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January 14, 2003

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

Dear MedPAC Commissioner:

On behalf of the Association of American Medical Colleges (AAMC), which represents the nation's medical schools, major teaching hospitals, and academic physicians, I urge you to vote "no" on the recommendation to further reduce Medicare indirect medical education (IME) payments to the nation's teaching hospitals.

As we wrote in our December 11, 2002 letter, IME payments have been critical to sustaining the important societal missions that are fundamental responsibilities of the nation's teaching hospitals. These include training the future health care workforce, including physicians, nurses and allied health personnel, and treating the most severely ill patients. In addition, these responsibilities include providing regional and state-wide stand-by services such as trauma and neonatal intensive care, performing clinical research, caring for the uninsured and, most recently, implementing processes to fulfill the role of teaching hospitals as front-line responders in the event of a biological, chemical or nuclear attack.

Undertaking these missions has important financial consequences. Thus, it is not surprising that the total margin for the nation's major teaching hospitals is consistently and significantly below other hospitals, often hovering near the solvency point. As MedPAC staff noted at the December meeting, in 2000, when the IME adjustment was at 6.5 percent, the total margin for major teaching hospitals was only 1.5 percent.

While no data are yet available, we are very fearful of the mission and financial impact of the 15 percent IME cut (to a 5.5 percent level) that occurred effective October 1, 2002. We believe recommending additional cuts without this information would be highly imprudent. Moreover, given MedPAC's most recent data, all else being equal, the total margin for major teaching hospitals would fall to near zero, if not turn negative, if the IME adjustment was reduced to 2.7 percent.

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As we also mentioned in our December letter, 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 as a result of less than inflation updates, a 60 percent increase in the Medicare outlier threshold, and changes to the calculation of the wage index. On this last issue, as recommended by MedPAC, the wage index is scheduled to change dramatically in fiscal year 2005 when it will reflect an occupational mix adjustment. In general, this adjustment will result in lower wage indices in the areas where teaching hospitals exist, resulting in lower Medicare payments.

Given the surge in medical advances, increased numbers of un-insured persons, and state budget crises, the ability of teaching hospitals to maintain the full breadth and depth of their missions is becoming increasingly difficult. Now is not the time to implement additional IME reductions.

We strongly urge you to vote that MedPAC not recommend additional cuts to IME payments.

Thank you for this opportunity to share our views. If you would like to discuss this issue further, please feel free to call Robert Dickler, Senior Vice President of the Association, or Karen Fisher, Associate Vice President, both of whom 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