



**American Hospital  
Association**

**Third National Medicare Congress**

**Medicare and Hospitals: The State of Reform**

# The State of Reform

“Three-quarters of all adults say the U.S. health care system needs either fundamental change or complete rebuilding”

The Commonwealth Fund  
Public Views on Shaping the Future  
of the U.S. Health System  
August 2006



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# Vision of a Future Healthcare System

## **Our health care system should:**

- Provide affordable coverage for everyone's basic health care
- Provide care equitably to all
- Be based on premise that health is a shared responsibility
- Demand better stewardship of limited resources
- Be sufficiently financed to meet long-term responsibilities
- Emphasize wellness; center on preventive & primary care
- Deliver high quality, evidence-based care
- Be structured to provide more coordinated continuity of care
- Be simple and easy to understand and navigate
- Be transparent; share information w/consumers & clinicians



# Medicare – Wrong Incentives

- Neutral (or negative) towards quality
- Payment is “per-service,” rewarding volume (even if ineffective)
- Emphasis on treatment, not prevention
- No rewards for activities that support quality care (care coordination, health IT, patient education)
- Savings typically accrue to insurers/employers



# 2007 Hospital Payment Changes

- **IPPS: Steps to improve the accuracy of inpatient payments**
  - Charge to cost based weights
  - Patient severity (in progress)
  - Further pay-for-reporting
- **OPPS: Steps to add quality; examine link between OPPS and ASCs**
  - Link inpatient quality measures to OPPS update
  - New E/M visit codes



# Key Driver – “Specialty Hospitals”

- **Findings**
  - Economic incentives influence MD behavior
  - Cherry-pick most profitable patients & services
  - Order more – and more expensive – services
  - Questionable “higher quality” & “lower cost”
- **Outlook: modest growth**
  - Payment changes
  - Disclosure of physician investment; enforcement
  - Politics
- **Continuing AHA concerns...**



# “Pay-For-Performance”

- **Currently “Pay-for-Reporting”**
  - Portion of payment update linked to reporting of measures; 98% hospitals participating
  - Quality data publicly displayed
  - Premier Demo – incentives change behavior
  - Hospital Quality Alliance (HQA) is critical
    - Agreement on measures, collection, reporting, timeframe
    - All key stakeholders at the table (Hospitals, CMS, AHRQ, NQF, JCAHO, AMA, ANA, AARP, AFL-CIO, Chamber)
- **Need movement towards P4P**

