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Statement

of the

American Hospital Association

before the

United States Senate Committee on Finance

"Health Care Entitlements: The Road Forward"

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On behalf of our more than 5,000 member hospitals, health systems and other health care organizations, and our 42,000 individual members, the American Hospital Association (AHA) appreciates the opportunity to comment on various deficit reduction proposals and their impact on health care entitlement programs and patient access to care.

America's hospitals both understand that our nation is facing a serious fiscal crisis, and that action must be taken both to raise the debt limit and control government spending. Given that Medicare and Medicaid comprise more than 20 percent of all federal spending — and, on average, around 55 percent of hospital revenues — cuts to either or both programs would have large implications for the country, the hospital field and the patients and communities we serve.

Below you will find a brief summary of several deficit-cutting proposals that would significantly impact health care entitlement programs.

PROPOSALS UNDER CONSIDERATION

President Obama has appointed Vice President Biden to lead a group of bipartisan legislators from the House and Senate to develop a deficit reduction package that could be passed as part of the vote on a debt-limit extension. While we do not yet know what plan will result from those discussions, several proposals to address the debt limit/deficit challenge have emerged that provide a menu of options from which negotiators could select. Our thoughts on several of the major proposals put forward thus far follow.

The Commitment to American Prosperity (CAP) Act: This legislation would limit federal spending to 20.6 percent of the Gross Domestic Product (GDP) by 2023. Currently, federal spending represents approximately 24 percent of GDP. Annual spending targets would be established, and automatic cuts ("sequesters") would be implemented if Congress failed to legislate changes to achieve the targets. Increased revenues are not included as an option to achieve the budget targets. This approach could result in enormous cuts to both Medicare and Medicaid.

The AHA, AARP, American Medical Association, American College of Cardiology and LeadingAge commissioned a study to understand the real-world impact such across-the-board spending cuts in federal programs could have on some of our nation's most vulnerable, including the elderly, children and low-income families. The study, conducted by The Lewin Group, found that under the CAP Act proposal by 2021:

- 5.1 million individuals would lose their health insurance.
- Cuts to hospitals would force most to operate in the red, jeopardizing access to care.
- Dramatic reductions in fees for physician services could lead to fewer physicians participating in Medicare.
- Up to 1.3 million health care workers could lose their jobs.
- Social Security benefits would be cut by nearly 20 percent.
- Cuts to Social Security and other income support programs would force 3.8 million people into poverty – 2.1 million of them seniors, a 45 percent increase.
- Cost shifting of federal payment shortfalls to private employers could lead to a nearly 5 percent increase in health insurance premiums.

While the CAP Act may not be included in the final agreement, similar consequences could result from any across-the-board measure that sets specific limits on spending. The AHA opposes any such arbitrary caps or triggers.

***House Budget Resolution*:** Authored by House Budget Committee Chairman Paul Ryan (R-WI), the resolution, which has passed the House of Representatives, would cut Medicaid by $771 billion over 10 years. We are extremely concerned about further reductions to Medicaid, especially as many states continue to make significant cuts to the program as they struggle to balance their budgets. This proposal could severely impact access to care for our most vulnerable patients.

The proposal also rolls back expansions of health coverage to millions of people but keeps the $155 billion in reductions to hospitals contained in the health reform law. Hospitals provide nearly $40 billion in uncompensated care per year, and that number will grow if coverage is not expanded to those who cannot afford care.

***President's Commission on Fiscal Responsibility's Proposal*:** This bipartisan commission appointed by the president recommended a variety of Medicare budget cuts that impact hospitals, such as reducing payment for graduate medical education and bad debt. These recommendations would reduce Medicare funding by about $100 billion to hospitals over 10 years. In addition, they recommend the elimination of the use of Medicaid provider assessments (which would save $44 billion over 10 years), and an expansion of the Independent Payment Advisory Board (IPAB).

The commission's IPAB recommendation removes lawmakers from decisions that will affect health care in their community. The proposal also calls for reductions in federal spending on graduate and indirect medical education at a time when physicians are in short supply. In addition, the report calls for cutting the Medicare bad-debt program, which provides funding to hospitals that treat seniors who are unable to pay their bills.

While the recommendations make some positive movement in liability reform, we are disappointed that caps on non-economic damages were not included. The elimination or scaling back of provider assessments in the Medicaid program will remove crucial funding for states already under significant budget pressures. And while we are supportive of testing delivery systems reforms such as accountable care organizations (ACOs) and bundling, these are untested ideas that should not be broadly implemented, as the commission suggests, until significant evaluation occurs, and legal and regulatory barriers that impede collaboration between hospitals and physicians are eliminated. We also have concerns that the

recommendation to cap national health expenditures does not take into account the aging population and the demand for services.

