

Federal Health Reform Medicare Provider Cuts

Issue

Some of the funding for health reform will come from the current system in terms of cuts in provider reimbursements and changes to Medicare and Medicaid. Recently, the American Hospital Association (AHA) reached an agreement with the White House and the Senate Finance Committee Chairman to expand coverage. AHA supported an agreement on health care reform that expands health coverage to 95% of Americans while capping at \$155 billion over 10 years the amount of hospital spending cuts that would be used to help achieve that goal.

The specifics of the cuts to hospitals are:

- a) Reduced Medicare update factors in the form of market-basket cuts (some in the form of "productivity adjustments") that would average market-basket minus 1.0 percent over the next 10 years, with smaller cuts in the initial years ramping up to larger cuts in the out years with a trigger attached to coverage expansions.
- b) No cuts in Medicare and Medicaid Disproportionate Share Hospitals (DSH) payments for five years. In 2015, reductions would be phased in and linked to coverage expansions via a trigger mechanism. After 10 years, approximately 60 percent of total DSH payments would be preserved. This is a significantly greater amount remaining than the President proposed, and recognizes there will always be a need for DSH support.
- c) Reductions in payment for hospital readmissions focus on cases that are "avoidable" and related to the initial admission, similar to AHA principles.

Current Status

These \$155 billion in cuts are expected to be incorporated into the Senate Finance proposal. DSH cuts would be phased in over the next five years as the number of uninsured increase and the market basket will be changed. However, some in Congress say they are not bound by the agreement between AHA and the White House. But, for now it appears that the dollar amount of \$155 billion is being followed.

S.JHS Position

The System is supportive of the agreement reached by AHA as long as the number of uninsured increases. As coverage expands and more Americans are insured, the AHA estimates conservatively that hospitals would see reduced uncompensated care of at least \$171 billion over 10 years. A June 30 report from Bank of America-Merrill Lynch states that the hospital field stands to gain \$214 billion - \$236 billion over 10 years, if coverage expansion occurs as projected.