

Medicare in New Mexico

Hospital Under-Reimbursement Trends (HURT) Analysis Report

Beginning with the Balanced Budget Act of 1997 through to the Tax Relief and Health Care Act of 2006 and beyond, there have been numerous changes in Medicare policy affecting hospital reimbursement. The 1997 – 2008 Medicare Hospital Under-Reimbursement Trends (HURT) analysis examines the impact of both the legislative policy and the associated regulatory changes on hospitals' Medicare reimbursement rates.

The HURT analysis contains a number of charts and tables, each of which shows the changes in hospital reimbursement over an eleven-year period compared to inflationary cost increases using Medicare's hospital ***marketbasket** index (actual and forecasted) over the same time period. The information is presented in both Statewide and Congressional district formats.

For each Congressional district, as well as the State, there are two reports. The first report shows the average per case rate by year and percentage changes over time. The second report shows the accumulated shortfall due to the difference between the compounded annual increases in real costs and the compounded changes in actual Medicare payment rates.

Included are two additional tables - one graphically shows the cumulative impact of the Center for Medicare and Medicaid Services' (CMS) consistent problems in projecting the Medicare hospital marketbasket, and the other describes the major legislative and regulatory changes affecting Medicare inpatient hospital payments from 1998 to the present.

Quick Facts

Medicare Hospital Payments Fail to Keep Up with the Cost of Care

The analysis of New Mexico Hospitals' rates increase over the time period 1997 through 2008, as compared to inflationary cost increases, reveals that each year Medicare hospital payments fell behind inflation by an average of 2.4 percent, resulting in a cumulative shortfall of \$353,657,000 over the eleven-year period. New Mexico hospitals received cumulative payment increases of 29.7 percent while costs, as measured by CMS' hospital marketbasket index, increased by 48.5 percent, or 3.7 percent per year. Data for each Congressional District over the 11 years shows how material this underfunding is:

11 Year Cumulative Costs vs. Market Basket

1st Congressional District	(\$ 193,251,000)
2nd Congressional District	(\$ 51,080,000)
3rd Congressional District	(\$ 109,398,000)

***Marketbasket Increases:**

The Centers for Medicare and Medicaid Services' (CMS) hospital marketbasket measures the average change in the price of goods and services that hospitals must purchase in order to furnish inpatient care.

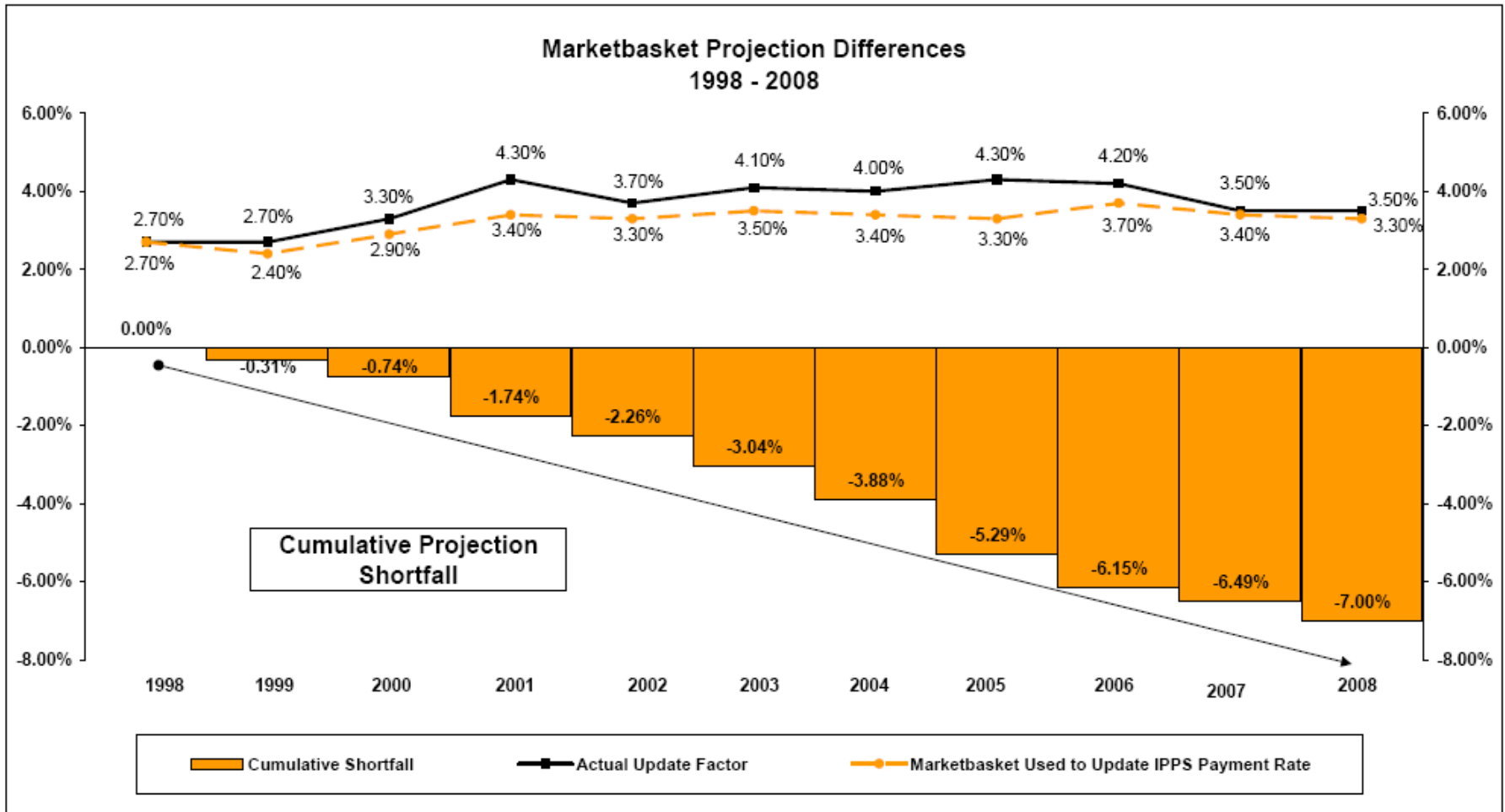
The eleven-year marketbasket increase is based on the final (forecasted for 2007 and 2008) value of the marketbasket. The final hospital marketbasket values for years 1998 through 2001 are taken from the August 2002 Federal Register and reflect the 1997 base year methodology that was in effect at the time. Final and forecasted marketbasket values for subsequent years (2003 through 2008) are provided by the CMS Office of the Actuary, as calculated and projected by Global Insights as of the third quarter of 2007, using the 2002 base year methodology currently in effect.

