HCFA finalizes Medicare capital payment rules

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The Health Care Financing Administration has finally closed the book on Medicare capital reimbursement reform. Final regulations were published in the Aug. 31 Federal Register, concluding a seven-year battle over how to roll federal payments for new equipment and buildings into the Medicare prospective payment system.

The capital payment system will be phased in over a 10-year period beginning Oct. 1. About $7 billion a year in federal spending will be affected. Hospitals will be reimbursed according to a complex formula that includes a payment category for facilities historically above the national average for capital spending and a second category for facilities that rank below average.

High-capital-cost hospitals will be paid 85% of the adjusted capital costs for assets purchased as of Dec. 31, 1990 and in use before Oct. 31, 1994. Equipment and buildings that these "hold-harmless" facilities added after the cut-off date will be paid according to a prospective payment formula. It blends the hospital-specific rate with a federal rate for reimbursement.

The fully prospective payment method applies to all plant and equipment at historically lower capital-cost facilities. The new approach favors small hospitals, rural hospitals, urban hospitals located in states with stringent capital acquisition laws, and government-owned facilities. It works against for-profit hospitals, teaching hospitals and large urban facilities.

The new system replaces cost reimbursement methods HCFA has tried to discard since implementing PPS in 1984. HCFA chief Dr. Gail Wilensky ranked the reforms as her foremost priority. Under the old system, the federal government paid 85% of a hospital's capital acquisition costs, adjusted by Medicare's share of utilization.

Bush administration officials blamed the old payment formula for runaway health-care inflation. "Under the old system, the more a hospital spent, the more Medicare paid," Wilensky said. "With this change, Medicare will improve its ability to provide incentives for planning and wise investment so as to ensure a modern, well-equipped and efficient hospital industry."

The American Hospital Association does not share that view. Although the AHA gained concessions, association officials were not happy with the new law. "The current system isn't 'broke,' so we think they shouldn't be tinkering with it," said Greg Hodur, AHA senior associate director of regulatory affairs.

The final regulations include a floor on minimum reimbursement sought by the AHA. Medicare will pay no less than 70% of a hospital's actual capital costs for Medicare's share of equipment use. An 80% floor applies to urban hospitals having more than 100 beds and hospitals that serve a disproportionate share of poor and uninsured patients. A 90% foundation was set for rural hospitals and sole community providers.

There was something for everybody in revisions written into the final regulations. "While HCFA hasn't satisfied anyone 100%, it attempted to address the needs the hospital industry and our group expressed," said Candace Littell, vice-president for payment policy with the Health Industry Manufacturers Association.

As expected, HCFA added reimbursement covering leased equipment. It rolled back the cutoff date differentiating old and new capital for hold-harmless facilities. Under the proposed rules, old capital had to be in service before October 1990. The final regulations expands the definition to include commitments to acquire new assets signed by Dec. 31, 1990 and in use by Oct. 31, 1994.

The Wall Street Journal stirred a minor sensation when it erroneously reported last week that the cutoff date was rolled back to the end of this year. If true, the change would have meant a year-end equipment sales surge to beat the deadline.

HCFA fielded its own surge of inquiries from hospital administrators seeking verification. Toshiba Medical Systems received several calls from prospective customers who wondered whether the
information was correct. In both cases, they went away disappointed.
HCFA also changed the payment formula for old capital to pay for the concessions. According to the
proposed rules, reimbursement would have risen to 90% of capital costs on Oct. 1. The final
regulations stipulate that the formula remains at the current 85% level of reimbursement for the old
capital building and equipment category.
The federal capital base pay rate for hospitals that qualify for the fully prospective payment plan will
be $415.59 in fiscal 1992. That is 11.9% lower than the rate published in the proposed rule. The base
rate is factored with the hospital-specific rate, case mix and local cost variations to determine how
much money per patient Medicare will pay.

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