

The Balanced Budget Act and Hospitals: The Dollars and Cents of Medicare Payment Cuts

**American Hospital Association
May 10, 1999**

**Report Prepared By
The Lewin Group**

Allen Dobson, Ph.D.
Kevin Coleman
Donald May
Lane Koenig, Ph.D.
Eron Strum
Jesse Kerns
Margaret Harrison

Lisa Alecxih
Robert Nguyen, Ph.D.
John Corea
Jennifer Duffy
Ying-Jun Chen
Andrea Fishman
Andrea Duncan

Falls Church, Virginia • San Francisco, California • Boston, Massachusetts
Montreal • London • Paris • Amsterdam

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Section I:

Presentation of Findings

Purpose

In order to better understand the implications of the Balanced Budget Act of 1997 (BBA), the American Hospital Association commissioned The Lewin Group to study the impact of BBA's Medicare provisions on America's hospitals and health systems.

The BBA reduced payments for most hospital services, i.e., inpatient acute care, outpatient care, home health care, skilled-nursing care, medical education, indigent care, and many other services. This study attempts to measure the aggregate impact of the BBA upon select aspects of hospitals' financial performance.

Summary of Key Findings

	5 Year Payment Impact (billions)	5 Year Payment Impact (percent)	2002 Projected Margin Range Depending on Cost Growth
Total	-\$71.2	-10.5%	-4.4% ↔ -7.8%
Major Service Areas Studied			
Inpatient PPS (operating, capital, and bad debt)	-\$40.7	-9.5%	7.5% ↔ 4.2%
Outpatient	-\$11.2	-14.4%	-20.3% ↔ -28.8%
Hospital-Based Home Health	-\$5.5	-21.6%	-11.4% ↔ -11.4%
PPS-Exempt Units and Hospitals	-\$2.8	-6.9%	-4.7% ↔ -6.8%

Key Findings

- ➡ Total Medicare payments to hospitals will be cut by \$71.2 billion (10.5%) from 1998 to 2002.
- ➡ These payment reductions will force total Medicare margins downward to a negative 4.4%, assuming moderately low cost growth, and even lower with a more historical rate of growth.
- ➡ Margins for outpatient, hospital-based home health, and PPS-exempt services will all be negative under the BBA.
- ➡ While inpatient margins remain positive, they will fall under the BBA -- especially if costs increase at historical rates.

Methodology

Hospitals Are More Than Inpatient Institutions

Surgeries in 1997



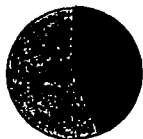
Nearly all acute care hospitals provide outpatient services and 60% of all surgeries are performed on an outpatient basis.

Hospitals with Home Health



50% of hospitals operate a hospital-based home health agency.

Hospitals with Skilled Nursing Facilities



44% of hospitals operate a hospital-based SNF or other long-term care unit.

Hospitals with an HMO



23% of hospitals have an ownership interest in an HMO, and many others have developed PPOs or other insurance plans.

Hospitals in Health Systems



44% of hospitals are now members of health systems.

This Study Examined BBA Medicare Payment Reductions in Total and by Four Major Hospital Services



Our hospital-specific analysis measures the impact to Medicare payments in total and on the following hospital services:

- ☐ Inpatient acute care services, including operating PPS, inpatient capital, and bad debt;
- ☐ Outpatient hospital services, including outpatient bad debt;
- ☐ Home health services; and
- ☐ PPS-exempt services including inpatient rehabilitation, psychiatric, long-term care, children's and cancer services



Inadequate data prevented us from assessing the impact of the BBA on payments for hospital-based skilled nursing care, direct medical education and other services (such as laboratory and outpatient rehabilitation services).

BBA Provisions Included in Our Analysis

BBA Provision	Simulated Using Medicare Cost Report Data
PPS Update	✓
Disproportionate Share (DSH)	✓
Indirect Medical Education (IME)	✓
Transfers	✓
Outliers	✓
Capital	✓
Bad Debt	✓
Outpatient Formula Driven Overpayments (FDO)	✓
Outpatient PPS	✓
PPS-Exempt Units	✓
PPS-Exempt Hospitals	✓
Hospital-Based Home Health Agencies	✓
All other hospital services: BBA impact from cost report simulations imputed to total hospital payments and costs from AHA Annual Survey.	

Basic Methodology



We first used Medicare cost report data to estimate revenue, costs, and margins for the four major hospital services over the study period. The information was then incorporated into our analysis of AHA Annual Survey data in order to estimate total hospital Medicare payments, costs, and margins. This step allowed us to impute hospital payment reductions to hospital services not explicitly included in our Medicare cost report simulations.



This methodology assumes that payments and costs for “all other” services change at the average rate for the four simulated services.

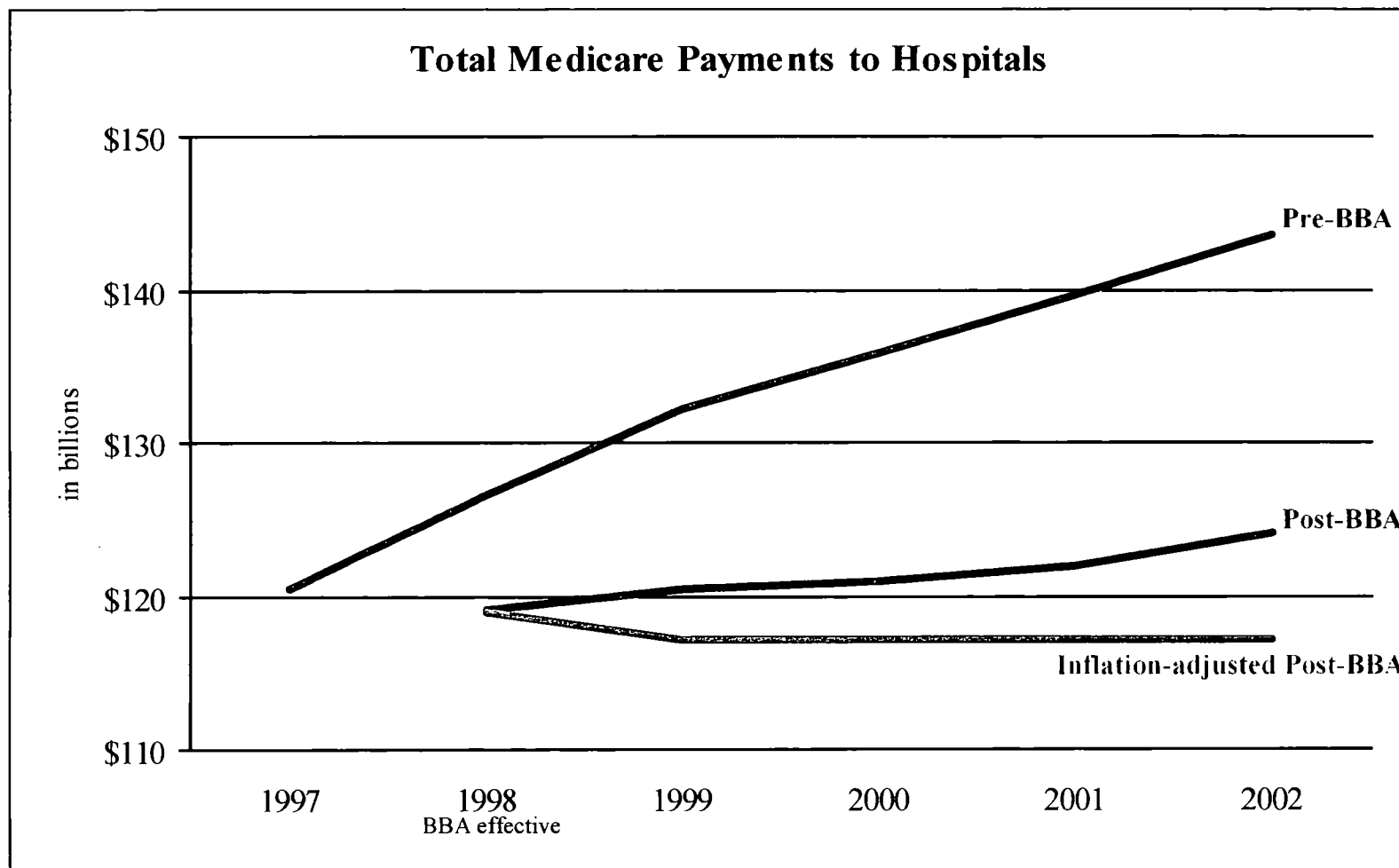


Our analysis projects hospital costs based upon two different assumptions: Medicare costs per case increasing at the market basket (MB) rate of inflation, and costs per case increasing at market basket minus one percentage point (MB-1) beginning in 1999. The market basket inflation rate is the rate of increase in the costs of goods and services purchased by hospitals. Throughout this report the following acronyms will be used:

- MB = market basket rate of increase in hospital costs
- MB-1 = market basket rate of increase in hospital costs less one percentage point

Total Medicare Payments and Margins for Hospitals

The BBA Reduces Medicare Payments to Hospitals by More than \$71 Billion from 1998 to 2002

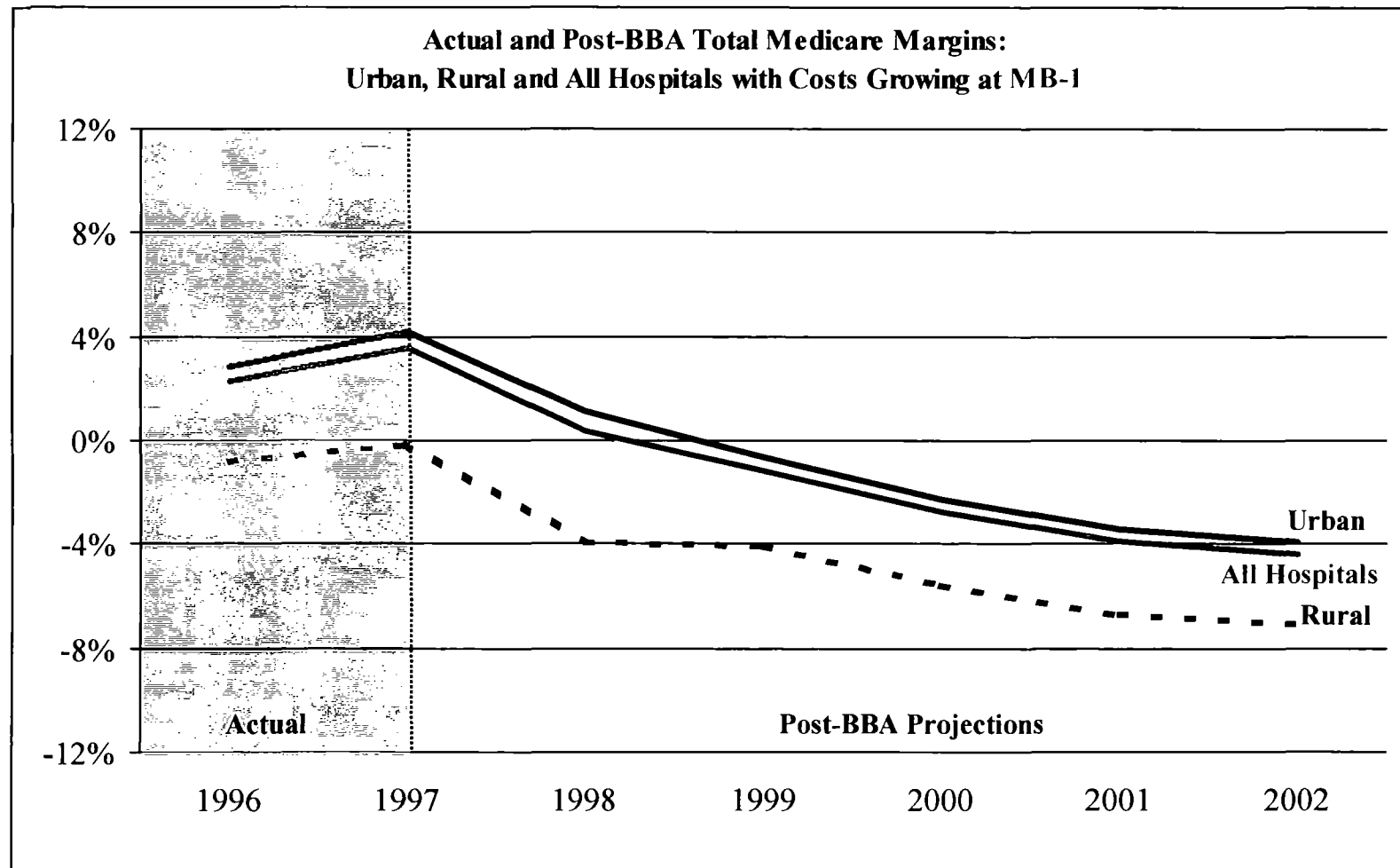


Source: The Lewin Group analysis of Medicare Cost Report and AHA Annual Survey data.

The BBA Reduces Medicare Payments to Hospitals by More than \$71 Billion from 1998 to 2002

- ➡ Payment reductions for all Medicare services are projected to grow from \$7.4 billion in 1998 to \$19.5 billion in 2002 under the BBA.
- ➡ The cumulative payment reduction for all services affected by the BBA are projected to be more than \$71 billion, a 10.5% reduction from pre-BBA estimates.
- ➡ After adjusting for inflation using the market basket rate of inflation, post-BBA payments are actually decreasing in real terms.

