Please Reject Site-Neutral Cuts to Hospitals

New proposed cuts couldn't come at a worse time for hospitals

WHA Position

Site-neutral payment policies fail to consider that Medicare already pays hospitals less than it costs to provide care.

- Wisconsin hospitals receive only 73 cents on the dollar for Medicare services and 67 cents for Medicaid services.
- All things being equal, site-neutral payment policies might make sense if Medicare covered the full cost of care.
- However, they amount to a cut to hospital reimbursements if Medicare does not make up the payments elsewhere.

WHA Ask:

Please reject calls for site-neutral payment policies that will reimburse hospitals even less than they already receive under Medicare.

Congress should instead work on comprehensive payment reform and regulatory relief that rewards hospitals for high-quality, high-value care.

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Background on How Hospitals and Independent Clinics Bill Medicare

- When Medicare designed its payment system, it differentiated how independent clinics and hospitals (including hospital outpatient departments, or HOPDs) bill.
- Both bill a facility fee, but the hospital facility fee is a higher rate given the higher costs associated with services hospitals, and by association, HOPDs provide.

The Centers for Medicare and Medicaid Services (CMS) described the rationale for higher payments for hospital outpatient departments in its 2014 outpatient rule:

"When services are furnished in the facility setting, such as a hospital outpatient department (OPD) or an ambulatory surgical center (ASC), the total Medicare payment (made to the facility and the professional combined) typically exceeds the Medicare payment made for the same service when furnished in the physician office or other nonfacility setting. We believe that this payment difference generally reflects the greater costs that facilities incur than those incurred by practitioners furnishing services in offices and other non-facility settings. For example, hospitals incur higher overhead costs because they maintain the capability to furnish services 24 hours a day and 7 days per week, furnish services to higher acuity patients than those who receive services in physician offices, and have additional legal obligations such as complying with the Emergency Medical Treatment and Active Labor Act (EMTALA). Additionally, hospitals and ASCs must meet Medicare conditions of participation and conditions for coverage, respectively."[1]

Recent Updates on Site-Neutral Policies

In recent years, the Medicare Payment Advisory Commission (MEDPAC) has recommended a policy designed to equalize payments between hospitals and clinics for outpatient services, citing its desire to have Medicare incentivize services in the lowest-cost setting. Recent development include:

- 2015 Bipartisan Budget Act – Congress instituted site-neutral payments for new off-campus HOPDs while grandfathering existing sites.
- 2016 21st Century Cures Act – Congress clarified that off-campus HOPDs that were in mid-build in 2015 would be grandfathered in and exempted from site-neutral cuts.
- 2018 OPPS rule – CMS instituted site-neutral cuts for off-campus HOPD clinic services (WI Impact -$440M over 10 years), going against the express wishes of Congress.

Site-Neutral Policies Threaten the Safety-Net

What site-neutral payment policies fail to take into consideration is that Medicare already does not fully fund the costs hospitals bear to act as our safety net in providing 24/7 emergency and inpatient care to Medicare patients:

- WI PPS hospitals receive around 73% of what it costs to provide Medicare services, less than the national average of 84%.
- Their annual Medicare underpayments grew from $1.77B in 2016 to $2.53B in 2021 – a 42% increase.

[1] CMS-1600-P, Medicare Program; Revisions to Payment Policies under the Physician Fee Schedule, Clinical Laboratory Fee Schedule & Other Revisions to Part B for CY 2014; Proposed Rule (Vol. 78, No. 139), July 19, 2013, p. 43296.

- Medicare does not reward Wisconsin for being a low-spending state – Wisconsin ranked 16th lowest in per-beneficiary Medicare spending in 2019.
- Medicare underpayments are already projected to increase in the coming years given that Wisconsin is an aging state, with 20% of its population covered by Medicare, the 16th highest in the country.
- ***Site-neutral payment cuts to hospitals would erode Medicare funding even further.***

Recent Report Confirms HOPDs are an Extension of Hospitals' Safety Net

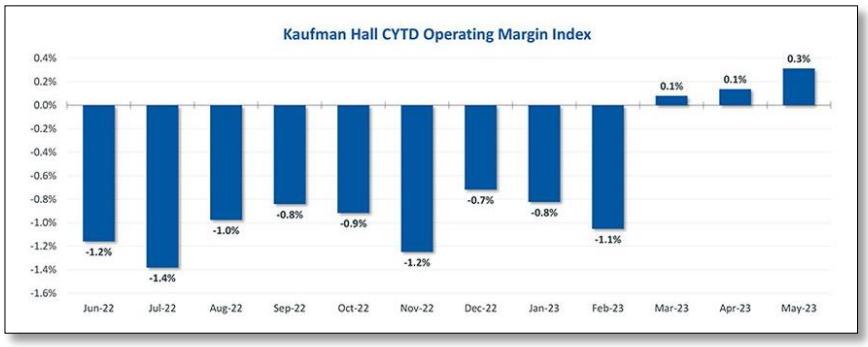
A recent report by KNG Health commissioned by the American Hospital Association shows how HOPDs are a vital extension of the hospital safety net in terms of in providing care to medically underserved populations, including those who are sicker and have lower incomes.

The report compared Medicare patients seen at HOPDs, independent physician offices (IPOs) and ambulatory surgery centers (ASCs) between 2019 and 2021. It concluded patients treated in HOPDs had higher needs compared to other settings because of social determinants of health and higher clinical complexity. Among its findings were:

- HOPD patients were almost two times as likely to be dually eligible for Medicare and Medicaid, indicating both a higher rate of poverty and/or a long-term disability.
- HOPD patients were almost two times as likely to have a major complication or comorbidity as defined by the Centers for Medicare and Medicaid Services (CMS), indicating the need for more intense staffing to manage chronic conditions.
- HOPD patients were more than two times as likely to have had an emergency department or hospital inpatient stay in the last 90 days, indicating the need for more resources to care for these patients.

Hospitals Are Already Struggling to Weather a Very Challenging Fiscal Environment

As the chart to the right shows, nationally, hospitals have seen negative monthly operating margins throughout 2022 and persisting into 2023, largely driven by increased labor costs and inflation. Only recently have hospital finances begun to stabilize thanks to declining expenses and increasing volumes of outpatient services.



Hospitals cannot simply choose to close on the nights and weekends like most businesses do when operating is unprofitable. And unlike independent clinics or ASCs, hospitals cannot choose to reject more complex patients or poor payors, such as Medicaid patients. ***Hospitals must find a way to operate the safety-net services communities depend on while neighboring independent practices simultaneously cherry-pick more lucrative service lines.*** Site-neutral payment policies would exacerbate the challenges already posed by this reality.

Please Oppose Site-Neutral Payment Policies Being Considered by House & Senate and Committees

A number of site-neutral payment policies are being considered by various committees in the House and Senate.

- All things being equal, hospitals might prefer a site-neutral payment policy that equalizes payments for similar services across settings, provided that Congress backfilled such cuts with reimbursements that more accurately reflected the significant costs of safety-net services hospitals offer that other settings do not.
- However, current site-neutral payment policies proposed by Congress would amount to significant cuts to hospitals in HOPD settings without any attempt to backfill such cuts.
- ***It makes no sense to pay hospitals the same rate as lower care settings when hospitals are held to the higher, safety-net standards that other settings are not.***
- Instead, policymakers should pursue comprehensive payment reform and regulatory relief that incentivizes the type of high quality, high value care Wisconsin is known for.