



Increased Payments to Rural Hospitals

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Acute care hospitals around the nation are due to receive an increase in Medicare revenues in fiscal year 2005 for the care they provide to Medicare beneficiaries during inpatient stays.

The payment increases are the result of a final inpatient prospective payment system for acute care hospitals that will take effect for discharges on or after October 1, 2004.

In addition to establishing updated payment rates, the final rule provides significant financial relief to rural hospitals, and, for the first time in the history of Medicare, creates a link between quality services to Medicare beneficiaries and payment for those services. Almost all of the acute-care hospitals plan to start reporting quality measures in October to qualify for the full 3.3 percent increases in their payments. This means that, in 2005, patients will be able to get information on the quality of care at their local hospitals for such conditions as heart attacks and pneumonia.

The final rule implements major payment and policy changes for acute care hospitals required by the comprehensive Medicare Modernization Act of 2003. “The inpatient payment rule brings many specific improvements included in the new Medicare law to hospital patients,” said CMS Administrator Mark B. McClellan, M.D., Ph.D. “The bottom line, particularly for rural hospitals, is significant increases in hospital payment rates. And the bottom line for Medicare beneficiaries is greater access to high-quality inpatient care.” CMS projects that the combined impact of the inflation update and other proposed changes will yield an average 6.2 percent increase in payments for rural hospitals in fiscal year 2005.

The final rule addresses the impact of the new Metropolitan Statistical Area (MSA) definitions on hospital geographic classification. The MSAs, which were

New CMS Rule

developed by the Office of Management and Budget on the basis of 2000 Census data, will replace the currently used Metropolitan Statistical Areas and New England County Metropolitan Areas, which reflect 1990 data. As a result of these changes, a number of hospitals, currently located in rural areas, will benefit from being classified into areas with higher payment rates. The MSA changes also have an impact on hospitals that are entitled to automatic geographic reclassification because they are located in rural counties whose workforces tend to commute to adjacent urban areas.

The final rule also implements a number of provisions in the MMA designed to help critical access hospitals (CAHs), as they serve rural beneficiaries. For example, these hospitals can now designate up to 25 beds as either acute care beds or beds that may be used for either acute or post-acute care (called swing beds). Now CAHs can also set aside units of up to ten beds each to be used exclusively for inpatient rehabilitation and psychiatric services. These units, which would not count toward the CAH's 25-bed maximum, will be paid as if they were distinct parts of acute care

hospitals, and will have to meet the same standards as units in acute care hospitals. In addition, payment for both inpatient and outpatient services rendered by critical access hospitals has been increased from

100 percent to 101 percent of reasonable costs. Finally, CAHs that are in a county that is now classified as urban will be permitted to retain their CAH status for two years.

Q & A

Q: How much of an increase will rural hospitals expect to see in the 2005 fiscal year?

A: Rural hospitals can expect a 6.2 percent average increase in payments they will receive in the upcoming fiscal year.

Q: How will the new Metropolitan Statistical Area definitions affect rural hospitals?

A: A number of rural hospitals will benefit from being classified into areas that provide higher payment rates. Furthermore, certain hospitals that are entitled to automatic geographic reclassification will be impacted since they are located in rural counties whose workforces tend to commute to adjacent urban areas.

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