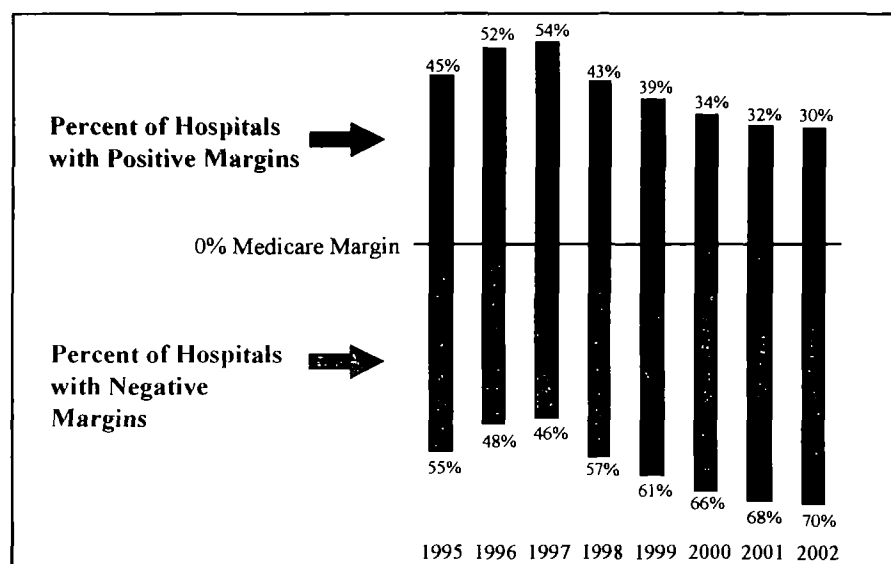
Total Medicare Margins Will Become Negative Due to Payment Reductions in the BBA



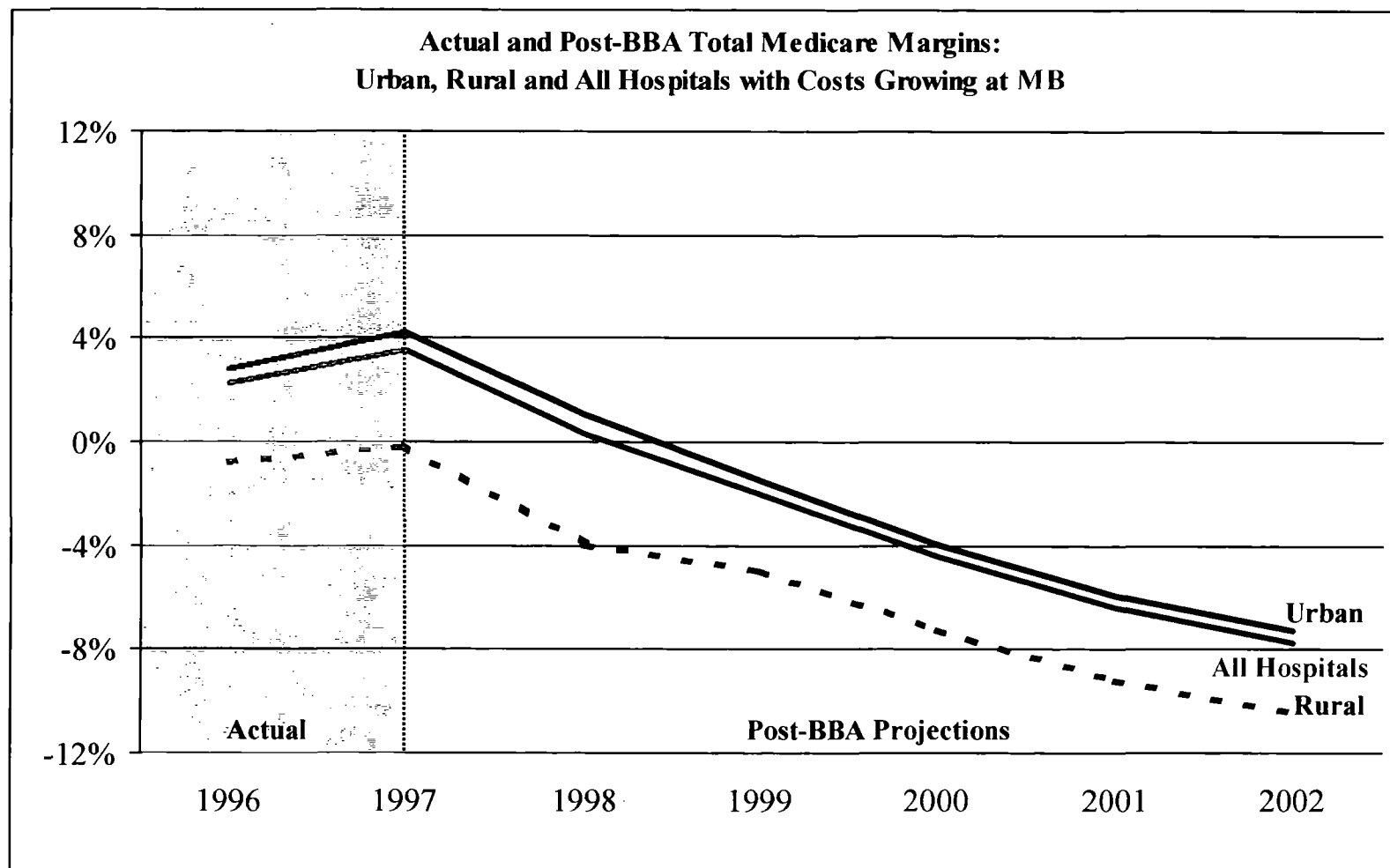
Source: The Lewin Group analysis of Medicare Cost Report and AHA Annual Survey data.

Total Medicare Margins Will Become Negative Due to Payment Reductions in the BBA (MB-1)

- ➡ Total Medicare margins are projected to fall under the BBA to negative 4.4% in 2002 as payments fail to keep pace with costs.
- ➡ Urban hospital margins become negative in 1999 and fall to negative 4.0% in 2002.
- ➡ Rural hospital margins, which are negative in 1996, fall to negative 7.1% in 2002.
- ➡ With costs increasing at market basket minus one percentage point, 70% of hospitals will have negative total Medicare margins by 2002.



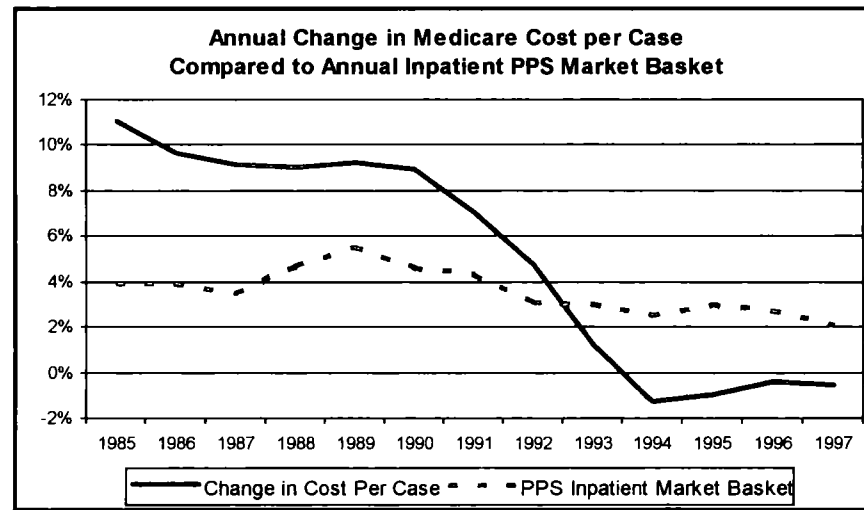
If Medicare Costs Begin to Grow at Market Basket, Margins Drop an Additional 3.4 Percentage Points



Source: The Lewin Group analysis of Medicare Cost Report and AHA Annual Survey data.

If Medicare Costs Begin to Grow at Market Basket, Margins Drop an Additional 3.4 Percentage Points

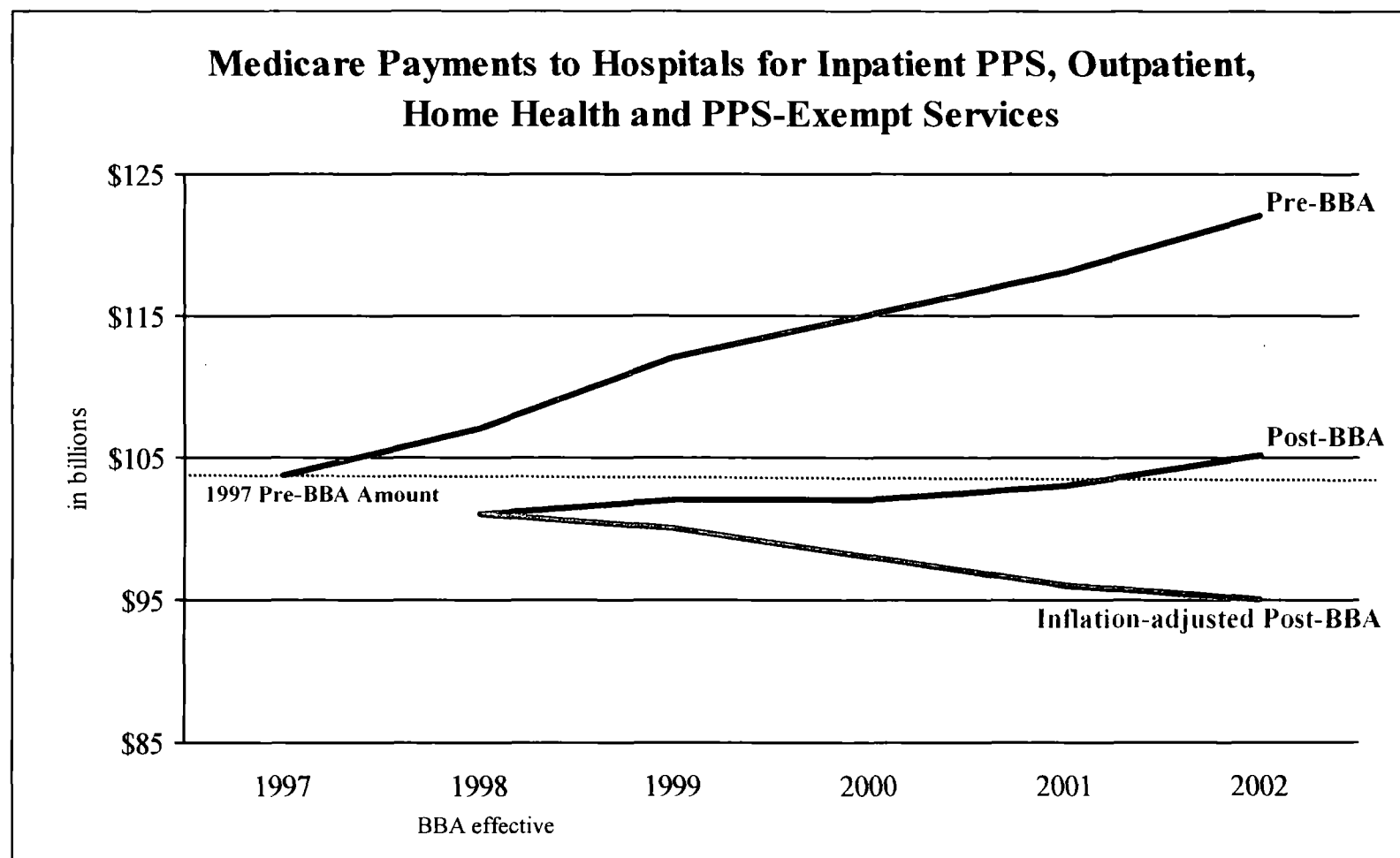
- ➡ Many have questioned the hospital field's ability to keep cost increases below the market basket. Historical data, as shown below, suggest that such low rates of increase may not be sustainable for many more years.



- ➡ If costs increase at the market basket rate, total Medicare margins are projected to fall to negative 7.8% by 2002 and will continue to decline.
- ➡ 77% of hospitals will have negative total Medicare margins by 2002 if costs increase at market basket.