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Hospital Under-Reimbursement Trends (HURT) Analysis – Bottom Line

- ✓ For years, Medicare payment policy has been aimed at lowering program costs by reducing payments to providers – particularly acute care inpatient hospitals, which comprise one of the largest provider groups.
- ✓ No other business in any other industry would, or even could sustain such continual downward pressure on revenues while costs continued to rise. Hospitals, as a safety-net, community-minded entities withstand these pressures and continue to operate, but each year the industry's financial viability becomes more precarious as the gap between input price increases and Medicare hospital payment increases has grown to 25 percent.
- ✓ Medicare payment policy, as manifested in legislated and regulatory proposals, has systematically stripped the hospital industry of its ability to keep pace with price increases for necessary inputs, such as labor, supplies, pharmaceuticals and replacement technology.
- ✓ Over the last eleven years, Medicare's inpatient payment rates have increased a total of 23.3 percent, while inflationary price increases for the goods and services hospitals must purchase in order to provide care have increased over twice as much, by 48.5 percent.
- ✓ New Mexico hospitals' inability to receive payments for services that meet their costs has led to a continual erosion of Medicare margins.
- ✓ The average annual Medicare hospital inpatient payment increase for New Mexico hospitals has been 2.4 per cent compared to an average annual hospital marketbasket inflation rate of 3.7 percent.
- ✓ Since 1998, the Medicare marketbasket index used to update the inpatient payment rates has been consistently under-projected by CMS. Over those eleven years, hospitals have been under-paid an accumulated 7 percent, just due to under-projections that have not been corrected.
- ✓ The Medicare under-projections have the real effect of being reductions to the marketbasket because the projection errors are never corrected.
- ✓ Congress has reduced the annual marketbasket update to hospital payments five times in the past eleven years, creating an additional underpayment of almost 10 percent compared to actual inflation.
- ✓ Other regulatory payment reductions over the years, such as reductions to the *Indirect Medical Education* adjustment, reduced *Disproportionate Share* adjustments, imposition of the *Post-Acute Transfer* policy, *Wage Index* changes, the *Behavioral Offset*, and changes to the *Labor Share* have exacerbated the under-payment issue and have had the same net effect in forcing hospitals to find other sources for meeting the pressures of rising input prices.
- ✓ When Medicare fails in its obligation, all other payers must carry the burden.

Marketbasket Index (MBI): CMS measures the average change in the price of goods and services that hospitals must purchase in order to furnish inpatient care.



