



October 20, 1998

Dear Colleagues:

I am pleased, with this letter, to continue the effort we initiated this past March to provide you with a periodic report of the activities of the COTH Administrative Board. The COTH Administrative Board meets three times a year in conjunction with the Administrative Boards of the Council of Deans, the Council of Academic Societies, the Organization of Student Representatives, Organization of Resident Representatives, and the AAMC Executive Council. The most recent meetings took place on September 23-24, 1998 in Washington, D.C.

The COTH Administrative Board meeting agenda reflects many of the issues and opportunities both the Association and our individual members will be addressing over the coming months and years. In September the Board addressed the following items:

**1. Fiscal Year 1999 Medicare Hospital Inpatient Prospective Payment System (PPS) Final Rule**

Karen Fisher, AAMC Assistant Vice President for Health Care Affairs, reported that the FY 1999 PPS final rule, published July 31, 1998, included a change that will affect hospitals that train residents in nonhospital sites. Prior to the final rule, a hospital could include residents training in nonhospital sites in their Medicare teaching reimbursement counts if the hospital had a written agreement with the nonhospital site that stated the hospital would pay the resident's salary and benefits for the time spent training in the nonhospital site. Under the final rule, effective January 1, 1999, hospitals will need to modify their written agreements to indicate that in addition to the salaries and benefits, the hospital is incurring the supervisory physician costs. Ms. Fisher reported that she and Robert Dickler, AAMC Senior Vice President for Health Care Affairs, had a meeting with HCFA staff expressing concerns about how the supervisory costs are to be identified and quantified. For example, in many situations, a physician volunteers his or her time to supervise residents. The final rule is not explicit how the written agreement should address this, or other, situations.

HCFA staff indicated in their meeting with Mr. Dickler and Ms. Fisher that they will be issuing a Medicare Program Memorandum that will provide some clarification as to what type of information needs to be included in the written agreement between the hospital and nonhospital site. Mr. Dickler asked the Board whether it might be appropriate to send a memo to the COTH membership to remind them about the upcoming January 1 deadline, and the Board agreed. Mr. Dickler indicated that AAMC staff will continue to monitor this issue closely and investigate additional avenues to ensure that COTH members have sufficient information to comply appropriately. One option may be to seek a delay of the January 1 effective date.

## 2. Outpatient Prospective Payment System

Ms. Fisher reported that on September 8, 1998, the Health Care Financing Administration (HCFA) published the long-awaited proposed rule for a Medicare hospital outpatient prospective payment system (PPS). In addition to an outpatient PPS, the September 8 *Federal Register* publication contains proposals to codify criteria for distinguishing provider-based and free-standing entities for the purpose of Medicare payment policy.

Mandated by the Balanced Budget Act of 1997 (BBA), the outpatient PPS was expected to go into effect January 1, 1999. Because of year 2000 computer systems compliance issues, however, the proposed rule indicated that implementation of the new system will be delayed until sometime after January 1, 2000.

The outpatient PPS will be based on a classification system called ambulatory patient classification (APC) groups. Payments will be determined using a system of relative weights and a conversion factor, similar to the methodologies used under the physician fee schedule and the DRG system under the Medicare hospital inpatient prospective payment system.

Ms. Fisher stated that the system will have important financial implications for COTH members. The system, as proposed, contains no special adjustments that recognize the unique costs of teaching hospitals. In addition, the system will include a volume control mechanism. According to HCFA estimates, under the outpatient PPS, major teaching hospitals (those with 100 or more residents) will lose 9.4 percent in outpatient payments compared to the current system.

She reported that the AAMC staff will be closely reviewing the proposed rule and will be submitting comments to HCFA. The current date for responses to HCFA is November 9 and the Association is seeking a 60-day extension of the comment period. The AAMC has been working with outside consultants and has developed a Medicare outpatient claims database that will be very useful for purposes of analyzing the rule. A primary area of focus will be examining the impact of the system on teaching hospitals and the relationship between outpatient costs and the unique situations of teaching hospitals.

