

# Anticipating Deficit Reduction Efforts' Impact on Medicare Reimbursement

## COUNTERING COST PRESSURES

A Huron Healthcare Series

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### OVERVIEW

It's overwhelmingly clear that given the current federal fiscal challenges the government has its sights set on Medicare spending reductions. The Affordable Care Act of 2010 (ACA) and the Budget Control Act of 2011 (BCA) both make specific recommendations that may have significant impact on Medicare reimbursement rates. With the potential economic exposure for healthcare providers continuing to grow, this briefing is aimed at assisting healthcare leaders as they consider the total economic exposure of their organizations related to potential Medicare reimbursement reductions within both the ACA and BCA, and providing insights on possible next steps.

#### Affordable Care Act Projected Reductions

The ACA is projected to create \$424 billion in net Medicare savings over a ten-year period through:

- \$196 billion reductions in annual payment updates to hospitals and other providers.
- \$136 billion reduction in Medicare Advantage plans.
- Other changes that are projected to reduce Medicare spending by 6% over 10 years, and slow growth of per capita Medicare spending to 3.5% per year through 2019.<sup>1</sup>

In addition, the ACA mandated the creation of the Independent Payment Advisory Board (IPAB), which may be tasked with creating additional plans for reducing Medicare spending.

#### Budget Control Act & Deficit Reduction: Possible Reductions

On top of the ACA reductions, the BCA could trigger an automatic, across-the-board 2% reduction in Medicare payments to providers starting in Fiscal Year 2013. This reduction is estimated to create an additional \$130 billion to \$150 billion in savings.<sup>2</sup>

However, if the newly formed Joint Select Committee (or "Super Committee") creates an alternate proposal for spending cuts (they must create a proposal and vote on it by November 23, 2011) and assuming Congress approves that proposal (they must vote no later than December 23, 2011), the Super Committee's proposal would be implemented instead of the BCA's reductions. The Super Committee has the authority to make recommendations for broad-ranging cuts to healthcare and other federal budgets, so their proposal could be even more ambitious in terms of pulling out costs.<sup>3</sup>

#### Assessing Potential Economic Exposure

The potential economic exposure for healthcare providers continues to grow. In addition to reductions in Medicare and Medicaid mandated by the BCA or the Super Committee, additional productivity adjustments, value-based purchasing reimbursement changes, and potential additional recommendations IPAB might make for federal reductions are adding up to potentially broad and deep funding that providers will have to contend with.

If the President's recommendations to the Joint Select Committee for further healthcare spending reductions are any indication of the Committee's ultimate proposal — or an indication of future IPAB recommendations — further Medicare cuts will be strongly considered. Among the President's recommendations:

- Reduction in bad debt payments from 70% to 25%. Estimated savings: \$20 billion over 10 years.
- Reducing Indirect Medical Education (IME) payments by 10% beginning in FY 2013. Estimated savings: \$9 billion over 10 years.
- Multiple changes to rural provider reimbursement. Estimated savings: \$6 billion over 10 years.
- Multiple changes to reimbursement for skilled nursing facilities, long-term care hospitals, and inpatient rehabilitation facilities. Estimated savings: \$42 billion over 10 years.<sup>4</sup>

All of these factors together create deep uncertainty about how substantial Medicare cuts will ultimately be.

## HURON HEALTHCARE EXECUTIVE INSIGHTS & RECOMMENDATIONS

### Gordon Mountford

#### Executive Vice President, Huron Healthcare

"The major reimbursement cuts — both in Medicare and Medicaid — have created the need for even high-performing organizations to reduce costs further. Alongside plans for moving the healthcare business model from volume to value, organizations must also revisit traditional areas of cost savings such as labor, supplies, and HR benefits, re-exploring optimization and savings opportunities with renewed urgency and focus."

### George Whetsell

#### Managing Director, Huron Healthcare

"Many healthcare leaders are coming to see the automatic cuts that may take place through the Budget Control Act as preferable to the recommendations that may ultimately come from the Joint Select Committee. The Super Committee may very well make recommendations that go deeper than the 2% Medicare payment reduction cap mandated in the BCA."

### John Tiscornia

#### Managing Director, Huron Healthcare

"Medicare cuts are inevitable, which means that providers must continue to aggressively explore and enact fundamental changes to make healthcare delivery more efficient. This requires approaches that are transformational across the healthcare enterprise, including reducing utilization, coordinating care, and minimizing care variance."

## BOTTOM LINE

- It's far from clear how aggressively the government will reduce Medicare spending.
- Providers whose patient mix includes a large Medicare population should be looking at worst-case-scenarios in terms of their total economic exposure, and create specific plans for responding to those scenarios.
- Certain providers — such as academic medical centers, post-acute care providers, and rural providers — may experience more dramatic reimbursement cuts.

### Footnotes

1. Kaiser Family Foundation Program on Medicare Policy: Issue Brief, September 2011, "The Budget Control Act of 2011: Implications for Medicare" [www.kff.org/medicare/upload/8216.pdf](http://www.kff.org/medicare/upload/8216.pdf)
2. New England Journal of Medicine Blog, "Fallback Cuts or Super-Committee Concoction — Choosing Health Care's Policy Poison," Christopher C. Jennings <http://www.nejm.org/doi/full/10.1056/NEJMp1109865>
3. Kaiser Family Foundation Program on Medicare Policy: Issue Brief, September 2011, "The Budget Control Act of 2011: Implications for Medicare" [www.kff.org/medicare/upload/8216.pdf](http://www.kff.org/medicare/upload/8216.pdf)
4. "Living Within Our Means and Investing in the Future: The President's Plan for Economic Growth and Deficit Reduction" September 20, 2011 <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2012/assets/jointcommitteereport.pdf>

## ABOUT HURON HEALTHCARE

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