

*Administrator*

Washington, DC 20201

**JUL 20 2006**

The Honorable Rick Santorum  
United States Senate  
Washington, DC 20510

Dear Senator Santorum:

Thank you for your letter outlining your concerns regarding some of the proposals included in the Medicare hospital inpatient prospective payment system (IPPS) proposed rule for fiscal year (FY) 2007. You strongly urge the Centers for Medicare & Medicaid Services (CMS) to provide sufficient time before implementation to work with stakeholders in addressing any underlying methodological issues, and to allow hospitals time to adjust their planning and business operations accordingly.

Medicare spends more than \$125 billion a year to reimburse nearly 5,000 hospitals for the care they provide to Medicare beneficiaries. We take this responsibility very seriously. As you know, we have an obligation to taxpayers and the Congress to make sure that taxpayer dollars are spent wisely and that Medicare doesn't overpay for some services while underpaying for more severely ill patients and those with complex illnesses. Given the importance of ensuring beneficiaries' access to appropriate hospital care whatever their condition and needs, we all share the goal of a fair and accurate hospital payment system.

In our payment rule for FY 2007, CMS proposed the adoption of several changes to the IPPS that were recommended by the Medicare Payment Advisory Commission (MedPAC), the independent body that advises the Congress on Medicare payment policy. It is important to note that these proposed changes would not reduce total Medicare payments for inpatient hospital care; in fact, inpatient payments to hospitals will increase in FY 2007. However, the changes would correct the current distortions in the hospital payment rates by re-directing a portion of the payments from cases that are currently overpaid to those that are underpaid. As MedPAC noted in an April 19, 2006 letter to CMS commenting on the proposed regulation, "the hospitals that treat cases that are now relatively underpaid should receive an increase in payments while hospitals treating cases that are currently overpaid should receive a decrease in payments. Payment redistributions should not be permitted to forestall needed payment reforms; they reflect the fact that the current system is inaccurate and therefore, unfair to some hospitals."

Clearly, any changes to make hospital payments more accurate should be implemented in a way that causes the least disruption to the health care system. For this reason, when CMS issued the rule in April, I stated that the "proposed rule will be shaped by the public comment process" and that we looked "forward to comprehensive feedback from hospitals, suppliers, and other stakeholders that will help to refine and improve the final version of the rule." The public comment period for the IPPS proposed rule closed on June 12 and generated many constructive comments. For example, we have received comments on how the recommended reforms can be improved, what transition steps are needed to avoid any disruptions from sudden changes in the payment system, and what steps can be taken to limit any potential short-term impact of the

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proposal. We are acutely aware of the disruptions that could occur if major changes are made too quickly or inappropriately. The final rule, which will be issued on August 1, will reflect modifications as appropriate to achieve the goal of smooth and effective implementation, based on our thorough review and analysis of these comments.

I thank you for sharing your concerns on these important issues. I look forward to continuing to work with you and other stakeholders to improve the accuracy and fairness of hospital payments, while avoiding any unnecessary disruptions. I also will provide this response to the cosigners of your letter.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark McClellan", with a long horizontal flourish extending to the right.

Mark B. McClellan, M.D., Ph.D.