## 3. Medicare+Choice Program

Wendy Krasner, Esq., Partner, McDermott, Will & Emery, gave a presentation to the Administrative Board about the Medicare+Choice program, a program mandated by Congress under the Balanced Budget Act to provide new managed care options to Medicare beneficiaries. Within a few years it will replace the current Medicare risk contracts that are in place. Ms. Krasner described the numerous, and sometimes onerous, requirements imposed by HCFA on any organization that wishes to participate in Medicare+Choice. Currently, only two or three organizations have applied for the program and many entities that currently provide Medicare managed care are leaving the program. The biggest reason for leaving the program is that starting January 1, 2000 the rates paid to Medicare+Choice HMO organizations will be adjusted for the health status of the enrollees.

#### **4. Medicare Coverage Process Policy**

Ivy Baer, AAMC Regulatory Counsel and Director, Division of Health Care Affairs, gave the Board a brief update on the Medicare Coverage Process policy. On September 25, 1998 HCFA will hold a town hall meeting to discuss the process it will use to make national decisions about the devices and procedures that will be covered by the Medicare program. At this time HCFA anticipates publishing its coverage process as a final notice with comment, rather than as a notice of proposed rulemaking. Jim Bentley, PhD, Senior Vice President at the American Hospital Association, pointed out that HCFA was under pressure from Congress to publish something on this issue.

#### **5. Wage Index**

Mr. Dickler discussed the controversy of including and excluding certain costs from the calculation of the wage index for Medicare payment purposes. He commented that HCFA continues to carve out dollars from the wage index. Dr. Bentley was offered kudos for his leadership in and convening of the AHA's Wage Index Task Force. Staff will continue to monitor this issue.

#### **6. Washington Update**

Richard Knapp, PhD, AAMC Executive Vice President and director of the Office of Governmental Relations, provided an update on legislative activities. He briefly summarized that the AAMC has opted not to take a position on patient rights legislation because of concerns with the specific provisions of various proposals as well as the regulatory implications. In addition, the AAMC has also remained neutral on a debate regarding organ allocation involving the United Network for Organ Sharing (UNOS) recognizing the very diverse views on this issue.

He informed the board members that the Senate Labor and Human Resource Subcommittee just approved Dr. Jane Henning, currently at the University of New Mexico, to serve as Commissioner for the Food and Drug Administration (FDA). However, her nomination is still awaiting approval by the full Senate.

Dr. Knapp summarized that the Fiscal Year 1999 Appropriations proposals in the Senate entailed an increase in the budget for the National Institutes, but reductions in support for the Center of Disease Control (CDC), health professions training and other areas related to education. He noted that it is highly unlikely that appropriations legislation will be finalized in the near future. Dr. Knapp indicated that proposed funding increases for the Department of Veterans Affairs (VA) are 1.7 percent in the House and 1.1 percent in the Senate. Increases in VA research funding of 17.6 percent and 14.6 percent have been proposed by the House and Senate, respectively, after several years of very small increases or actual reductions in VA research support.

He also discussed an issue related to taxing the tuition scholarship support received via one of the National Health Service Corps (NHSC) programs, which would tax the tuition payments made as part of the program. He added that this issue could be resolved if a tax bill can get passed and that Representative Nancy Johnson (R-Connecticut) has

been a supporter of maintaining the tax-free status of the tuition support paid under the scholarship program. Legislation to create a Medical Innovation Tax Credit is still being worked on but it is becoming doubtful that this legislation will be passed this year. Dr. Knapp commented on some data that appear to show that the percentage of clinical trials occurring in academic institutions appears to have diminished in part due to higher overhead costs at academic centers.

Dr. Knapp then provided a brief summary of testimony AAMC President, Dr. Jordan Cohen, provided before the Bipartisan Commission on the Future of Medicare (the "Baby Boomer" Commission), and on specific questions the Commission posed on GME. He added that the Bipartisan Commission is holding several additional meeting on topics related to graduate medical education, including the role of International Medical Graduates (IMGs), the role of non-physician health professionals, the status of 'safety net' hospitals, and supporting physician training in free-standing children's hospitals. He noted that the fact that eleven votes are required will make it more difficult for the Commission to take a position on a given issue.

## **7. Mission-Based Management**

Robert Jones, AAMC Associate Vice President for Institutional and Faculty Policy Studies, presented an update on the AAMC efforts to develop the concept and practice of mission-based management (MBM). Discussions with several consulting agencies led to the selection of APM/CSC Health Care as the lead organization in developing this product. The decision to proceed was endorsed by the Executive Council. The plan is to recruit five schools who will be given a discounted rate to have APM and the AAMC implement MBM in their institutions. The information gathered in this process will be consolidated to develop materials of use to all AMCs in understanding cost by mission. The Board noted that it would be important for the AAMC to maintain ownership of the data collected. There was general support to go forward with this project with a watchful eye on developments in the program.

