American Hospital Association™
Advancing Health in America

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January 10, 2025

Michael Chernew, Ph.D.
Chairman
Medicare Payment Advisory Commission
425 I Street, NW, Suite 701
Washington, D.C. 20001

Dear Dr. Chernew:

On behalf of our nearly 5,000 member hospitals, health systems and other health care organizations; our clinician partners — including more than 270,000 affiliated physicians, 2 million nurses and other caregivers — and the 43,000 health care leaders who belong to our professional membership groups, the American Hospital Association (AHA) appreciates the opportunity to share our comments and ask that commissioners consider the following issues before making their final payment update recommendations at the upcoming Medicare Payment Advisory Commission (MedPAC) meeting.

The decisions you reach on hospital payment updates will greatly affect not only America's hospitals and health systems but also other providers and the patients and communities we serve. In response to discussions during the December 2024 meeting and the commission's draft recommendations, we:

- **Appreciate the draft recommendation to provide a current-law market basket update plus an additional 1% for the hospital inpatient and outpatient prospective payment systems (PPS). We continue to urge the commission to consider the changing health care dynamic and its net effects on hospitals and to recommend a higher update.**
- **Urge the commission to recommend current-law updates for inpatient rehabilitation facilities (IRFs), hospital-based skilled nursing facilities (SNFs), and home health (HH) agencies, given their pivotal role in the entire health care continuum in providing access to care for Medicare beneficiaries and the financial threat they face due to sustained high costs and inadequate reimbursements.**
- **Encourage the commission to consider recommending a higher update to physician reimbursement that more fully accounts for the impact of financial, workforce and other pressures.**

Our detailed comments on these issues follow.

HOSPITAL PAYMENT UPDATE RECOMMENDATIONS

The AHA appreciates MedPAC's recognition of the financial challenges the hospital field is facing, as well as the commission's draft recommendation to increase hospital inpatient and outpatient PPS payments by the current-law market basket update plus an additional 1% for 2026. An update above current law is necessary given the combination of providers' continued financial pressures, and almost two decades of sustained and substantial negative Medicare margins. Simply put, even after the recommended payment update, Medicare's payments to hospitals would remain inadequate.

Medicare payments have remained far below the cost of providing care for many years — a fact that the commission recognizes. *Specifically, according to the MedPAC data book, the Medicare program has not fully covered the costs of serving Medicare patients since 2002.* In fact, on average, Medicare only pays 82 cents for every dollar hospitals spend providing care to Medicare beneficiaries.[1] Notably, MedPAC found that even for its group of relatively "efficient" hospitals, Medicare margins in 2023 were *negative* 2%. Indeed, margins for these hospitals have been negative for the past seven years.[2] That is, Medicare margins have remained consistently negative even for the top 6 percent of hospitals or, in one commissioner's words, the "super high performers."[3]

The AHA has long questioned the use of this efficiency measure to gauge the adequacy of Medicare margins. Indeed, many commissioners questioned the utility of such a measure. "[It] devalues a little bit of the usefulness of the category," as Commissioner Larry Casalino stated.[4] We agree with Commissioner Lynn Barr's sentiment that cherry-picking the top high performers to assess the adequacy of Medicare payments when "94 percent [of hospitals] can't [get to that performance]" does not make sense.[5] **We urge the commission to re-examine the utility of this "relatively efficient" measure as a key metric to evaluate the adequacy of Medicare payments to hospitals. We**

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[1] https://www.aha.org/2024-01-10-infographic-medicare-significantly-underpays-hospitals-cost-patient-care
[2] Excluding COVID relief funds.
[3] Commissioner Barr: "[I]f only 6 percent of the market is relatively efficient, maybe they're not really relatively efficient. They seem to be like super high performers, right?" https://www.medpac.gov/wp-content/uploads/2023/10/December2024_MedPAC_public_meeting_transcript_SEC.pdf
[4] Commissioner Casalino: "And the last point is, I hadn't thought about what Lynn said previously, but I really agree that limiting relatively efficient to 6 percent, or even 12 percent, maybe devalues a little bit the usefulness of the category. Anyone could argue about, well, what percent would we like to see as relatively efficient, but maybe 20 percent." https://www.medpac.gov/wp-content/uploads/2023/10/December2024_MedPAC_public_meeting_transcript_SEC.pdf
[5] Commissioner Barr: "But I would think that relatively efficient would be the top half, you know. So if we're only taking 6 percent saying this is where everybody should get to, and 94 percent can't, I don't understand that." https://www.medpac.gov/wp-content/uploads/2023/10/December2024_MedPAC_public_meeting_transcript_SEC.pdf

continue to urge the commission to start to bring Medicare payments back to the level where they cover the cost of providing care and ensure patients have adequate access to care.

