

## CMS Proposes Medicare Inpatient Payment Changes

The Centers for Medicare & Medicaid Services (CMS) has released its proposed Medicare inpatient payment regulation for FY 2008. Within the 457-page regulation are changes that would especially affect urban safety-net hospitals.

Last year CMS previewed a new severity-based DRG system that was met with near-unanimous opposition by the hospital industry. The agency is trying again this year with a proposed system of “Medicare Severity DRGs,” or MS-DRGs. The MS-DRG system has 745 DRGs, compared to the current system’s 538 classifications, with each having as many as three levels of severity within it.

NAUH has long advocated the introduction of a severity-based DRG system for Medicare, maintaining that such a system would more precisely capture the severity of illness of the fundamentally sicker patients served by urban hospitals and would pay them more appropriately for the resources they expend caring for those patients.

To complement this system, CMS proposes continuing to move DRG relative weights from charge-based to cost-based. After years of being calculated based only on hospital charges, this year relative weights are based two-thirds on hospital charges and one-third on hospital costs. For FY 2008, the agency proposes modifying it to one-third hospital charges and two-thirds hospital costs.

CMS envisions its new MS-DRGs and relative weights affecting Medicare inpatient payments in a number of ways, so it proposes adjusting other aspects of the payment system as well. Because it believes that once hospitals understand MS-DRGs they will be very aggressive with their coding in ways that will raise their case-mix indexes, the agency proposes reducing the annual inpatient rate increase by 2.4 percentage points less

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## Congress Blocks Proposed Medicaid Regulations

Two major Medicaid regulatory initiatives proposed by CMS this year – both potentially damaging to many urban safety-net hospitals – have been quashed, at least temporarily, by Congress.

In January, CMS proposed placing new limits on state Medicaid payments to public providers that would have affected the ability of many states to raise their share of their Medicaid program’s costs. Then, in late May, CMS proposed ending Medicaid’s long-time practice of matching states’ Medicaid payments to hospitals for graduate medical education (GME).

Both proposals would have jeopardized funding for many hospitals, but a provision in the supplemental war spending bill passed last month prohibits CMS from implementing either of these regulations for one year.

The January regulation, by preventing states from seeking Medicaid matching funds for payments to public providers that exceed 100 percent of those providers’ costs, would have reduced the overall total of federal Medicaid funds that states receive, which in turn would have affected states’ ability to compensate their Medicaid providers adequately. By indirectly capping payments to public providers at 100 percent of their costs, this also would have hurt public providers’ ability to care for their many uninsured patients, thereby exerting a new strain on the

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## Key House Committee Eyes Health Care Cuts

The Health Subcommittee of the House Ways and Means Committee has indicated that it will seek as much as \$100 billion in federal health care spending cuts, according to a subcommittee hearing held on May 15.

The purpose of such cuts would be to offset new health care spending, such as for an expansion of SCHIP and another attempt to address the Medicare physician payment problem. Congress’s new “paygo” policy requires cuts to offset any new spending.

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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.**

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## Congress Blocks Regulations (continued)

health care safety-net that undoubtedly would have filtered down to private urban safety-net hospitals as well.

The May regulation called for ending federal matching funds for state Medicaid GME payments to hospitals, with CMS arguing that it is not authorized by law to match such payments – even though it has been doing so for years. While the agency estimates only modest savings – just \$140 million in FY 2008, rising to \$440 million in FY 2010 and not escalating significantly thereafter – NAUH suspects that these projected savings may be understated.

With the moratorium imposed in the supplemental war spending bill, however, neither measure can be implemented for one year. In late May, CMS published the final version of the January regulation, so it theoretically will be ready to implement as soon as the moratorium ends. NAUH's comments to CMS on this regulation can be found at [http://www.nauh.org/letters\\_07.html](http://www.nauh.org/letters_07.html).

The Medicaid GME regulation, on the other hand, was released in draft form just days before the moratorium was imposed and is currently in the midst of its public comment period, which is not affected by the moratorium. ♦

## Committee Eyes Health Care Cuts (continued)

During the hearing, subcommittee chairman Pete Stark (D-CA) indicated “everything is on the table” when it comes to cuts, although he is known to support legislation to reduce Medicare market basket updates and is thought to be interested in reducing payments to Medicare Advantage fee-for-service plans as well. Stark said that across-the-board cuts were always a possibility, but he urged representatives of the hospital industry to work with him to find the most acceptable ways to reduce spending. NAUH intends to convey to Rep. Stark, committee members, and other hospital groups the importance of ensuring that any such cuts do not disproportionately harm urban safety-net hospitals. ♦

## CMS Proposes Medicare Changes (continued)

than full market basket in each of the next two years. The agency calls this a “behavioral offset.”

In anticipation of MS-DRGs capturing some cases that currently become outliers, CMS proposes reducing the outlier threshold from the current \$24,475 to \$23,015. It also would review all of the new MS-DRGs to determine whether Medicare's post-acute transfer policy should apply to them.

CMS also has plans for hospital capital payments – painful plans for urban hospitals. The proposed regulation calls for permanently eliminating the large urban add-on capital payment, which accounts for three percent of Medicare capital payments to eligible urban hospitals. In addition, the agency proposes no increase in capital payments for urban hospitals – but rural hospitals would receive an increase – and solicits comments on whether it should discontinue making disproportionate share (DSH) and indirect medical education (IME) adjustments to Medicare capital payments.

With the growing emphasis on paying for performance, CMS – under direction from Congress through the Deficit Reduction Act of 2005 – has selected six medical conditions in which the presence of a certain code in a claim suggests a condition aggravated by a hospital-acquired condition. It proposes that Medicare pay only for care associated with the original condition and not for the additional care needed to treat the preventable problem.

While CMS proposes no new Medicare data reporting requirements for the coming year, the agency is soliciting comments on five new measures for which it is considering imposing new reporting requirements in FY 2009.

Many of these and other proposed changes – especially the “behavioral offset” and the loss of capital money – would have potentially damaging effects on urban hospitals, and NAUH conveyed its concerns to CMS during the public comment period for the proposed regulation. Hospitals interested in learning more about the proposed changes and their potential impact should contact NAUH at [kate@nauh.org](mailto:kate@nauh.org). NAUH's correspondence with CMS regarding the proposed regulation can be found on the NAUH web site at [www.nauh.org](http://www.nauh.org). ♦

*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.*