



Impact of BBA on COTH-Member, General, Acute, Non-Federal Hospitals
Accompanied by slide citations

What would have happened to the total margins of COTH-member hospitals in 1996 if all Medicare indirect medical education (IME) and disproportionate share (DSH) payments had been removed?

In fiscal year 1996, the median total margin for COTH-member hospitals was 4%. However, when entire DSH and IME payments are removed from revenue the median total margin of these hospitals would have been -2%. While the impact of removing DSH and IME payments from the revenue of other teaching and non-teaching hospitals would have been noticeable, it would have been far less significant (Slide 8).

Similarly, 59% of COTH-member hospitals would have experienced negative margins if DSH and IME payments were removed from revenue in 1996 compared to 37% for other teaching hospitals and 25% for the non-teaching hospitals (Slide 9).

How much revenue will a typical COTH-member hospital lose when the BBA is in full effect?

When estimated BBA Medicare payments are compared to estimates of what Medicare payments would have been had the BBA not been enacted ("status quo"), the result is a cumulative loss of \$45.8 million in Medicare support for a typical COTH hospital between 1998 and 2002. Other teaching hospitals are projected to lose \$16.5 million and non-teaching hospitals are projected to lose a cumulative \$8.8 million (Slide 12). *

Year-to-year comparisons of the BBA versus the "status quo" show that a typical COTH hospital will lose increasing amounts of Medicare support each year from 1998 to 2002 (Slide 11). In the year 2002 alone, the estimated losses for a typical COTH hospital will total \$12.6 million over and above the impact of prior years.

While BBA reductions in Prospective Payment System (PPS) payments will be significant, the greatest source of funding losses will come from combined reductions in IME and DSH payments (Slide 11). For other hospitals, the reduction in PPS payments is the greatest source of reduced funding.

What is the combined impact of all currently projected BBA provisions on the financial status of a typical COTH-member, other teaching and non-teaching hospital from 1996 to 2002?

The AAMC projects that Medicare reductions resulting from the BBA could result in the total margin for a typical COTH hospital falling by as much as half or more by 2002. In

1996 -- a year prior to full BBA implementation -- the COTH teaching hospital median total margin was 4%. In 2002, the median total margin is expected to drop to 1.6% (Slide 14). In addition, 38% of COTH-member hospitals, almost 100 institutions, could face negative total margins by 2002 (Slide 15).

In contrast, the median total margins of other teaching hospitals and non-teaching hospitals would drop by 1.5% between 1996 and 2002 (Slide 17). In 2002, roughly 25% of other teaching hospitals and non-teaching hospitals are projected to have negative margins (Slide 18).

What is the combined impact of all currently projected BBA provisions on the financial status of a typical major teaching hospital from 1996 to 2002?

The median total margins of institutions with an intern and resident to bed ratio (IRB) of .25 or greater could fall from 3% in 1996 to 0.3% by 2002. Total margins for hospitals with IRB ratios of less than .25 could fall from 5.5% in 1996 to 3.9% in 2002 (Slide 20). Forty-seven percent of the hospitals with IRB ratios of .25 or greater could face negative total margins by 2002 or sooner (Slide 21).

*The AAMC analysis of the impact of the BBA included inpatient and outpatient PPS, disproportionate share, IME, capital payments, transfer changes, and formula-driven overpayment. The analysis did not include provisions affecting PPS-exempt units, skilled nursing facilities, home health care agencies, or the medical education payments returned to teaching hospitals by Medicare managed care.



Assessing the Impact of the
Balanced Budget Act of 1997 (BBA '97)
on the Financial Status
of COTH Member Hospitals

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METHODOLOGICAL DETAILS:

What was the analytical approach?

What data were used?

What assumptions were made for the analysis?

Impact of BBA '97 Provisions on Financial Status of COTH Member Hospitals: *Analysis Plan*

BBA PROVISIONS	ANALYTICAL APPROACH
<ul style="list-style-type: none"> • INPATIENT <ul style="list-style-type: none"> – PPS Update Reductions – DSH Reductions – IME Multiplier Reductions – Capital Payment Reductions – Change in Transfer Definition • OUTPATIENT <ul style="list-style-type: none"> – FDO Elimination – Outpatient PPS 	<ul style="list-style-type: none"> • MARGIN ANALYSIS <ul style="list-style-type: none"> – Margins less all IME and DSH – Projected Margins Under BBA • REVENUE REDUCTION PROJECTIONS <ul style="list-style-type: none"> – Project Status Quo and BBA PPS Standardized Operating Amounts – Project IME and DSH Reductions – Project Other BBA Provisions as Possible

Impact of BBA '97 Provisions on Financial Status of COTH Member Hospitals: *BBA Provisions Included in Analysis*

BBA Provision	Fully Projected	Provisionally Projected	Not Included
PPS Update	X		
DSH	X		
IME	X		
Transfers		X	
Outliers			X
Medicare Mgd. Care			X
Capital		X	
FDO		X	
Outpatient		X	
Bad Debt			X
PPS Excluded Subprov (Psych., Rehab.)			X
SNF Units			X
Hospital-Based HHAs			X

Impact of BBA '97 Provisions on Financial Status of COTH Member Hospitals: *Data Details*

- Used Medicare Cost Report PPS XIII Minimum Dataset (FFY 1996)
- Used MedPAC margin calculations
- Used MedPAC data edits for extreme values
- Built upon projection methodology developed by the Greater New York Hospital Association
- Excluded non-PPS hospitals
- Excluded hospitals in regulated States (Maryland)
- Excluded rural hospitals
- Excluded sole community provider hospitals
- Excluded hospitals with fewer than 90 beds
- 2,117 hospitals included (262 COTH, 683 other teaching, 1,172 non-teaching)

Impact of BBA '97 Provisions on Financial Status of COTH Member Hospitals:

Assumptions

- **Assumed Constant 1996 - 2002:**
 - Non-Medicare Market Conditions
 - Casemix Index (used FFY¹ 1999)
 - Area Wage Index (used FFY 1999)
 - IRB Ratio (used FFY 1996)
 - Outlier Payments as a Percent of Other Than Outlier Payments (used CRY² 1996)
 - IME Payments as a Percent of PPS DRG Payments (used CRY1996)
 - DSH Payments as a Percent of PPS DRG Payments (used CRY 1996)
- **Assumed to Increase at HCFA Projected Market Basket Rate:**
 - Status Quo Inpatient Revenues and Expenses (PPS and Total)
 - Non-Medicare Inpatient Revenue
 - Medicare and non-Medicare Costs
 - Status Quo Outpatient Payments
- **Other Assumptions:**
 - Medicare Admissions Increase by HCFA Projections

