

Highlights of [GAO-13-334](#), a report to congressional requesters

Why GAO Did This Study

To help control the growth of hospital spending, give hospitals an incentive to provide care efficiently, and ensure beneficiary access, Congress created the IPPS in 1983. Yet, Congress can enhance Medicare payments to certain hospitals by changing the qualifying criteria for IPPS payment categories, creating and extending exceptions to IPPS rules, or by exempting certain types of hospitals from the IPPS. The Institute of Medicine and the Medicare Payment Advisory Commission have stated that such practices undermine the integrity of the IPPS.

GAO was asked to review legislation that altered payments to certain hospitals. In this report, GAO (1) identified provisions of law that enhanced Medicare payments for only a subset of hospitals and (2) examined the extent to which hospitals qualified for adjustments to the IPPS or exemptions from the IPPS in 2012.

To conduct this work, GAO reviewed provisions enacted from 1997 to 2012 to identify those that adjusted payments to a subset of IPPS hospitals or exempted hospitals from the IPPS. GAO analyzed data to learn the number, location, and size of hospitals affected by these provisions and budgetary estimates for the first year of implementation, where available. GAO also analyzed 2012 data on 4,783 general hospitals to determine the number and types of adjustments they received, the extent to which they qualified for multiple adjustments, and the number exempted from the IPPS.

The Department of Health and Human Services reviewed a draft of this report, and provided technical comments, which we incorporated as appropriate.

View [GAO-13-334](#). For more information, contact James Cosgrove at (202) 512-7114 or cosgrovej@gao.gov.

MEDICARE

Legislative Modifications Have Resulted in Payment Adjustments for Most Hospitals

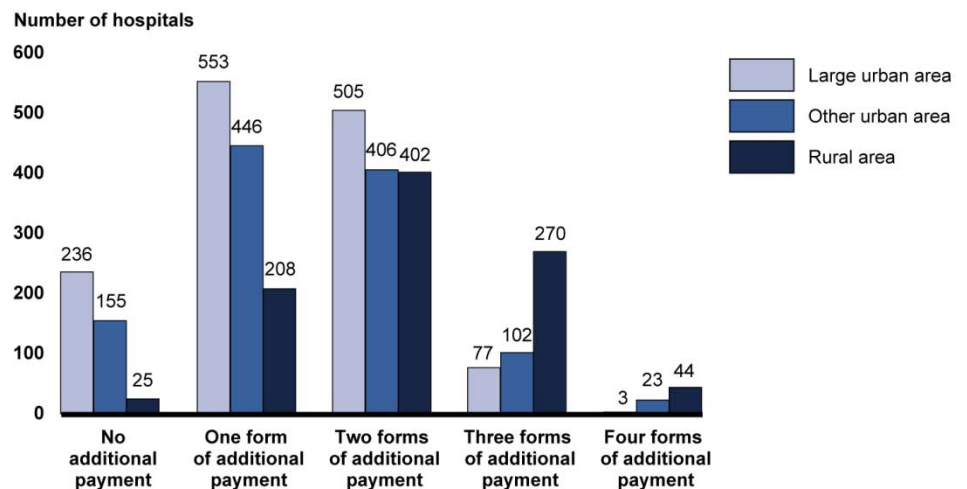
What GAO Found

Over time, Congress has modified how Medicare reimburses certain hospitals under the inpatient prospective payment system (IPPS), which pays hospitals a flat fee per stay, set in advance, with different amounts for each type of condition. GAO identified numerous statutory provisions that individually increased Medicare payments to a subset of hospitals.

- Seven provisions enabled hospitals to be paid under a different geographic wage index, which is used to address variation in labor costs.
- Five provisions modified the classification criteria allowing IPPS hospitals to qualify for supplemental payments through the Medicare disproportionate share hospital (DSH) program or other types of special treatment.
- Three provisions created and modified criteria for classifying small rural providers as Critical Access Hospitals (CAH), which are exempt from IPPS and instead are paid under an alternative methodology.

In general, while such provisions were designed to affect only a subset of hospitals, nearly all of the 4,783 hospitals in GAO's review qualified for an adjustment or exemption from the IPPS in 2012. About 91 percent were subject to an IPPS payment adjustment or were excluded from the IPPS entirely. Most hospitals, over 63 percent, qualified for at least one of four categories of increased payment, with DSH payments being the most common. Under the CAH program, 28 percent of hospitals were exempt from the IPPS. The remaining hospitals, 9 percent, received IPPS payments that were unadjusted for the modifications included in GAO's review. Moreover, many IPPS hospitals qualified for multiple categories of payment adjustments. These findings suggest that the way Medicare currently pays hospitals may no longer ensure that the goals of the IPPS—cost control, efficiency, and access—are being met.

Inpatient Prospective Payment System (IPPS) Hospitals Qualifying for No, One, or Multiple Forms of Payment Adjustments, by Location, 2012



Source: GAO analysis of Centers for Medicare & Medicaid Services data.