

# In fight over Medicare payments, the hospital lobby shows its strength

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In the battle to control health care costs, hospitals are deploying their political power to protect their bottom lines.

The point of contention: For decades, Medicare has paid hospitals—including hospital-owned physician practices that may not be physically located in a hospital building—about double the rates it pays other doctors and facilities for the same services, such as mammograms, colonoscopies, and blood tests.

The rationale has been that hospitals have higher fixed costs, such as 24/7 emergency rooms and uncompensated care for uninsured people.

Insurers, doctors, and consumer advocates have long complained it's an unequal and unfair arrangement that results in higher costs for patients and taxpayers. It's also a profit incentive for hospitals to buy up physician practices, which health economists say can lead to hospital consolidation and higher prices.

In December, the House passed a bill that included a provision requiring Medicare to pay the same rates for medical infusions, like chemotherapy and many treatments for autoimmune conditions, regardless of whether they're done in a doctor's office or clinic owned by a hospital or by a different entity. The policy, known as site-neutral payment, has sparked a ferocious lobbying battle in the Senate, not the first of its kind, with hospitals determined to kill such legislation.

Don't bet against them. The House legislation would save Medicare an estimated \$3.7 billion over a decade, according to the Congressional Budget Office. To put this in perspective, the program is projected to pay hospitals upward of \$2 trillion during that same period. But hospitals have long argued that any adoption of site-neutral payments would force them to cut jobs or services, or close facilities altogether—particularly in [rural areas](#). And senators are listening.

"The Senate is very much attuned to rural concerns," Sen. Ron Wyden (D-Ore.), who chairs the Finance Committee, told KFF Health News.

His panel has jurisdiction over Medicare, the health program for seniors and people with disabilities.

"I have heard lots of questions about how these proposals would affect rural communities and rural facilities," he said. "So we're taking a look at it."

Outpatient departments at rural hospitals can have outsize importance to their communities. Taking any funding away from stand-alone rural hospitals is seen as risky. Scores have closed in the past decade due to financial problems. With fewer patients, rural hospitals often struggle to attract doctors and update technology amid rising costs.

Sen. Bill Cassidy, R-La., a physician who also serves on the Finance Committee, indicated he was apprehensive about the legislation.

"In some cases," he said, higher Medicare payments for hospitals are "justified."

"In some cases, it doesn't seem to be," he said. He told KFF Health News he was planning to introduce legislation on the issue but didn't provide details, and his office didn't respond to inquiries.

As the two senators show, the issue doesn't break cleanly along partisan lines. In December, the House easily passed the Lower Costs, More Transparency Act, the broader bill that included this Medicare payment change, with 166 Republicans and 154 Democrats voting in favor.

"It's more about how close different members are to the hospital industry," said Matthew Fiedler, a former White House health economist under President Barack Obama and now a senior fellow at the Brookings Institution.

The American Hospital Association describes the site-neutral policy as a "cut" to hospital Medicare payments and said in a statement to a House subcommittee that it "disregards important differences in patient safety and quality standards required in these facilities."

Chip Kahn, president and CEO of the Federation of American Hospitals, which represents for-profit hospitals, offered a similar characterization of the House-passed legislation. "This is no time for so-called 'site neutral' Medicare cuts that could harm beneficiaries," he said in a statement. He urged lawmakers to drop the policy from the broader bill and instead prioritize access to hospital care for patients by not only protecting Medicare, but also strengthening the health care safety net.

Hospitals argue they need the extra money because they have higher costs, said Salama Freed, an assistant professor of health policy and management at George Washington University and a nonresident fellow at KFF. But "it doesn't necessarily warrant the amount that they end up getting paid for this," she said.

The Medicare Payment Advisory Commission, which advises Congress on the program, has recommended implementing site-neutral payments for over a decade.

"This is not a hospital cut. It is rolling back an unethical price increase," said Mark Miller, a former MedPAC [executive director](#) who's now an executive vice president at Arnold Ventures, a philanthropy founded by John and Laura Arnold, an energy industry investor and an attorney, respectively.

Large hospital systems with the money to buy physician practices, Miller said, have exploited the disparity between Medicare payments to physician offices and hospitals to increase their revenue and consolidate.

Arnold Ventures advocates for site-neutral payments and its leaders have discussed the issue with lawmakers.

Miller said he's hopeful the site-neutral provision of the House bill will be part of a larger government spending bill that must be passed next month to keep the government open. If lawmakers need to offset the bill's costs, "then it is more likely to get in the funding package," he said.

Though the House-passed legislation is viewed as an "incremental" change, said Fiedler, it faces a rough path forward. Evening out Medicare payment for physician-administered drugs, hospitals fear, could lead to similar moves for other outpatient services.

"Hospitals have a lot of money at stake and will fight this hard," he said. "Hospitals feel if they lose here, down the road there will be more substantial steps."

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