



## 2011 Inpatient Prospective Payment System Rule

### FY 2011 IPPS Rule—Background

On April 19, the Centers for Medicare & Medicaid Services (CMS) issued a hospital inpatient and long-term care prospective payment system proposed rule (IPPS) for FY 2011 that instead of providing an expected market-basket *increase*, the rule would actually *decrease* the average inpatient payments by 0.1%. The proposed rule includes an initial market-basket update of 2.4% for those hospitals that submit data on quality measures; hospitals not submitting data would receive only a 0.4% update. However, the rule then proposes a cut of 2.9% to eliminate the effect of coding or classification changes the agency says do not reflect real changes in case-mix. **This cut is estimated to be at least \$50 million for Wisconsin in 2011.** WHA does not believe this coding and classification reduction is justified by the CMS analysis. It is important to note that these IPPS cuts would then be added to the 0.25% mandated market-basket cut that was included in the recently enacted health reform law, the Patient Protection and Affordable Care Act (PPACA). **When that cut is added onto the IPPS proposed cuts, average payments to hospitals will be decreased by 0.35% compared to FY 2010 payments. The Wisconsin Hospital Association strongly opposes the proposed IPPS cuts, especially in light of the \$2.6 BILLION in market-basket and productivity cuts to Wisconsin hospitals that are to be implemented over the next 10 years under the PPACA. To add additional cuts on top of the \$2.6 Billion is unsustainable.**

### FY 2011 IPPS Rule—Provider Tax as Allowable Costs for Critical Access Hospital (CAHs)

On April 19, Governor Doyle enacted into law the “Rural Healthcare Access Act.” This legislation will implement a provider tax on Wisconsin CAHs akin to the successful tax on other Wisconsin hospitals that enabled the first payment increase for those hospitals in over a decade and helped the state expand access to health care services for thousands of people. The CAH assessment will enable the state to protect the fragile rural healthcare safety net and will help to ensure access to health services for Medicaid recipients in rural areas. The legislation was drafted, proposed and supported by Wisconsin’s CAHs. **The proposed 2011 IPPS rule now seeks to alter CMS policy on provider taxes as allowable costs for Medicare purposes. WHA strongly opposes this change.**

Currently, certain taxes assessed against a provider are “allowable costs” reimbursable under Medicare to the extent that such taxes are related to the reasonable and necessary cost of providing patient care and represent costs actually incurred. CMS indicated in the FY 2011 IPPS rule that it is implementing a so-called “clarification” regarding the Medicare allowability of Medicaid provider taxes as a cost. While the taxes are generally allowable, CMS is now stating that in certain circumstances the Medicaid payments a hospital receives that are funded from the tax, must be offset against the amount of the tax assessments in determining how much of the cost is allowable. This issue recently arose in Illinois regarding that state’s CAH provider tax and now CMS is seeking to implement their policy change nationwide via the IPPS rule. **WHA vehemently opposes the change as well as the manner in which CMS seeks to accomplish it.**

### Key Points

- CMS’ proposed coding offset (ie: reduction) of 2.9% is not justified by the analysis the agency presents in the proposed rule. It is incomplete and its findings are inconsistent with other analyses we have observed regarding the impact of the implementation of the MS-DRGs and historical trends in Medicare case mix. In addition, the PPACA includes an estimated \$2.6 Billion in market-basket/productivity cuts to Wisconsin hospitals over the next 10 years. While the American Hospital Association agreed to these cuts during PPACA negotiations, CMS is moving forward with even more cuts under the 2011 IPPS rule. **Adding an addition \$50 million in cuts on top of the \$2.6 billion Wisconsin hospitals expect to see in PPACA cuts is unsustainable and will undermine the ability for Wisconsin hospitals to continue to provide care for our patients.**
- Wisconsin’s CAHs proposed and supported a provider tax that would enable the State to protect the fragile rural health care safety net. CMS’ IPPS efforts to disallow provider taxes as a cost for Medicare purposes is a significant change, a break with their own historical precedent, and importantly, **erroneously characterizes legitimate and much needed Medicaid payments for services provided to Medicaid patients as tax “refunds.”** WHA believes that CMS changing its long-standing policy on these reimbursable costs is unjustifiable and runs counter to its stated principles of paying for the reasonable costs of providing care to Medicare patients. CMS should immediately rescind its proposed “clarification” on this issue.