INVESTOR'S BUSINESS DAILY

November 16, 2011 Wednesday
NATIONAL EDITION

Old Country Doctors Face Cuts; Rural Medicare Curbs; Obama has proposed supercommittee to cut rates to frontier states

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As the congressional supercommittee tries to find ways to curb Medicare spending growth, it is likely that cuts will fall heavily on rural hospitals.

A big reason is that they enjoy White House support. In his proposal to the deficit panel, President Obama backed lower Medicare pay rates for "frontier state" and "critical access" hospitals.

The irony is that ObamaCare boosted Medicare payments to frontier states. That was key to winning the support of North Dakota's Democratic senators at the time, Kent Conrad and Byron Dorgan. Conrad has said Obama's supercommittee proposal is a "breach" of the deal.

ObamaCare defined frontier states as those in which at least half of the counties had a population of fewer than six people per square mile. Hospitals in those states -- Montana, Nevada, North Dakota, South Dakota and Wyoming -- would get an increase in their "hospital wage index."

The hospital wage index is a formula that Centers for Medicare & Medicaid Services uses to adjust Medicare payments based on average local hospital wages.

The wage index for a given area is the ratio of the local hourly hospital wage to the national average. Before ObamaCare, the wage index for rural areas in North Dakota was .80, meaning that average hospital wages were about 80% of the national average. In Montana, Nevada, South Dakota and Wyoming the indexes were .91, .99, .90 and .98, respectively. But starting this year, ObamaCare raised those states' wage indexes to the national average of 1.00.

But Obama has urged that the supercommittee end that bonus after next year. That could cut 2013-19 Medicare payments by $1.7 billion, according to Congressional Budget Office data.

A critical access hospital is one that has no more than 25 inpatient beds, patients' average stay is no more than 96 hours, and must be at least 35 miles from any other hospital (or 15 miles in mountainous terrain). The country's roughly 1,300 CAHs generally serve rural areas.

Congress decided in 1997 that instead of paying these hospitals under the traditional Medicare system, it would reimburse them for 100% of "reasonable" Medicare treatment costs. In 2003, Congress upped it to 101%.

Obama's proposal would trim it back to 100%. He would cut it to 99% of reasonable costs for CAHs that have not adopted electronic health records by 2017. That would reduce payments by about $6 billion over 10 years.

Pat Schou, executive director of Illinois Critical Access Hospital Network, estimates that CAHs in her state could lose, on average, $500,000 annually. "Right now many of our (CAHs) have very narrow margins. The cuts would require them to lay off people or reduce services."

Juicy Target Or Tough Nut?

The rural hospital cuts would be tiny next to the $1.2 trillion in 10-year deficit saving that the supercommittee is supposed to agree to by Nov. 23. But the panel is fighting over every penny in spending, and revenue and seems deeply split. Committee member Rep. Xavier Becerra, D-Calif., told Politico that "the elements of a deal are there."

Even if the deficit panel fails, Congress will still be looking for ways to reduce Medicare spending, making it likely that rural hospital rates will come up again.

Michael Cannon, director of health policy studies at the libertarian Cato Institute, thinks it will be difficult to reduce payments to rural hospitals, though.

"A lot of these rural providers are represented by both Democrats and Republicans, making it hard to cobble together any sort of agreement that cuts payments to these folks," Cannon said.

Rural states may have few people, but each has two U.S. senators.