Medicare Payments and Margins for Hospitals by Type of Service

The BBA Significantly Reduces Medicare Payments for Inpatient PPS, Outpatient, Home Health and PPS-Exempt Services

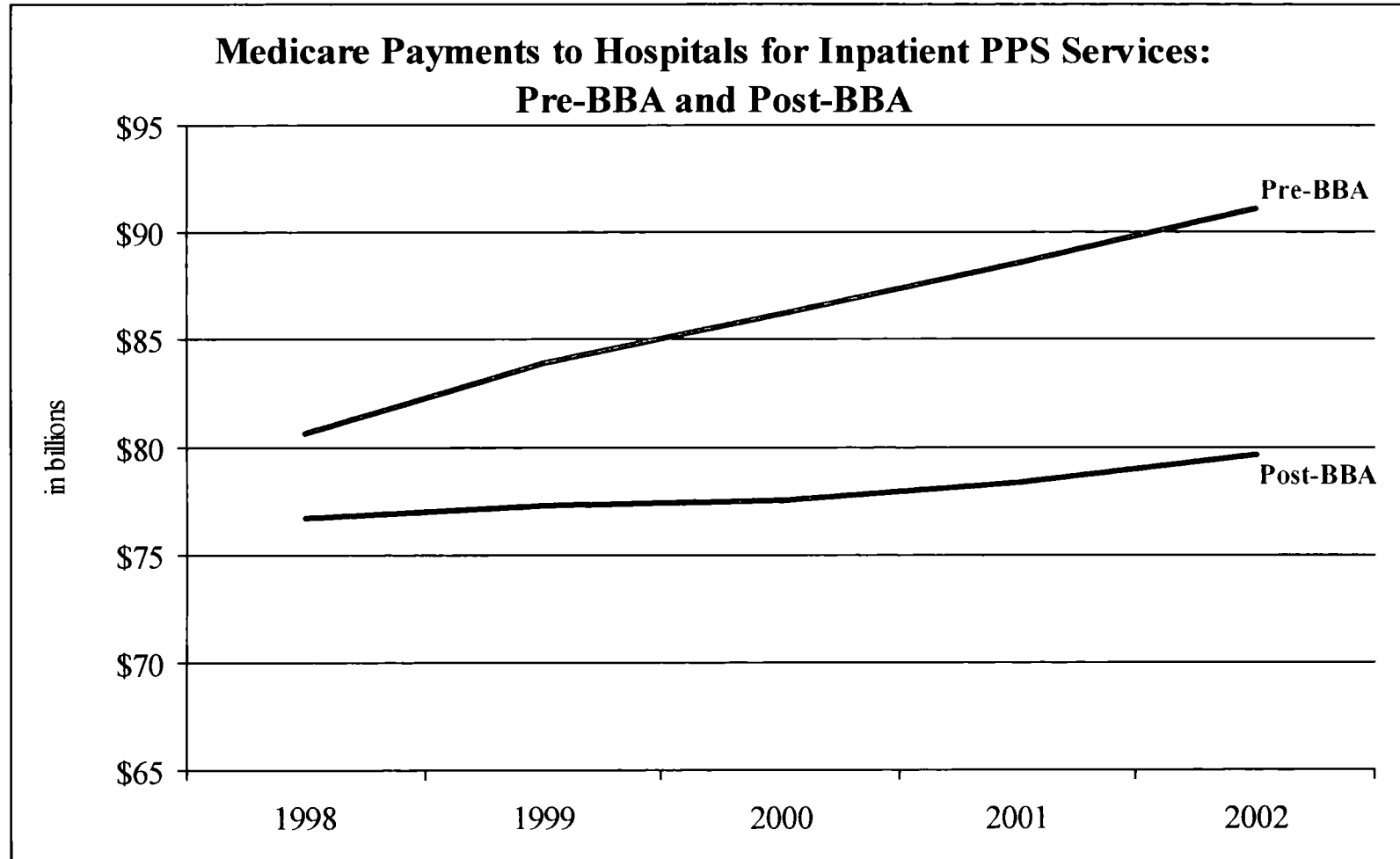


Source: The Lewin Group analysis of Medicare cost report data.

The BBA Significantly Reduces Medicare Payments for Inpatient PPS, Outpatient, Home Health and PPS-Exempt Services

- ➡ Medicare payments to hospitals for inpatient PPS (including operating, capital and bad debt), outpatient, home health, and PPS-exempt services are reduced by an estimated 10.5% over the full five years of the BBA.
- ➡ Annual payment reductions for these four services rise from \$6.3 billion in 1998 to \$16.5 billion in 2002.
- ➡ This represents a cumulative payment reduction of over \$60 billion for these four services included in the analysis.
- ➡ In all years except 2002, post-BBA payments for the four services will be less than the 1997 payments for those same services.
- ➡ After adjusting for inflation using the hospital market basket, post-BBA payments are actually decreasing in real terms.

The BBA Reduces Inpatient PPS Payments by More Than \$40 Billion from 1998 to 2002



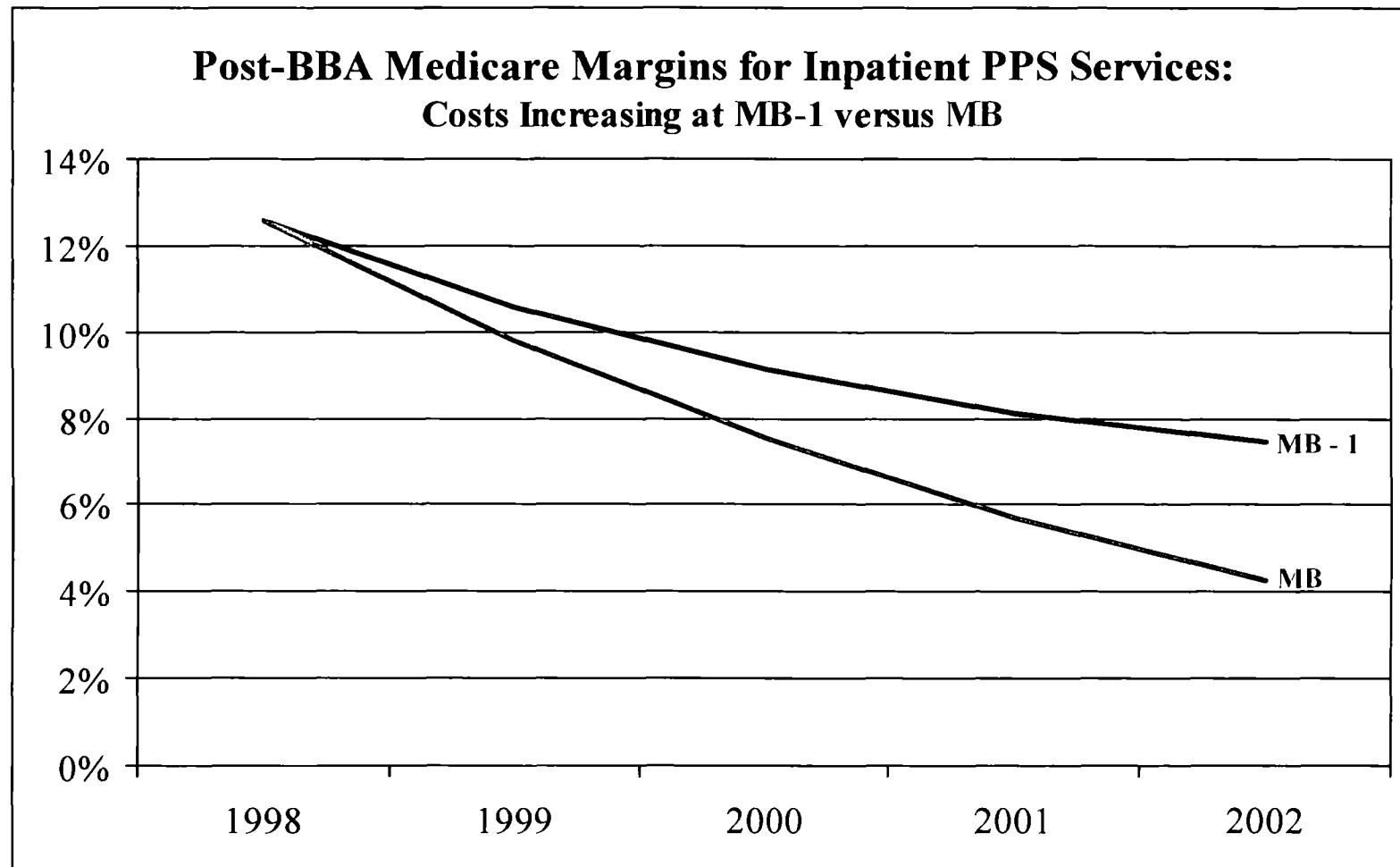
Source: The Lewin Group analysis of Medicare cost report data.

Note: Inpatient PPS includes operating, capital and bad debt payments.

The BBA Reduces Inpatient PPS Payments by More Than \$40 Billion from 1998 to 2002

- ➡ Payment reductions rise from 4.8% in 1998 to 12.6% in 2002 (or from \$3.9 billion to \$11.4 billion) as a result of the BBA.
- ➡ Aggregate payment reductions total \$40.7 billion, or 9.5%, from 1998 to 2002.

The BBA Reduces Inpatient Medicare Margins from 1998 to 2002



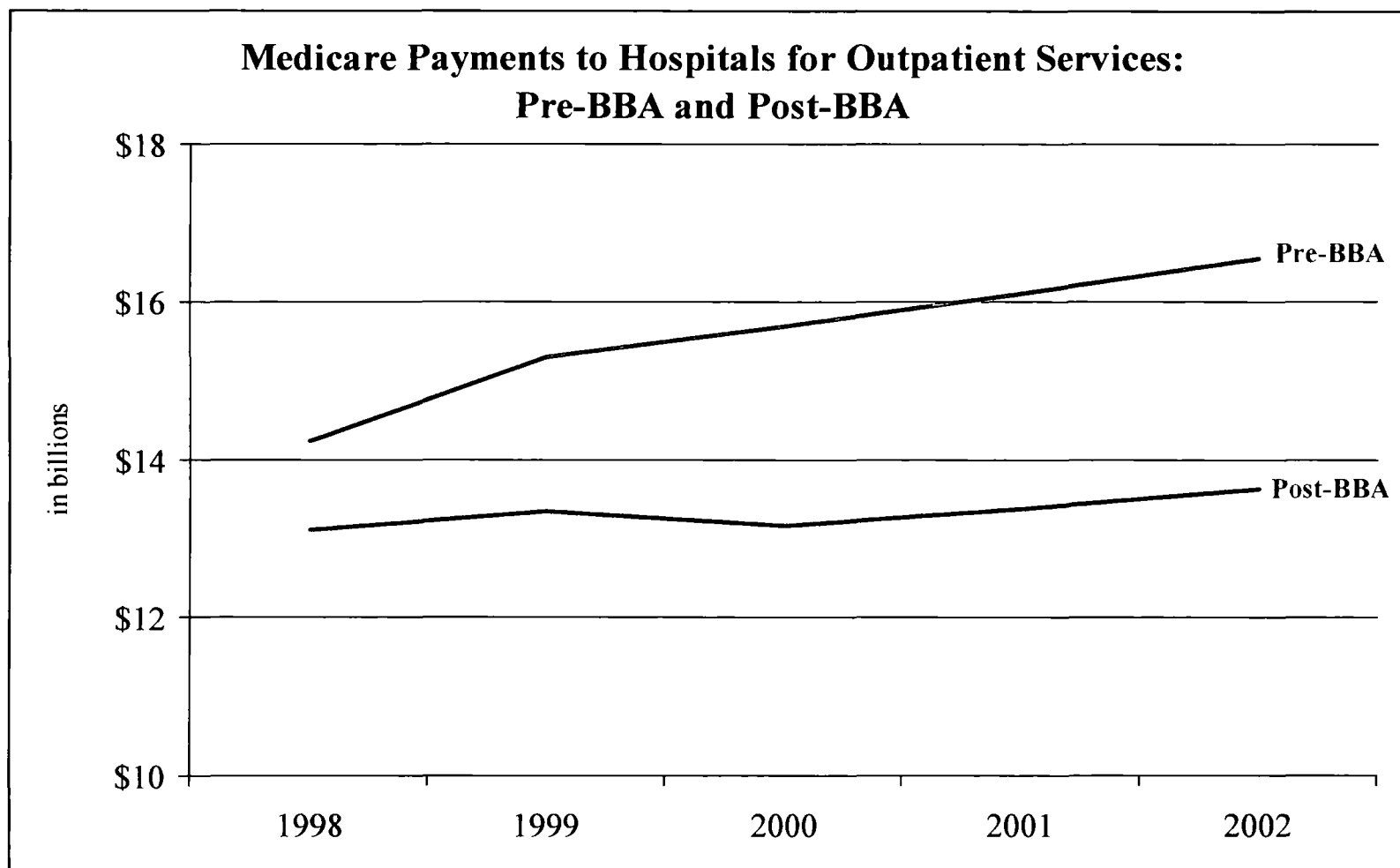
Source: The Lewin Group analysis of Medicare cost report data.

Note: Inpatient PPS includes operating, capital and bad debt payments and costs.

The BBA Reduces Inpatient Margins from 1998 to 2002

- ➡ The post-BBA inpatient margin falls from 12.6% in 1998 to 7.5% in 2002, if costs increase at market basket minus one percentage point.
- ➡ Inpatient margins fall even lower to 4.2% in 2002 if costs increase at the market basket.
- ➡ If costs increase at the market basket, inpatient margins fall sharply for:
 - ❑ Teaching hospitals whose margins fall 5.8 percentage points from 1998 to 2002; and
 - ❑ Hospitals located in New England, East North Central, and West South Central regions, whose margins fall 6.5, 6.2 and 6.4 percentage points respectively.

