AMA AMERICAN MEDICAL ASSOCIATION

HEALTH SYSTEM REFORM INSIGHT

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The Patient Protection and Affordable Care Act—health system reform legislation signed into law by President Obama on March 23—contains a number of key provisions for you and your patients. Some provisions may have an immediate impact on your practice and patients, while others will not take effect for some time.

Given the new direction for the nation's health system, the AMA has developed *Health System Reform Insight* to help you understand the new law and how it will affect you, when certain provisions are scheduled to take effect, how you can be ready when the regulations go into effect and what your patients need to know. Throughout the series, we have explained how health system reform will affect physician practices and your patients (PDF), and provided a summary of last week's first online question-and-answer session, hosted by the Department of Health and Human Services, on the new health reform law. If you missed it, view the archived webinar, or view some of the questions and answers from the session. Today's issue provides descriptions of Medicare savings (PDF) under health reform legislation for different provider category groups.

Major Medicare savings under health reform legislation

During the debate over health system reform, many physicians expressed concerns about Medicare program savings being used to offset the costs of the legislation. The following are brief descriptions of the major provisions affecting Medicare spending and the 10-year budget savings that the Congressional Budget Office attributed to each. Importantly, the new law also makes some significant Medicare payment improvements that are not covered in this document. Brief descriptions of those affecting physicians can be found in the document, titled "How the Passage of Federal Health System Reform Legislation Impacts Your Practice."

Physicians—$3 billion savings over 10 years
Utilization assumption for high-cost imaging equipment will be increased to 75 percent effective Jan. 1, 2011 (net savings $2.3 billion over 10 years). New physician-owned hospitals will be banned from participating in Medicare and limits are placed on growth of existing physician-owned facilities (net savings $500 million over 10 years).

Bonus payments under the Physician Quality Reporting Initiative will continue for an additional four years, followed by penalties beginning in 2015. Because these provisions will produce a net increase of $300 million in Medicare spending over 10 years, the budget impact is not reflected in the total savings figure above.

Medicare Advantage—$136 billion savings over 10 years
Medicare Advantage plan payment benchmark variances, currently ranging from 95 percent of traditional Medicare program spending in high-costs areas to 115 percent of Medicare spending in low-cost areas, will be reduced.

Medicare DSH payments to hospitals—$22 billion savings over 10 years

As the number of uninsured Americans grows smaller, Medicare disproportionate share (DSH) payments to hospitals will be reduced. These reductions will be based on a new formula that takes into account factors such as the decreasing number of uninsured and the decreasing amount of uncompensated care hospitals will need to provide.

Home health care—$40 billion savings over 10 years
Beginning in 2014, the Secretary of Health and Human Services will rebase home health payments to reflect case mix, the cost of providing care, the type of agency and resource costs. Payments for outliers would be limited to 10 percent of cases.

Medicare Part D—$11 billion savings over 10 years
The premium subsidy for higher income beneficiaries is reduced.

Market basket adjustments for facilities and suppliers—$157 billion savings over 10 years
Most Medicare providers, other than physicians, receive annual market basket payment updates based on growth in the costs of goods and services or on the Consumer Price Index (CPI). Also unlike physicians, these updates are not subject to an annual adjustment to reflect increased productivity. The legislation addresses this inequity by providing for annual productivity adjustments for each market basket or CPI update for the various provider categories. Additional provisions for the following providers, include:

- Acute care hospitals, long-term care hospitals, inpatient rehabilitation facilities, inpatient psychiatric facilities and outpatient hospitals—additional reductions in market basket of between 0.1 percent and 0.75 percent annually through 2019 and productivity adjustment starts in 2012.
- Skilled nursing facilities—productivity adjustments start in 2012.
- Home health agencies—productivity factor starts in 2013 and additional market basket reduction of 1 percent scheduled for 2011-2013.
- Hospice care—productivity adjustment begins in 2013 and additional market basket reductions of 0.3 percent contingent upon level of uninsured may be imposed annually through 2019.
- Dialysis—eliminates 1 percent reduction scheduled for 2012 and begins productivity adjustments in 2012.
- Ambulance services—productivity adjustment begins in 2011.
- Ambulatory surgical services—productivity adjustment applied beginning in 2011.
- Laboratory services—1.75 percent reductions for 2011-2015 (negative updates allowed) and productivity adjustment begins in 2011, but would not be allowed to take update below zero.
- Certain durable medical equipment (DME)—productivity adjustment applied beginning in 2011 and increase scheduled for 2014 is eliminated.
- Prosthetic devices, orthotics and prosthetics—productivity adjustment factor begins in 2011.
- Other DME items—productivity adjustment factor begins in 2011.

Calculation of Part B premiums—$25 billion savings over 10 years
Current income thresholds for higher Medicare Part B premiums are linked to the CPI. The new law freezes those income thresholds at current levels from 2011-2019.

Independent Payment Advisory Board—$16 billion savings over 10 years
An Independent Payment Advisory Board will be established to recommend savings in the Medicare program with fast track congressional approval procedures. Most hospitals and hospice would be exempt from any savings proposals until 2020; clinical labs would be

exempt until 2015.

New payment models—$13 billion savings over 10 years
A new Center for Medicare and Medicaid Innovation will be created and various demonstration programs and pilot projects involving physician and facility payments will be extended or established, including a national pilot program on bundled payments, hospital readmissions reduction program, gainsharing demonstrations, and a community-based care transition program.