American Hospital Association

ADVOCACY

Action Alert!

Thursday, May 19, 2011

NEED ACTION FROM ..... Hospital leaders

ACTION.....Tell your Congressman and Senators to protect hospital payments under Medicare and Medicaid

WHEN ..... Immediately

HOW..... Call or e-mail your legislators

WHY ..... Debt limit legislation could be vehicle for cutting health care

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Urge Your Legislators to Protect Funding for Hospital Services under Medicare and Medicaid

BACKGROUND

The primary focus in Washington continues to be on the national debt. The raising of the federal debt limit must take place by Aug. 2 in order to prevent the nation from defaulting on its existing financial obligations, which experts claim would have a catastrophic effect on our economy.

Legislation to increase the debt limit to avoid such an outcome is likely to be a vehicle for significant efforts to reduce the deficit through spending cuts and/or tax increases. Given that Medicare and Medicaid comprise more than 20 percent of all federal spending — and, on average, around 55 percent of hospital revenues — the debate over federal debt limit and deficit reduction has significant implications for the hospital field.

PROPOSALS UNDER CONSIDERATION

President Obama has appointed Vice President Biden to lead a group of bipartisan legislators from the House and Senate to develop a deficit reduction package that could be passed as part of the vote on a debt limit extension. At the same time, several proposals to address the debt limit/deficit challenge have emerged:

McCaskill-Corker*:** Legislation introduced by Sens. Claire McCaskill (D-MO) and Bob Corker (R-TN) that would limit federal spending to 20.6 percent of the Gross Domestic Product (GDP) by 2023. Currently, federal spending represents approximately 24 percent of GDP. Annual spending targets would be established, and automatic cuts ("sequesters") would be implemented if Congress failed to legislate changes to achieve the targets. Increased revenues are ***not included as an option to achieve the budget targets. This approach could result in enormous cuts to both Medicare and Medicaid.

***House Budget Committee*:** Authored by Chairman Paul Ryan (R-WI), the resolution, which has passed the House of Representatives, would cut Medicaid by $771 billion over 10 years, and turn the program into a block grant to the states. In addition, the Ryan plan assumes the repeal of the coverage expansions contained in the *Patient Protection and Affordable Care Act* (ACA), but maintains the provider reductions, including those faced by hospitals.

***Simpson-Bowles*:** This bipartisan commission appointed by the president recommended a variety of Medicare budget cuts that impact hospitals, such as reducing payment for graduate medical education and bad-debt. These recommendations would reduce Medicare funding by about $100 billion to hospitals over 10 years. In addition, they recommend the elimination of the use of Medicaid provider assessments (which would save $44 billion over 10 years), and an expansion of the Independent Payment Advisory Board (IPAB).

***Constitutional amendment to balance the budget*:** Supported by all Republican members of the Senate.

***President Obama*:** The president's initial budget for fiscal year (FY) 2012 included more than $60 billion in Medicaid reductions. The most significant proposal impacting hospitals would limit to 3.5 percent the amount that any sector may be taxed under Medicaid provider assessment programs. This would achieve savings of approximately $18 billion over 10 years. In addition, the president proposes two enforcement mechanisms to reduce spending. First, he would limit Medicare spending to GDP plus 1 percent from 2014 to 2017, and to GDP plus 0.05 percent in 2018 and beyond. Should Medicare spending exceed these amounts, IPAB would be given the authority to make recommendations to reduce Medicare spending. Such recommendations would receive fast-track consideration by Congress. Consistent with the ACA, hospitals would be excluded from these reductions through 2019. This approach is estimated to save $480 billion over 12 years. Second, the president's deficit reduction recommendations would also reduce the size of the overall federal deficit to a percentage of the GDP from approximately 10 percent currently to 2.8 percent over 12 years, and use automatic cuts (or sequesters) to enforce these limits starting in 2014. While Medicare and Medicaid

provider payments are subject to sequesters, direct cuts to beneficiaries would be prohibited. In addition, increased revenues are a part of this mechanism.

ACTION NEEDED

- Please contact your Representative in the House and your U.S. Senators (phone calls, e-mails, personal meetings, etc.) with the message points outlined below.

- Please request that other members of your hospital family (trustees, executives, caregivers, volunteers and other employees) either join you in a meeting with your legislators, or contact federal lawmakers on their own by telephone or e-mail to send the same message. Also, encourage selected individuals to send letters to the editor of your local newspapers.

- Please arrange meetings with your local editorial boards in an effort to educate them on the hospital perspective.

- If you require further assistance in this effort, please feel free to contact us at (800) 424-4301.

AHA POSITION

We have been fully engaged in this debate in Washington. Even though the discussions in Congress and with the White House are at an early stage, we can't wait. Therefore, we oppose any further reductions in payment for hospital services under Medicare and Medicaid for the following reasons:

The field is already absorbing $155 billion in reductions as part of the ACA, as well as state Medicaid cuts. And, that does not include additional cuts imposed by regulation, such as coding offsets under the Medicare inpatient prospective payment system. America's hospitals know what it means to be part of shared sacrifice to achieve national goals. Therefore, we strongly oppose efforts to further cut payments for hospital services under Medicare and Medicaid. It's time that every other sector of society be held to the same level of shared sacrifice – examination and scrutiny – as we have been. We urge lawmakers to look outside both the hospital and health care sector for new ideas that could achieve budget savings.