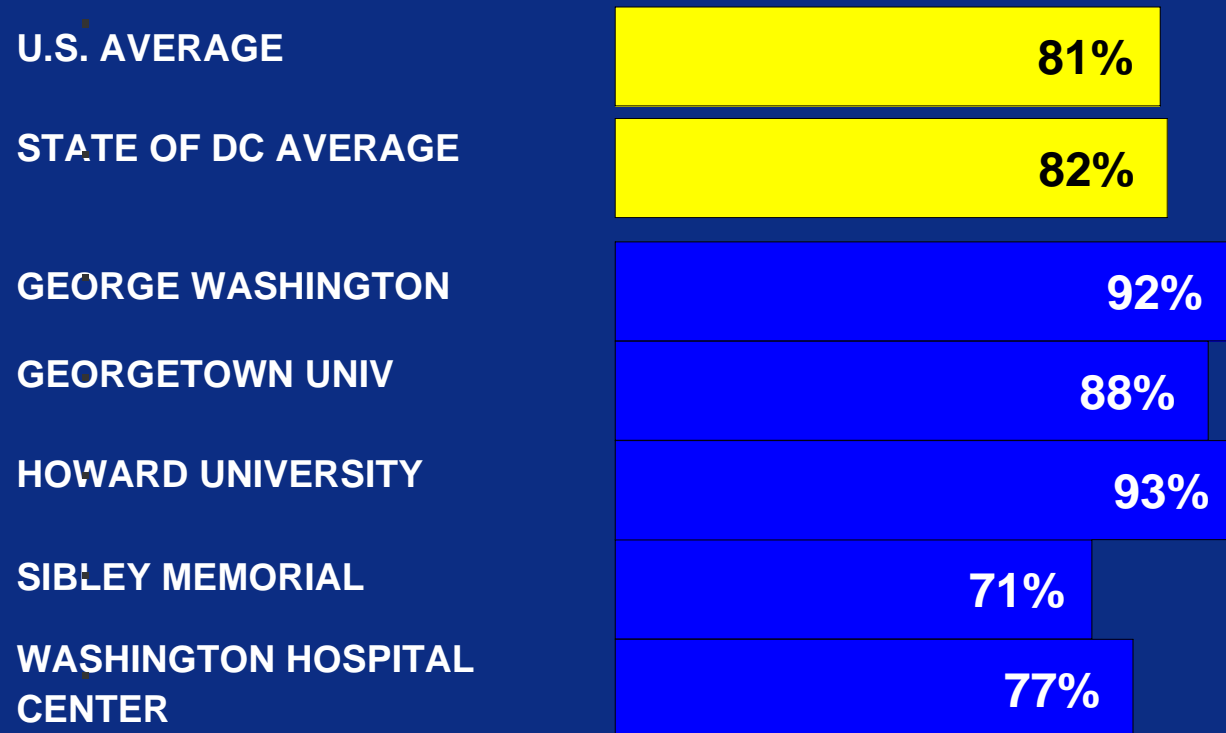


# Quality Transparency

CMS' Hospital Compare Web Site:

## Percent of Heart Failure Patients Given ACE Inhibitor or ARB Left Ventricular Systolic Dysfunction (LVSD)

Jan 2005 - Dec 2005



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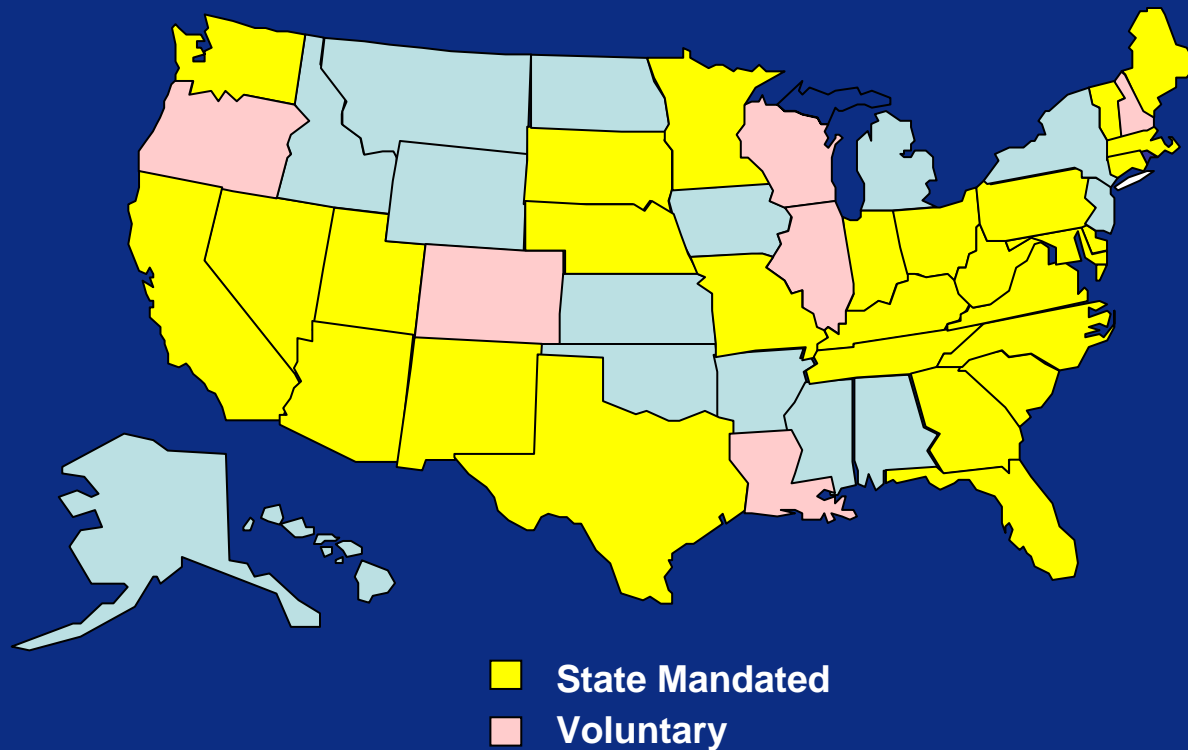
# Price Transparency (CMS web site)