¹Federal Fiscal Year

²Cost Report Year (Hospital Fiscal Year)



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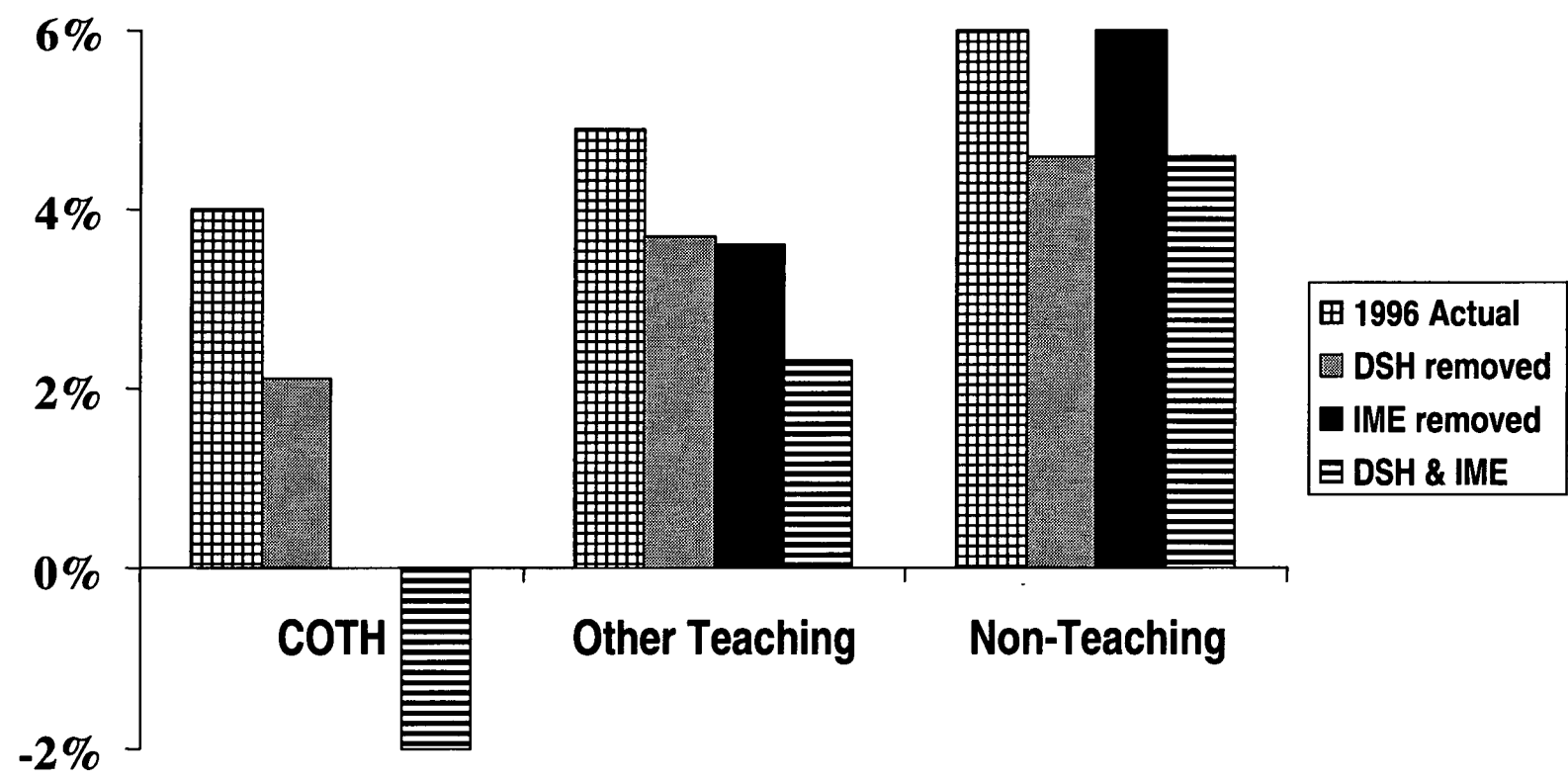
Assessing the Impact of the Balanced Budget Act of 1997 (BBA '97) on the Financial Status of COTH Member Hospitals

BACKGROUND:

What would have happened to 1996 Total Margins if ALL Medicare Indirect Medical Education (IME) and Disproportionate Share (DSH) payments were excluded from revenue?