***Federal programs already underpay hospitals*.** Hospitals have made great progress in controlling costs and improving quality and are investing significant resources in health information technology to improve care even further. But we cannot continue this trend and absorb further cuts to federal programs, which already pay less than the costs of providing services (share charts below).

***Arbitrary triggers are not the answer*.** Hospitals are wary that formula-driven, arbitrary budget targets, such as the ones outlined in several proposals listed above,

would result in across-the-board cuts to health care. We will continue to oppose the use of a trigger that could impede patients' access to care and further exacerbate the "cost-shift," which would increase health care costs to employers and other purchasers of private coverage.

Protect the safety net. Medicaid has been dramatically cut as states struggle to balance their budgets. Further cuts, such as the ones proposed in the House budget plan, would threaten this program, which is a lifeline to so many Americans. And while we appreciate the president's sensitivity in maintaining the safety-net mission of Medicaid, we are concerned with his proposal to reduce provider assessments, which are used by most states to help finance their programs. Curtailing this option will result in lower funding and even more pressure to cut Medicaid, jeopardizing services to the poor and the disabled. There are alternatives to these Medicaid cuts, such as:

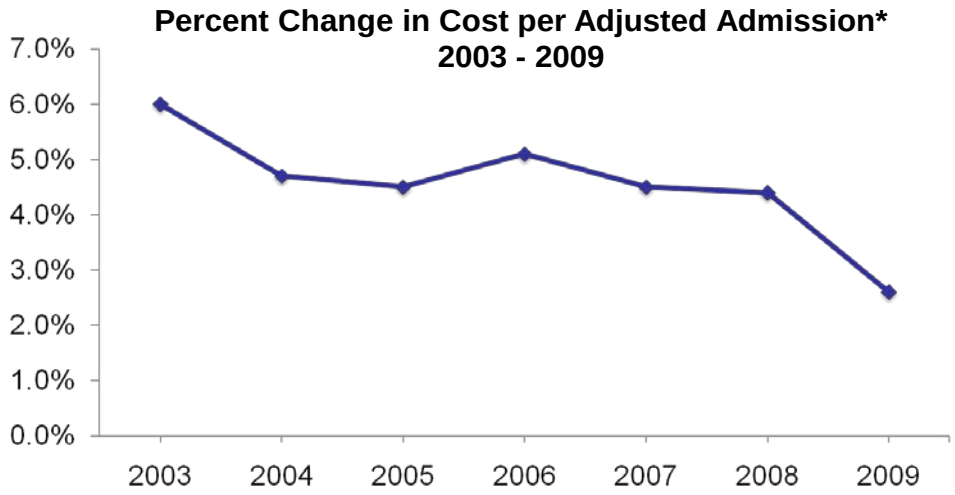
- Applying ACA models like accountable care organizations, bundling, medical homes and pay for performance to Medicaid;
- Coordinating care for dual eligibles and those with chronic conditions;
- Increasing the use of generic drugs;
- Restructuring copayments; and
- Designing tax incentives for long-term care.

Other Medicare alternatives also exist. Hospitals will continue to be part of the dialogue to offer solutions and support real reforms. This must be accomplished in a balanced way that considers concrete alternatives, such as:

- Creating a better alternative to our current liability system;
- Junk food taxes;
- Increased Medicare beneficiary cost-sharing;
- A tax cap on employer-provided health insurance benefits; and
- Adjusting the Medicare eligibility age.

The AHA will provide members with additional cost-saving options to use in your conversations with your legislators.

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.

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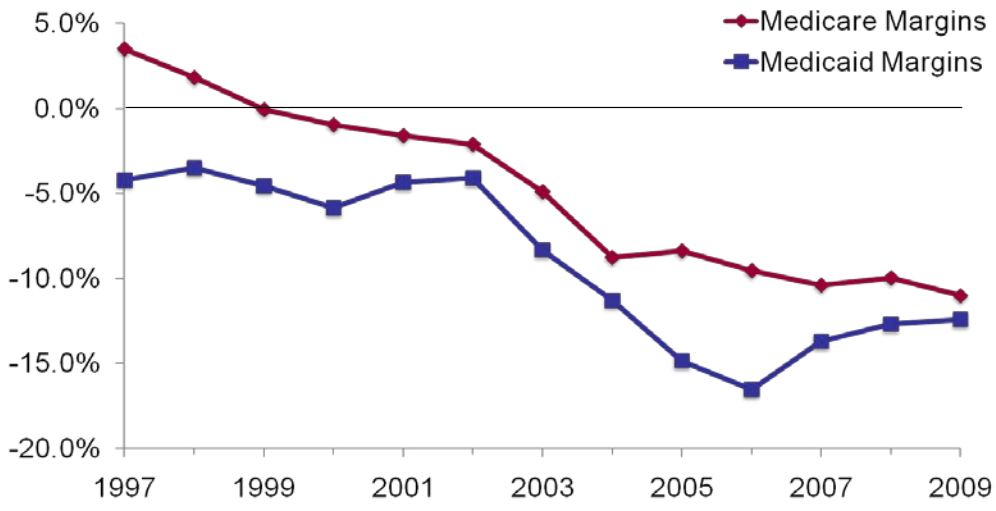
Hospital Medicare & Medicaid Margins



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

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