

# *United States Senate Committee on Finance*

For Immediate Release

Friday, July 7, 2006

## Grassley, Baucus ask CMS to revisit plans for how it pays hospitals for inpatient procedures

WASHINGTON — Sens. Chuck Grassley and Max Baucus are asking the government to retool its proposal for updating the system that pays hospitals for inpatient procedures that are covered by Medicare.

Grassley and Baucus said that changes need to be made to make sure the system is as fair and accurate as possible. In a letter sent today, the senators called on the Centers for Medicare and Medicaid Services to fully engage the stakeholder community in determining how to implement recommendations made last year by MedPAC and to make sure there is enough time for hospitals to adjust to a new system. MedPAC is an independent 17-member commission that advises Congress on issues affecting the Medicare program.

Grassley and Baucus said they appreciated the commitment made by the Medicare officials to improving the hospital payment system and, especially, to developing pay-for-performance incentives.

“It’s very good to see our policy goal embraced,” Grassley said. “Moving toward a fair and accurate hospital inpatient payment system is long overdue. Now it’s a matter of making sure the implementation of that policy really works for hospitals.”

“I’ve long supported a more accurate system for Medicare to pay for hospital inpatient service, and when changes are made, I want them done right,” said Baucus. “These are the most significant proposed changes in the 23-year history of the prospective payment program, and we need to proceed carefully.”

The text of the Grassley-Baucus letter to CMS Administrator Mark McClellan follows here. Grassley is Chairman and Baucus is Ranking Member of the Senate Committee on Finance, which is responsible for Medicare legislation and oversight.

July 7, 2006

The Honorable Mark McClellan, M.D., Ph.D.  
Administrator  
Centers for Medicare and Medicaid Services  
Hubert Humphrey Building, Room 314-G  
200 Independence Avenue, SW

Washington, DC 20201

Dear Dr. McClellan,

We are pleased that CMS has embraced our policy goal of a fair and accurate hospital payment system, and has taken steps to implement MedPAC's recommendations on refining hospital payment policy in its FY 2007 Hospital Inpatient Prospective Payment System (IPPS) proposed rule. As we indicated in our February 9, 2006 letter to you on this subject, these changes are needed to improve the accuracy of payments to hospitals. We also appreciate the Agency's efforts to further develop pay-for-performance in hospital payments by expanding quality data reporting requirements.

However, upon reviewing the proposed rule, we have serious concerns about CMS' proposed methodology and implementation strategy and whether it will, in fact, achieve a fairer and more accurate hospital payment system. We therefore request that you consider beginning implementation of both the cost-based weights and the consolidated severity DRGs in FY 2008. Given that CMS' proposed changes differ significantly from those offered by MedPAC last year, more time is needed to assure an orderly and appropriate implementation of these changes. This additional time is needed not only to provide stakeholders the opportunity to analyze fully the proposed changes and provide input to CMS through an open dialogue, but also to ensure that these changes are implemented in the least disruptive manner.

It has been brought to our attention that CMS' proposed method of basing the DRGs on costs has the potential to pay inaccurately for certain procedures. We urge you to work with stakeholders, many of whom agree with the principle of moving to cost-based weights, in improving the proposed methodology so that hospital payments better reflect the cost of providing services.

These proposed changes should also be developed through a transparent process in which stakeholders have access to sufficient information and tools to analyze the changes. One common concern we have heard is that stakeholders were unable to review fully and analyze the impact of the proposed rule within the 60-day comment period because of both limited information and few tools available to evaluate the consolidated severity DRG system. It is also our understanding that unlike the current DRG system, the proposed DRG system is based on a system that is proprietary in nature. We urge you to take steps to ensure that interested parties have access to the information and tools they need to analyze efficiently the proposed changes and also to ensure that the DRG system that is ultimately adopted is available to everyone for a nominal charge, just as the current DRG system is today.

We have also heard concerns about CMS' plans to implement cost-based weights in FY 2007, followed by the consolidated severity DRGs in FY 2008. As you know, the implementation of cost-based weights is expected to shift payments significantly from one group of hospitals to another, while the implementation of consolidated severity DRGs will likely shift payments in the other direction. We urge you to implement both changes concurrently in order to avoid the "whipsaw" effect of wide swings in hospital payments that each of these proposed

changes is expected to cause.

CMS' efforts to implement MedPAC's recommendations are a good first step towards achieving a payment system that is fair and accurate. It is equally important, however, that these proposed changes are both methodologically sound and implemented in a timeframe that will not disrupt the health care system. Changes to the IPPS such as basing the DRGs on costs rather than charges and using a consolidated severity DRG system are significant, and require an open development process involving stakeholder input as well as a reasonable implementation schedule.

Thank you for your consideration of these comments.

Sincerely,

Charles Grassley  
Chairman

Max Baucus  
Ranking Member