Median FY 1996 Total Margins *COTH, Other Teaching, Non-Teaching*

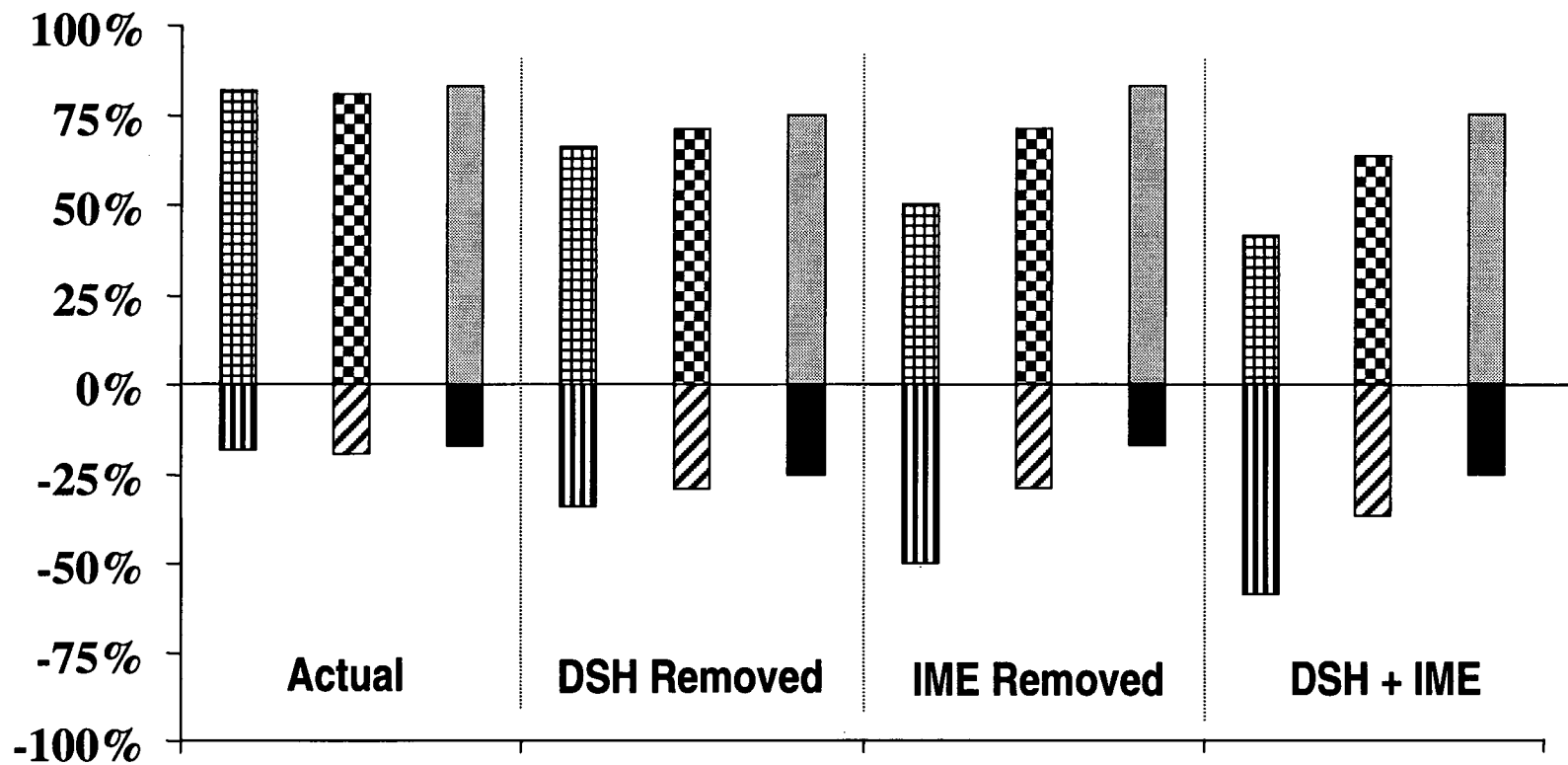
Margins when entire DSH and IME payments are removed



SOURCE: PPS XIII Medicare Cost Report Minimum Dataset.
NOTE: Medians of trimmed data. Excludes Maryland, rural, SCH and hospitals with fewer than 90 beds.
Total margins include total hospital revenues and expenses.

Median FY 1996 Total Margins *COTH, Other Teaching, Non-Teaching*

Percent of Hospitals with Positive and Negative Margins when entire DSH and IME payments are removed



COTH=grid/vertical, other teaching=squares/diagonal, non-teaching=gray/black

SOURCE: PPS XIII Medicare Cost Report Minimum Dataset.
 NOTE: Medians of trimmed data. Excludes Maryland, rural, SCH and hospitals with fewer than 90 beds.

Total margins include total hospital revenues and expenses.

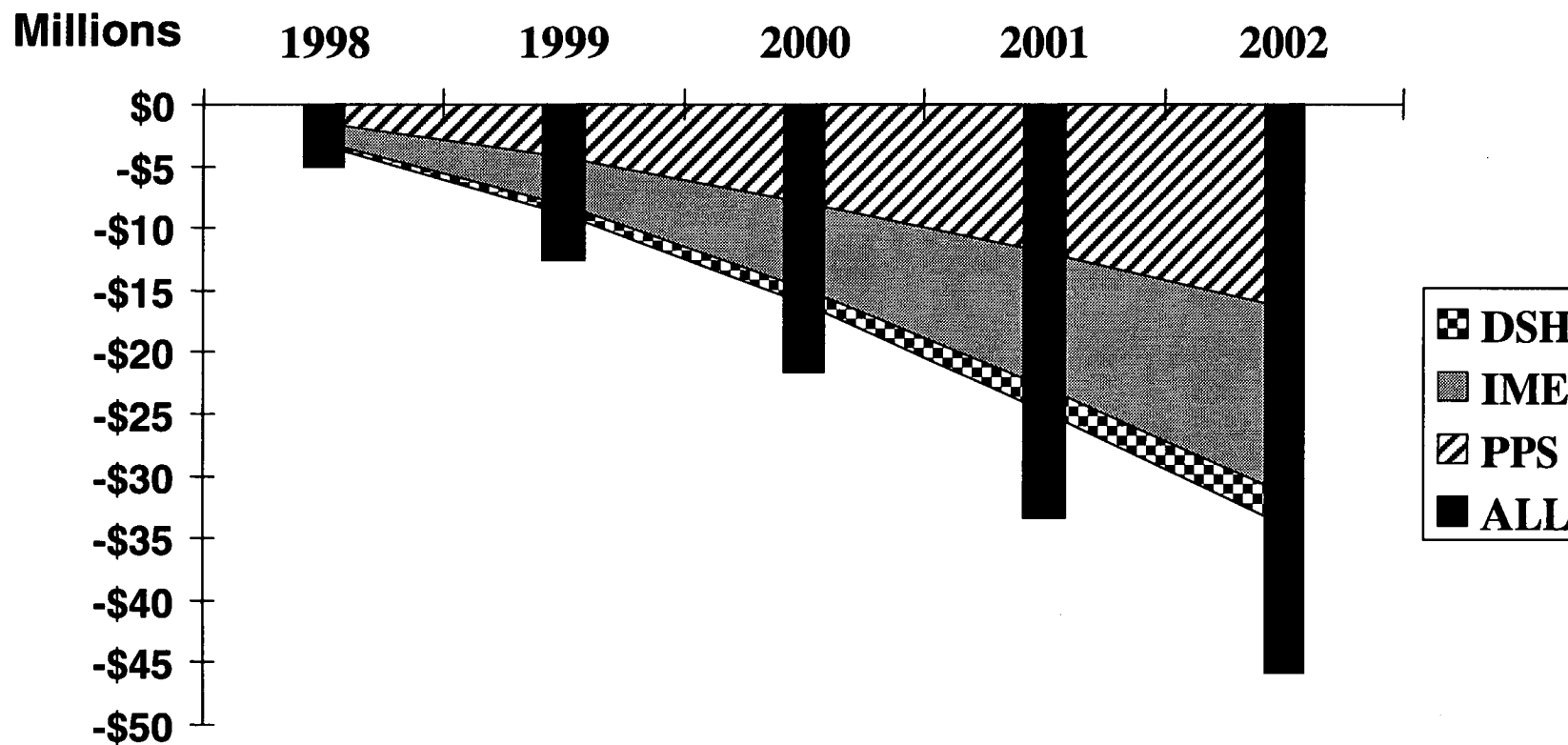
Assessing the Impact of the Balanced Budget Act of 1997 (BBA '97) on the Financial Status of COTH Member Hospitals

