



# Medicare: Issue of the Day

January 12, 2004

## *BETTER BENEFITS – MORE CHOICES*

### *Good News about the Medicare Prescription Drug, Improvement and Modernization Act of 2003!*

#### Payment Reforms for Hospital Outpatient Services:

- ✧ The new law contains important changes to payments for hospital outpatient services. Changes include modifications in payments to hospitals in rural areas as well as new payment methodologies for certain drugs.
- ✧ For the nearly 38 million Medicare beneficiaries utilizing Part B services, the payment reforms are an important step in providing beneficiaries with continued access to hospital outpatient services, such as hospital outpatient surgery procedures, emergency room visits, or diagnostic tests.
- ✧ **Strengthening and Preserving Access to Care in Rural Areas** – The new rule extends for two years special payments to small rural hospitals to ensure that they are paid at least as much under the outpatient prospective payment system (OPPS) as they had been paid under the prior cost-based methodology. These payments were first authorized for a period of two years by the Balanced Budget Refinement Act of 1999 and were scheduled to end for services on or after January 1, 2004.
- ✧ In addition to extending the “hold harmless” for small rural hospitals, the new law also makes Sole Community Hospitals in rural areas eligible for these payments. In all, more than 1,000 small rural hospitals and sole community hospitals in rural areas will benefit from the changes brought about by the new Medicare modernization law.
- ✧ The Secretary will conduct a study to determine if the costs for providing hospital outpatient services incurred by rural providers exceed those of urban providers. If appropriate, the Secretary will use the study findings to provide a payment adjustment to reflect the higher costs of rural providers.
- ✧ Also included in the new law are important changes in how Medicare pays for drugs provided in the hospital outpatient setting. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 improves the methodology for pharmaceutical payments so that reimbursements will more accurately reflect the cost to the hospital of acquiring the drug. The Congressional Budget Office estimates this provision will increase payments to hospitals by \$700 million over the next five years.
- ✧ Accompanying this change is the requirement for a study to determine costs for the hospital of overhead and related expenses (such as pharmacy services and handling costs) for providing pharmaceuticals. The Secretary is authorized to adjust payments later to reflect the findings of that study.