Medicare: Today's Issue

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BETTER BENEFITS – MORE CHOICES

Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!

Rural Hospitals Receive Needed Relief:

- The new law contains important changes to enhance beneficiary access to quality health care services and improve hospital payments in rural areas, providing approximately $20 billion in additional funding for rural health. The Congressional Budget Office estimated the new provisions would increase hospital payments in rural areas by nearly $17 billion. Needed relief for rural hospitals includes:

  - Standardized Amount. The new law equalizes the urban and rural "standardized amounts" under Medicare's prospective payment system for inpatient hospital services. Currently, Medicare has two different operating base payments for inpatient hospital services – one for hospitals located in large urban areas and another, smaller payment for hospitals located in rural and small urban areas. This provision establishes a single base payment, or standardized amount, for hospitals in all areas in the 50 states, the District of Columbia, and Puerto Rico, starting in FY2004.

  - Labor-Share. The Medicare modernization Act revises the labor-related share of the wage index used in Medicare's prospective payment system for inpatient hospital services. It reduces the labor-related share of the wage index to 62 percent (currently it is 71.1 percent), unless such revision would result in lower payments. The labor share is an estimate of the national average proportion of hospitals' costs associated with inputs that are directly or indirectly affected by local wage levels. Many rural hospitals argue that, because their local wage levels are low, a high labor-related share adversely affects them.

  - Disproportionate Share. The Act modifies Medicare's payments for those hospitals that furnish care to a disproportionate share of low-income and uninsured patients. Currently, the disproportionate share hospital adjustment paid to rural and small urban hospitals is capped at 5.25 percent. The Act increases the rural and small urban cap to 12 percent.

  - Outpatient PPS. The Act allows sole community hospitals and small rural hospitals to be held harmless under the outpatient hospital prospective payment system for 2 years.

  - Low Volume Hospitals. The Act establishes a graduated adjustment/add-on payment for low-volume hospitals. Eligible hospitals are those that are located more than 25 miles away from another hospital and have less than 800 discharges in a given year. The maximum total adjustment is 25 percent of the otherwise applicable prospective payment system.