POST-ACUTE CARE PAYMENT UPDATE RECOMMENDATIONS

IRFs. During the December 2024 meeting, MedPAC commissioners discussed recommending a 7% reduction to fiscal year (FY) 2026 IRF PPS payments. **AHA disagrees with this draft recommendation and instead urges MedPAC to support a current-law market-basket update for IRFs.**

In its discussion of inpatient and outpatient hospital services, MedPAC recognized the financial strain facing hospitals, noting a sharp rise in operating costs, as well as a notable decline in margins. As MedPAC is aware, these difficulties are driven by a workforce crisis and considerable increases in the costs of medical drugs and supplies.[6,7] These same challenges also impact IRFs. Indeed, 70% of all IRFs are units of short-term acute-care hospitals. As MedPAC noted in its presentation, the aggregate margin for IRF units is only 1%, and their access to capital is closely tied to their parent institutions. A 7% reduction in reimbursement would therefore be highly challenging for the vast majority of IRFs and their parent hospitals, potentially creating access problems for Medicare beneficiaries.

Hospital-based SNFs. Also, during the December 2024 meeting, commissioners discussed a draft recommendation to lower SNF payments by 3% for FY 2026. The AHA is concerned that such a reduction would negatively impact SNFs, upstream providers and beneficiaries alike. More specifically, as AHA has noted, short-term acute-care hospitals are facing rising lengths of stay as they struggle to find appropriate post-acute discharge locations for patients, including at SNFs.[8] Further limiting SNFs' resources could potentially exacerbate this problem and only add to the financial headwinds facing short-term acute-care hospitals.

We also ask MedPAC to be particularly mindful of hospital-based SNFs when considering a potential reduction in reimbursement. Although a small percentage of all SNFs, they play an outsized role by focusing on treating medically complex patients and maintaining higher quality indicators in doing so. [9] In addition, as MedPAC has also noted, hospital-based SNFs have substantially negative Medicare margins, approaching negative 40% and 50% in recent years. A further reduction in reimbursement could jeopardize access to care for the medically complex patients who rely on hospital-based SNFs. SNFs also are also subject to new, costly staffing requirements that will require

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[6] https://www.syntellis.com/sites/default/files/2023-03/AHA%20Q2_Feb%202023.pdf
[7] https://www.aha.org/costsofcaring
[8] https://www.aha.org/issue-brief/2022-12-05-patients-and-providers-faced-increasing-delays-timely-discharges
[9] https://www.medpac.gov/wp-content/uploads/2021/10/mar21_medpac_report_ch7_sec.pdf

additional resources and may further limit their capacity. **AHA therefore urges MedPAC to recommend a current law market-basket update for SNFs in FY 2026.**

HH Agencies. Finally, the commission also discussed a draft recommendation to lower HH payments by 7% for calendar year (CY) 2026. As is the case with the other post-acute sites of care, HH agencies play a crucial role in the continuum of care. Specifically, approximately one in five hospitalized Medicare beneficiaries are discharged to HH.[10] HH agencies, as MedPAC is aware, are dealing with the same workforce crisis and inflationary environment as other providers, as well as continued budget neutrality reductions offsetting their annual pay increases from Medicare. As a result, hospitals have faced increasing difficulty finding placement for patients, compounding financial strains on their operations and impacting other patients' access to timely acute care services. For example, an analysis from WellSky found that the average length of stay in the hospital for patients discharged to HH increased from 5.4 days in 2019 to 6.2 days in 2022.[11] In addition, Trinity Health at Home, a large national system that tracks its referrals to HH, found that in the first six months of 2019, 7% of their referrals were non-admissions due to "Unable to Staff." However, during that same six-month period in 2024, non-admissions due to "Unable to Staff" had tripled to 22% of their referrals. Accordingly, any payment reductions, let alone of the magnitude of 7%, would be harmful not only to Medicare beneficiaries' access to HH services but also to those in need of short-term acute-care hospital care. **AHA therefore urges MedPAC to recommend a current law market-basket update for HH agencies in CY 2026.**

PHYSICIAN PAYMENT UPDATE RECOMMENDATIONS

The AHA appreciates the commission's discussion on assessing the adequacy of payments for physician services. We agree that rising input costs continue to outpace reimbursement for physicians; therefore, **we urge MedPAC to recommend a higher update to physician reimbursement, one which more fully accounts for the impact of inflation and recent PFS cuts**. Specifically, the commission's draft recommendation to increase physician fee schedule rates by the Medicare Economic Index (MEI) minus 1% is not nearly sufficient to make up for the existing shortcomings in physician reimbursement. **Recent data from the American Medical Association indicate that physician reimbursement has dropped over 29% from 2001 to 2024 when accounting for inflation.[12] Additionally, a payment update of MEI minus 1% would in fact exacerbate the growing gap between increases in MEI compared to decreases in conversion factor since differences would compound over time.** We refer you to our December 2024 letter for additional details on our concerns and recommendations in greater detail on future updates to physician reimbursement.

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[10] https://www.medpac.gov/wp-content/uploads/2024/07/July2024_MedPAC_DataBook_Sec8_SEC.pdf.
[11] WellSky Market Insights, July 2024.
[12] https://www.beckershospitalreview.com/hospital-physician-relationships/the-stark-reality-of-physician-reimbursement.html

We thank you for your consideration of our comments. Please contact me if you have questions or feel free to have a member of your team contact Shannon Wu, AHA's director of policy, at swu@aha.org or 202-626-2963.

Sincerely,

/s/

Ashley B. Thompson
Senior Vice President
Public Policy Analysis and Development

Cc: Paul Masi, M.P.P.
MedPAC Commissioners