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 Providers Receive Needed Relief

The Medicare Modernization Act (MMA) **includes several provisions to enhance beneficiary access to quality health care services and improve provider payments in rural areas, providing much needed relief to providers**. Some of these provisions are highlighted below.

HOSPITALS:

- **Status.** On March 31, 2004, the Centers for Medicare & Medicaid Services **implemented several provisions of the new Medicare law** that will **improve payment rates for rural and urban hospitals in areas with fewer than 1 million population**, beginning with discharges on or after April 1, 2004. **Taken together, the provisions will increase payments to the affected hospitals by nearly $12 billion over the next ten years.** In addition, as a result of these changes, the outlier threshold for all hospitals to be eligible for extra payments for unusually costly cases, will decrease from $31,000 to $30,150.

- **Standardized amount.** The MMA also makes permanent a provision that would have expired March 31, 2004, **creating a uniform standardized amount as the basis of Medicare payments to hospitals.** The MMA equalizes the urban and rural "standardized amounts" under Medicare's prospective payment system for inpatient hospital services. Previously, Medicare had two different operating base payments for inpatient hospital services—one for hospitals located in large urban areas (with populations over 1 million) and another, lower 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 FY 2004**

- **Disproportionate Share.** **Rural hospitals and urban hospitals with fewer than 100 beds**, in addition to other hospital types, **that serve a disproportionate share of low-income Medicare and Medicaid patients** will **receive a boost in their disproportionate share hospital (DSH) payments beginning for discharges on or after April 1, 2004**. As provided in the new Medicare law, the cap on **DSH payment adjustments will increase from 5.25 percent to 12 percent for urban hospitals fewer than 100 beds, sole community hospitals, and rural hospitals with fewer than 500 beds.** There is no cap on rural referral centers, large urban hospitals over 100 beds, or rural hospitals over 500 beds .

- **Residencies**. The MMA allows the Secretary to redistribute resident positions from hospitals that have not met their resident cap over a defined period of time. **Hospitals located in rural areas are given top priority for receiving these redistributed resident positions.**

- **Low Volume Hospitals.** The MMA 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 fewer than 800 discharges in a given year. The adjustment is to be determined by the Secretary based on the relationship between cost-per-case and discharges in low-volume hospitals. The total adjustment may not exceed 25 percent of the otherwise applicable prospective payment rate.

PHYSICIANS:

- **Bonus Payments.** The MMA modifies the Medicare Incentive Payment Program, **which provides 10 percent bonus payments to physicians in Health Professional Shortage Areas.** The Act builds upon this existing program, and **adds a new program for physicians serving beneficiaries in physician scarcity counties.** Under this new program, physicians would receive a 5 percent bonus payment for providing services in newly defined scarcity areas.

- **Geographic Adjustment.** The MMA modifies the geographic adjustment for physician payments. The geographic adjustment is in place to reflect the regional differences in the costs of the various inputs necessary to furnish a physician service. These inputs are physician work, practice expense, and malpractice. The Act establishes a floor on one of the three geographic adjustments—the work component. In so doing, **it increases payments to physicians in rural areas by raising their adjustment to the newly established floor.**

AMBULANCE PROVISIONS:

- **Status**. An interim final rule was released on June 30, 2004 by the Centers for Medicare and Medicaid Services (CMS) with comment period that will **increase Medicare payments to ambulance services by $840 million between July 2004 and December 31, 2009**. The rule, which **implements the ambulance provisions contained in** Section 414 of the **Medicare Modernization Act of 2003 (MMA)** will **benefit both hospital-based providers and freestanding suppliers of ground ambulance services** to Medicare beneficiaries.

- **Temporary Funding.** The provisions **help to ensure that all beneficiaries continue to have access to medically necessary ground ambulance services.** As they transition to a national fee schedule, which went into effect on April 1, 2002, the **ambulance services will receive temporary additional funding through these provisions.** Prior to the fee schedule, ambulances operated by providers (hospitals, skilled nursing facilities, and home health agencies) were paid on a reasonable cost basis, while freestanding ambulance services were paid reasonable charges.

  All ground ambulance services will benefit from the new rule. **Rural ambulances will receive a 2 percent increase in payments**. This increase **applies to services furnished between July 1, 2004 and December 31, 2006**. In addition, for **services rendered between July 1, 2004 and December 31, 2008, both urban and rural ambulances** will **receive a 25 percent increase in their mileage rates for all miles greater than the 50th mile while carrying a beneficiary.**

- **Transition. Improving payments for all ground ambulance services**, **the new rule also helps to ensure the continued viability of ambulance services in rural areas as they transition to the national fee schedule**. The interim final rule contains a provision designed specifically to ease this transition. **CMS is establishing nine regions for the purposes of the fee schedule**. For each region, **CMS will establish a floor amount for the ground ambulance base rate**. This floor will not result in decreased payment rates for any area of the country, but **for ambulances in the five regions that would have been paid at lower rates in the absence of the floor, the regional fee schedule will increase payments by as much as 38.6 percent.** This provision will be effective for services furnished between July 1, 2004 and December 31, 2009.

- **Super-Rural Bonus.** Finally, the interim final rule **implements a "super-rural bonus**," that **expressly benefits the most rural areas for services furnished between July 1, 2004 and December 31, 2009**. This bonus **will increase the base rate by 22.6 percent where the ambulance transport originate**s in a rural area determined by the Secretary to be in the **lowest 25th percentile of all rural populations arrayed by population density.**