Hospital State	Hospital County	Hospital Name	DRG 209 Replacement of Hip or Knee Nat'l Ave Payments: \$11,761 Nat'l Ave Charges: \$36,644	
			# Cases	Range Ttl Pymts, by County (25th % - 75%)
<b>ALL STATES</b>		<b>ALL HOSPITALS</b>	<b>487,232</b>	<b>\$9,992 - \$12,173</b>
<b>FLORIDA</b>			<b>34,663</b>	<b>9,705 - 10,651</b>
	<b>ALACHUA</b>		<b>861</b>	<b>10,148 - 14,420</b>
		NORTH FLORIDA REGIONAL MEDICAL C	357	
		SHANDS HOSP AT THE UNIVERSITY OF	504	
	<b>BAY</b>		<b>426</b>	<b>9,970 - 10,331</b>
		BAY MEDICAL CENTER	127	
		GULF COAST MEDICAL CENTER	299	
	<b>BREVARD</b>		<b>1,172</b>	<b>9,545 - 9,892</b>
		CAPE CANAVERAL HOSPITAL	151	
		HOLMES REGIONAL MEDICAL CENTER	643	
		PARRISH MEDICAL CENTER	84	
		WUESTHOFF MEDICAL CENTER ROCK	199	
		WUESTHOFF MELBOURNE	95	



# State Led Efforts - Price Transparency

- 32 states require hospitals to report pricing data
- 6 more are voluntarily reporting



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# State Initiatives – Wisconsin



WHA Information Center **PricePoint** System  
The Respected Source for Health Care Data

[BASIC QUERY](#) | [COMPREHENSIVE QUERY](#) | [ABOUT](#) | [CONTACT](#) | [WHAIC HOME](#)

**St Luke's Medical Center**  
2900 W Oklahoma Ave  
Milwaukee, WI 53215  
414-649-7100

**Heart Bypass Surgeries With Insertion Of Cardiac Catheter**  
January 1, 2005 - December 31, 2005

	Selected Hospital	All Hospitals in this County	All WI Hosp. with Similar Patient Volume	All WI Hospitals
Number of Discharges:	329	592	1,683	1,937
Average Length of Stay:	9.5 Day(s)	9.2 Day(s)	8.5 Day(s)	8.5 Day(s)
Average Charge:	\$90,968	\$96,716	\$72,396	\$74,240
Average Charge Per Day:	\$9,614	\$10,473	\$8,480	\$8,739
Median Charge:	\$83,158	\$88,043	\$63,362	\$65,947

NR = 1 - 4 Discharges (Not Reported)  
 = Show hospitals in that group

- Notes About this Table
- Understanding Facility Charge Information
- Why Charges May Differ Between Facilities



View CheckPoint<sup>SM</sup> Quality Reports for this Hospital

Select New Hospital

Select New Service at this Hospital



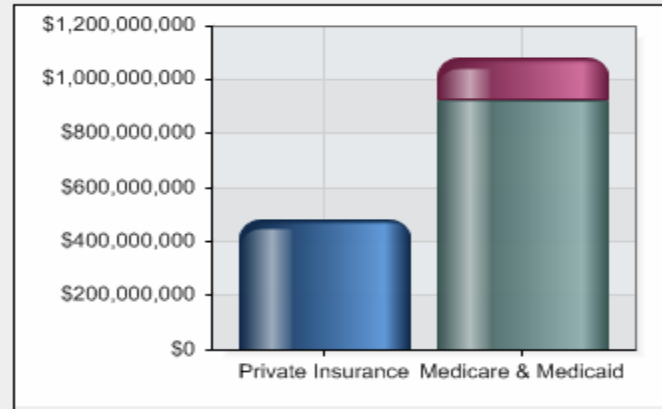
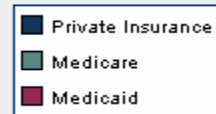
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# State Initiatives – Wisconsin (cont.)

## ST LUKE'S MEDICAL CENTER CHARGE AND PAYMENT INFORMATION MOST RECENT FISCAL YEAR - ALL SERVICES

### What is the selected hospital's "payer mix?"

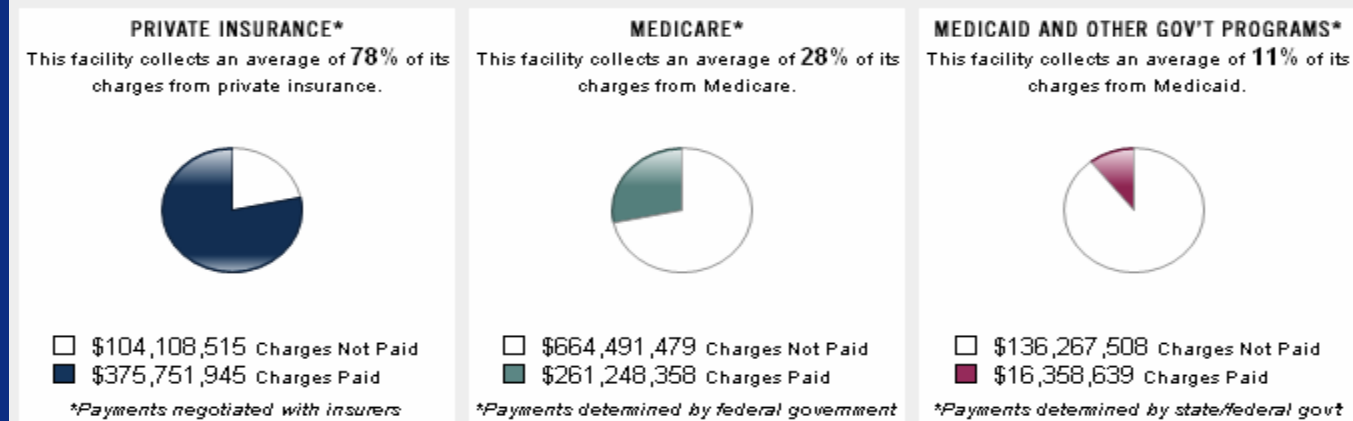
A hospital's "payer mix" refers to the proportion of its total charges attributable to different types of insurance coverage.



