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Congress of the United States
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The Honorable Mark McClellan
Administrator
Centers for Medicare and Medicaid Services
Hubert Humphrey Building, Room 314-G
200 Independence Avenue, SW
Washington, DC 20201

Dear Dr. McClellan,

I appreciate the opportunity to comment on the hospital Inpatient Prospective Payment System proposed rule. The current hospital payment system is deeply flawed. The proposed rule begins to make reforms that are long overdue. Although the proposed rule is an improvement over the current system and moves in the right direction, there are concerns that need to be addressed.

First, on the issue of timing, I think it is imperative that implementation of cost-based payment weights and severity-adjusted diagnosis-related groups (DRG) occur concurrently. The two-step approach that has been proposed will create erratic swings in reimbursement year-over-year, particularly for those community hospitals whose overall margins have been plus or minus 1% for many years. It is therefore crucial that changes be implemented in such a way as to minimize swings in reimbursement. However, I appreciate that this fundamental change may require a transition period that mitigates the overall impact in any one year, and I encourage you to consider transition options for implementing both proposals simultaneously.

I commend efforts to move towards utilization of cost-based payment weights. I think this is an appropriate and much needed change and I support efforts to more closely match reimbursement to costs. However, as we move toward the use of cost-based payment weights, I strongly urge that CMS reverse the decision to edit a larger than usual proportion of hospital data from the formation of cost-based payment weights which has served to skew the base data.

Additionally, I have concerns about the impact of charge compression in the ten cost centers used in CMS' methodology. While the proposed rule makes progress towards more closely aligning reimbursement with costs, charge compression could undermine advances in the new payment structure. The proposed 10 cost centers in addition to moving to cost-based weights may exacerbate charge compression, whereby high technology items with small markups could be penalized because they are put in the same cost centers as lower cost, high markup supplies. Consistent with MedPAC

recommendations, I encourage CMS to expand the costs centers to minimize charge compression within each center.

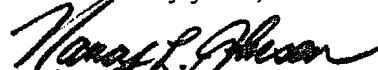
Regarding the proposed consolidated severity-adjusted DRGs, I support the policy goal, but I am deeply troubled about the lack of transparency in the development of the new groupers that are the basis of the new system. It is just plain wrong to have the basic logic and judgments made in developing this proposal unavailable to all interested parties. This information needs to be made available by CMS to all interested parties without delay. Anything less than immediate public disclosure of this information and complete transparency is unacceptable, and will have negative implications for hospitals, payers and other vendors. It also presents an opportunity for a single vendor to control a system that historically has maintained competition between highly skilled vendors offering various software options.

Lastly, we must overcome the reliance on outdated data. Now is the time, as we move to a system that is based on hospital cost reports to rectify that increasingly glaring and serious defect. I strongly believe that these reforms ought to be done in accordance with addressing weaknesses in hospital cost reports. MedPAC has identified a number of major shortcomings in the data currently available in the existing reporting process. MedPAC provided recommendations that would serve to help policymakers gain a better understanding of total financial performance, and improve the timeliness and accuracy of reporting. Timely, consistent, and accurate financial information will ultimately improve the accuracy of Medicare payments to providers. Given the pace of the evolution of medical practice we simply must have access to more timely information. Technological advances allow cost report data to be available for reimbursement and policy purposes in a timely fashion. CMS must make this a priority.

MedPAC is currently considering possible replacements for the wage-index system, which is fundamentally flawed and creates perverse incentives, especially for hospitals that manage to hold down labor costs. I understand that fundamental change to the wage-index system must be done legislatively but I urge you to work with Congress and MedPAC to find a solution to this ongoing problem. Should delay be necessary for any reason, all changes, these proposed and those in development on the wage-index adjustment should be evaluated for their impact on the system simultaneously and implemented together.

I am concerned that failing to address the above issues and work in accordance with stakeholders will undermine the potential of these significant and promising payment reforms. To that end, I strongly urge that CMS address these matters prior to a final rule taking effect.

Very truly yours,



Nancy L. Johnson
Member of Congress