The BBA Reduces Outpatient Payments by \$11.2 Billion (14.4%) from 1998 to 2002

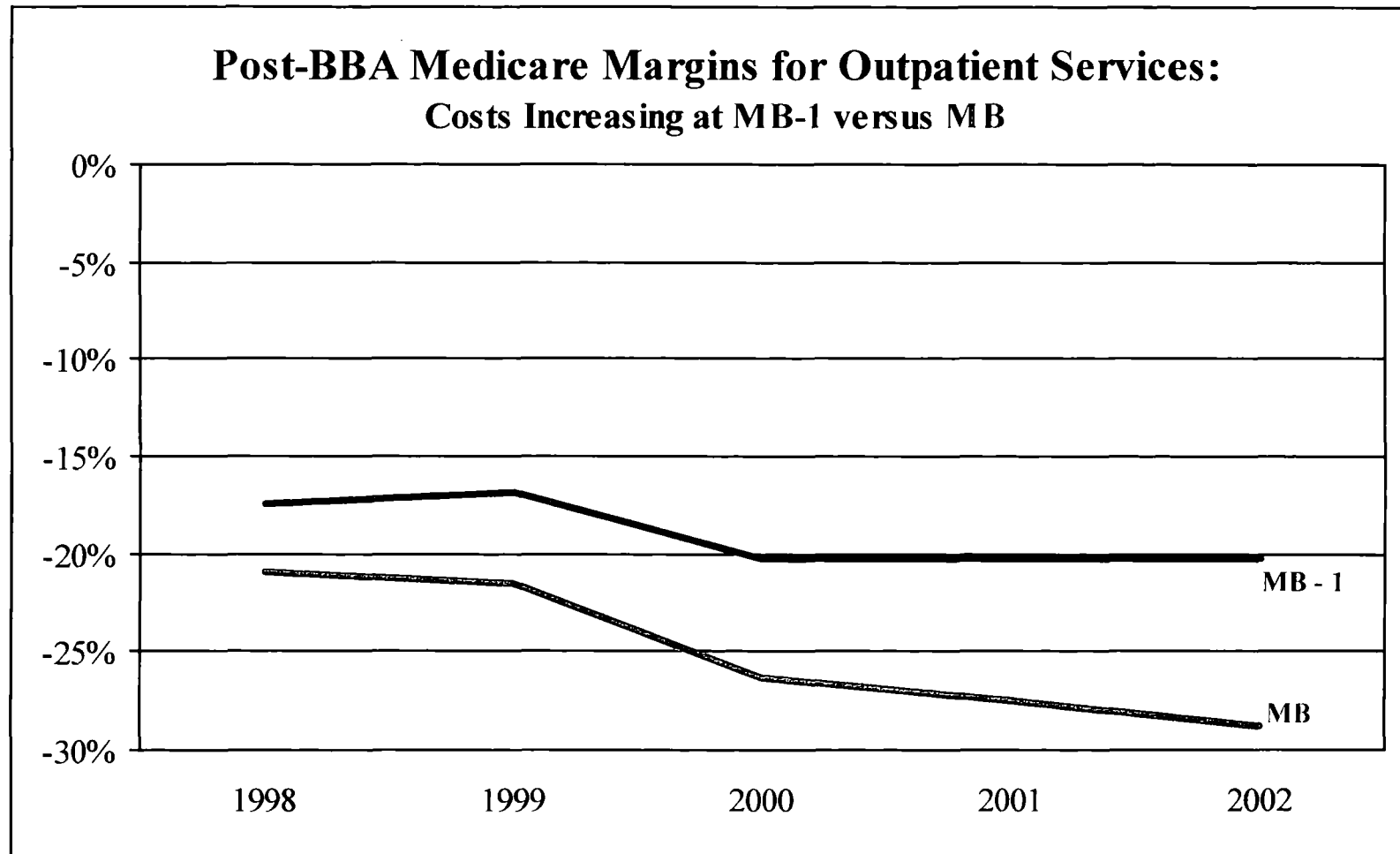


Source: The Lewin Group analysis of Medicare cost report data.

The BBA Reduces Outpatient Payments by \$11.2 Billion (14.4%) from 1998 to 2002

- ➡ Outpatient payment reductions grow from 7.9% in 1998 to 17.7% in 2002, assuming costs increase at market basket minus one percentage point.
- ➡ Aggregate payment reductions over the five year period were particularly large for:
 - ❑ Hospitals in the Mid-Atlantic (16.1% reduction) and Pacific (15.6% reduction) regions
 - ❑ Rural hospitals (15.4% reduction); and
 - ❑ Hospitals with fewer than 50 beds (16.2% reduction), 50-99 beds (15.5% reduction), or 100-199 beds (15.9% reduction).

Outpatient Margins That Were Already Negative Prior to the BBA Become Even More Negative Under the BBA

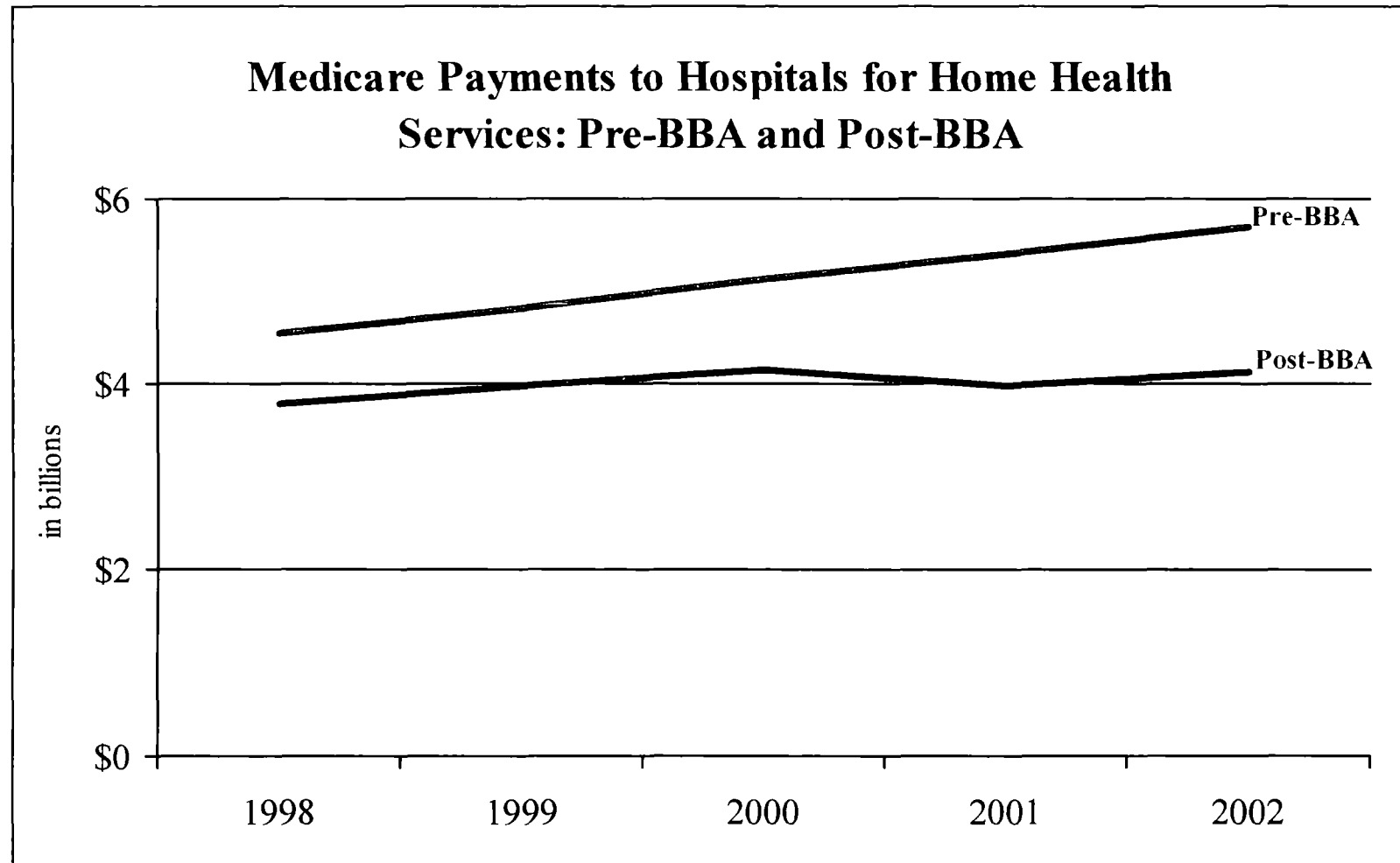


Source: The Lewin Group analysis of Medicare cost report data.

Outpatient Margins That Were Already Negative Prior to the BBA Become Even More Negative

- ➡ The post-BBA margins reflect the reduction of Medicare payments for ambulatory surgery, radiology and other diagnostic services in 1998 due to elimination of the formula driven overpayment, and an additional reduction in 2000 due to the outpatient PPS.
- ➡ Outpatient policy changes, especially the outpatient PPS, are projected to impact rural hospitals more significantly than urban hospitals.

Of the Services Simulated, the Largest BBA Payment Reduction Is 22% for Hospital-Based Home Health Services

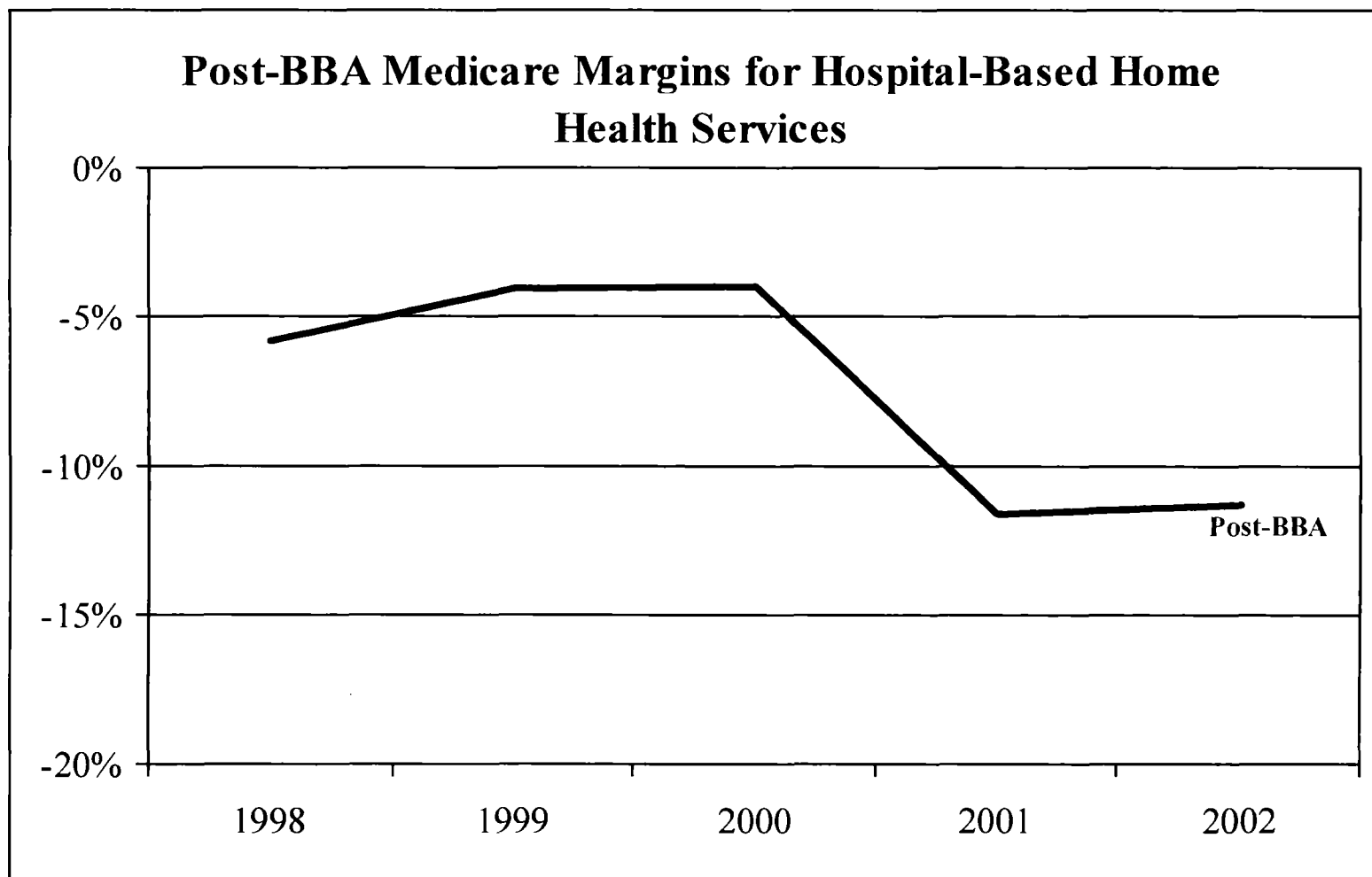


Source: The Lewin Group analysis of Medicare cost report data.

Of the Services Simulated, the Largest BBA Payment Reduction Is 22% for Hospital-Based Home Health Services

- ➡ Payments are estimated to significantly decrease under the BBA's interim payment system and the planned 15% payment reduction for home health.
- ➡ Payment reductions grow from 16% in 1998 to 28% in 2002.