### How much do government programs pay compared to private insurance?

In many cases, Medicare & Medicaid reimburse hospitals at rates that do not cover the costs they incur to provide care. Payments from privately insured patients generally subsidize the shortfalls created by Medicare and Medicaid and therefore represent a "hidden tax" on individuals and families not covered by government programs. [Click to view examples of Medicare & Medicaid reimbursement to hospitals in Wisconsin.](#)

The graphs below represent all services provided by the hospital; they are not specific to the the selected service.



# Transparency Recommendations

- Build upon state efforts to report hospital pricing data
- Require insurers to provide out-of-pocket estimates to enrollees
- Charge AHRQ with determining what kind of pricing information consumers actually want.. what is meaningful?



# New Technologies ...

- Breakthroughs lead to improved care... but at a higher cost to hospitals

<u>“Traditional” Technology</u>		<u>Contemporary Technology</u>		<u>Next Round Technology</u>
<b>X-Ray Machine</b> \$175,000	➔	<b>CAT Scanner</b> \$1,000,000	➔	<b>CT Functional Imaging with PET</b> \$2,300,000
<b>Open Surgery Instrument Set</b> \$10,000	➔	<b>Laparoscopic Surgery Set</b> \$15,000	➔	<b>Robotic Surgical Device</b> \$1,000,000
<b>Scalpel</b> \$20	➔	<b>Electrocautery</b> \$12,000	➔	<b>Harmonic Scalpel</b> \$30,000

© 2002 University HealthSystem Consortium



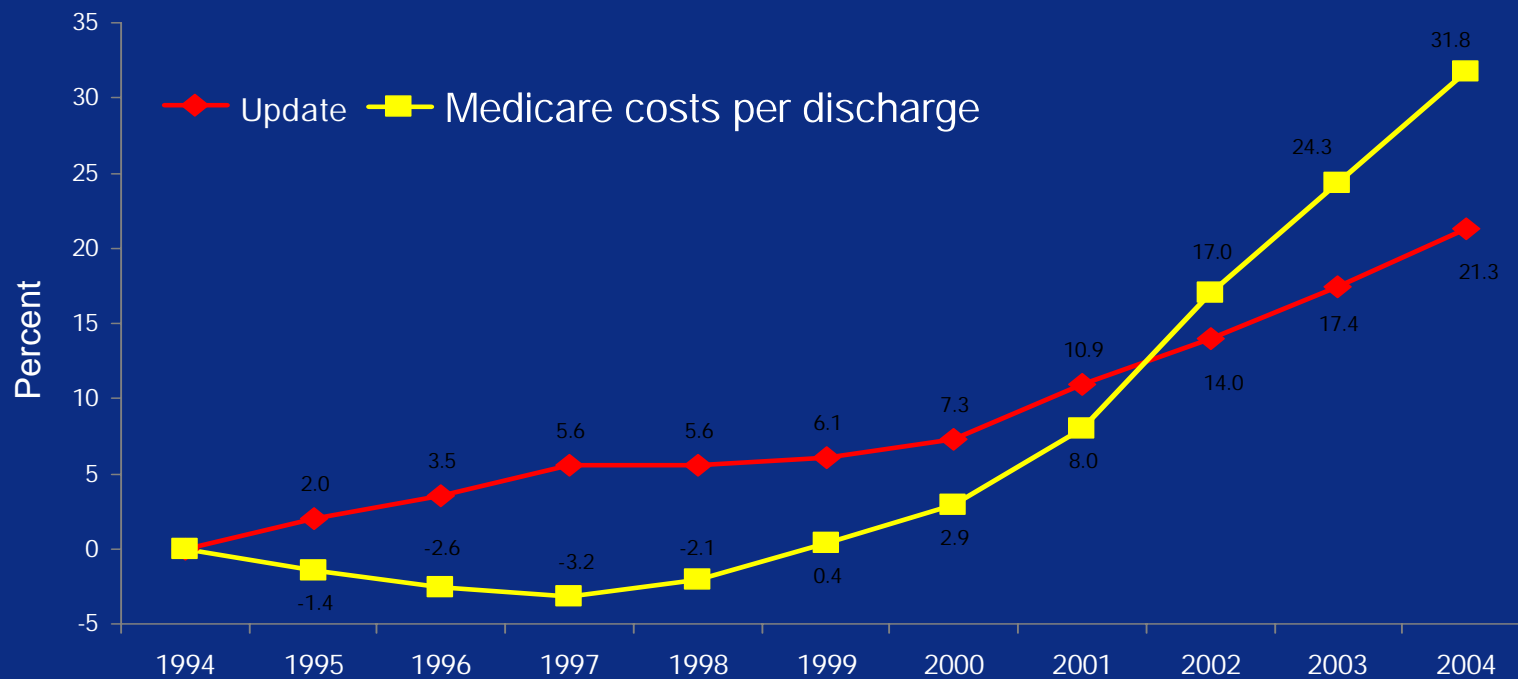
## ... not sufficiently funded by Medicare

