

Medicare Margins

Medicare payment shortfalls have resulted in a steady reduction in aggregate Medicare margins. New Mexico hospitals' Medicare margins were at a **negative 10.9 percent** in 2006, and the projected trend continues to move in a downward spiral. Without considering the Medicare payment windfall for specialty hospitals, a payment policy that Congress clearly needs to address, nearly all of New Mexico's Prospective Payment System (PPS) hospitals have negative Medicare operating margins.

Results from the most current complete data set, FFY 2006, show that Medicare margins continue to decline statewide as do the projections for 2007 and 2008:

FFY 2006 Medicare Operating Margins

	District Margin	Statewide Margin	Statewide Projection	
			2007	2008
1 st Congressional District	-5.8%	-10.9%	-10.8%	-10.8%
2 nd Congressional District	-11.6%	-10.9%	-10.8%	-10.8%
3 rd Congressional District	-17.6%	-10.9%	-10.8%	-10.8%

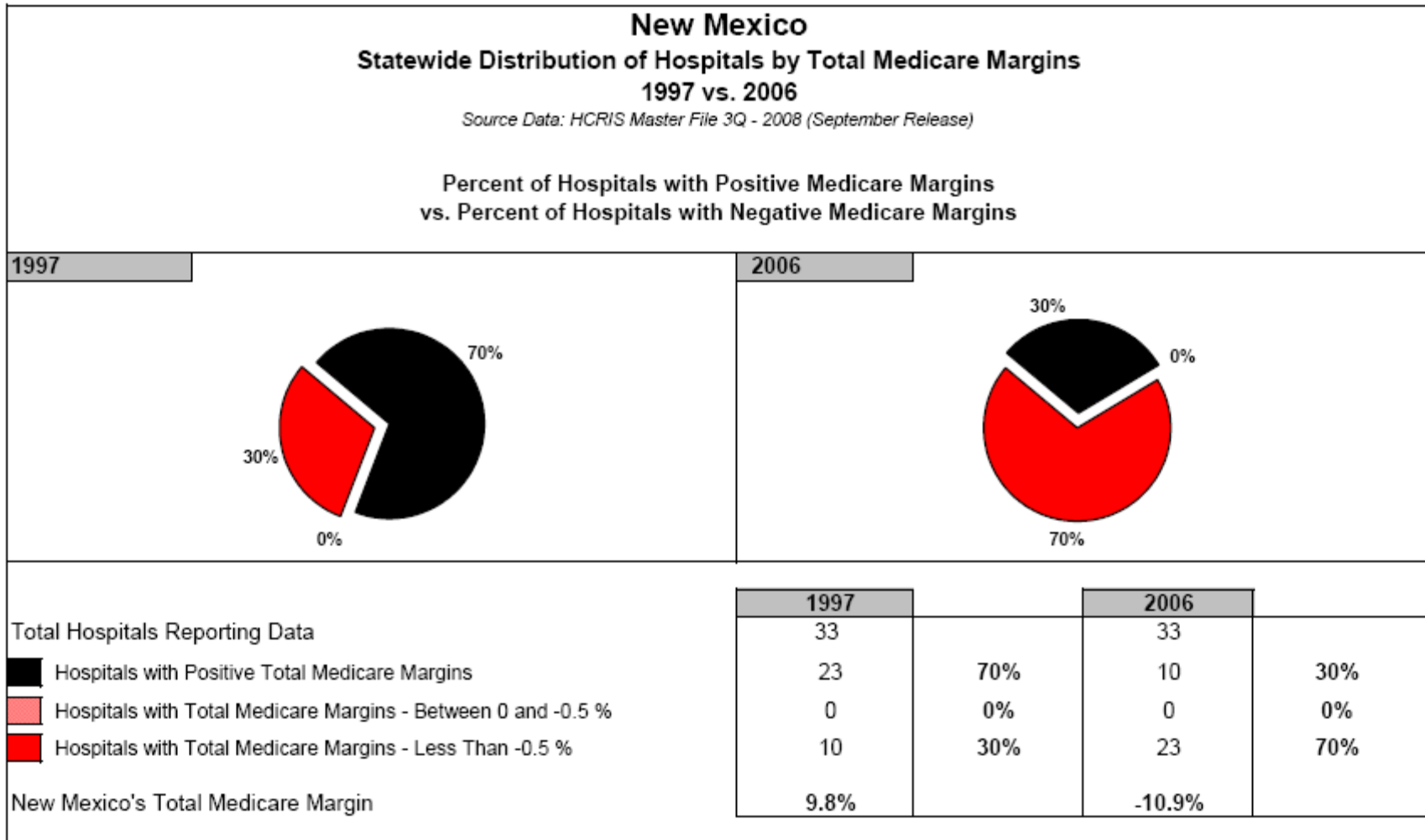
Quick Facts

- ✓ The percent of New Mexico hospitals with positive Medicare margins has declined from 70% in 1997 to 30% in 2006.
- ✓ The total New Mexico Medicare margin has gone from +9.8% to -10.9%.
