

December 11, 2002

Medicare Payment Advisory Commission (MedPAC)
601 New Jersey Avenue, NW
Suite 9000
Washington, DC 20001

Dear MedPAC Commissioner:

We understand that MedPAC will be discussing the Medicare indirect medical education (IME) adjustment at the December 12-13 meeting. As mandated under current law, in October, IME payments were cut 15 percent (from a 6.5 percent to 5.5 percent level), bringing the total cuts from 1997 to 28.6 percent. IME payments are critical to the financial viability of teaching hospitals. At the December meeting, we urge the Commission to recognize the importance of these payments and their role in sustaining teaching hospitals.

The nearly 30 percent IME payment reduction is one of the largest, if not the largest, reduction (in percentage terms) that was mandated by the Balanced Budget Act. The most recent reduction is coming at a time when teaching hospitals are facing other payment reductions from the Medicare program, including reductions in Medicare outlier payments as a result of a 60 percent increase in the Medicare outlier threshold, changes to the calculation of the wage index, and a less-than-inflation update. In addition, major teaching hospitals are faring more poorly under the Medicare outpatient system than other hospital groups.

Teaching hospitals also are dealing with other daunting challenges, including payment cuts in Medicaid programs, workforce shortages, increasing emergency and stand-by preparedness, and the financing of cutting edge technologies. In addition, the recent growth in the number of uninsured persons is placing additional financial pressures on many of these institutions because of their role as safety net providers.

As MedPAC staff have noted, total margins for major teaching hospitals have been substantially lower than those of other hospitals over time. According to MedPAC's most recent data, the aggregate total margin for major teaching hospitals was only 2.4 percent in 1999, when the IME adjustment was at the 6.5 percent level. Moreover, total margins generally reflect the "best-case" scenario for hospitals because they reflect revenues associated with non-patient care activities.

We believe the ultimate solution for funding the special missions of teaching hospitals is for all payers of health care services to follow Medicare's rationale of *explicitly* funding a share of the costs of educating residents as well as sustaining the other differential missions of teaching hospitals. We have supported legislation creating an all payer fund to achieve this goal, yet to date such legislation has received inadequate attention in Congress. We also are concerned that certain private sector insurance products, which impose financial barriers for patients to utilize teaching hospitals ("tiering" plans are one example), are further distancing the role of other payers in helping to support important societal missions that are carried out in teaching hospitals.

We urge the Commission to discuss the option of an "all payer" system and give serious consideration to adopting it as a recommendation. Until there is an alternative policy that ensures financial support for the education, research, and patient care missions borne by teaching hospitals, we believe the Medicare program's support for teaching hospitals through the IME adjustment must be maintained if we are to avoid dismantling this important component of the health care system -- a scenario that would be difficult, if not impossible, to reverse in the future.

We have enclosed a report prepared by The Moran Company that further discusses the implications of the Medicare IME policy. We hope you find it informative.

Thank you for this opportunity to share our views. If you would like to discuss this issue further, please feel free to contact me or Robert Dickler or Karen Fisher. We all may be reached at 202-828-0490.

Sincerely,

Jordan J. Cohen, M.D.

CC: Mark Miller, MedPAC Executive Director
Robert Dickler, AAMC
Karen Fisher, AAMC