

The MedPAC proposal is now being evaluated by CMS, which is required to consider the MedPAC recommendation in its FY 2009 Medicare inpatient prospective payment system regulation.

“We’ll evaluate the inpatient regulation when it’s released, inform urban hospitals about how it might affect them, and take advantage of the regulatory and political processes to do everything possible to ensure that any changes do not cause inappropriate harm to the nation’s private, non-profit urban safety-net hospitals,” Kugler explained.

CMS will publish its proposed annual Medicare inpatient prospective payment system regulation in March or April. ♦

Bush Budget Would Hurt . . . (continued)

from 5.5 percent to 2.2 percent, over the next three years, and eliminating IME payments made to Medicare Advantage plans.

In addition, the budget calls for no cost-of-living increases for inpatient and outpatient services, rehab hospitals, and skilled nursing facilities in each of the next three years and then less-than-full cost-of-living increases thereafter.

“This would be a disaster for urban safety-net hospitals,” NAUH’s Kugler said. “Hospitals’ costs would go up, but payments would not keep pace. We recognize the federal government’s need to get a better handle on Medicare spending, but simply deciding not to pay hospitals the true cost of caring for their Medicare patients is not the way to do it. Making a special effort to take money away from hospitals that do more than most to care for low-income patients is especially disturbing.”

NAUH, according to Kugler, will advocate aggressively against the proposed cuts. ♦

Congress, Administration Spar (continued)

Another rule would eliminate federal matching funds for the graduate medical education (GME) payments that state Medicaid programs make to qualified hospitals.

Congress imposed a moratorium on the implementation of both of these regulations last May. That moratorium ends in late May of 2008, and efforts currently are under way to extend the moratorium for another year. It is not clear whether these efforts will succeed.

The administration also is encountering resistance to its attempt to implement four other Medicaid regulations.

The first would limit the range of rehab services for which the federal government would pay Medicaid matching funds. Proposed by CMS last May, a congressional moratorium on the implementation of this regulation ends on June 30.

The second would redefine how states calculate their Medicaid outpatient upper payment limits and restrict the range of services for which the federal government would provide matching funds. This rule was proposed last September.

The third and fourth regulations would limit the expenditure of federal matching funds for selected administrative services, transportation costs for school-based services, and targeted case management.

Many members of Congress – with the encouragement of their home states’ governors, who fear the extra costs their Medicaid programs would be forced to bear – are expected to look for appropriate legislative vehicles to fight these measures. NAUH has focused its attention on the GME and payment limit regulations and will continue to advocate that Congress extend the moratorium on their implementation for another year.

To read NAUH’s formal comments on three of these regulations, please visit the NAUH web site at www.nauh.org/letters_07.html. ♦

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.