***President Obama's Proposal*:** The president's initial budget for fiscal year (FY) 2012 included more than $60 billion in Medicaid reductions. The most significant proposal impacting hospitals would limit to 3.5 percent the amount that any sector may be taxed under Medicaid provider assessment programs. This would achieve savings of approximately $18 billion over 10 years.

In addition, the president proposes two enforcement mechanisms to reduce spending. First, the president's plan would limit Medicare spending to GDP plus 1 percent from 2014 to 2017, then GDP plus 0.05 percent in 2018 and beyond. Should Medicare spending exceed these amounts, IPAB would be given the authority to make recommendations to reduce Medicare spending. Such recommendations would receive fast-track consideration by Congress. Consistent with the *Patient Protection and Affordable Care Act* (ACA), hospitals would be excluded from these reductions through 2019. Along with the president's other recommended health care changes, this approach is estimated to save $480 billion over 12 years. Second, the president's deficit reduction recommendations also would reduce the size of the overall federal deficit to a percentage of the GDP from approximately 10 percent currently to 2.8 percent over 12 years, and use automatic cuts (or sequesters) to enforce these limits starting in 2014. While Medicare and Medicaid provider payments are subject to sequesters, direct cuts to beneficiaries would be prohibited. In addition, increased revenues are a part of this mechanism.

America's hospitals also are concerned with the president's proposal to reduce provider assessments, which are used by most states to help finance their Medicaid programs. Curtailing this option will result in less funding and more pressure to cut Medicaid, jeopardizing services to the poor and the disabled.

We also are troubled that formula-driven, arbitrary budget targets could result in across-the-board cuts to health care. We will continue to oppose the use of this trigger that could impede patients' access to care and further exacerbate the "cost-shift," which would increase health care costs to employers and other purchasers of private coverage.

The president also expands the role of IPAB. America's hospitals support the repeal of IPAB, because its existence permanently removes Congress from the decision-making process, and threatens the important dialogue between hospitals and their elected officials about the real health care needs of their communities. Expanding IPAB adds to that problem.

THE HOSPITAL FIELD'S PRINCIPLES

The deficit-reduction plans offered thus far fail to consider an important reality: America's hospitals already are absorbing $155 billion in payment reductions. And every single day, Medicare and Medicaid pay hospitals less than the cost of providing care. Hospitals provide critical services that no one else can. Yet hospital care is once again jeopardized by new and serious threats. Any additional cuts to hospitals could negatively impact patient care: services eliminated; longer waits for care; emergency departments shut down; and staffing reduced.

The field already is absorbing $155 billion in reductions, as well as state Medicaid cuts. And, that does not include additional cuts imposed by regulation, such as coding offsets under the Medicare inpatient prospective payment system. America's hospitals know what it means to be part of shared sacrifice to achieve national goals. Therefore, we strongly oppose efforts to further cut payments for hospital services under Medicare and Medicaid. It's time that every other sector of society be held to the same level of shared sacrifice – examination and scrutiny – as we have been. We urge lawmakers to look outside both the hospital and health care sector for new ideas that could achieve budget savings.

Federal programs already underpay hospitals. Hospitals have made great progress in controlling costs and improving quality and are investing significant resources in health information technology to improve care even further. But we cannot continue this trend and absorb further cuts to federal programs, which already pay less than the costs of providing services.

Arbitrary triggers are not the answer. Hospitals are wary that formula-driven, arbitrary budget targets, such as the ones outlined in several proposals listed above, would result in across-the-board cuts to health care. We oppose the use of a trigger that could impede patients' access to care and further exacerbate the "cost-shift," which would increase health care costs to employers and other purchasers of private coverage.

Protect the safety net. Medicaid has been dramatically cut as states struggle to balance their budgets. Further cuts, such as the ones proposed in the House budget plan, would threaten this program, which is a lifeline to so many Americans. There are alternatives to these Medicaid cuts, such as:

- Applying ACA models like ACOs, bundling, medical homes and pay for performance to Medicaid;
- Coordinating care for dual eligibles and those with chronic conditions;

- Increasing the use of generic drugs;
- Restructuring copayments; and
- Designing tax incentives for long-term care.

Other Medicare alternatives also exist. Hospitals will continue to be part of the dialogue to offer solutions and support real reforms. This must be accomplished in a balanced way that considers concrete alternatives, such as:

- Creating a better alternative to our current liability system;
- Junk food taxes;
- Increased Medicare beneficiary cost-sharing;
- A tax cap on employer-provided health insurance benefits; and
- Adjusting the Medicare eligibility age.

SUMMARY

Thank you for the opportunity to share our concerns with the committee. America's hospitals know there are no easy solutions to get our fiscal house in order, and we will continue to be part of the dialogue to offer solutions that will benefit the patients and communities hospitals serve. We commend the committee for its contribution to the debate.