

## **Federal Healthcare Reform Geographic Variation**

### **Issue**

Medicare reimbursement rates vary substantially across the United State from state to state; this is referred to as “geographic variation.”

Concerns about access to care for persons in rural or other underserved areas provoked some special policy adjustments in the 1980s and 1990s. The revised payment formulas sought to reduce some of that geographic variation between the states, but differences still remain. As elected officials look to cover the cost of expanding health care for the uninsured during the current discussion on reform, a group of lawmakers representing mostly rural, southern and mid-western states have looked once again at the issue of geographic variation and the difference in reimbursement rates. Their arguments hinge upon their belief that hospitals and physicians in their districts provide health care more efficiently and at a lower cost than hospitals in larger urban states and thus provide better value.

Language has been included in various health care proposals that would study the differences between so-called “low cost” areas and “high cost” areas and allow the Secretary of Health and Human Services to shift Medicare payments from larger states to smaller states without a vote by Congress. Such a shift will most likely hurt hospitals in Texas and California.

In addition, language has also been drafted that includes a hold harmless clause should any shifts in Medicare funding take place between regions. This language includes an additional \$8 billion in funding that would be used to increase Medicare payment levels over a two year period for those hospitals located in “low cost” areas. The goal of the \$8 billion is to bring lower cost areas up to a higher level of funding while studying the factors behind higher rates in other states.

### **Current Status**

As stated above, current health care reform proposals contains language that would require that geographic variation be studied and that funding be set aside to adjust reimbursement rates that would address geographic variation. This would increase payments to “low cost” states while maintaining the existing payment structure for “high cost” states while the study was undertaken.

However, in attempt to hold down costs associated with health care reform, some members of Congress are trying to strip the “hold harmless” provision and the associated \$8 billion out of all legislative proposals and simply conduct a limited study. Such a change has the real potential to shift funding from “high cost” states to “low cost” states with no real understanding of why such variation exists. Again, this has the potential to hurt hospitals in Texas and California. While some members of Congress are supportive of such efforts, to date no such change has been made to any of the health care reform proposals and the hold harmless provision and the \$8 billion remain.

### **SJHS Position**

St. Joseph Health System supports efforts to study the reasons for geographic variation as well as the true level of geographic variation in per capita health care spending among both Medicare and privately insured populations. In addition the system supports the inclusion of the hold harmless clause and the additional \$8 billion in funding as it is critical to ensure adequate funding for Medicare programs in all areas of the country. As this issue is hashed out in the Congress, the SJHS favors fair and equitable payments across geographic regions, with recognition of legitimate, clinically justifiable variations if they exist.