- ✓ Medicare pays New Mexico hospitals only 89% of their cost of delivering services to beneficiaries.
- ✓ Medicare payment policy aimed at lowering program costs by reducing payments to providers below the cost of providing services is not sustainable in the long run.
- ✓ MedPAC, Congress' own independent advisory committee, reports that hospitals' overall Medicare margins have steadily declined from 11.8 percent in 1997 to -4.8 percent in 2006 – a loss of almost 17 percentage points over those ten years.
- ✓ No business enterprise can remain viable when it repeatedly sustains significant losses, yet this is exactly the situation that the hospital industry faces with its Medicare business.
- ✓ Consistent negative margins do not allow for reinvestment in replacement technologies, staff, plant and equipment.
- ✓ If the trend in Medicare payments continues, hospital margins will drop so precipitously as to place the entire health care delivery system in jeopardy.

Distribution of Overall Medicare Margins for New Mexico Cost Reporting Years - 2006

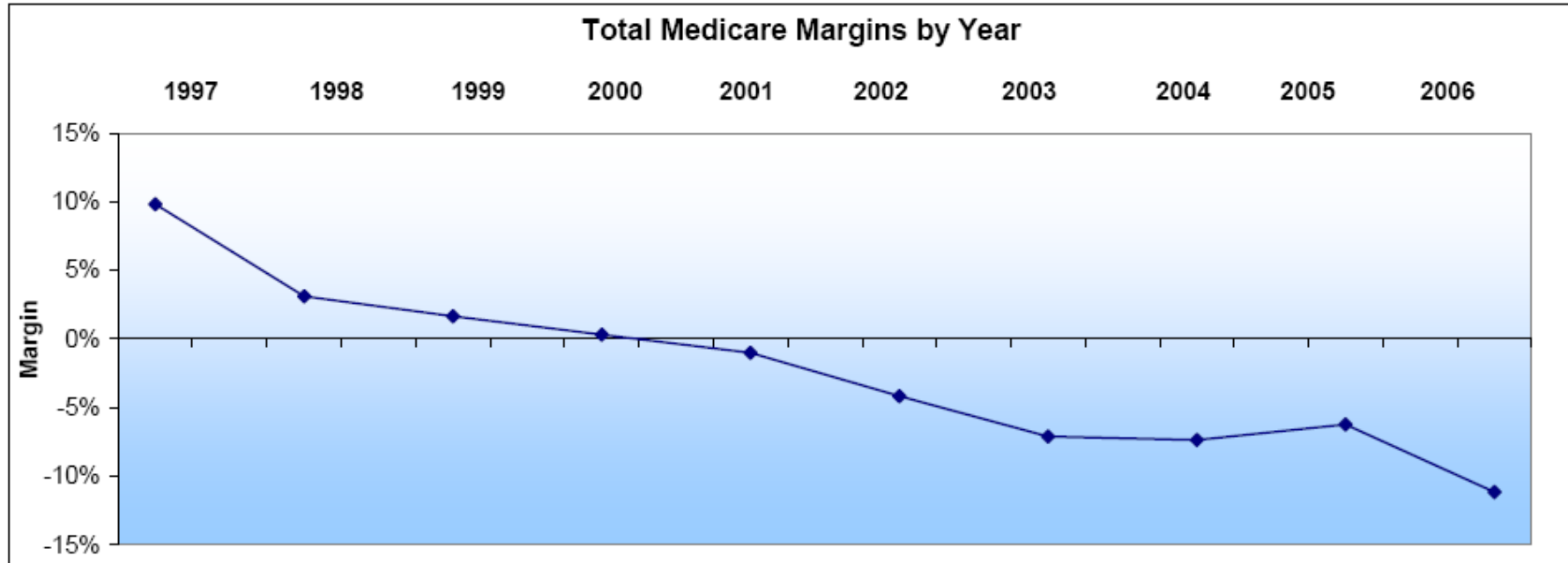
(Margins Incorporate Full Inpatient Revenue)

Source Data: HCRIS Master File 3Q - 2008 (September Release)

