



American Hospital
Association

SPECIAL BULLETIN

July 8, 2009

(This is a 3-page Bulletin)

AHA ANNOUNCES AGREEMENT TO “DO OUR PART” ON REFORM THAT EXPANDS COVERAGE

The AHA today announced its support for 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. 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 through coverage expansion. The announcement of the agreement, which was negotiated with the White House and Senate Finance Committee Chairman Max Baucus (D-MT), came during a White House event with the AHA, the Catholic Health Association (CHA) and the Federation of American Hospitals (FAH). “Today, the AHA reform framework calls for ‘coverage for all, paid for by all,’” said AHA President Rich Umbdenstock. “And hospitals are ready to do our part. But so must all other involved stakeholders, and that includes everyone across our economy – employers, unions, individuals, suppliers, insurers, practitioners and providers.” In a joint statement, the three organizations said they “stand ready to work with the Senate, House and Administration to enact comprehensive health reform that works for patients and families and the hospitals and health care professionals that serve them.”

The agreement allows the hospital field to do its part in expanding coverage without the threat of massive cuts included in the Administration’s proposal.

The President’s reform plan, released June 13, would cut hospitals by between \$224 million and \$254 million to help create a reserve fund to finance reform. The proposal also includes aggressive policies on hospital readmissions; value-based purchasing; bundling for post-acute care services; reducing Medicare update factors in the form of both market-basket cuts and “productivity adjustments” to providers; and reducing Medicare and Medicaid disproportionate share hospital (DSH) payments by 75%.

The House leadership reform plan, released June 19, includes Medicare market-basket reductions that cut hospital payments by about \$119 billion over the next 10 years, along with an aggressive readmissions policy with \$16 billion in savings. In addition, while the proposal does not cut graduate medical education or DSH, it does include an expansive public plan linked to Medicare rates, which, according to the Lewin Group, could result in additional losses to hospitals of \$36 billion *per year*.

The Senate Finance Committee plan, which has not yet been released, presents an opportunity to develop a bipartisan reform package. The AHA, CHA and FAH have been involved in extensive discussions with the committee and the White House. Key elements of the plan include:

COVERAGE – Starting in 2013, the draft legislation takes key steps toward the hospital field’s shared goal of coverage for all Americans by phasing in policies to expand coverage to 95% of all Americans, and requiring a mandatory employer contribution and an individual mandate.

HOSPITAL SPENDING REDUCTIONS – The hospital field’s contribution to this historic effort would be \$155 billion over 10 years. The Administration has agreed that the total amount of hospital spending reductions will serve as a cap on such cuts throughout the legislative process, including conference committee deliberations, when the House and Senate work to create one reform bill. Here is how the hospital savings would be achieved:

- ✓ 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.
- ✓ No cuts in Medicare and Medicaid 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.
- ✓ Reductions in payment for hospital readmissions focus on cases that are “avoidable” and related to the initial admission, similar to AHA principles.
- ✓ No cuts in indirect medical education.

NEW PUBLIC “EXCHANGE” – Details yet to be worked out, but the committee is considering several options, including a network of non-profit, non-government entities offering health plans to compete with commercial insurers that would be required to negotiate rates with providers. Insurance reforms would apply to all health plans, whether they participate in the exchange or not. The AHA opposes the House plan’s proposal of a new public plan that uses Medicare rates to reimburse for care for the newly insured.

DELIVERY SYSTEM REFORMS – In addition to the readmission provisions, the package includes the following system reforms.

- ✓ Value-based purchasing provisions that are budget neutral and largely consistent with AHA principles.

- ✓ Bundling is undertaken on a pilot project basis with a specified end to the project and an evaluation.
- ✓ Restrictions are placed on physician self-referral to hospitals in which they have an ownership interest, and limits are placed on expansion for those that are grandfathered.
- ✓ The number of Medicare-approved slots for physician graduate medical education is increased.
- ✓ Administrative simplification is included.

TAX-EXEMPT STATUS – The proposal maintains the community benefit standard for hospital tax-exemption, with no formulas or tests on the amount of charity care provided.

OTHER PROVISIONS – The proposal includes various provisions related to: extending expiring provisions; adjusting physician payments; supporting prevention and wellness; establishing accountable care organizations; and other matters under the committee's jurisdiction.

NEXT STEPS – Watch for information from us about how you can register for the next "Health Care Reform Update Interactive," a Webcast held each Tuesday to get you the latest on health care reform directly from AHA leaders.