## **8. Data and Website Modifications and Issues**

Ernest Valente, PhD, AAMC Director of Health Systems Information in the Division of Health Care Affairs, reported that the Division of Health Care Affairs (DHCA) is moving many of its data collection efforts to the web. The web approach includes greater computerization of the data collection process, which enables quicker data turnaround and allows staff to devote more time to data analysis activities. A project recently begun by DHCA and the Information Systems section of the AAMC Office of Information Resources will make it possible to enter data for the COTH Survey of Hospitals' Financial and General Operating Data over the Internet. Dr. Valente demonstrated prototype data entry screens for the Financial survey, and invited the board to comment on the utility and feasibility of the web approach.

Mr. Thomas Priselac, President, Cedars-Sinai Medical Center, Los Angeles, indicated that those people who actually complete the survey, rather than the board, should be consulted about the feasibility of the web approach. Mr. Priselac also suggested that the largest potential benefit of the web approach would be realized if it included the

development of easier and more meaningful data reporting, especially reports where a single institution can be compared to a selected comparison group of several institutions.

Mr. Ralph Muller, President, University of Chicago Hospitals and Health System, commented that the increased computerization should be used to support the ability to track the finances of the hospital and medical school as a unit (mission-based management). Mr. Muller also noted that computerization of the data collection process facilitates procedures that help maximize the accuracy and validity of data. Dr. Valente explained that the planned web data collection process will employ many of these procedures.

Ms. Theresa Bischoff, Deputy Provost and Executive Vice President, New York University Medical Center, noted that there might be differing degrees of familiarity with the Internet among COTH members, but that more members will move toward the Internet as more functional applications (such as web surveys) are developed. Ms. Bischoff reiterated the view that those who complete the survey should be consulted about the feasibility of the project.

J. Richard Gaintner, MD, CEO, Shands Healthcare, indicated that the movement to computerization should be used as an opportunity to promote the synchronization of data collection with other Associations.

Mr. Dickler asked whether the board approved of the general direction of the web approach. The board approved of the movement of data collection to the Internet in principle, and indicated that specific, related issues (such as security tolerances and reporting procedures) should be taken up with the database committee.

#### **9. Y2K Impact.**

Dr. Valente reported about HCFA's plans to remediate their computer systems in response to the year 2000 (Y2K) problem. HCFA is attempting to revise their computer systems so that services to beneficiaries and payment for those services are unaffected by the Y2K problem. HCFA is proposing that implementation of some of the provisions of BBA 97 be delayed in deference to the Y2K remediations. HCFA has recently announced that implementation of the outpatient PPS system will be delayed, but it is currently unclear what other BBA 97 provisions will also be delayed. More information is available on HCFA's web site, [www.HCFA.gov](http://www.HCFA.gov).

Medicare providers must work with their intermediaries to ensure that their computer systems are also Y2K compliant. HCFA will begin testing their revised computer systems in 1999, and would like to include some academic medical centers in this testing.

Dr. Valente reported that the FDA is attempting to coordinate efforts to determine how biomedical equipment will be affected by the Y2K problem. The FDA has mailed letters to 16,000 manufacturers of biomedical equipment, asking them to report the effects that Y2K will have on their products. Only 2,000 manufacturers responded. The FDA asks

customers to put pressure on manufacturers to report this information. The FDA further recommends that providers: (1) take a thorough inventory of all biomedical equipment in their institutions; (2) contact every manufacturer for product certification or replacement; and (3) identify alternate suppliers to replace the equipment made by suppliers who will not certify Y2K compliance. Mr. Timothy Goldfarb, Director, University Hospital, mentioned that the Oregon Health Sciences University Hospital anticipates multimillion dollar costs to replace existing biomedical equipment that cannot be certified as Y2K compliant. Mr. Williams reported that many equipment manufacturers who have previously certified their biomedical equipment as Y2K compliant are now rescinding these prior certifications on the advice of their lawyers. More information can be found at the FDA's Y2K web site, [www.FDA.gov/CDRH/yr2000/year2000.html](http://www.FDA.gov/CDRH/yr2000/year2000.html).

