



an informational series for hospital leaders

March 23, 2011

HEALTH CARE REFORM – FIRST ANNIVERSARY EDITION

One year ago, on March 23, 2010, President Obama signed the Affordable Care Act (ACA) into law. Since that time, federal and state governments have taken many steps to implement provisions of the law while discussion about its legal foundation continues. This paper highlights activities underway in state agencies, in the courts, and in the hospital field as a result of this landmark legislation.

ACA Provisions Implemented in the Last Year

Insurance

- **Review of Premium Increases:** The state Department of Insurance must conduct an annual review of unreasonable increases in premiums for health insurance coverage.
- **Medical Loss Ratios:** Health insurance companies are required to spend 80% of premium dollars on health care for individuals and small groups, 85% for large groups.
- **Funding for Health Insurance Exchanges:** \$1 million was awarded to Illinois for research and planning to establish an Exchange.

IHA has been active in tracking these federal rules and commenting as appropriate. While federal regulations have been established for these three significant requirements, it is also important for Illinois to enact legislation to ensure state oversight. Currently, both the administration and the insurance and business industries have introduced competing legislation to enact such reforms. While the state Department of Insurance wants to move ahead more quickly with implementing the exchange, other parties prefer a more deliberative process. IHA continues to track these developments.

Tax Exemption

The Internal Revenue Service (IRS) has released the 2010 Form 990 Schedule H and accompanying instructions. The major changes focus on [implementing provisions](#) of the new Section 501(r), created in the ACA applicable to 501(c)(3) hospitals, dealing with community assessments, financial assistance policies, limiting charges, and billing and collections. See [IHA's review](#) of these new Tax-Exempt Provisions of Health Reform.

Fraud and Abuse/Program Integrity

The ACA adds new requirements to ensure that the government only pays legitimate providers for appropriate and reasonable services to eligible beneficiaries. Enhanced enrollment screening of providers seeks to prevent fraud. Overpayment return obligations create false claims liability for providers who fail to detect and return overpayments within 60 days. [Final rules](#) for enhanced screening requirements were published in February. IHA awaits proposed rules on other provisions and will alert members regarding the deadlines for public commentary.

Medicare

- **Market Basket Reductions:** Over the last year, CMS included two payment reductions of 0.25% each for inpatient and outpatient services; a 1.0% reduction in Medicare home health payments; and a “Productivity Adjustment” (estimated at 1.3%) for ambulatory surgical services.
- **Geographic Variation:** Effective October 2010, hospitals located in counties ranked in the bottom quartile of per-beneficiary spending will receive additional Medicare payments for two years (federal fiscal years 2011 and 2012).
- **Recovery Audit Contractor (RAC) Program:** The Medicare RAC program was expanded to include reviews of payments for beneficiaries enrolled in Medicare Advantage or Medicare Prescription Drug plans.

Medicaid

- **Illinois Legislation:** Paralleling reform efforts on the federal level, legislation recently adopted by the Illinois General Assembly requires that 50% of the Medicaid population be enrolled in a coordinated care management program by January 2015. Coordinated care means delivery systems where recipients will receive care from providers who participate under contract in integrated delivery systems that are responsible for providing or arranging the majority of care: primary care physician services; referrals from primary care physicians; diagnostic and treatment services; behavioral health services; inpatient and outpatient hospital services; dental services; and rehabilitation and long-term care services.
- **CMS Grants:** On February 24, 2011, the Centers for Medicare and Medicaid Services announced the availability of \$100 million in grants for states to offer incentives to Medicaid beneficiaries who participate in prevention programs and demonstrate improvements in health risk and outcomes.

Quality

- **Value Based Purchasing:** Proposed Rules were filed for annual inpatient payment adjustment starting October 2012 for performance on process and outcome measurements, quality and patient safety indicators, and patient satisfaction. IHA filed [comments](#) on the proposed rule.

- **Health Care Acquired Conditions (HCAC):** Proposed rules were filed on reducing payments for HCAC and other preventable conditions for Medicaid plans that differ from Medicare hospital-acquired conditions and National Coverage Determination adverse events. IHA recently filed [comments](#) regarding this issue.

IHA's **Quality Care Institute** is targeting reductions in readmissions and hospital-acquired conditions and infections through the "Raising the Bar: Call to Action" pledge signed by more than 200 Illinois hospitals. In addition, IHA announced **PREP**, its partnership with BlueCross BlueShield of Illinois on [Preventing Readmissions through Effective Partnerships \(PREP\)](#) with a variety of targeted programs.