BBA IMPACT:

How much revenue will the typical hospital lose
when BBA 1997 is in full effect?

Impact of BBA '97 on Hospital Financial Status

Cumulative Financial Impact of BBA '97 on Typical COTH Hospital 1998-2002



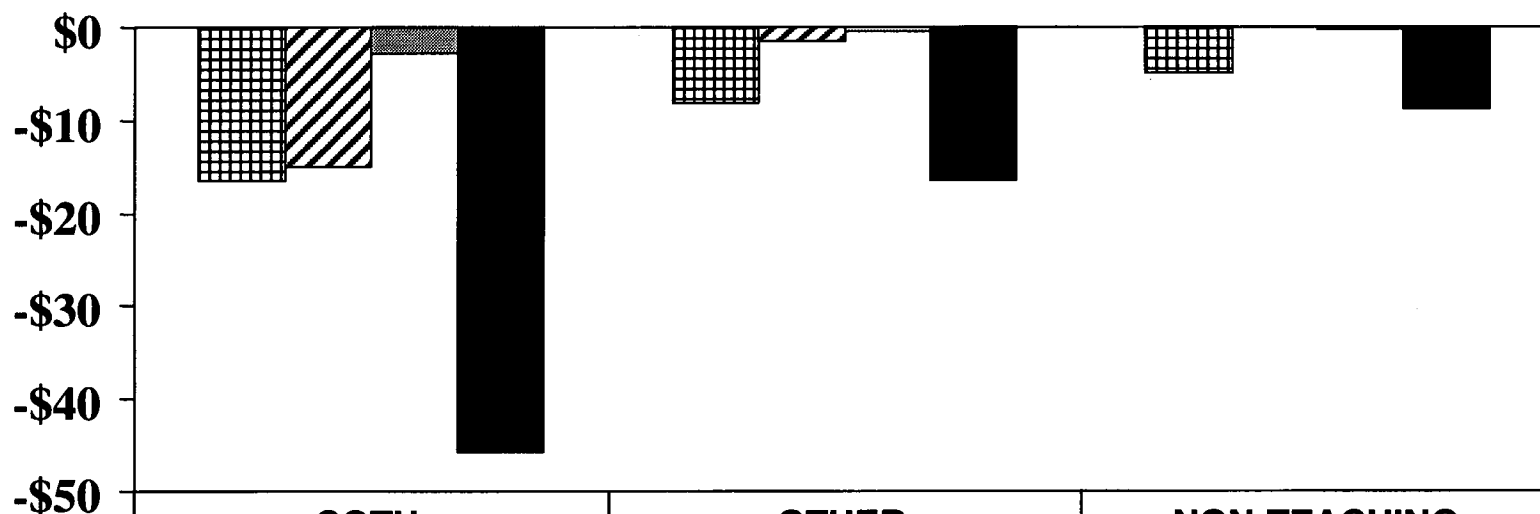
SOURCE: PPS XIII Medicare Cost Report Minimum Dataset.
 NOTE: Difference between projected payments under "status quo" and "BBA" scenarios.
 ALL includes PPS, IME, DSH, Capital and Outpatient payment reductions.

Impact of BBA '97 on Hospital Financial Status

COTH, Other Teaching, Non-Teaching

Cumulative Financial Impact on Typical Hospital, 1998-2002

Millions



	COTH	OTHER	NON-TEACHING
▣ PPS	-\$16.4	-\$8.2	-\$5.0
▤ IME	-\$15.0	-\$1.5	\$0.0
■ DSH	-\$2.7	-\$0.5	-\$0.2
■ ALL	-\$45.8	-\$16.5	-\$8.8

SOURCE:
NOTE:

PPS XIII Medicare Cost Report Minimum Dataset.
Difference between projected payments under "status quo" and "BBA" scenarios.
ALL includes PPS, IME, DSH, Capital and Outpatient payment reductions.

