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B-164031(4)
 3-24-71

WASHINGTON D C 20548

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MAR 24 1971

Dear Mr Burke.

This is in response to your letter of January 15, 1971, enclosing a copy of a letter to you from Mr Charles J Kelley, president of Massachusetts Council of Health Care Facilities, and requesting our comments on his statements Attached to Mr Kelley's letter were copies of (1) a questionnaire which our Boston Regional Office recently sent to selected Medicare providers (hospitals and extended-care facilities) that had voluntarily terminated their participation in the Medicare program and (2) Mr Kelley's letter in response to that questionnaire

Because we were concerned about the large number of providers which had terminated participation in the program--Social Security Administration statistics showed that, as of June 30, 1969, about 1,000 extended-care facilities and 500 hospitals had terminated their participation from inception of the Medicare program in fiscal year 1967--we furnished these questionnaires to former providers The purpose of the questionnaires was to obtain their views and comments on the reasons for terminating their participation in the program and on the effects that their terminations had on the availability of services to Medicare beneficiaries in their locality.

We are pleased that Mr Kelley reacted favorably to our approach of directly querying providers as to the reasons for their terminations from the program and that he provided us with meaningful comments.

In his letter to you, Mr Kelley stated that Medicare payments for services rendered to patients in extended-care facilities had decreased by 75 percent, whereas payments to hospitals had continued to increase at a rapid rate He suggested that, in view of these statistics, it appeared that Medicare beneficiaries were receiving care in hospitals when they could be cared for in less expensive extended-care facilities

Under the Hospital Insurance Benefits for the Aged portion of the Medicare program, an eligible person aged 65 or over is provided with basic protection against the costs of care provided by (1) a hospital during the acute stage of his condition and (2) an extended-care facility when he receives skilled nursing care on a continuous basis for a

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condition which had been treated more intensively during a previous hospital stay. Benefit payments to hospitals and extended-care facilities on behalf of eligible Medicare beneficiaries are usually made by organizations, such as Blue Cross plans, operating under contracts with the Social Security Administration. These organizations are referred to as fiscal intermediaries.

The legislative history of the Medicare program indicates that the Congress was concerned that the program be carried out in such a manner that the patient would be provided with necessary hospital care but would remain in the hospital for only as long as necessary. The legislative history indicates also that the Congress intended that every effort be made to move a patient from the hospital to an extended-care facility which could provide less expensive care to meet the patient's medical needs, such as skilled nursing care, during the period of his recovery.

Mr. Kelley's belief that Medicare payments for care provided to Medicare beneficiaries in hospitals have increased at the same time that payments for care in extended-care facilities have decreased is correct; however, his estimate regarding the extent of the decrease in payments to extended-care facilities, at least on a national basis, appears to be overstated. Data developed by the Social Security Administration show that Medicare payments to hospitals in fiscal year 1970 were approximately \$4.4 billion compared with approximately \$4.2 billion in fiscal year 1969--an increase of about 5 percent. Payments to extended-care facilities were about \$295 million in fiscal year 1970 compared with about \$390 million in fiscal year 1969--a decrease of about 24 percent.

One of the most difficult problems of the fiscal intermediary in administering the Medicare program has been the determination of whether the care provided to a patient in an extended-care facility is the type of care covered by Medicare. Skilled nursing care provided in an extended-care facility is covered under the Medicare program, custodial care of the type traditionally provided in nursing homes is specifically excluded by law from Medicare coverage.

In June 1968 and April 1969, the Social Security Administration provided additional guidelines to fiscal intermediaries that were intended to more clearly define the type of care which is covered by the Medicare program and to distinguish this type of care from the custodial type of care. An official of the Social Security Administration advised us that the guidelines and the efforts of the intermediaries to implement these guidelines were the basic underlying reasons for the decline in the extent of

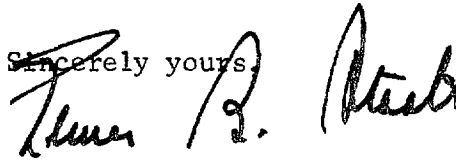
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utilization of, and payments for services provided to Medicare beneficiaries in, extended-care facilities during fiscal year 1970

During our reviews of the Medicare program, we have examined into the controls exercised by the Social Security Administration, the fiscal intermediaries, and the providers to ensure that patients remain in hospitals and extended-care facilities for only as long as medically necessary and that patients receive the appropriate types of care. In an executive session of the House Ways and Means Committee in March 1970, which you attended, we discussed the status of our review of the Social Security Administration's controls over the utilization of hospitals and extended-care facilities by Medicare patients. We are nearing completion of that review and expect to submit a report to the Congress in the near future. A copy of that report will be furnished to you.

As you requested, we are returning the correspondence enclosed with your letter. We trust that the information furnished herein will serve the purpose of your request.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Thomas R. Burke". The signature is written in a cursive style with a large initial "T" and "B".

Comptroller General
of the United States

Enclosures - 2

The Honorable James A. Burke
House of Representatives