



University of California

Office of Federal Governmental Relations • Health Forum 2002

Medicare Inpatient Prospective Payment System (PPS)

- ❑ Provide full market basket update to the inpatient PPS payments for FY 2003 and beyond, resulting in annual relief to the University's academic medical centers of \$4.6 million.
- ❑ Support the **American Hospital Preservation Act of 2001 (S. 839, H.R. 1556)** which restores full market basket update for PPS hospitals.
- ❑ Add legislative language restoring full market basket update for PPS hospitals to the Senate's Medicare prescription drug legislation.

Background

Under the Medicare statute, the annual updates for PPS hospitals are dictated by the estimated increase in the "hospital market basket," the annual inflation adjustment for goods and services used by acute care hospitals. The actual payment, however, has generally been below the calculated market basket rate. Under the Balanced Budget Act of 1997 (BBA 1997), hospitals received a 1.9 percent reduction in market basket for 1999; 1.8 percent in 2000; and 1.1 percent in 2001. The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA 2000) mandated that hospitals receive .55 percent less than full market basket. The mandated .55 percent reduction imposed by the BIPA 2000 is an arbitrary figure that ignores the actual inflation increases borne by each of the UC academic medical centers.

Impact of the BBA 1997, BBRA 1999, and BIPA 2000

	2001-02	2002-03	PPS payment (3.1% Hospital Market Basket for FYs 2001-03; 3.3% for FY 2003-04)
BBA	Market Basket – 1.1 %	Market Basket – 1.1 %	2.0%
BBRA	Market Basket – 1.1 %	Market Basket – 1.1 %	2.0%
BIPA	Market Basket – 0.55 %	Market Basket – 0.55 %	2.55%
UC recommendation	Full Market Basket	Full Market Basket	3.3%

Status of Relevant Legislation

The following legislation has been introduced to address hospital inpatient PPS rates:

- ❑ **S. 839, American Hospital Preservation Act of 2001**, introduced by Senator Kay Bailey Hutchison (R-TX), would restore full market basket update for PPS hospitals.
- ❑ **H.R. 1556, American Hospital Preservation Act of 2001**, companion measure to S. 839, introduced by Mark Foley (R-FL).

In addition, the “Medicare Modernization and Prescription Drug Act of 2002” (H.R. 4954), recently approved by the U.S. House of Representatives, provides an inpatient PPS update of market basket minus 0.25 percentage points in FY 2003 and a full market basket update for FY 2004 and beyond.

Advocacy Message

Obtaining the full market basket inflation adjustment is critical to the continued financial viability of the University’s academic medical centers. The University of California strongly supports S. 839 and H.R. 1556.

UC views the hospital inpatient PPS provision contained in the House approved Medicare Modernization and Prescription Drug Act of 2002 as an excellent first step towards providing needed relief from the BBA 1997 onerous payment reductions. We encourage the Senate to include and improve upon the hospital inpatient PPS provisions contained in H.R. 4954 as they initiate debate on their own Medicare prescription drug proposal.