



July 19, 2022

Sent electronically

Dear Members of the California Congressional Delegation:

On behalf of our more than 400 hospital and health system members, the California Hospital Association (CHA) thanks the California delegation for supporting hospitals during the ongoing COVID-19 public health emergency (PHE). Your efforts have helped to save the lives of countless Californians and ensured that hospitals can continue to care for all who need them. However, without your continued support, access to care may be endangered by the Centers for Medicare & Medicaid Services' (CMS) inadequate payment update in the federal fiscal year (FFY) 2023 inpatient prospective payment system (IPPS) proposed rule.

Please join your colleagues, Reps. Brad Schneider (D-IL) and Carol Miller (R-WV), by signing onto a letter to CMS Administrator Brooks-LaSure, urging CMS to ensure that next year's Medicare payments to hospitals accurately reflect the true cost of providing quality care.

Specifically, we need CMS to do three things:

- Adjust the inflation increase to account for the now higher levels for the current year (fiscal year 2022)
- Eliminate a proposed productivity cut for the fiscal year 2023 payment update. We urge you to ask CMS to eliminate the Affordable Care Act-mandated "productivity adjustment" from the calculation of the Medicare market basket update in any year impacted by the COVID-19 PHE. CMS' own research indicates that hospitals cannot achieve the year-over-year productivity gains implied by this adjustment.
- Use data that accurately reflect hospitals' input price inflation when calculating the payment update in the FFY 2023 IPPS final rule

Even prior to the COVID-19 PHE, Medicare payment updates failed to keep pace with hospital input price inflation. Despite ongoing efforts by hospitals to reduce their costs, Medicare margins declined from +5.5% to -8.5% from 2001 to 2020, according to the Medicare Payment Advisory Commission (this includes Provider Relief Funds). That decline was driven by insufficient Medicare payment updates for inpatient and outpatient services. For example, between 2016 and 2021, Medicare payment updates underpaid hospitals by 6.9% compared to the risk-adjusted cost per discharge reported to CMS by hospitals.

Now, in the face of input price inflation not seen in 40 years, CMS' methodology to determine the payment update once again misses the mark. Median expenses per discharge for California hospitals rose

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15% in 2021. These cost increases are driven by higher labor costs (+16%), supply chain shortages impacting pharmaceuticals costs (+41%), and medical supply costs (+19%) — events that are beyond hospitals' control. As a result, 51% of California's hospitals had negative margins in 2021.

Despite the unprecedented inflationary environment and ongoing COVID-19 PHE, CMS has proposed only a 2.7% increase in the Medicare inpatient market basket update. We need CMS to fix this inadequate payment proposal to more accurately reflect the cost of providing hospital care to patients and communities. Otherwise, Californians will lose access to vital health care services — and those most impacted will be in challenged, underserved communities, who already struggle with access to equitable care. Congress must instruct CMS to pay hospitals a “living wage” for services provided to Medicare beneficiaries.

CHA appreciates your continued leadership in protecting Californians' access to care. We ask that you take action to further protect our state by ensuring that the FFY 2023 Medicare payment update is sufficient to ensure a stable, sustainable health care delivery system in California.

If you have questions about our concerns, please contact Anne O'Rourke, senior vice president, federal relations, at aorourke@calhospital.org or (202) 488-4494.

Sincerely,



Carmela Coyle
President & CEO
California Hospital Association