United States Senate
Committee on Finance

Field Hearing

"A Fair Deal for Iowa: Fixing Medicare Reimbursement"

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Testimony of David M. Holcomb
President/CEO, Jennie Edmundson Hospital
Board Chair, Iowa Hospital Association

Good morning Mr. Chairman. Thank you for inviting me to testify in this hearing. I appreciate you recognizing the vital role Medicare holds not only in Iowa's health care system, but in the entire Iowa economy.

Senator Grassley, I am here as the representative of 116 Iowa hospitals, nearly 70,000 hospital employees, and 60,000 volunteers who each day dedicate themselves to serving their communities and their patients.

I want to speak plainly about Medicare and Iowa. Medicare and its payment policies cheat Iowans. I say that because the Medicare program continues to penalize high quality, efficient health care providers, like Iowa's, even while solid research proves it overspends in other areas of the country. Medicare does this by simply paying Iowa providers lower rates for superior service. The system as it now stands flies in the face of common sense and is an affront to any reasonable concept of fairness.

However, there is much more to what is wrong about Medicare in Iowa than that. It is also wrong because low Medicare payments drive up the cost of private insurance. It is wrong because hospitals must ultimately curtail services and limit access. It is wrong because doctors must begin to limit Medicare patients. It is wrong because, in the midst of an unprecedented shortage of health care workers, Iowa is at a huge recruiting disadvantage, particularly against adjacent states. It is wrong because Iowa has a health care system that is known for its quality and cost-effectiveness, yet Iowans find themselves subsidizing states where quality is low and waste is high.

It is wrong because Medicare has become an unnecessary and unfair burden to the Iowa economy. As Iowa struggles to redefine itself economically, our hospitals offer a deep and constant wellspring of opportunity and service that attracts young, well-educated professionals and their families. A financially stable health care system is critical to supporting existing businesses and attracting growth to Iowa, but Medicare's tremendous shortfalls undermine Iowa's efforts to be economically competitive. Good health care provided by well supported hospitals is a large and irreplaceable block within the foundation that defines quality of life in Iowa.

The current unfair Medicare system is cracking and weakening that block, creating instability, and seriously threatening Iowa's future.

Today, 475,000 Iowans depend on Medicare. Thousands of them live in and around Council Bluffs. They are important to us; more than 40 percent of our gross revenue comes from Medicare. But today my hospital is losing about 20 cents on the dollar each time we treat a Medicare patient. For skilled nursing, we are losing 74 cents on the dollar. This is fairly typical. The result: many Iowa hospitals are closing their skilled nursing units and home health services.

My hospital is simply one example of how Medicare damages Iowa. All told, Iowa has the worst Medicare margin in the country and is losing at least $80 million a year to the

program. Hospitals have to cover that loss. They can only increase private-sector fees or, in the case of public facilities, increase taxes. Whatever the method, those Medicare losses are absorbed by businesses and individuals, through their insurance premiums, through their tax bills, through their prices for goods and services. It means Iowans are taxed twice for Medicare and forced to subsidize this program, allowing Medicare to pay higher and provide better benefits in other states. It is to those states that thousands of Iowa seniors have fled, taking with them hundreds of millions of dollars each year from the Iowa economy.

Can this situation be fixed? Yes, it can. There are real and significant changes that can be made to Medicare payment now that would begin to make it fair for Iowa.

First, authorize full inflationary updates of Medicare payments. Escalating clinician salaries, pharmaceutical costs, new technology, and soaring professional liability rates simply cannot be ignored. Medicare must pay its fair share.

Second, equalize the Medicare base payment amount; make the 1.6 percent fix permanent. This provision within the Medicare formula has no basis in sound payment policy, and it needs to be eliminated.

Third, fix the wage index. This is a major fault in the Medicare payment system. The wage index is applied to 71 percent of hospital payment, but in reality only about 50 percent of Iowa hospital expenses go to wages and benefits. Every hospital in Iowa is cheated by this simple lack of reality within the formula. The labor-related share of Medicare payment must be reduced to reflect reality.

Finally, let's create a Medicare system that really does reward high-quality, cost-effective health care. The current nearly inverse relationship between payment and quality is well documented. Studies have shown that states receiving the greatest Medicare payments tend to also have low-quality and much wasted spending in their health care systems. Meanwhile, states like Iowa that have proven themselves to be high in both quality and cost efficiency are receiving the lowest payments.

This is clearly wrong and a flat contradiction of stated congressional intent. The Medicare program should reward quality and efficiency by developing an incentive payment program based on those measures. In other words, it should seek and reward value, just like other consumers in the American economy. Under this system, states where providers fail to meet quality or per-beneficiary cost targets would be motivated to improve and Iowa would be rewarded proportionately.

Here is how such a system might work: States would be ranked on both per-beneficiary cost and overall quality measures, and hospitals and physicians in states that have the best combined scores would receive a five percent "add-on" as a reward for outstanding performance. Quality data is already published in the *Journal of the American Medical Association*, which uses CMS's current quality of care measures. The JAMA report is founded on evidence-based, clinical procedures that have been reliably shown to be

effective in enhancing outcomes of care. Cost rankings would be based on CMS's annual report ranking states based on average Medicare spending per recipient.

Members of Congress and representatives of the Department of Health and Human Services and the Centers for Medicare & Medicaid Services have repeatedly come to Iowa and told us how wonderful our health care system is, and how unfortunate it is that Medicare is formulated in such a way that Iowa is cheated rather than rewarded. That needs to change, Senator Grassley. It's time that Iowans, who have invested so much in their community hospitals, who depend so completely on the services and the jobs our hospitals and physicians provide, start seeing real equity to go with the kind words.

These are but a few of the avenues you and your colleagues in Congress might pursue in order to start bringing Medicare equity to Iowa. These inequities can be corrected. Iowa hospitals have illustrated a pathway to cost-effective quality. We need you to lead Congress toward a fair and equitable Medicare system.

Your Iowa constituents greatly appreciate your leadership and commitment on this issue. We are proud of your chairmanship of the Senate Finance Committee and your relationship with President Bush. Please let us know how we can help.