- Medicare payment systems is based on “budget neutrality”
  - Increased payments to DRGs with new technologies result in decreased payments to all other DRGs
- Medicare “Add-On” payments not sufficient
  - Only a handful of inpatient technologies approved over last 5 years
  - Outpatient pass-through and new tech APCs capture only small portion of cost
- Medicare payment update not sufficient



# Medicare Payment Update

Increases in hospital costs are exceeding increases in the Medicare's payment update...



Source: MedPAC. (June 2006). Acute Inpatient Services. *A Data Book: Healthcare Spending and the Medicare Program*. Washington, D.C.



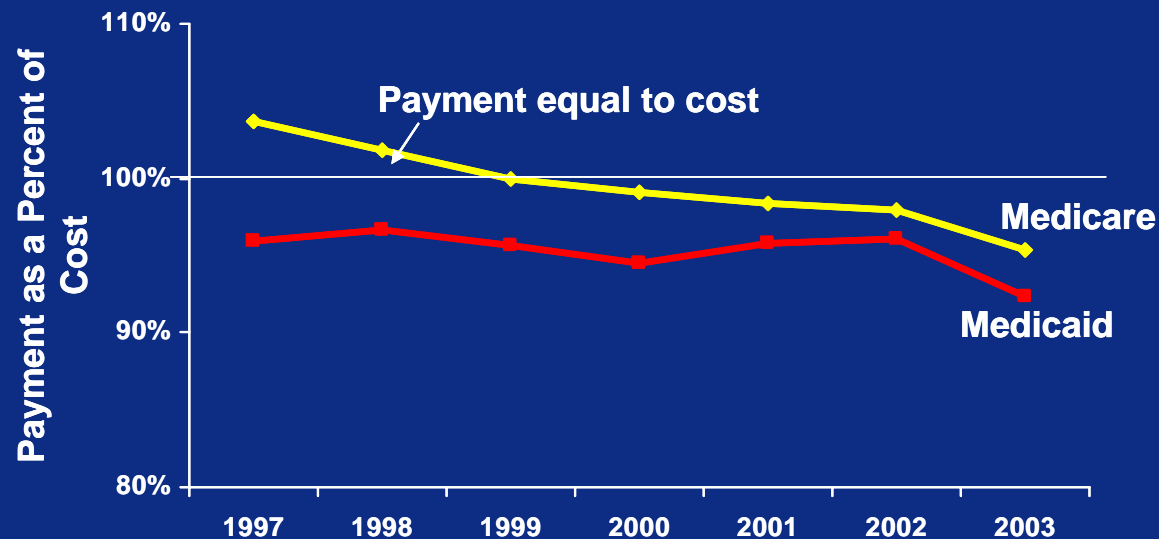
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# Hospital Margins

## Resulting in declining hospital Medicare margins

- Two-thirds have negative Medicare margins
- One-third losing money overall
- Medicare/ Medicaid paying less than cost of care

Payment Relative to Cost for  
Medicare and Medicaid  
1997 - 2003



# Is it Time for Real Reform?

- Fragile health care infrastructure
- Growing public dissatisfaction
- Increased consumer expectations
- Concerns about individual's economic and health security
- High costs weaken the U.S. in the global economy
- Growing demand for services