Dr. Bentley stressed that all COTH member institutions must address the Y2K problem and develop a disaster plan. Ms. Bischoff underscored the magnitude of the problem by relating that the IBM consultants that New York University Medical Center has engaged to ameliorate the Y2K problem anticipate that the biggest potential problem may be the interruption of electrical power after January 1, 2000.

#### **10. *Research!America***

Mary Wooley, President of *Research!America* talked briefly on how the organization has worked closely with the AAMC and is beginning to work with some teaching hospitals, to familiarize its organization with the challenges they face. The organization conducts public opinion polls to assess the attitudes and level of trust citizens have in medical institutions and research. Some of their goals are to establish a better informed public and achieve higher levels of public funding in public and private sector for research. In addition, the 435 Project is a grassroots, public opinion project that seeks effective leaders to work with local outreach and other health care stakeholders all over the United States. There are 30 districts that work with the 435 project and *Research!America* expects to double that number soon.

#### **11. *Potential Joint Meeting/Education Program with GFP***

Mr. Dickler asked the Administrative Board if they felt a joint meeting of COTH with the AAMC Group on Faculty Practice (GFP) should be pursued on topics of common interest. The Board concurred and asked the Program Committee to pursue specific topics and report its conclusions.

In addition to the foregoing, the COTH Administrative Board reviewed a number of items that would be addressed as part of the AAMC Executive Council agenda. Of particular importance were discussions of Medicare Evaluation and Management documentation (E&M) requirements and a series of policy positions adopted by the Federation of State Medical Boards (FSMB). With reference to E&M coding, Mr. Robert D'Antuono, AAMC Assistant Vice President in the Division of Health Care Affairs, reviewed the efforts to simplify the documentation requirements while still maintaining sufficient detail to support audit activities. Dr. Michael Whitcomb, AAMC Senior Vice President for Medical Education, reviewed the FSMB positions and a lengthy discussion ensued where the Executive Council expressed concern with a number of the recommendations relating to reporting requirements by medical schools and GME programs

and the potential implications of not granting licenses until after 3 years of GME education. The Council asked the Association staff to continue its efforts to work with HCFA, the AMA and other organizations on streamlining E&M coding. With reference to the FSMB actions, the Council directed staff to develop a communication to the FSMB and state licensure boards expressing the concerns delineated in the discussion and to alert AAMC medical schools and teaching hospital members to these recommendations and their potential implications if adopted by the various states.

Association staff and the Administrative Board will continue to monitor these and other issues of interest to the teaching hospital community, and the Board will meet next in November at the AAMC Annual Meeting. As a reminder, the 1998 AAMC Annual Meeting will be held at the New Orleans Hilton Hotel in New Orleans, October 30-November 5. Sessions of primary interest to COTH are scheduled for November 1 and 2. A joint plenary session of the Council of Deans/Council of Teaching Hospitals and Health Systems that will look at the *Second Generation Health Care Delivery Systems: Lessons Learned the First Time Around*, and the ever-popular Medicare Maze Special session *Medicare and More: An Update on Current Issues of Interest to Teaching Hospitals, Medical Schools, Faculty, and Others* are scheduled for Sunday, November 1. The annual COTH Luncheon and General Session is scheduled for Monday, November 2 and will feature noted hospitalist, Robert Wachter, MD, Vice Chair, Department of Medicine, University of California, San Francisco School of Medicine and Peter D. Fox, PhD, President, PDF, Inc. who will talk to us about *New Approaches to Care and Financing: Hospitalists and Provider-Sponsored Organizations under the Medicare+Choice Program* respectively. These are just a couple of sessions in what we believe will be a very timely, pertinent, and educational meeting. Preliminary Programs and registration materials have been mailed. Please call the Annual Meeting registrar's office at 202/828-0415 if you need additional information or assistance in attending this meeting.

I hope to see you in New Orleans, but in the meantime, if you have any questions or comments regarding the issues covered in this letter, please contact Bob Dickler at (202) 828-0492 or <[rdickler@aamc.org](mailto:rdickler@aamc.org)>.

Sincerely,



Ralph W. Muller  
Chair, COTH Administrative Board/  
President, University of Chicago Hospitals  
and Health System