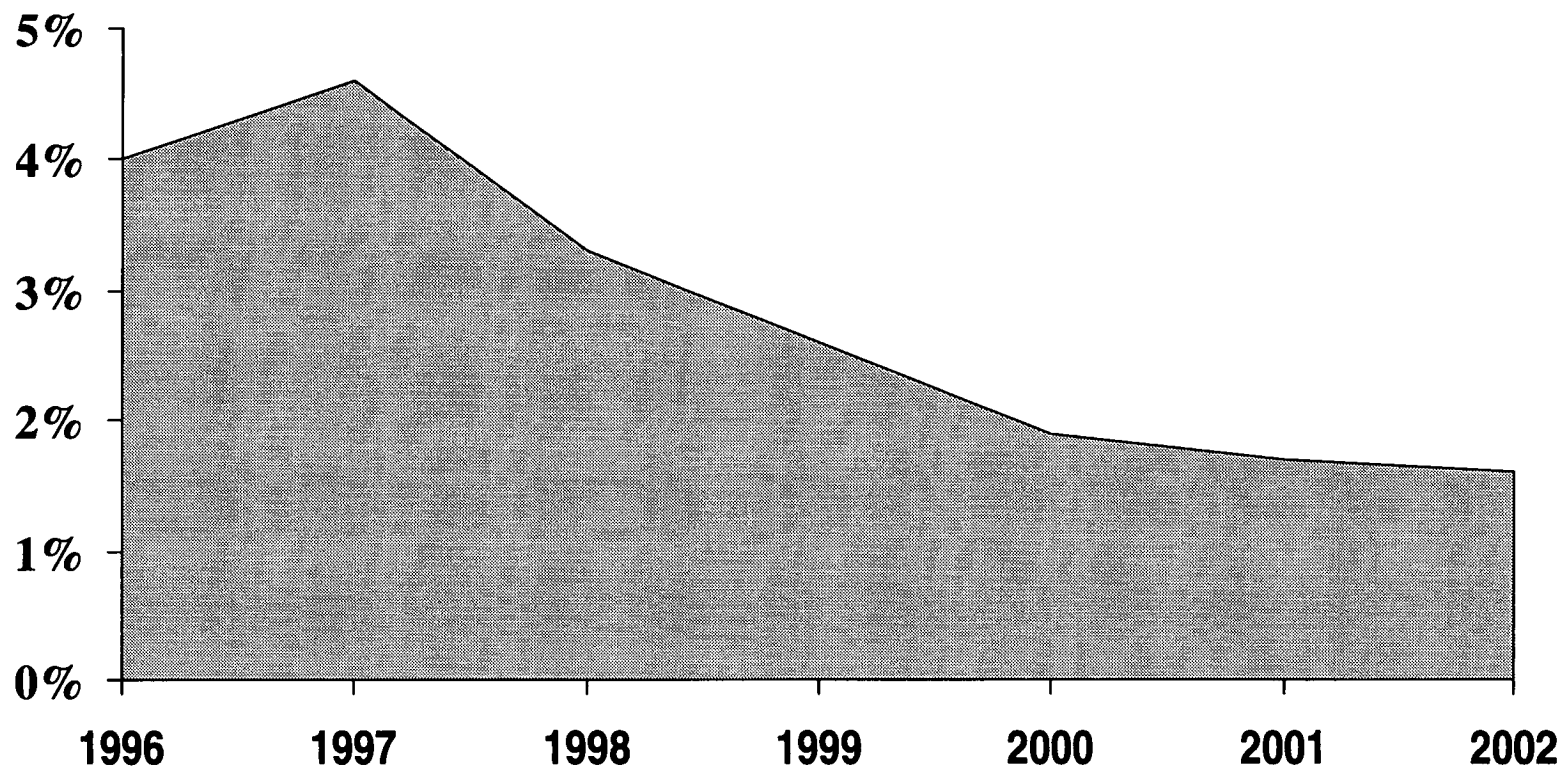
Assessing the Impact of the Balanced Budget Act of 1997 (BBA '97) on the Financial Status of COTH Member Hospitals

BBA IMPACT ON COTH HOSPITALS:

What is the combined impact of all currently
projected BBA '97 provisions on the financial
status of a typical COTH member hospital

1996 -2002?

Impact of BBA '97 on Projected Median COTH Total Margins

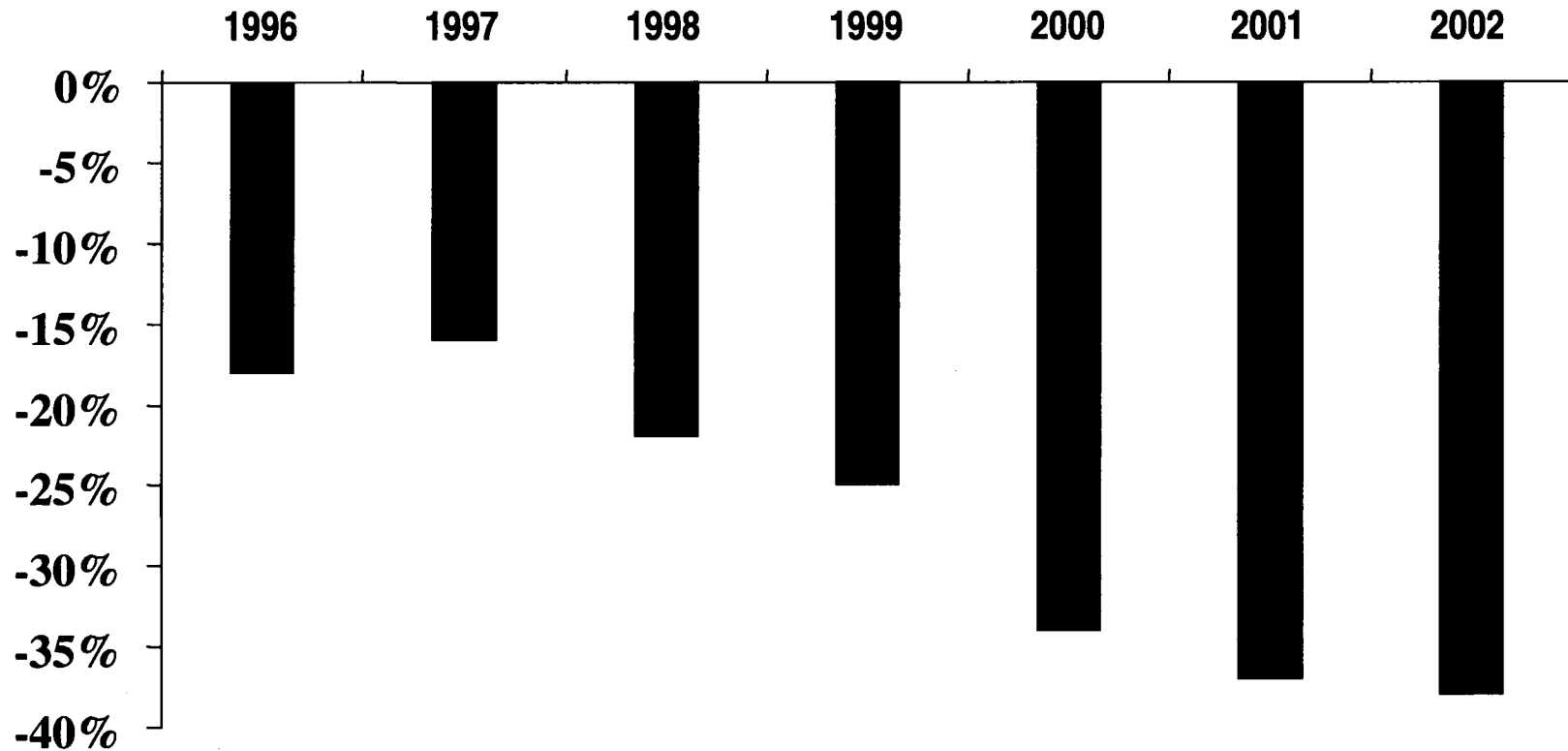


SOURCE: PPS XIII Medicare Cost Report Minimum Dataset.
NOTE: Medians of trimmed data. Excludes Maryland, rural, SCH and hospitals with fewer than 90 beds.

