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MEDIA STATEMENT

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CHA Responds to Release of CMS Data on Average Medicare Charges for Common Inpatient Procedures

Hospital Charge Data Released Today May Confuse Patients

by

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Today's release of hospital charge data by the federal Centers for Medicare and Medicaid Services (CMS) highlights the complexities involved with the way our nation currently pays for the delivery of complex hospital patient care services.

The current hospital pricing and payment systems weren't designed for individual patients to receive bills directly. Rather, they have evolved since the enactment of Medicare in 1965 into what is often a convoluted list of charges for every item or service. Federal Medicare policies have created perverse incentives for hospitals to set their charges high so that they can recoup a portion of their losses on the most complex, costly Medicare patients (known as outliers).

Further complicating this situation is the CMS requirement that all hospitals maintain a uniform set of charges (known as the charge master). CMS mandates that hospitals use this charge master as the basis for billing every patient, regardless of the patient's insurance coverage or ability to pay. This is true even though Medicare itself does not pay based on the charge master. Rather, it pays hospitals fixed amounts based on diagnostic-related groups (DRGs) that are established by CMS.

Because Medicare pays on a DRG system and California's Medi-Cal program pays most hospitals based on state-driven, negotiated contract rates, neither governmental program uses the charge master to determine basic hospital payments. The same is true for commercial health plans, which typically pay hospitals based on negotiated contract rates, regardless of charges except for outlier cases or stop loss provisions. And, under existing California law (*AB 774, 2006*), uninsured patients earning up to 350 percent of the federal poverty level (FPL) already receive either free or discounted care, with the discounts based on what government programs would pay. Thus, the data released today by CMS is less relevant and may confuse patients as well as the public.

With the implementation of health insurance coverage under the federal health care reform law set to launch on January 1, 2014, California hospitals are working diligently to improve quality and reduce the costs of care. Since early last year, the CHA's Board of Trustees has been exploring options for overhauling the existing hospital charges system. This effort will not be easy and a

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solution will not be quick. It will require the help and support of CMS to relax federal regulatory barriers that currently prevent hospitals from moving away from the existing charge structure. And, it will necessitate the willingness of private payers to change their contracts and payment arrangements with hospitals.

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