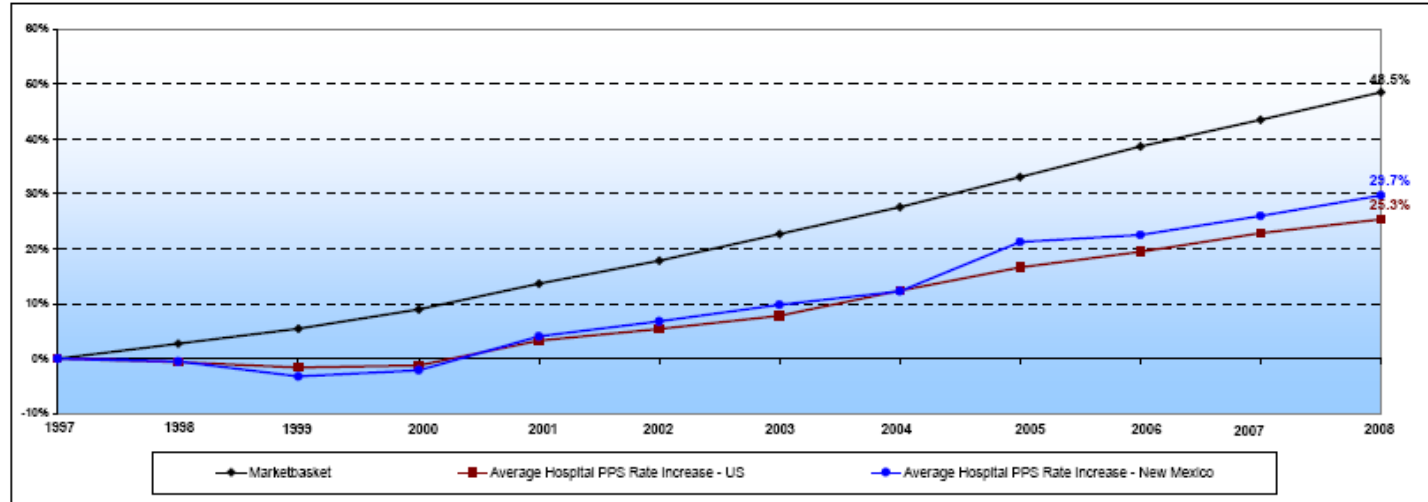
Notes:

Medicare cost increases are based on the final, actual value of the marketbasket using CMS' marketbasket methodology. The marketbasket increases for FFY's 1998 - 2008 are from the CMS Office of the Actuary, as calculated and projected by Global Insights.

Since 1998, the Medicare marketbasket index used to update the inpatient payment rates has been consistently under-projected. Over those eleven years, hospitals have been underpaid an accumulated 7 percent, just due to under-projections that have not been corrected. These Medicare under-projections have the real effect of being reductions to Medicare payments, because the projection errors are never corrected.

New Mexico

1997 - 2008 Cumulative Medicare Hospital Rate Increases vs Marketbasket Cost Increases



	FFY 1997	FFY 1998	FFY 1999	FFY 2000	FFY 2001	FFY 2002	FFY 2003	FFY 2004	FFY 2005	FFY 2006	FFY 2007	FFY 2008	Avg. Annual Change
Marketbasket Increases													
Annual Change:		2.7%	2.7%	3.3%	4.3%	3.7%	4.1%	4.0%	4.3%	4.2%	3.5%	3.5%	3.7%
Cumulative Change:		2.7%	5.5%	9.0%	13.6%	17.8%	22.7%	27.6%	33.1%	38.7%	43.5%	48.5%	
Average Hospital PPS Rate Increase - US													
Medicare Payment Rate:	\$4,623	\$4,594	\$4,549	\$4,567	\$4,776	\$4,872	\$4,983	\$5,195	\$5,392	\$5,524	\$5,681	\$5,795	
Annual Change:		-0.6%	-1.0%	0.4%	4.6%	2.0%	2.3%	4.2%	3.8%	2.4%	2.8%	2.0%	
Cumulative Change:		-0.6%	-1.6%	-1.2%	3.3%	5.4%	7.8%	12.4%	16.6%	19.5%	22.9%	25.3%	2.1%
Average Hospital PPS Rate Increase - New Mexico													
Medicare Payment Rate:	\$4,526	\$4,505	\$4,380	\$4,431	\$4,713	\$4,836	\$4,973	\$5,084	\$5,490	\$5,547	\$5,704	\$5,875	
Annual Change:		-0.5%	-2.8%	1.2%	6.4%	2.6%	2.8%	2.2%	8.0%	1.0%	2.8%	3.0%	
Cumulative Change:		-0.5%	-3.3%	-2.2%	4.1%	6.8%	9.8%	12.3%	21.2%	22.5%	26.0%	29.7%	2.4%
Impact Due to Hospital PPS Rate Increases Less Than Marketbasket:		(\$9,414,000)	(\$22,892,000)	(\$29,083,000)	(\$25,044,000)	(\$28,948,000)	(\$33,655,000)	(\$40,067,000)	(\$30,960,000)	(\$42,288,000)	(\$45,931,000)	(\$49,221,000)	
Eleven-Year Cumulative Impact:											(\$356,503,000)		