Total margins include total hospital revenues and expenses.
BBA impact includes PPS, IME, DSH, Capital and Outpatient payment reductions.
Does not include estimate of teaching payments for Medicare Managed Care enrollees.

Impact of BBA '97 on Projected COTH Total Margins

Percent of COTH Hospitals with Negative Projected Margins



SOURCE:
NOTE:
beds.

PPS XIII Medicare Cost Report Minimum Dataset.
Medians of trimmed data. Excludes Maryland, rural, SCH and hospitals with fewer than 90

Total margins include total hospital revenues and expenses.
BBA impact includes PPS, IME, DSH, Capital and Outpatient payment reductions.
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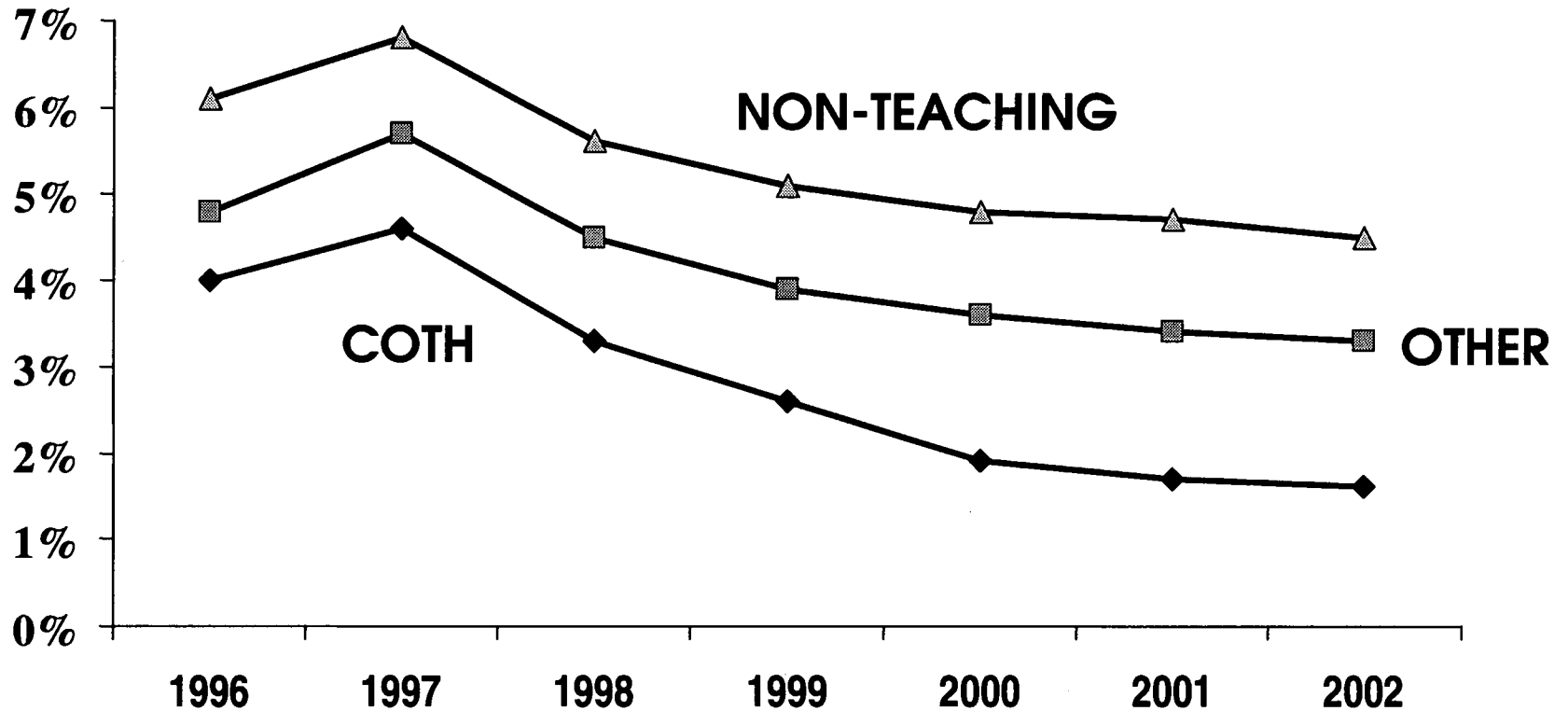
Assessing the Impact of the Balanced Budget Act of 1997 (BBA '97) on the Financial Status of COTH Member Hospitals

**BBA IMPACT ON COTH, OTHER TEACHING,
AND NON-TEACHING HOSPITALS:**

**Does BBA '97 differentially affect the financial
status of COTH hospitals, other teaching
hospitals, and non-teaching hospitals?**

Impact of BBA '97 on Projected Median Total Margins, 1996-2002

COTH, Other Teaching, Non-Teaching



SOURCE:
NOTE:
beds.