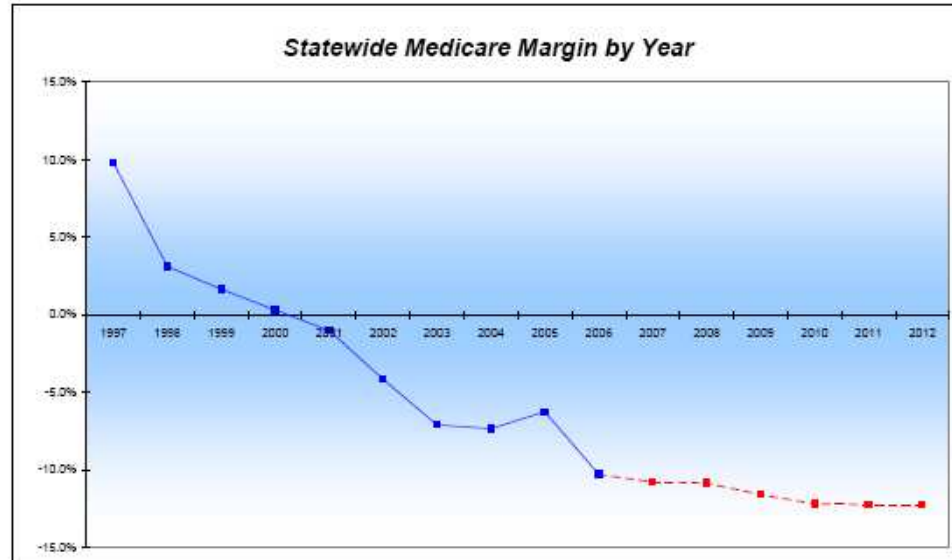


Aggregate Medicare Margins for New Mexico

(Cost Reporting Years 1997 - 2006)
(Margins Incorporate Full Inpatient Revenue)



New Mexico Hospitals - Aggregate Medicare Margins
Actual and Projected Medicare Margins for PPS and CAH Facilities
 (Cost Reporting Years 1997 - 2012)



	1997 Actual	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual
Number of Hospitals	33	34	31	32	32	31	32	34
Revenues	\$402,970,749	\$386,965,739	\$381,035,105	\$413,532,293	\$480,242,128	\$460,691,096	\$499,815,521	\$538,700,017
Costs	<u>\$363,462,389</u>	<u>\$374,943,651</u>	<u>\$374,709,723</u>	<u>\$412,227,273</u>	<u>\$485,042,375</u>	<u>\$479,646,299</u>	<u>\$535,327,313</u>	<u>\$579,223,047</u>
Gains/(Losses)	\$39,508,360	\$12,042,078	\$6,325,383	\$1,305,021	(\$4,800,247)	(\$19,157,203)	(\$35,511,792)	(\$39,523,031)
Margin	9.8%	3.1%	1.7%	0.3%	-1.0%	-4.2%	-7.1%	-7.3%
Percent Hospitals with Negative Margin	29.4%	64.7%	58.1%	56.3%	57.6%	56.1%	75.8%	70.6%
	2005 Actual	2006	2007	2008	2009	2010	2011	2012
Number of Hospitals	35	25 Actual 10 Projected	34 Projected	34 Projected	34 Projected	34 Projected	34 Projected	34 Projected
Revenues	\$615,400,421	\$615,483,642	\$622,834,570	\$643,375,272	\$658,583,227	\$672,418,555	\$690,022,835	\$709,543,084
Costs	<u>\$653,841,388</u>	<u>\$678,749,847</u>	<u>\$690,032,550</u>	<u>\$713,153,649</u>	<u>\$734,957,750</u>	<u>\$754,320,481</u>	<u>\$774,369,093</u>	<u>\$796,266,804</u>
Gains/(Losses)	(\$38,440,967)	(\$63,266,205)	(\$67,197,980)	(\$69,778,377)	(\$76,374,522)	(\$81,901,926)	(\$84,346,259)	(\$86,723,720)
Margin	-6.2%	-10.3%	-10.8%	-10.8%	-11.6%	-12.2%	-12.2%	-12.2%
Percent Hospitals with Negative Margin	62.9%	65.7%	71.4%	74.3%	74.3%	74.3%	74.3%	74.3%

Actual Results through 2006: Revenues and costs for 1997 to 2006 are based on data from the December 2007 Medicare Cost Report public use files provided by the Centers for Medicare and Medicaid Services (CMS).

Projected Revenues for 2006 - 2012: For 2006 to 2008, reimbursement projections were based on the actual standardized amounts and wage indexes published in Federal Registers and on all legislative and regulatory policy in effect. For 2009 to 2012, standard amounts were updated by marketbasket projections; wage indexes were based on the CBSA values and reclassifications in effect in 2008; 508 reclassifications and hold harmless wage index provisions were eliminated per current legislation and regulation; all other legislative and regulatory transitions and sunsets were also incorporated into the analysis.

Projected Costs for 2006 - 2012: Projected Costs: For 2006 to 2012, costs were increased by the third quarter 2007 marketbasket projections, as provided by CMS Office of the Actuary.

Utilization: Patient volumes and case mix were held constant for 2006 through 2012.

Current Proposals: This analysis does not include any proposals included in the President's 2009 budget, recommendations from the Medicare Payment Advisory Commission, or other policy changes under consideration.

