Testimony for the Record
Submitted to
U.S. House of Representatives Committee on Energy and Commerce
Subcommittee on Health
Hearing on "A Permanent Solution to the SGR: The Time Is Now"
Wednesday, January 21, 2015, and Thursday, January 22, 2015
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America's Essential Hospitals appreciates the opportunity to submit testimony on reforming the sustainable growth rate (SGR) to the Subcommittee on Health of the U.S. House of Representatives Committee on Energy and Commerce.

America's Essential Hospitals is the leading association and champion for hospitals and health systems dedicated to high-quality care for all, including the most vulnerable. Since 1981, America's Essential Hospitals has initiated, advanced, and preserved programs and policies that help these hospitals ensure access to care—not only for those in need, but for entire communities. Our more than 250 essential hospital members are vital to their communities, providing primary care through trauma care, health professionals training, research, public health programs, and other services.

Our members also employ many physicians in hospital and outpatient clinic settings. As such, any action to fix the broken SGR formula would affect these hospitals. We believe that ongoing, bipartisan work in Congress to repeal and replace the SGR represents the best opportunity to solve a problem that has plagued the health care industry for more than a decade. If Congress fails to act, the broken system will persist and further damage access to health care for our nation's most vulnerable people.

If Congress determines that the cost to repeal the SGR should be offset, America's Essential Hospitals would stridently oppose any offset that comes at the expense of hospitals or that damages access to and the quality of care for low-income patients. Since 2010, federal spending in the hospital industry has declined by more than $115 billion. In 2012, our member hospitals

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reported an average operating margin of *negative 0.4 percent,* and about 45 percent reported losing money. They simply cannot absorb additional cuts to hospital reimbursement. Further reductions would profoundly compromise these hospitals' ability to provide high-quality health care services to all patients and communities.

With this in mind, we welcome the opportunity to engage in the important process of developing a lasting solution for Medicare physician payments that will end the cycle of annual SGR patches and create meaningful incentives for improving the nation's health care system.

Bringing stability and sustainability to Medicare physician payments is vitally important now, as hospitals and other providers—and their patients—face growing uncertainty in health care delivery and financing. Broadly available health care coverage under the Affordable Care Act (ACA) remains out of reach for many. About half the states have rejected Medicaid expansion and the outlook for reversing those decisions is unclear. A looming Supreme Court decision makes the future of health insurance marketplace subsidies tenuous. And with or without subsidies, many people still cannot afford the cost of marketplace plan premiums and cost-sharing.

Hospitals—especially essential hospitals—face a similarly unsettled future. While Congress has wisely chosen to delay the ACA's damaging reductions in Medicaid disproportionate share hospital (DSH) payments, years of significant DSH cuts remain on the horizon without further congressional action. Even without Medicaid DSH cuts, our hospitals face more than $1 billion in federal funding reductions in fiscal years 2014 to 2016 alone, and additional deep cuts over the next decade—including more than $50 billion in DSH funding. Lessening this uncertainty with a long-term solution for Medicare physician payments would help ease concerns about care access and quality for the nation's underserved.

As Congress considers proposals to reform the physician payment system, we urge lawmakers to give stability and sustainability high priority. Congress also should ensure payment systems support providers' ongoing operational needs and health care access across the entire community. Payment systems should be designed to generate beneficial changes in the marketplace, including promoting quality and cost-containment, eliminating care disparities, and giving providers the data and other tools they need to achieve quality and cost goals.

New payment methodologies should reflect the input of all key stakeholders and should be tested thoroughly before widespread use. And policymakers should remain mindful that one size does not fit all—additional resources and adjustments might be required to account for patients with complex needs and sociodemographic challenges.

Hospitals have endured a decade of short-term SGR patches financed through reductions in hospital payment rates. Solving one side of the provider equation must not come at the expense of the other—particularly the hospitals and health systems that care for a disproportionate share of Medicaid, uninsured, and other low-income patients.

We are committed to working with Congress to find a permanent solution to the Medicare physician payment problem, and ask that lawmakers stay mindful that additional cuts would harm the ability of hospitals to meet their commitment to underserved populations. Hospitals and health systems are already facing deep Medicare and Medicaid payment cuts under the ACA and sequestration. Stable and adequate Medicare payment for both physicians and hospitals is essential to the shared goal of increasing access to high-quality, innovative care, and is key to aligning incentives that promote care coordination and integration. As we consider ways to improve physician payments, we also must shore up support for hospitals, including further delaying DSH cuts and considering whether we can still justify these cuts in light of shortfalls in Medicaid expansion and other coverage. In the end, reforming Medicare physician payments must strengthen the *entire* health care system.

We appreciate the opportunity the Subcommittee on Health has given us to share our thoughts on reforming the SGR. If committee members or other interested parties wish to learn more about essential hospitals in the context of this or other issues, contact Shawn Gremminger, director of legislative affairs, at 202-585-0112 or sgremminger@essentialhospitals.org.