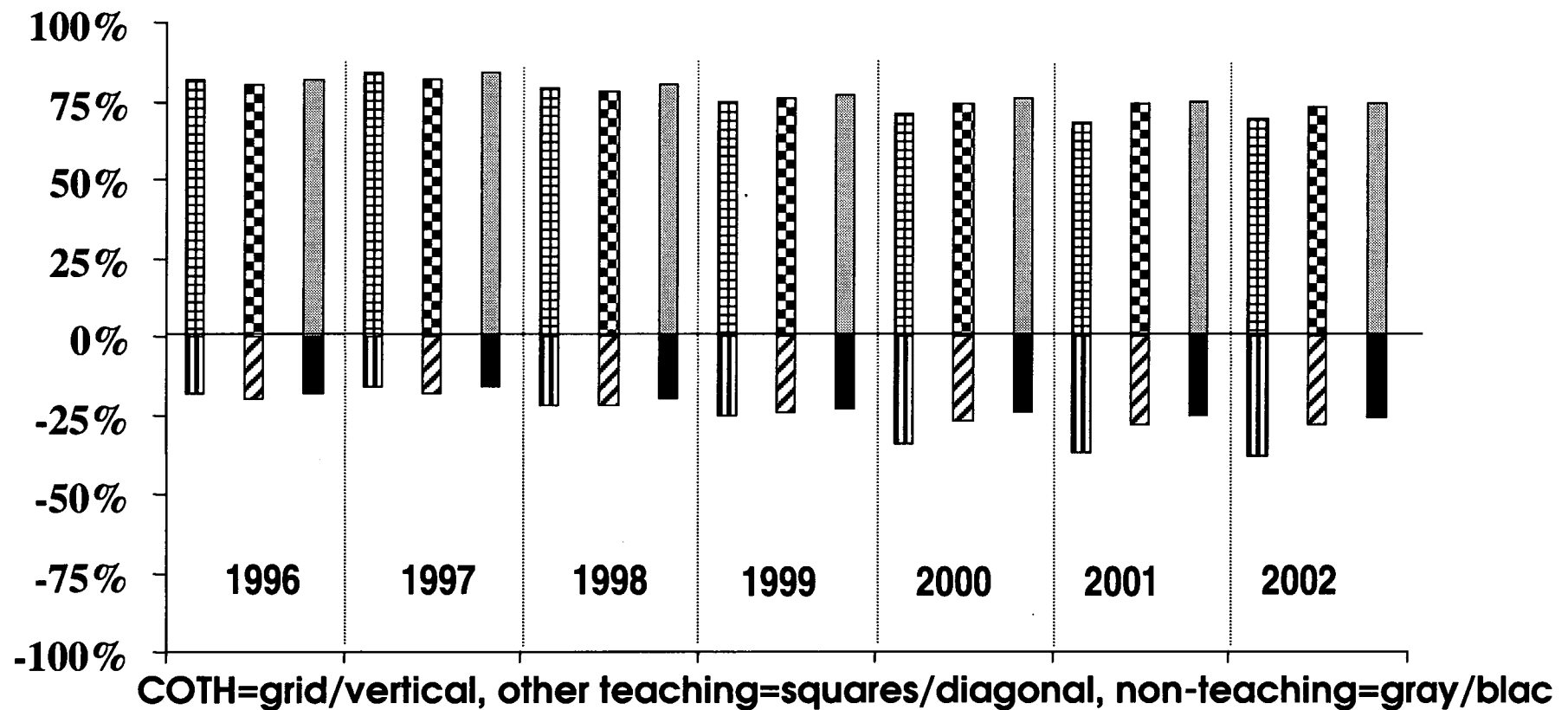
PPS XIII Medicare Cost Report Minimum Dataset.
Medians of trimmed data. Excludes Maryland, rural, SCH and hospitals with fewer than 90

Total margins include total hospital revenues and expenses.
BBA impact includes PPS, IME, DSH, Capital and Outpatient payment reductions.
Does not include estimate of teaching payments for Medicare Managed Care enrollees.

Impact of BBA '97 on Projected Total Margins, 1996-2002

COTH, Other Teaching, Non-Teaching

Percent of Hospitals with Positive and Negative Projected Margins



SOURCE: PPS XIII Medicare Cost Report Minimum Dataset.
NOTE: Medians of trimmed data. Excludes Maryland, rural, SCH and hospitals with fewer than 90 beds.

Total margins include total hospital revenues and expenses.
 BBA impact includes PPS, IME, DSH, Capital and Outpatient payment reductions.
 Does not include estimate of teaching payments for Medicare Managed Care enrollees.





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Assessing the Impact of the Balanced Budget Act of 1997 (BBA '97) on the Financial Status of COTH Member Hospitals

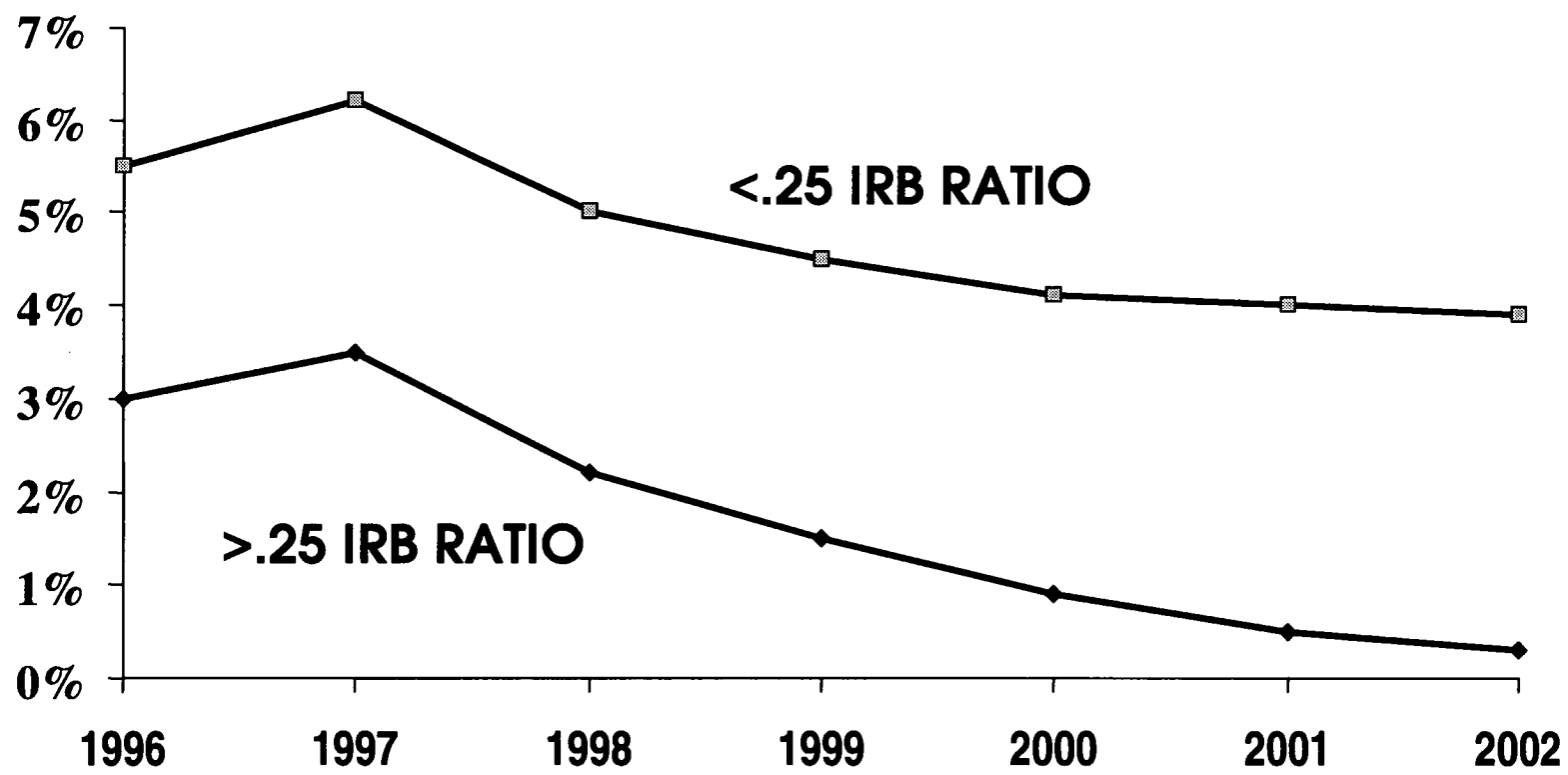
BBA IMPACT ON COTH AND OTHER TEACHING HOSPITALS:

What is the combined impact of all currently
projected BBA '97 provisions on the financial
status of a typical hospital, 1996 -2002?

HOSPITALS WITH IRB RATIO GREATER OR LESS THAN .25

Impact of BBA '97 on Projected Median Total Margins

Hospitals with IRB Ratios Greater than or Less Than .25



SOURCE:
NOTE:

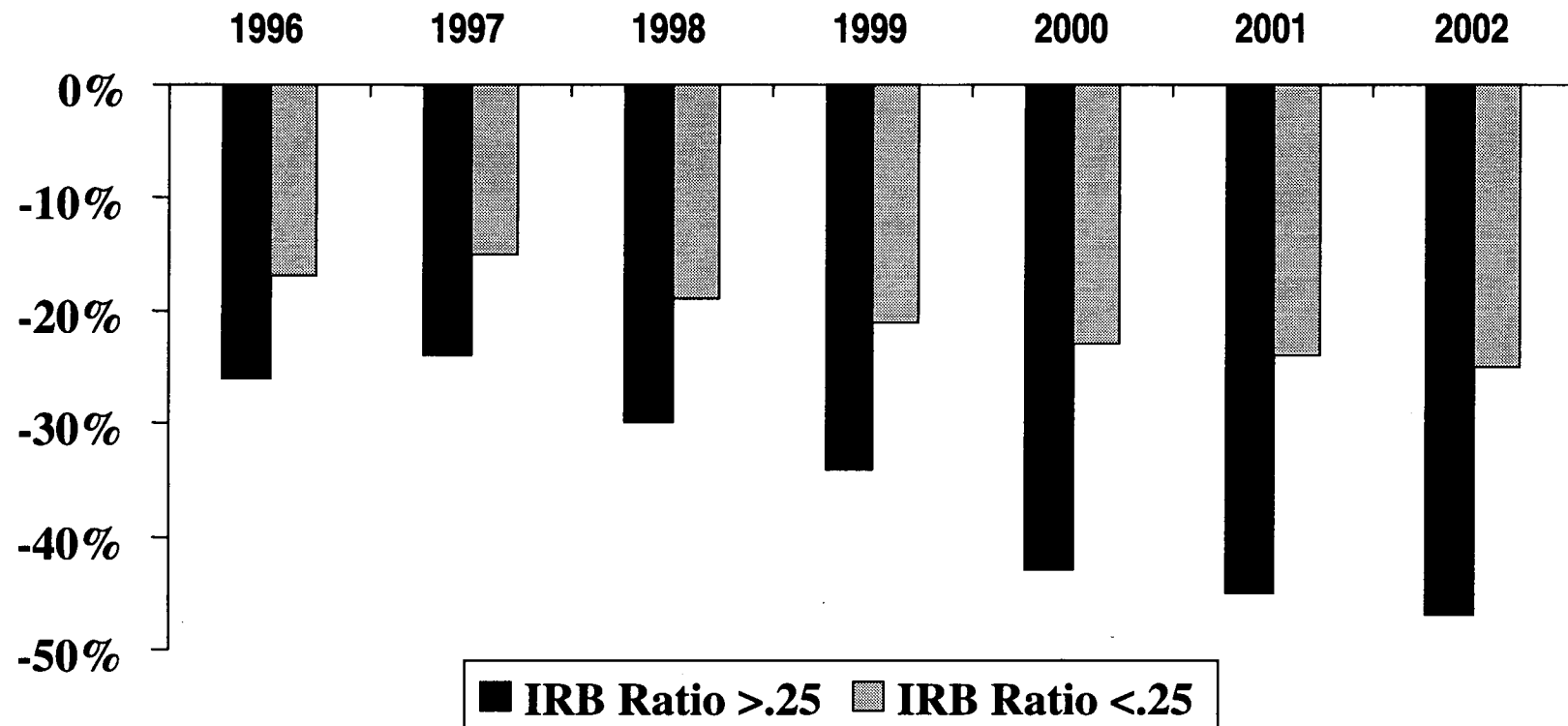
PPS XIII Medicare Cost Report Minimum Dataset.
Medians of trimmed data. Excludes Maryland, rural, SCH and hospitals with fewer than 90 beds.

Total margins include total hospital revenues and expenses.
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Does not include estimate of teaching payments for Medicare Managed Care enrollees.



Impact of BBA '97 on Projected Total Margins

Percent of Hospitals with Negative Projected Margins Hospitals with IRB Ratios Greater than or Less Than .25



SOURCE:
NOTE:
beds.

PPS XIII Medicare Cost Report Minimum Dataset.
Medians of trimmed data. Excludes Maryland, rural, SCH and hospitals with fewer than 90

Total margins include total hospital revenues and expenses.
BBA impact includes PPS, IME, DSH, Capital and Outpatient payment reductions.
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