The BBA Dramatically Reduces Hospital-Based Home Health Margins in 2001 and 2002



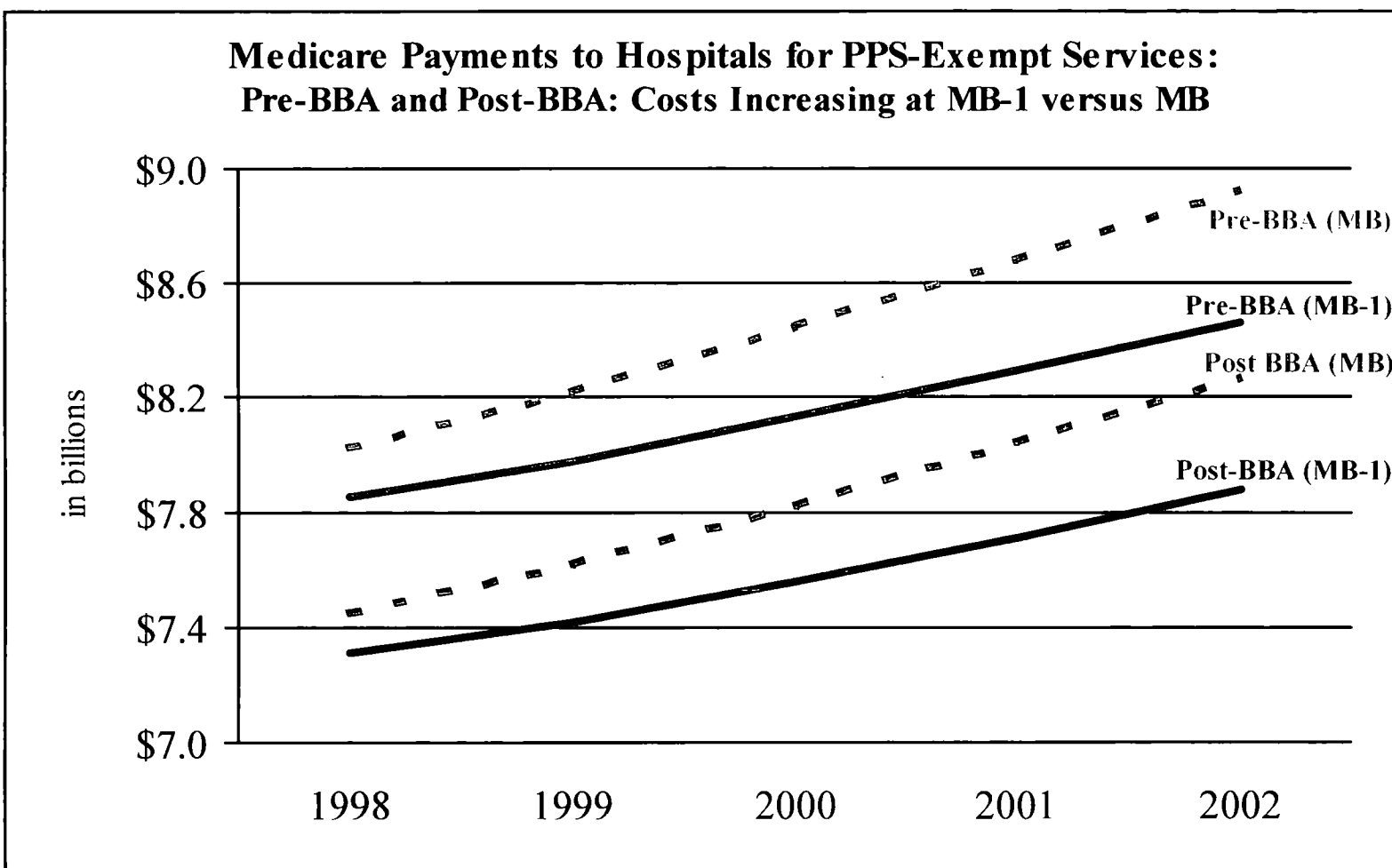
Source: The Lewin Group analysis of Medicare cost report data.

Note: Under our models, home health growth is independent of the market basket rate of growth.

The BBA Dramatically Reduces Hospital-Based Home Health Margins in 2001 and 2002

- ➡ The BBA imposes a payment reduction for home health payments of 15% in 2001.
- ➡ As a result, home health margins fall by 7 percentage points to negative 11%.

The BBA Reduces PPS-Exempt Hospital Payments by at Least 7%, from 1998 to 2002



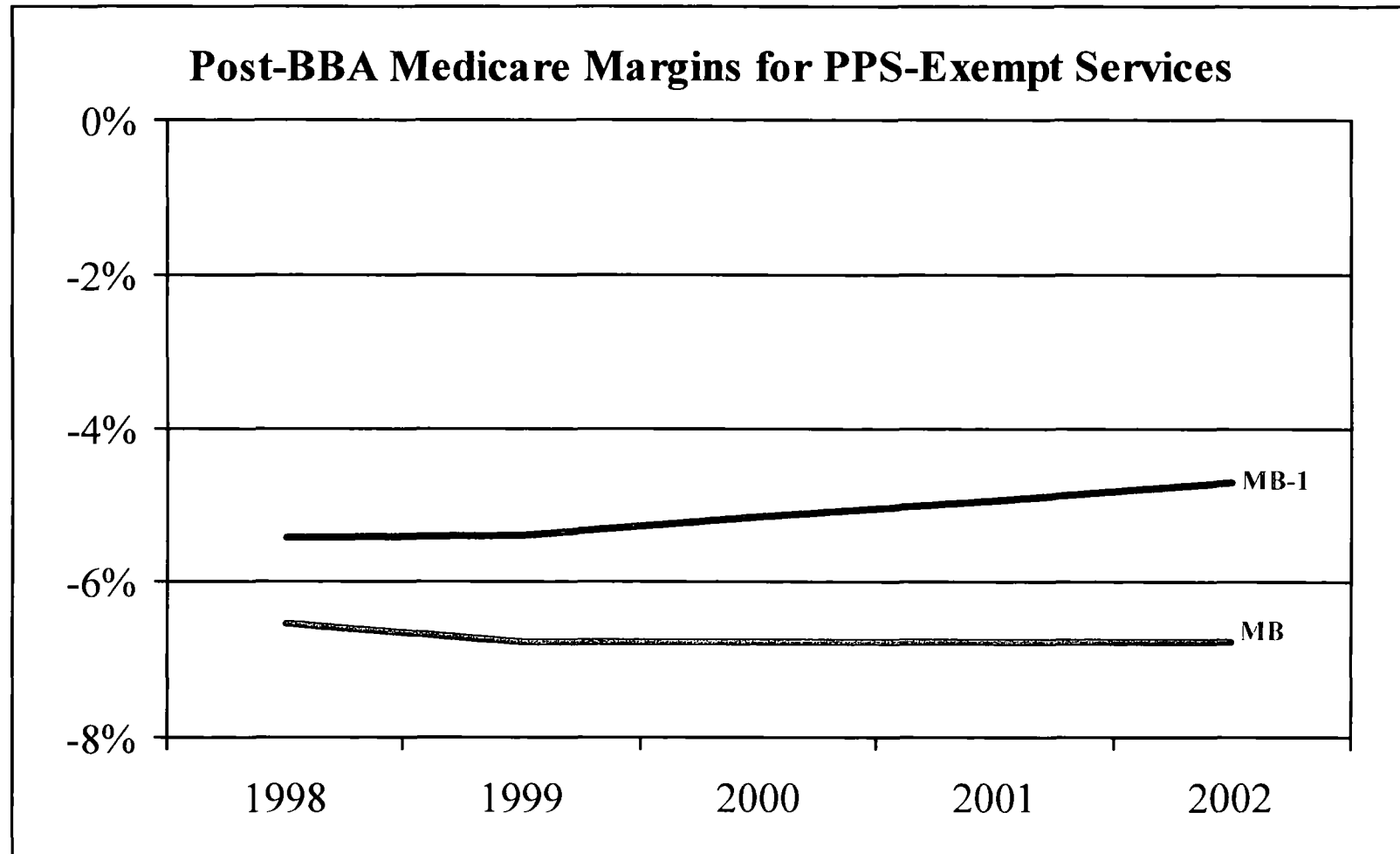
Source: The Lewin Group analysis of Medicare cost report data.

Note: Due to cost reimbursement, changes in the market basket rate of increase for costs also change payments.

The BBA Reduces PPS-Exempt Hospital Payments by at Least 7%, from 1998 to 2002

- ➡ Psychiatric, rehabilitation, long-term care, children's, and cancer hospitals and distinct-part psychiatric and rehabilitation units are exempt from PPS and paid on a cost basis.
- ➡ The majority of PPS-exempt payments are made to rehabilitation, long-term and psychiatric facilities.
- ➡ PPS-exempt payment reductions were primarily due to the update freeze in 1998, caps on hospital target amounts, a 15% reduction in capital payments, and a change in the bonus payment policy.

PPS-Exempt Margins Are Projected to Increase Slightly but Remain Consistently Negative



Source: The Lewin Group analysis of Medicare cost report data.

PPS-Exempt Margins Are Projected to Increase Slightly but Remain Consistently Negative

- ➡ PPS-exempt services were profitable pre-BBA but lose money post-BBA.
- ➡ Psychiatric hospitals and units experience the greatest reductions in payments and margins.

Section II:

Type of Service Comparisons and National Estimates Calculation with
Costs Increasing at Market Basket Minus One Percent (MB-1)

Analysis of Medicare Payments and Margins Under the BBA: 1998 to 2002
Medicare Payments in Total and by Type of Service

PROJECTIONS WITH MEDICARE COSTS INCREASING AT MARKET BASKET MINUS ONE PERCENTAGE POINT

Total Medicare Payments and Margins* (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	\$126.50	\$132.14	\$135.80	\$139.59	\$143.59	677.62
Post-BBA Payments	\$119.12	\$120.40	\$120.83	\$121.97	\$124.13	606.46
Dollar Impact	(7.38)	(11.74)	(14.97)	(17.62)	(19.46)	(71.16)
Percent Impact	-5.84%	-8.88%	-11.02%	-12.62%	-13.55%	-10.50%
Post-BBA Costs	118.71	121.84	124.18	126.73	129.61	
Post-BBA Margin	0.34%	-1.20%	-2.77%	-3.90%	-4.41%	

Medicare Payments and Margins for Inpatient PPS Services (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	80.60	83.90	86.16	88.51	90.99	430.16
Post-BBA Payments	76.74	77.29	77.53	78.30	79.59	389.44
Dollar Impact	(3.87)	(6.61)	(8.62)	(10.22)	(11.40)	(40.72)
Percent Impact	-4.80%	-7.88%	-10.01%	-11.54%	-12.53%	-9.47%
Post-BBA Costs	67.10	69.12	70.46	71.94	73.65	
Post-BBA Margin	12.57%	10.57%	9.13%	8.12%	7.46%	

Medicare Payments and Margins for Outpatient Services (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	14.22	15.30	15.68	16.09	16.54	77.82
Post-BBA Payments	13.10	13.34	13.16	13.37	13.61	66.58
Dollar Impact	(1.12)	(1.96)	(2.52)	(2.72)	(2.93)	(11.24)
Percent Impact	-7.85%	-12.81%	-16.08%	-16.89%	-17.70%	-14.45%
Post-BBA Costs	15.38	15.60	15.83	16.08	16.37	
Post-BBA Margin	-17.42%	-16.93%	-20.29%	-20.29%	-20.29%	

Medicare Payments and Margins for Hospital-Based Home Health Services (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	4.53	4.80	5.11	5.40	5.69	25.54
Post-BBA Payments	3.79	3.98	4.14	3.98	4.11	20.01
Dollar Impact	(0.74)	(0.82)	(0.97)	(1.42)	(1.58)	(5.53)
Percent Impact	-16.30%	-17.04%	-19.01%	-26.29%	-27.71%	-21.64%
Post-BBA Costs	4.01	4.15	4.30	4.45	4.58	
Post-BBA Margin	-5.79%	-4.06%	-4.01%	-11.64%	-11.36%	

Medicare Payments and Margins for PPS-Exempt Services (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	7.85	7.97	8.13	8.29	8.46	40.70
Post-BBA Payments	7.31	7.42	7.56	7.71	7.88	37.89
Dollar Impact	(0.53)	(0.56)	(0.57)	(0.57)	(0.58)	(2.81)
Percent Impact	-6.81%	-6.97%	-6.95%	-6.93%	-6.90%	-6.92%
Post-BBA Costs	7.71	7.82	7.95	8.09	8.25	
Post-BBA Margin	-5.43%	-5.39%	-5.16%	-4.93%	-4.70%	

*Total Medicare payments and margins based on projections of AHA Annual Survey data.

The sum of the four types of service will not equal the total due to the cross between cost report and AHA survey data.

Crosswalk of Medicare PPS 12 and AHA Annual Survey BBA Payment Simulations

Market Basket Minus One Percentage Point Analysis

The Lewin Group has simulated the BBA's impact on payments using Medicare PPS12 data for inpatient PPS, outpatient PPS, hospital-based home health, and PPS-exempt services. The resulting rates of change from this analysis were then applied to AHA Annual Survey data to simulate total payments. AHA data include the following services that are not reflected in the Medicare cost report simulations: direct graduate medical education, skilled nursing care, dialysis, outpatient rehabilitation, lab, durable medical equipment, oxygen, ambulance, and non-covered services and costs.

1. Calculate the percent impact of the BBA on payments and costs from the Medicare PPS12 (FFY 1995) payment microsimulations. Four types of service were simulated: inpatient PPS, outpatient, hospital-based home health, and PPS-exempt services.

PPS12 Simulated Payments and Costs (\$ billions)	1995	1999	2002	2001	2002
Pre-BBA Medicare payments for the four services simulated	107.20	111.98	115.08	118.29	121.68
Post-BBA Medicare payments for the four services simulated	100.95	102.03	102.39	103.36	105.19
Percent Impact of BBA on Medicare payments for the four services simulated	-5.84%	-8.88%	-11.02%	-12.62%	-13.55%
Pre-BBA Medicare costs for the four services simulated	94.90	97.53	99.56	101.75	104.21
Post-BBA Medicare costs for the four services simulated	94.20	96.68	98.54	100.56	102.85
Percent Impact of BBA on Medicare costs for the four services simulated	-0.74%	-0.87%	-1.02%	-1.16%	-1.31%

2. Calculate the rate of change to payments and costs from the Medicare PPS12 payment microsimulations of the four types of service.

