

November 13, 2012

Dear Chairman [MEMBER OF CONGRESS]:

On behalf of the Premier healthcare alliance, uniting more than 2,700 leading not-for-profit hospitals and health systems and 90,000-plus other healthcare sites, we are writing to urge you to reject Medicare cuts to hospitals resulting from the sequestration enacted in the Budget Control Act. If implemented, these cuts will be detrimental to Medicare beneficiaries and the transformation of our healthcare system to provide better value into the future. Instead, we urge Congress to bolster existing delivery system reform provisions to achieve lower overall spending.

The Premier healthcare alliance understands the challenge you face in establishing policies to reduce the deficit. However, we strongly oppose additional cuts to hospitals. The fact is healthcare spending growth, particularly for hospitals, is already constrained. According to the most recent data from the Centers for Medicare & Medicaid Services actuary, the growth in U.S. healthcare spending in 2009 and 2010 reached historically slow rates. Hospital spending in 2010 increased by only 4.9 percent over 2009, which represents a deceleration in spending growth by 1.5 percentage points. This is slower than the average annual growth in hospital spending between 2007 and 2010, which was 5.5 percent, and even slower than the trend between 2003 and 2006, when spending increased an average of 7.4 percent per year.

While some of this may be due to the recession, we believe there are other forces at work including the realization of delivery system reforms. Economic experts have pointed to the shift toward pay for performance and accountable care as factors contributing to the drop in spending growth. While national programs enacted in the healthcare reform law are still in their infancy, our alliance's experience in the private market demonstrates that measurable cost savings are being achieved through greater attention to reforms that focus on quality rather than quantity and change the way healthcare is delivered. We are confident that changes hospitals have been making to improve quality and reduce costs have, and will continue, to bend the cost curve.

The Premier alliance's work through our QUEST®: High Performing Hospitals collaborative has achieved a reduction in costs, a substantial increase in evidence-based care to all patients and a reduction in harm. QUEST is the largest collaborative of hospitals using standardized measures and transparency to make real, long-term change. These hospitals are actively working on delivery system reforms. Preliminary results show that they are successfully improving care and reducing their cost growth faster than other hospitals across the nation. Among other tactics, the collaborative is focusing on reducing hospital services through fewer readmissions by providing the right care, at the right time and in the right place even if it means reducing their own inpatient revenue. According to the CMS fiscal year 2013 estimates, QUEST hospitals are outperforming the nation in inpatient value-based purchasing.

To sustain this progress and achieve transformation, however, hospitals cannot continue to face lower payments for these vital services. Especially given that Medicare already pays less than cost for hospitals. According to the Medicare Payment Advisory Commission, overall Medicare margins for hospitals were -4.5 percent in 2010.

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Hospitals are already contributing \$155 billion through Medicare and Medicaid payment reductions to fund the expansion of coverage in the healthcare reform law. Now, some of the coverage offsets, including states' Medicaid expansion and creation of insurance exchanges, are in question, leaving hospitals vulnerable to higher levels of uncompensated care. We understand that all sectors of our economy have to share in deficit reduction efforts, including the healthcare industry. Hospitals are doing this by moving forward with cost-saving initiatives which require significant financial investments while shouldering reductions in Medicare and Medicaid payments. No other sector in healthcare has been impacted as hospitals have regarding pay for performance and penalties for poor performance. These reforms are years ahead of other healthcare sectors and will contribute to improving quality and reducing costs.

Moreover, the recent events surrounding Hurricane Sandy also illustrate the critical role that hospitals play in emergency situations, both in ensuring existing hospitalized patients are safe and by being on the front lines to care for those who are newly injured. Our communities rely heavily on these capabilities, which require immense preparation involving significant expense and resources.

New sequestration reductions will undermine these capabilities and the real progress that has been made to improve quality and reduce costs, and further cuts will stunt needed changes as we transition from our fee-for-service system. Considering the cuts hospitals are already incurring and their current progress toward deficit reduction, we ask that Congress mitigate the sequestration cuts for hospitals and instead enact alternative approaches that address the underlying causes of burgeoning healthcare spending.

First, we urge Congress to take advantage of healthcare providers' efforts to reduce spending by accelerating payment and delivery system reforms, particularly for non-acute care providers. The current fee-for-service payment system is misaligned with healthcare provider's attempts to achieve coordinated and cost-effective healthcare. It is critical that new delivery system models, such as value-based purchasing, accountable care organizations and bundled payment programs, give providers levers to achieve real, long-term savings for the government. This will encourage those providers who are taking meaningful and measurable steps to reduce healthcare costs and manage care to move in that direction. Congress could, for instance, hasten the deadlines for value-based purchasing programs across the Medicare payment silos or develop a permanent national voluntary bundled payment program.

Second, we ask that Congress remove national policies that impede progress, integration of healthcare providers and undermine efforts to reduce costs and improve quality. While new models of payment and care are helping hospitals and other providers transform the way care is delivered, regulatory barriers still exist in the current healthcare system that limit the extent to which hospitals and other providers are able to improve the quality, efficiency and accessibility of the healthcare they deliver. We still need to eliminate obstacles such as some of those that exist in the self-referral and antitrust provisions that prevent physicians and hospitals from integrating their services. For example, beneficiaries should be allowed to receive information from providers that could influence where they seek care such as information on the quality of different care sites. Other existing Medicare policies, such as requiring a three-day hospital stay before Medicare will cover skilled nursing facility services, create perverse incentives to admit and keep patients in the hospital at a time when we are trying to avoid inpatient stays altogether by better care coordination.

Thirdly, we ask for a continued effort to streamline the Medicare program and reduce the regulatory burden on providers. Congress should push CMS to continue reviewing the cost report, the conditions or participation, the

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measurement framework, and the payment error review programs to simplify, coordinate, and bring these policies in line with the new world of payment under delivery system reform. The efficiencies gained from simplifying these policies will result in additional time and resources being freed up for providing high-value care to patients.

Finally, as the process set forth in the Budget Control Act and other deficit reduction efforts move forward, we urge Congress to put in place a mechanism to account for savings that are achieved by hospitals in the Medicare program. If any level of sequestration occurs and hospitals are successful in keeping the trend growth rate below what is projected, this work should be "credited" to them in future sequestration. In other words, if hospitals are able to achieve even deeper savings than the sequestered amount through implementing delivery system reforms and other innovations, that amount should be debited from the future years' sequestration amount.

We believe it is short-sighted to introduce more instability and penalize hospitals when spending growth is at a historic low and hospitals are making herculean efforts to transform healthcare. We urge Congress to recognize and encourage this progress, not cut payments that fund this needed work.

Sincerely,

A handwritten signature in black ink, appearing to read "Blair Childs". The signature is fluid and cursive, with a large initial "B" and "C".

Blair Childs  
Senior vice president, Public Affairs  
The Premier healthcare alliance