Workforce

Redistribution of Unused Graduate Medical Education (GME) slots: Illinois does not receive Medicare reimbursement for the full amount of physician residency training that it provides. Even when unused residency slots are considered, Illinois hospitals consistently exceed the federal allotment.

Over the last year:

- Final CMS Rules for GME were published for allocation of residency slots.
- Hospital applications for unused slots were due Jan. 21, 2011; closed hospital slots are due April 1, 2011.
- Illinois' potential slots from a closed hospital relate to Michael Reese Hospital's closure on June 11, 2009; CMS estimates this at about 200 positions.
- Final allocation will comply with a new rule based on a priority formula and actual allocation, which is not likely to be known until Fall 2011.

What's on the Horizon for Health Care Reform?

- **In the Courts:** Twenty six states are challenging the constitutionality of the ACA because it compels most Americans to have qualified coverage by 2014. Three federal judges have upheld the law, but two others have declared all or part of it unconstitutional. The U.S. Supreme Court will ultimately decide the question, but plans for implementing the ACA proceed, even in those states that have challenged the law.
- **ACO Rules:** CMS rules governing the formation and operation of Accountable Care Organizations (ACOs) are greatly anticipated, along with guidance from the Federal Trade Commission (FTC) and the Department of Justice (DOJ). Amid concerns that as providers collaborate, market consolidation could drive up prices and reduce competition, the FTC and DOJ are reportedly struggling over who should police the ACO market. See IHA's [comments](#) to CMS on ACOs.
- **Center for Medicare & Medicaid Innovation (CMMI):** The Association continues to build and enhance relationships with decision makers in Washington, DC. IHA executives recently met with the Center for

Medicare & Medicaid Innovation to discuss some of the exceptional and creative work performed by Illinois hospitals and their partners. The innovation center has \$10 billion to allocate over a 10 year period for initiatives that fulfill the triple aim of CMS: improving the experience of care, improving the health of populations, and reducing health care costs. IHA believes there are funding opportunities for both hospitals and the association that support collaborative efforts which facilitate the transformation of the Illinois delivery system.

How Are Hospitals Moving to the “New Normal?”

- **Collaborating:** As is the case nationally, Illinois hospitals are collaborating more often and more closely to deliver care. Recently announced hospital mergers and affiliations have the potential to dramatically alter the health care landscape in Illinois and the Midwest, as well as to draw more patients from across the nation and the world to our medical centers of excellence.
- **Focusing on Quality:** Many hospitals are participating in initiatives under the auspices of IHA’s Quality Care Institute (QCI) on hospital readmissions, hospital-acquired conditions and infections, and much more.
- **Focusing on Relationships with Physicians:** Physicians play a critical role in evolving delivery and payment systems, and hospital executives are increasingly working to identify and engage physician champions in new methods to increase quality and cost efficiencies.
- **Preparing for Value-Based Purchasing (VBP):** IHA provided members with individual estimated financial impacts on market basket reductions and value-based purchasing. Many hospitals are using the information to prepare for a payment system based on value, not volume.
- **Reducing Costs:** Hospitals recognize that increased efficiencies and cost effectiveness will be key to future viability, and they are reducing waste and cost throughout their organizations.

Where is My Hospital Now?

Hospitals and health systems are at various stages of affiliation with physicians as well as other potential partners. The following questions will help assess your hospital’s preparedness:

- How do you need to enhance your physician-hospital relationships to improve clinical integration and outcomes?
- What strategies are you planning/utilizing to grow physician leaders in your hospital and community?
- In this growing age of transparency, are you structured to achieve optimal quality and performance outcomes?
- Do you have the right partnerships in place to enable you to meet the needs of your community as the health care environment shifts?
- What education and dialogue does your governance need as they undertake their assessment of the implications of health reform?

- Are you considering ideas for innovative delivery system reform that will improve quality, efficiency and patient experience?
- Have you investigated demonstration and grant opportunities?
- How will you create the necessary workplace culture to align staff to key priorities and objectives?

For additional information on health care reform, please see IHA's website sections on Health Care Reform and Health Care Finance and plan on attending the American Hospital Association's annual meeting April 10-13, 2011 in Washington, D.C., to hear the latest on reforming health care, and to take your message directly to Capitol Hill.