Rate of Change in Simulated Payments and Costs (from PPS 12)	1995 to 1999	1999 to 2000	2000 to 2001	2001 to 2002
Pre-BBA Medicare payments for the four services simulated	4.5%	2.8%	2.8%	2.9%
Post-BBA Medicare payments for the four services simulated	1.1%	0.4%	0.9%	1.8%
Pre-BBA Medicare costs for the four services simulated	2.8%	2.1%	2.2%	2.4%
Post-BBA Medicare costs for the four services simulated	2.6%	1.9%	2.1%	2.3%

3. Use AHA data from 1995 to 1997 to calculate Medicare payment and costs rates of change. Payments increased at an annual rate of 5.1 percent and costs at annual rate of 2.9 percent from 1995 to 1997.
4. Apply average 1995 to 1997 AHA Medicare payment and cost rates of change to 1997 AHA Medicare payments and costs to estimate 1998 Medicare payments and costs.
5. Apply simulated payment and cost rates of change from Medicare PPS12 analysis to 1998 Medicare payments and costs estimated from AHA data to project AHA payments and costs: (1) pre-BBA, and (2) post-BBA. This methodology assumes that payments and costs for services not modeled in the Medicare cost report simulations will experience the same aggregate rates of change as the four simulated services.

Medicare Payments and Costs (Projected from AHA Data (in billions))	AHA Annual Survey Data			Projected Medicare Payments and Costs Calculated by Applying Lewin Payment and Cost Rates of Change Based On Medicare PPS12 Data to 1998 Medicare Payments and Costs Estimated from AHA Data				
	1995	1996	1997	1998	1999	2000	2001	2002
Pre-BBA Medicare Payments	\$108.94	\$114.89	\$120.35	\$126.50	\$132.14	\$135.80	\$139.59	\$143.59
Post-BBA Medicare Payments				119.12	120.40	120.83	121.97	124.13
Pre-BBA Medicare Costs	109.89	112.34	116.26	119.59	122.91	125.46	128.22	131.33
Post-BBA Medicare Costs				118.71	121.84	124.18	126.73	129.61

6. Total Medicare Margins, actual and projected, from 1995 to 2002.

Simulated Margins	1995	1996	1997	1998	1999	2000	2001	2002
Margins Based On AHA Survey Data								
Actual	-0.9%	2.2%	3.4%					
Post-BBA Projections				0.3%	-1.2%	-2.8%	-3.9%	-4.4%

Proportion of Revenues and Costs Attributed to Each Type of Service

	1998	1999	2000	2001	2002
Pre-BBA Payments					
Inpatient PPS	75.19%	74.93%	74.87%	74.82%	74.78%
Outpatient	13.26%	13.66%	13.63%	13.60%	13.59%
Home Health	4.23%	4.29%	4.44%	4.57%	4.68%
TEFRA	7.32%	7.12%	7.06%	7.01%	6.95%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Post-BBA Payments					
Inpatient PPS	76.02%	75.75%	75.72%	75.75%	75.66%
Outpatient	12.98%	13.07%	12.85%	12.94%	12.94%
Home Health	3.76%	3.90%	4.04%	3.85%	3.91%
TEFRA	7.25%	7.27%	7.38%	7.46%	7.49%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Pre-BBA Costs					
Inpatient PPS	70.70%	70.87%	70.77%	70.70%	70.67%
Outpatient	16.21%	15.99%	15.90%	15.81%	15.71%
Home Health	4.97%	5.12%	5.34%	5.53%	5.70%
TEFRA	8.13%	8.02%	7.99%	7.96%	7.92%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Post-BBA Costs					
Inpatient PPS	71.23%	71.49%	71.50%	71.54%	71.61%
Outpatient	16.33%	16.13%	16.07%	15.99%	15.92%
Home Health	4.26%	4.29%	4.37%	4.42%	4.45%
TEFRA	8.19%	8.09%	8.07%	8.05%	8.02%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Section III:

Data Tables by Hospital Category with Costs Increasing
at Market Basket Minus One Percent (MB-1)

Comparison of Total Medicare Payments to Hospitals* (in millions)

Section III: Data Tables by Hospital Category with Costs Increasing at Market Basket Minus One Percentage Point

	1998			1999			2000			2001			2002			5 Year Total Impact to Payments	5 Year Total Percent Impact
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact		
Total	129,503	119,122	(10,382)	132,138	120,400	(11,738)	135,796	120,830	(14,966)	139,591	121,974	(17,617)	143,590	124,330	(19,260)	(71,162)	-10.5%
Rural	19,746	18,521	(1,225)	20,810	19,115	(1,695)	21,411	19,213	(2,199)	22,026	19,387	(2,640)	22,662	19,736	(2,926)	(10,689)	-10.0%
Urban	109,756	100,601	(9,155)	111,328	101,285	(10,043)	114,384	101,617	(12,767)	117,564	102,588	(14,977)	120,928	104,594	(16,334)	(60,473)	-10.6%
Non-Teaching	61,053	57,243	(3,810)	63,873	58,113	(5,759)	65,656	58,534	(7,121)	67,510	59,177	(8,333)	69,469	60,240	(9,229)	(34,252)	-10.5%
Teaching	65,451	61,879	(3,571)	68,265	62,287	(5,978)	70,140	62,296	(7,844)	72,081	62,797	(9,284)	74,121	63,896	(10,225)	(36,910)	-10.5%
Not-for-Profit	92,718	87,359	(5,359)	97,064	88,550	(8,514)	99,716	88,789	(10,927)	102,459	89,619	(12,839)	105,336	91,165	(14,171)	(51,808)	-10.4%
For Profit	17,770	16,141	(1,629)	17,884	16,165	(1,719)	18,408	16,346	(2,062)	18,954	16,522	(2,432)	19,529	16,856	(2,673)	(10,045)	-10.9%
Public	16,515	15,622	(893)	17,190	15,685	(1,505)	17,672	15,696	(1,977)	18,178	15,833	(2,345)	18,665	15,106	(3,559)	(9,310)	-10.5%
New England	7,377	6,980	(398)	7,725	6,991	(734)	7,943	6,992	(1,051)	8,173	7,078	(1,096)	8,406	7,207	(1,199)	(4,368)	-11.0%
Middle Atlantic	22,029	20,641	(1,388)	22,656	20,778	(1,878)	23,273	20,690	(2,584)	23,890	20,846	(3,043)	24,504	21,208	(3,297)	(12,240)	-10.5%
South Atlantic	21,721	20,358	(1,363)	22,746	20,723	(2,023)	23,396	20,831	(2,565)	24,073	21,028	(3,045)	24,789	21,411	(3,378)	(12,375)	-10.6%
East North Central	21,772	20,602	(1,170)	22,884	20,776	(2,107)	23,510	20,862	(2,648)	24,167	21,099	(3,068)	24,844	21,468	(3,375)	(12,348)	-10.5%
East South Central	9,514	8,982	(532)	10,040	9,200	(840)	10,332	9,274	(1,058)	10,636	9,380	(1,256)	10,962	9,550	(1,412)	(5,088)	-9.9%
West North Central	9,993	9,454	(539)	10,548	9,750	(798)	10,856	9,794	(1,064)	11,182	9,908	(1,274)	11,527	10,105	(1,422)	(5,097)	-9.4%
West South Central	13,495	12,681	(814)	14,159	12,826	(1,332)	14,550	12,903	(1,647)	14,977	12,992	(1,985)	15,433	13,229	(2,204)	(7,992)	-11.0%
Mountain	5,563	5,243	(320)	5,778	5,262	(517)	5,935	5,298	(636)	6,100	5,352	(748)	6,272	5,444	(827)	(3,048)	-10.3%
Pacific	15,039	14,172	(866)	15,603	14,095	(1,508)	15,989	14,168	(1,821)	16,393	14,292	(2,101)	16,814	14,507	(2,307)	(8,605)	-10.8%
Non-DSH	48,695	45,988	(2,707)	51,041	46,475	(4,566)	52,504	46,773	(5,732)	54,030	47,291	(6,738)	55,645	48,188	(7,457)	(27,600)	-10.5%
DSH	61,965	58,487	(3,477)	64,778	58,832	(5,946)	68,546	58,911	(9,635)	68,373	59,388	(8,985)	70,297	60,380	(9,916)	(35,959)	-10.8%
Unknown	15,844	15,046	(798)	16,319	15,094	(1,226)	16,745	15,147	(1,599)	17,189	15,295	(1,894)	17,649	15,551	(2,097)	(7,603)	-9.1%
Less than 50 Beds	4,478	4,170	(308)	4,634	4,207	(427)	4,770	4,205	(565)	4,911	4,231	(680)	5,054	4,306	(748)	(2,729)	-11.4%
50 to 99 Beds	9,489	8,882	(607)	9,893	9,055	(838)	10,169	9,112	(1,057)	10,450	9,201	(1,249)	10,743	9,375	(1,367)	(5,102)	-10.1%
100 to 199 Beds	23,885	22,447	(1,437)	24,908	22,660	(2,248)	25,603	22,795	(2,808)	26,319	23,021	(3,298)	27,093	23,446	(3,647)	(13,438)	-10.5%
200 to 499 Beds	57,606	54,278	(3,328)	60,269	54,873	(5,395)	61,920	55,158	(6,762)	63,656	55,759	(7,897)	65,463	56,721	(8,742)	(32,125)	-10.4%
500 Beds or More	31,068	29,345	(1,723)	32,435	29,606	(2,829)	33,333	29,560	(3,773)	34,254	29,763	(4,491)	35,237	30,294	(4,943)	(17,768)	-10.7%

* Total Medicare payments based on projections of AHA Annual Survey Data.

Post-BBA Total Medicare Margins for Hospitals

	1998 Post-BBA Margin	1999 Post-BBA Margin	2000 Post-BBA Margin	2001 Post-BBA Margin	2002 Post-BBA Margin
Total	0.34%	-1.20%	-2.77%	-3.90%	-4.41%
Rural	-3.90%	-4.05%	-5.52%	-6.66%	-7.04%
Urban	1.13%	-0.66%	-2.26%	-3.38%	-3.92%
Non-Teaching	-0.49%	-1.81%	-2.98%	-3.88%	-4.28%
Teaching	1.12%	-0.62%	-2.58%	-3.91%	-4.54%
Not-for-Profit	-1.89%	-3.27%	-4.94%	-6.06%	-6.59%
For Profit	12.79%	10.83%	9.91%	8.82%	8.36%
Public	-0.01%	-1.85%	-3.73%	-4.93%	-5.49%
New England	-1.02%	-3.44%	-5.44%	-6.34%	-6.84%
Middle Atlantic	-1.39%	-1.56%	-3.95%	-5.29%	-5.83%
South Atlantic	5.58%	4.31%	2.88%	1.73%	1.22%
East North Central	-3.97%	-6.18%	-7.66%	-8.73%	-9.29%
East South Central	7.66%	6.79%	5.65%	4.73%	4.26%
West North Central	-5.41%	-5.62%	-7.30%	-8.39%	-8.87%
West South Central	0.52%	-1.75%	-3.21%	-4.74%	-5.34%
Mountain	2.41%	0.34%	-0.79%	-1.75%	-2.22%
Pacific	0.57%	-2.52%	-3.57%	-4.40%	-4.84%
Non-DSH	-3.14%	-4.05%	-5.43%	-6.47%	-6.92%
DSH	2.88%	0.79%	-0.97%	-2.20%	-2.79%
Unknown	1.04%	-0.14%	-1.60%	-2.57%	-2.97%
Less than 50 Beds	-7.01%	-8.88%	-11.01%	-12.52%	-12.94%
50 to 99 Beds	-1.39%	-1.85%	-3.20%	-4.28%	-4.64%
100 to 199 Beds	0.99%	-0.50%	-1.85%	-2.94%	-3.39%
200 to 499 Beds	0.77%	-0.92%	-2.29%	-3.23%	-3.76%
500 Beds or More	0.63%	-0.95%	-3.10%	-4.55%	-5.15%

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Comparison of Medicare Payments to Hospitals for Inpatient PPS Services (in millions)

