STAT News

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FEDERAL UPDATE: Congress, White House Gear Up for More Medicare/Medicaid Cuts to Hospitals

President Obama's fiscal year 2015 proposed budget released Tuesday, March 4, 2014 and the fast-approaching March 31, 2014 deadline for a congressional solution to the scheduled Medicare physician payment cut place a target on the hospital industry. The White House's $3.9 trillion budget proposes $1.4 billion in cuts to New York's teaching hospitals (2015 – 2024). The bulk of the proposed cuts would affect indirect graduate medical education payments to hospitals. These are payments that help support hospitals' costs to train doctors. Hospitals are also wary that their industry will be on the hook to fund the nearly $150 billion (over 10 years) it will cost to permanently fix the flawed 1997 formula that sets Medicare physician payment rates.

The president's proposed budget often serves as a measure of the White House's appetite for spending and/or reducing funding for a variety of programs and initiatives, by indicating what cuts and investments will be accepted in later negotiations with Congress. There is great concern that with the "doc fix" deadline about two weeks away, the Medicare cuts proposed in the president's budget could easily be used as the offset to fund the impending 24 percent payment cut to the nation's physicians. The "doc fix" refers to the situation Congress and the nation's physicians find themselves in when Medicare physician reimbursement is set to readjust based on the sustainable growth rate (SGR) formula. Enacted in 1997, the SGR formula directs Medicare physician reimbursement. It is tied to an inflationary factor economists agree is no longer feasible. At least three times, in as many years, the hospital industry has been tapped as a funding source for temporary "doc fixes," including the current fix that expires in two weeks.

STATE UPDATE: Medicaid Waiver, Budget Continue Reforms

The Medicaid waiver agreement reached last month between the New York State Department of Health and the Centers for Medicare and Medicaid Services (CMS) will help the state continue to transform health care delivery and reimbursement in the state, most markedly through intensified care coordination and patient-centered care. Governor Cuomo's proposed fiscal year 2014 – 2015 budget continues this move toward integrated and population health-based care with an eye toward further reducing overall Medicaid spending. Toward that goal, the proposed budget calls for a Medicaid global spending cap of 3.8 percent.

The $8 billion Medicaid waiver would be the vehicle to incentivize these system reforms. The state anticipates $17.1 billion in Medicaid savings to accrue to the federal government as a result of the dozens of reforms outlined by the state's Medicaid Redesign team and then adopted by the New York State legislature. The Medicaid waiver agreed to last month by the state and federal government would send $8 of the total Medicaid savings back to New York.

The state and federal officials continue to work out the waiver implementation details, but money, for the most part, would flow to New York and its eligible Medicaid providers through a competitive program – the Delivery System Reform Incentive Payment (DSRIP) Plan. Providers must choose from among a list of 25 DSRIP programs. The waiver's emphasis is on local, yet broad-based partnering as a means to transform the delivery system with the ultimate goal of saving money and delivering better and more appropriate care to Medicaid patients. The waiver seeks to reduce avoidable hospitalizations (inpatient and ER admissions) in New York by 25 percent over five years. This percent reduction in avoidable admissions will be a tough one for already fragile hospitals to absorb, especially the safety-net providers that already predominately serve a Medicaid population.

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