

United States Senate

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April 27, 2009

Ms. Charlene Frizzera  
Acting Administrator  
Centers for Medicare and Medicaid Services  
200 Independence Avenue  
Washington, DC 20201

Dear Acting Administrator Frizzera:

I am writing to ask you to eliminate a payment cut to teaching hospitals that is scheduled to take place on October 1, 2009 under the inpatient prospective payment system (IPPS).

In 2008, the Centers for Medicare & Medicaid Services (CMS) promulgated a rule that phased out, over two years (FY 2009 and 2010) the indirect medical education (IME) adjustment paid to teaching hospitals for their capital expenditures. The policy was initially implemented on October 1, 2008, and was scheduled to be fully phased in on October 1, 2009. Congress, in the recently enacted American Recovery and Reinvestment Act, eliminated the first year of these cuts.

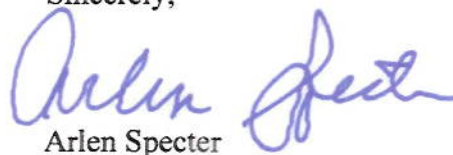
If this rule is fully implemented, eliminating the IME adjustment to the IPPS would result in nearly \$375 million in aggregate annual losses to U.S. teaching hospitals. This policy threatens the financial viability of teaching hospitals, which serve a high volume of Medicare beneficiaries and provide critical health services unavailable elsewhere in communities across the country.

The IME adjustment in the IPPS was originally designed by Congress to recognize the added operating costs of teaching hospitals. Clearly, teaching hospitals by their very nature bear those costs on the capital side as well. While the IPPS is the only payment system in Medicare that does not provide a single payment for total cost (i.e., operating and capital), it is my understanding that hospitals have used these payments as if they were a single, combined payment ever since capital cost-based reimbursement ended.

Additionally, teaching hospitals have inherently higher capital costs than do non-teaching hospitals. This is due to the need for classroom space, extra equipment to train medical residents and basic and intense physical plant requirements. The capital IME adjustment recognizes that teaching hospitals must meet the demand of treating sicker patients, as well as meet the financial demands of providing emergency care, specialized services, and treating uninsured patients.

Accordingly, I urge you to withdraw this policy when issuing the fiscal year 2010 IPPS Rule. Thank you for your attention to this important matter.

Sincerely,

  
Arlen Specter