	1998			1999			2000			2001			2002			5 Year Total Impact on Payments	5 Year Total Percent Impact
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact		
Total	80,604	76,736	(3,868)	83,901	77,289	(6,611)	86,158	77,534	(8,625)	88,512	78,296	(10,216)	90,989	79,587	(11,402)	(40,720)	-9.5%
Rural	11,503	10,986	(517)	12,096	11,380	(716)	12,426	11,741	(684)	12,768	11,588	(1,181)	13,125	11,783	(1,343)	(4,720)	-7.6%
Urban	69,100	65,752	(3,349)	71,805	65,909	(5,895)	73,733	66,072	(7,660)	75,744	66,709	(9,035)	77,863	67,804	(10,059)	(35,999)	-9.8%
Non-Teaching	36,887	34,921	(1,966)	38,252	35,356	(2,896)	39,287	35,593	(3,694)	40,334	36,051	(4,283)	41,482	36,650	(4,832)	(17,431)	-8.9%
Teaching	43,917	41,818	(2,099)	45,649	41,934	(3,715)	46,891	41,941	(4,950)	48,179	42,246	(5,933)	48,527	42,937	(5,590)	(23,288)	-9.9%
Not-for-Profit	59,270	56,376	(2,894)	61,774	56,903	(4,871)	63,443	57,075	(6,368)	65,181	57,634	(7,547)	67,005	58,589	(8,417)	(30,096)	-9.5%
For Profit	8,936	8,549	(387)	9,161	8,451	(711)	9,393	8,494	(899)	9,632	8,585	(1,047)	9,901	8,726	(1,175)	(4,220)	-9.0%
Public	10,689	10,200	(489)	11,033	10,170	(863)	11,337	10,195	(1,143)	11,660	10,292	(1,368)	11,996	10,439	(1,557)	(5,390)	-9.5%
Unknown	1,709	1,614	(95)	1,933	1,766	(167)	1,985	1,770	(215)	2,039	1,784	(255)	2,096	1,814	(282)	(1,013)	-10.4%
New England	4,638	4,428	(210)	4,845	4,395	(450)	4,982	4,400	(582)	5,127	4,443	(685)	5,271	4,517	(753)	(2,680)	-10.8%
Middle Atlantic	14,811	13,955	(856)	15,129	13,992	(1,137)	15,538	14,003	(1,535)	15,946	14,094	(1,853)	16,360	14,325	(2,035)	(7,449)	-9.6%
South Atlantic	14,222	13,509	(712)	14,835	13,716	(1,120)	15,228	13,775	(1,452)	15,641	13,937	(1,704)	16,078	14,188	(1,912)	(6,900)	-9.1%
East North Central	14,352	13,733	(619)	15,066	13,796	(1,270)	15,478	13,830	(1,649)	15,915	13,965	(1,950)	16,360	14,198	(2,162)	(7,650)	-9.9%
East South Central	5,760	5,518	(241)	6,070	5,651	(418)	6,230	5,679	(551)	6,400	5,747	(654)	6,579	5,841	(738)	(2,603)	-8.4%
West North Central	5,408	5,174	(233)	5,690	5,344	(345)	5,843	5,384	(459)	6,004	5,416	(588)	6,172	5,507	(665)	(2,309)	-7.9%
West South Central	8,086	7,707	(379)	8,466	7,762	(705)	8,684	7,791	(893)	8,910	7,854	(1,056)	9,159	7,963	(1,177)	(4,212)	-9.7%
Mountain	3,204	3,055	(149)	3,311	3,049	(262)	3,400	3,084	(316)	3,495	3,102	(393)	3,592	3,153	(439)	(1,579)	-9.3%
Pacific	10,123	9,859	(264)	10,489	9,585	(904)	10,774	9,628	(1,146)	11,074	9,739	(1,335)	11,384	9,896	(1,488)	(5,337)	-9.9%
Non-DSH	32,437	30,744	(1,693)	33,835	31,251	(2,584)	34,748	31,418	(3,330)	35,700	31,782	(3,917)	36,689	32,323	(4,376)	(15,900)	-9.2%
DSH	45,134	43,111	(2,023)	46,967	43,174	(3,793)	48,227	43,250	(4,977)	49,540	43,626	(5,914)	50,926	44,329	(6,597)	(23,304)	-9.7%
Unknown	3,033	2,883	(150)	3,099	2,864	(234)	3,183	2,886	(297)	3,272	2,888	(385)	3,364	2,935	(429)	(1,516)	-9.5%
Less than 50 Beds	1,198	1,150	(47)	1,219	1,152	(67)	1,253	1,182	(72)	1,290	1,174	(116)	1,328	1,194	(132)	(454)	-7.2%
50 to 99 Beds	3,908	3,742	(166)	4,078	3,816	(261)	4,191	3,845	(346)	4,306	3,884	(422)	4,426	3,950	(477)	(1,670)	-8.0%
100 to 199 Beds	12,466	11,914	(552)	12,928	11,964	(964)	13,268	12,035	(1,234)	13,618	12,167	(1,451)	13,969	12,369	(1,630)	(5,829)	-8.8%
200 to 499 Beds	39,530	37,588	(1,942)	41,229	37,890	(3,339)	42,339	38,047	(4,292)	43,516	38,488	(5,028)	44,733	39,122	(5,611)	(20,214)	-9.6%
500 Beds or More	23,504	22,348	(1,157)	24,447	22,466	(1,981)	25,107	22,446	(2,662)	25,783	22,583	(3,200)	26,504	22,952	(3,552)	(12,552)	-10.0%

Post-BBA Medicare Margins for Inpatient PPS Services

	1998	1999	2000	2001	2002
	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin
Total	12.57%	10.57%	9.13%	8.12%	7.46%
Rural	11.01%	10.44%	9.39%	8.54%	7.99%
Urban	12.83%	10.59%	9.08%	8.05%	7.37%
Non-Teaching	9.69%	7.78%	6.72%	6.06%	5.52%
Teaching	14.97%	12.92%	11.17%	9.87%	9.12%
Not-for-Profit	11.82%	9.97%	8.51%	7.50%	6.85%
For Profit	15.83%	12.87%	11.68%	10.82%	10.20%
Public	14.68%	12.52%	11.01%	9.94%	9.22%
Unknown	6.58%	7.44%	5.89%	4.73%	4.10%
New England	12.30%	9.21%	7.52%	6.45%	5.78%
Middle Atlantic	12.58%	12.35%	10.71%	9.39%	8.71%
South Atlantic	11.76%	9.98%	8.67%	7.86%	7.23%
East North Central	9.64%	6.84%	5.24%	4.14%	3.43%
East South Central	13.56%	12.38%	11.14%	10.37%	9.77%
West North Central	9.21%	8.67%	7.24%	6.19%	5.55%
West South Central	13.45%	10.39%	8.98%	7.77%	7.06%
Mountain	15.97%	13.29%	12.06%	11.29%	10.66%
Pacific	17.41%	14.05%	12.87%	12.13%	11.57%
Non-DSH	7.89%	6.52%	5.25%	4.40%	3.80%
DSH	15.98%	13.56%	12.03%	10.93%	10.23%
Unknown	11.41%	9.59%	7.88%	6.83%	5.92%
Less than 50 Beds	15.14%	12.16%	11.16%	10.17%	9.55%
50 to 99 Beds	9.28%	8.28%	7.14%	6.07%	5.38%
100 to 199 Beds	11.00%	8.89%	7.70%	6.81%	6.18%
200 to 499 Beds	11.43%	9.31%	7.96%	7.11%	6.47%
500 Beds or More	15.72%	13.89%	12.12%	10.78%	10.11%

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Comparison of Medicare Payments to Hospitals for Outpatient Services (in millions)

Section III: Data Tables by Hospital Category with Costs Increasing at Market Basket Minus One Percentage Point

	1998			1999			2000			2001			2002			5 Year Total	5 Year Total
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Impact on Payments	Percent Impact
Total	14,216	13,100	(1,116)	15,299	13,338	(1,960)	15,881	13,160	(2,521)	16,089	13,371	(2,718)	16,540	13,812	(2,828)	(11,244)	-14.4%
Rural	2,848	2,808	(40)	3,067	2,659	(408)	3,144	2,599	(545)	3,225	2,641	(585)	3,318	2,688	(627)	(2,406)	-15.4%
Urban	11,368	10,292	(1,076)	12,232	10,680	(1,552)	12,538	10,561	(1,977)	12,864	10,730	(2,134)	13,224	10,923	(2,301)	(8,838)	-14.2%
Non-Teaching	7,528	6,888	(640)	8,100	7,010	(1,090)	8,303	6,948	(1,355)	8,519	7,059	(1,460)	8,757	7,188	(1,571)	(6,115)	-14.8%
Teaching	6,688	6,212	(476)	7,199	6,328	(871)	7,378	6,212	(1,166)	7,571	6,312	(1,259)	7,782	6,426	(1,357)	(5,128)	-14.0%
Not-for-Profit	10,045	9,223	(822)	10,801	9,401	(1,400)	11,071	9,277	(1,794)	11,358	9,426	(1,933)	11,877	9,585	(2,081)	(8,030)	-14.6%
For Profit	1,478	1,346	(132)	1,592	1,363	(229)	1,632	1,376	(257)	1,675	1,398	(277)	1,722	1,423	(299)	(1,193)	-14.7%
Public	2,243	2,111	(132)	2,420	2,147	(273)	2,480	2,088	(392)	2,545	2,132	(412)	2,616	2,170	(445)	(1,644)	-13.4%
Unknown	451	421	(30)	486	428	(58)	496	408	(88)	511	416	(96)	528	423	(105)	(376)	-15.2%
New England	940	875	(65)	1,012	894	(118)	1,037	870	(167)	1,064	884	(180)	1,094	900	(194)	(725)	-14.1%
Middle Atlantic	2,219	2,065	(154)	2,388	2,108	(280)	2,447	1,974	(474)	2,511	2,005	(506)	2,581	2,041	(540)	(1,953)	-16.1%
South Atlantic	2,425	2,229	(196)	2,610	2,270	(340)	2,675	2,235	(440)	2,745	2,271	(474)	2,822	2,312	(510)	(1,960)	-14.8%
East North Central	2,932	2,682	(250)	3,150	2,736	(414)	3,229	2,752	(476)	3,313	2,796	(516)	3,405	2,847	(558)	(2,215)	-13.8%
East South Central	807	816	(9)	965	828	(137)	989	839	(150)	1,015	842	(173)	1,043	857	(186)	(737)	-15.0%
West North Central	1,182	1,092	(91)	1,274	1,116	(158)	1,305	1,098	(206)	1,339	1,117	(222)	1,377	1,137	(240)	(917)	-14.2%
West South Central	1,497	1,415	(83)	1,614	1,440	(174)	1,654	1,429	(225)	1,698	1,452	(246)	1,745	1,478	(267)	(996)	-12.1%
Mountain	591	546	(45)	637	556	(81)	653	559	(93)	670	568	(101)	688	579	(109)	(431)	-13.3%
Pacific	1,530	1,381	(149)	1,650	1,391	(259)	1,691	1,412	(279)	1,735	1,435	(300)	1,784	1,461	(323)	(1,310)	-15.6%
Non-DSH	6,599	6,065	(534)	7,096	6,189	(907)	7,273	6,129	(1,144)	7,463	6,227	(1,235)	7,672	6,339	(1,332)	(5,154)	-14.3%
DSH	7,030	6,440	(590)	7,568	6,544	(1,024)	7,757	6,431	(1,326)	7,958	6,534	(1,425)	8,181	6,651	(1,530)	(5,894)	-15.3%
Unknown	587	595	(8)	635	606	(29)	651	600	(51)	668	610	(58)	687	621	(66)	(196)	-6.1%
Less than 50 Beds	2,458	423	(2,035)	494	431	(64)	507	411	(96)	520	417	(103)	535	425	(110)	(408)	-16.2%
50 to 99 Beds	1,155	1,092	(63)	1,246	1,081	(166)	1,278	1,053	(225)	1,311	1,069	(241)	1,347	1,089	(259)	(984)	-15.5%
100 to 199 Beds	2,780	2,505	(275)	2,970	2,548	(422)	3,044	2,510	(534)	3,123	2,550	(573)	3,211	2,598	(615)	(2,400)	-15.9%
200 to 499 Beds	6,568	6,082	(586)	7,061	6,171	(890)	7,237	6,184	(1,053)	7,426	6,263	(1,163)	7,633	6,378	(1,255)	(4,889)	-13.6%
500 Beds or More	3,275	3,049	(226)	3,527	3,108	(419)	3,615	3,023	(592)	3,709	3,071	(638)	3,813	3,128	(687)	(2,562)	-14.3%

Post-BBA Medicare Margins for Outpatient Hospital Services

	1998 Post-BBA Margin	1999 Post-BBA Margin	2000 Post-BBA Margin	2001 Post-BBA Margin	2002 Post-BBA Margin
Total	-17.42%	-16.93%	-20.29%	-20.29%	-20.29%
Rural	-17.62%	-16.99%	-21.47%	-21.47%	-21.47%
Urban	-17.37%	-16.92%	-20.01%	-20.01%	-20.01%
Non-Teaching	-16.85%	-16.42%	-19.23%	-19.23%	-19.23%
Teaching	-18.04%	-17.50%	-21.49%	-21.49%	-21.49%
Not-for-Profit	-16.39%	-15.78%	-19.08%	-19.08%	-19.08%
For Profit	-18.10%	-18.27%	-18.94%	-18.94%	-18.94%
Public	-21.61%	-21.26%	-25.90%	-25.90%	-25.90%
Unknown	-16.75%	-16.35%	-23.55%	-23.55%	-23.55%
New England	-14.00%	-13.13%	-17.97%	-17.97%	-17.97%
Middle Atlantic	-17.29%	-16.52%	-26.33%	-26.33%	-26.33%
South Atlantic	-14.95%	-14.46%	-17.98%	-17.98%	-17.98%
East North Central	-16.41%	-15.69%	-16.74%	-16.74%	-16.74%
East South Central	-15.88%	-15.78%	-17.38%	-17.38%	-17.38%
West North Central	-15.96%	-15.03%	-18.50%	-18.50%	-18.50%
West South Central	-26.49%	-26.00%	-28.90%	-28.90%	-28.90%
Mountain	-16.97%	-16.50%	-17.42%	-17.42%	-17.42%
Pacific	-18.63%	-19.47%	-19.43%	-19.43%	-19.43%
Non-DSH	-16.36%	-15.84%	-18.51%	-18.51%	-18.51%
DSH	-16.67%	-16.44%	-20.25%	-20.25%	-20.25%
Unknown	-38.19%	-35.55%	-38.91%	-38.91%	-38.91%
Less than 50 Beds	-18.63%	-18.00%	-25.61%	-25.61%	-25.61%
50 to 99 Beds	-19.32%	-18.84%	-23.85%	-23.85%	-23.85%
100 to 199 Beds	-18.93%	-18.57%	-22.17%	-22.17%	-22.17%
200 to 499 Beds	-16.15%	-15.68%	-17.55%	-17.55%	-17.55%
500 Beds or More	-17.86%	-17.26%	-22.36%	-22.36%	-22.36%

