

GAO: Congress' Changes to Medicare Payments Undermines Cost-Control, Efficiency Efforts

Medicare reimburses most hospitals under the inpatient prospective payment system (IPPS), which pays hospitals a flat fee, per stay, set in advance, with different amounts for each type of condition. Congress created the IPPS in 1983, but in the last 30 years, Congress has increased Medicare payments to certain hospitals by changing the qualifying criteria for IPPS payment categories, creating and extending exceptions to IPPS rules, or by exempting certain types of hospitals from the IPPS.

The Institute of Medicine (IOM) and the Medicare Payment Advisory Commission (MedPAC) have suggested that continual and wide-ranging modifications to the payment system undermine the integrity of the IPPS. IOM [found](#) that the methods CMS uses for determining how Medicare pays hospitals for the same services in different parts of the country did not accurately reflect regional differences in expenses. MedPAC [found](#) that some special payment changes did not even adequately target isolated small rural providers, while other payments changes had overlapping purposes. In light of this and other data, Senators Coburn and Burr asked GAO to review legislation that altered payments to certain hospitals. To accomplish this, GAO: (1) identified provisions of law that enhanced Medicare payments for only a subset of hospitals, and (2) examined if hospitals qualified for *adjustments* to the IPPS or *exemptions* from the IPPS in 2012.

GAO reviewed provisions enacted from 1997 to 2012 to identify those that adjusted payments to a subset of IPPS hospitals or exempted hospitals from the IPPS. GAO analyzed CMS data to learn the number, location, and size of hospitals affected by these provisions and budgetary estimates for the first year of implementation, where available. GAO also analyzed 2012 data on 4,783 general hospitals to determine the number and types of adjustments they received, the extent to which they qualified for multiple adjustments, and the number exempted from the IPPS.

GAO: Significant Congressional Modifications To Payment

GAO identified numerous statutory provisions Congress passed into law that individually *increased* Medicare payments to a subset of hospitals under IPPS:

- 7 provisions enabled hospitals to be paid under a different geographic wage index, which is used to address variation in labor costs.
- 5 provisions modified the classification criteria allowing IPPS hospitals to qualify for supplemental payments through the Medicare disproportionate share hospital (DSH) program or other types of special treatment.
- 3 provisions created and modified criteria for classifying small rural providers as Critical Access Hospitals (CAH), which are exempt from IPPS and instead are paid under an alternative methodology.

These modifications add up to a total of 15 changes that GAO identified for the period of 1997 to 2012—an average of one per Congress since the IPPS was created.

GAO: 9 In 10 Hospitals Reviewed Qualify For A Payment Exception

While the payment modifications passed by Congress may have been intended to affect only a subset of hospitals, nearly all of the 4,783 hospitals in GAO's review qualified for an adjustment or exemption from the IPPS in 2012.

- About 91 percent were subject to an IPPS payment adjustment or were excluded from the IPPS entirely.
- The majority of hospitals, nearly two-thirds, qualified for at least one of four categories of increased payment, with DSH payments being the most common.
- Under the Critical Access Hospitals program, 28 percent of hospitals were exempt from the IPPS.
- The remaining hospitals, 9 percent, received IPPS payments that were unadjusted for the modifications included in GAO's review.

GAO concludes: “these findings suggest that the way Medicare currently pays hospitals may no longer ensure that the goals of the IPPS—cost control, efficiency, and access—are being met.”