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Comparison of Medicare Payments to Hospitals for Home Health Services (in millions)

Section III: Data Tables by Hospital Category with Costs Increasing at Market Basket Minus One Percentage Point

	1998			1999			2000			2001			2002			6 Year Total	6 Year Total
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Impact on Payments	Percent Impact
Total	4,534	3,794	(739)	4,802	3,984	(819)	5,110	4,139	(971)	5,403	3,982	(1,420)	5,691	4,114	(1,577)	(5,527)	-21.6%
Rural	1,268	1,085	(201)	1,339	1,110	(229)	1,422	1,150	(272)	1,496	1,107	(389)	1,565	1,137	(428)	(1,519)	-21.4%
Urban	3,266	2,720	(539)	3,463	2,874	(589)	3,688	2,989	(700)	3,907	2,875	(1,031)	4,126	2,977	(1,149)	(4,008)	-21.7%
Non-Teaching	3,008	2,486	(513)	3,189	2,615	(574)	3,397	2,717	(680)	3,594	2,606	(988)	3,789	2,689	(1,100)	(3,854)	-22.7%
Teaching	1,525	1,299	(226)	1,613	1,369	(244)	1,714	1,422	(291)	1,809	1,376	(433)	1,903	1,425	(478)	(1,672)	-19.5%
Not-for-Profit	2,988	2,545	(421)	3,117	2,657	(460)	3,288	2,739	(549)	3,443	2,631	(812)	3,588	2,695	(893)	(3,135)	-19.1%
For Profit	795	598	(196)	873	655	(217)	984	707	(277)	1,059	692	(367)	1,162	742	(420)	(1,458)	-30.0%
Public	827	528	(299)	860	545	(315)	899	562	(336)	735	533	(202)	770	547	(223)	(775)	-22.2%
Unknown	146	123	(23)	153	127	(26)	160	131	(29)	165	126	(39)	170	129	(41)	(158)	-19.9%
New England	154	128	(26)	166	136	(30)	180	145	(35)	194	149	(45)	208	157	(50)	(185)	-20.6%
Middle Atlantic	559	487	(72)	593	512	(82)	630	532	(98)	661	516	(145)	687	529	(158)	(555)	-17.7%
South Atlantic	1,031	826	(205)	1,106	884	(221)	1,190	933	(257)	1,272	884	(388)	1,353	923	(430)	(1,502)	-25.2%
East North Central	618	538	(80)	651	562	(89)	686	581	(107)	721	568	(154)	752	583	(169)	(598)	-17.4%
East South Central	521	442	(79)	558	467	(91)	599	491	(108)	638	486	(151)	674	504	(170)	(600)	-20.0%
West North Central	353	304	(50)	383	324	(58)	418	346	(72)	454	352	(103)	494	377	(117)	(400)	-19.0%
West South Central	665	531	(135)	717	560	(157)	776	587	(189)	840	554	(286)	905	576	(329)	(1,097)	-28.1%
Mountain	216	180	(36)	225	188	(37)	236	193	(44)	246	182	(64)	256	186	(70)	(251)	-21.3%
Pacific	417	359	(57)	403	349	(54)	391	332	(59)	377	292	(85)	362	277	(85)	(339)	-17.4%
Non-DSH	2,270	1,883	(387)	2,428	1,995	(433)	2,614	2,094	(520)	2,799	2,039	(760)	2,995	2,138	(857)	(2,957)	-22.6%
DSH	2,131	1,797	(334)	2,235	1,869	(366)	2,352	1,923	(429)	2,453	1,827	(626)	2,543	1,859	(683)	(2,438)	-20.8%
Unknown	133	115	(19)	139	119	(20)	145	122	(23)	150	116	(34)	154	117	(37)	(132)	-18.3%
Less than 50 Beds	232	188	(43)	244	192	(52)	258	197	(61)	271	185	(85)	283	189	(95)	(338)	-26.1%
50 to 99 Beds	515	435	(80)	546	451	(95)	581	468	(113)	613	451	(162)	643	485	(159)	(628)	-21.7%
100 to 199 Beds	982	821	(160)	1,047	867	(180)	1,122	908	(214)	1,195	871	(324)	1,271	908	(362)	(1,240)	-22.1%
200 to 499 Beds	1,914	1,589	(326)	2,015	1,664	(352)	2,133	1,720	(413)	2,242	1,655	(587)	2,350	1,701	(649)	(2,327)	-21.8%
500 Beds or More	1,891	1,561	(330)	1,950	1,610	(340)	2,017	1,648	(369)	2,081	1,619	(462)	2,144	1,652	(492)	(996)	-19.6%

Post-BBA Medicare Margins for Hospital-Based Home Health Services

	1998 Post-BBA Margin	1999 Post-BBA Margin	2000 Post-BBA Margin	2001 Post-BBA Margin	2002 Post-BBA Margin
Total	-5.79%	-4.06%	-4.01%	-11.64%	-11.36%
Rural	-4.71%	-3.60%	-3.52%	-10.48%	-10.00%
Urban	-6.21%	-4.24%	-4.19%	-12.09%	-11.88%
Non-Teaching	-5.83%	-4.32%	-4.28%	-12.27%	-12.11%
Teaching	-5.71%	-3.58%	-3.48%	-10.47%	-9.95%
Not-for-Profit	-4.75%	-2.91%	-2.84%	-9.65%	-9.26%
For Profit	-11.41%	-8.88%	-8.78%	-19.19%	-19.17%
Public	-4.83%	-4.22%	-4.22%	-12.84%	-12.62%
Unknown	-4.12%	-2.59%	-1.69%	-6.73%	-4.97%
New England	-3.70%	-3.03%	-2.59%	-4.92%	-4.34%
Middle Atlantic	-3.36%	-2.06%	-1.92%	-8.01%	-7.29%
South Atlantic	-9.19%	-6.95%	-6.85%	-18.07%	-18.10%
East North Central	-2.91%	-1.32%	-1.19%	-6.28%	-5.66%
East South Central	-3.86%	-2.77%	-2.68%	-7.90%	-7.77%
West North Central	-3.90%	-2.53%	-2.26%	-6.60%	-5.58%
West South Central	-8.27%	-7.30%	-7.94%	-19.84%	-20.76%
Mountain	-7.29%	-3.73%	-3.36%	-10.80%	-10.13%
Pacific	-5.89%	-2.67%	-2.14%	-9.49%	-8.31%
Non-DSH	-5.75%	-4.02%	-3.97%	-11.60%	-11.25%
DSH	-5.81%	-4.14%	-4.10%	-11.83%	-11.65%
Unknown	-6.14%	-3.58%	-3.21%	-9.49%	-8.82%
Less than 50 Beds	-6.26%	-6.68%	-7.04%	-16.39%	-16.75%
50 to 99 Beds	-4.19%	-3.77%	-3.80%	-10.92%	-10.42%
100 to 199 Beds	-5.51%	-3.83%	-3.63%	-12.30%	-11.90%
200 to 499 Beds	-6.60%	-4.52%	-4.43%	-11.52%	-11.32%
500 Beds or More	-5.20%	-2.92%	-2.96%	-10.51%	-10.19%

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Comparison of Medicare Payments to Hospitals for PPS-Exempt Services (in millions)

	1998			1999			2000			2001			2002			5 Year Total Impact on Payments	5 Year Total Percent Impact
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact		
Total	7,849	7,314	(535)	7,975	7,419	(556)	8,127	7,562	(565)	8,289	7,715	(574)	8,462	7,878	(584)	(2,815)	-6.9%
Rural	1,178	1,091	(85)	1,195	1,107	(88)	1,218	1,129	(89)	1,242	1,151	(91)	1,268	1,175	(93)	(448)	-7.3%
Urban	6,672	6,223	(450)	6,780	6,311	(468)	6,909	6,433	(476)	7,047	6,563	(483)	7,194	6,703	(491)	(2,369)	-8.8%
Non-Teaching	4,515	4,206	(310)	4,587	4,266	(320)	4,672	4,347	(326)	4,764	4,433	(332)	4,863	4,525	(338)	(1,625)	-6.9%
Teaching	3,333	3,108	(225)	3,388	3,152	(236)	3,454	3,215	(239)	3,525	3,282	(243)	3,600	3,353	(246)	(1,189)	-8.9%
Not-for-Profit	4,112	3,843	(269)	4,179	3,897	(282)	4,259	3,973	(286)	4,345	4,055	(290)	4,436	4,142	(295)	(1,421)	-6.7%
For Profit	1,603	1,670	(133)	1,831	1,894	(137)	1,864	1,725	(139)	1,900	1,758	(142)	1,938	1,793	(144)	(686)	-7.5%
Public	546	788	(68)	861	800	(61)	879	817	(62)	898	834	(64)	916	853	(65)	(310)	-7.0%
Unknown	1,087	1,013	(75)	1,104	1,028	(76)	1,125	1,047	(78)	1,146	1,068	(79)	1,170	1,090	(80)	(387)	-6.9%
New England	653	619	(35)	664	628	(37)	677	640	(38)	691	653	(38)	708	667	(39)	(186)	-5.5%
Middle Atlantic	1,467	1,349	(118)	1,491	1,368	(123)	1,520	1,388	(124)	1,550	1,425	(125)	1,584	1,457	(126)	(618)	-8.1%
South Atlantic	1,167	1,100	(68)	1,186	1,115	(71)	1,208	1,136	(72)	1,232	1,159	(74)	1,258	1,183	(75)	(360)	-5.9%
East North Central	1,370	1,285	(85)	1,392	1,303	(89)	1,418	1,326	(91)	1,447	1,354	(93)	1,477	1,383	(95)	(452)	-6.4%
East South Central	438	414	(24)	445	420	(25)	453	426	(25)	462	436	(26)	472	445	(27)	(127)	-5.6%
West North Central	452	425	(28)	459	432	(28)	468	440	(28)	478	449	(28)	488	459	(29)	(140)	-6.0%
West South Central	1,230	1,137	(93)	1,249	1,153	(96)	1,272	1,175	(97)	1,296	1,198	(99)	1,322	1,222	(100)	(485)	-7.6%
Mountain	260	272	(17)	294	276	(18)	300	281	(18)	306	287	(19)	312	293	(19)	(92)	-6.1%
Pacific	762	713	(69)	795	724	(71)	810	738	(72)	826	754	(73)	844	770	(74)	(358)	-8.8%
Non-DSH	3,857	3,623	(234)	3,918	3,673	(245)	3,992	3,743	(249)	4,070	3,817	(253)	4,154	3,897	(257)	(1,239)	-6.2%
DSH	3,038	2,810	(229)	3,088	2,851	(236)	3,147	2,907	(240)	3,211	2,967	(243)	3,279	3,031	(247)	(1,196)	-7.6%
Unknown	953	881	(72)	969	895	(74)	988	912	(76)	1,008	930	(77)	1,029	950	(79)	(379)	-7.7%
Less than 50 Beds	267	282	(24)	291	266	(25)	297	271	(26)	303	277	(26)	309	283	(26)	(127)	-8.6%
50 to 99 Beds	1,523	1,419	(104)	1,547	1,440	(107)	1,575	1,466	(109)	1,606	1,495	(111)	1,638	1,525	(114)	(545)	-6.9%
100 to 199 Beds	1,685	1,570	(115)	1,712	1,592	(120)	1,744	1,622	(121)	1,778	1,655	(123)	1,814	1,689	(125)	(604)	-6.9%
200 to 499 Beds	2,815	2,639	(176)	2,861	2,677	(184)	2,916	2,729	(187)	2,975	2,784	(191)	3,037	2,843	(195)	(933)	-6.4%
500 Beds or More	1,538	1,423	(115)	1,564	1,444	(120)	1,595	1,473	(122)	1,628	1,505	(123)	1,663	1,539	(125)	(605)	-7.6%

Post-BBA Medicare Margins for PPS-Exempt Services

	1998	1999	2000	2001	2002
	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin
Total	-5.43%	-5.39%	-5.16%	-4.93%	-4.70%
Rural	-6.55%	-6.46%	-6.23%	-6.02%	-5.83%
Urban	-5.23%	-5.21%	-4.97%	-4.74%	-4.51%
Non-Teaching	-4.75%	-4.70%	-4.51%	-4.33%	-4.15%
Teaching	-6.35%	-6.33%	-6.03%	-5.74%	-5.45%
Not-for-Profit	-5.10%	-5.09%	-4.83%	-4.57%	-4.31%
For Profit	-2.06%	-2.05%	-1.92%	-1.80%	-1.68%
Public	-16.01%	-15.86%	-15.43%	-15.04%	-14.64%
Unknown	-4.00%	-3.92%	-3.73%	-3.56%	-3.39%
New England	-7.80%	-7.74%	-7.49%	-7.24%	-7.00%
Middle Atlantic	-6.95%	-6.94%	-6.60%	-6.25%	-5.91%
South Atlantic	-4.24%	-4.22%	-4.04%	-3.86%	-3.68%
East North Central	-5.03%	-5.03%	-4.80%	-4.58%	-4.37%
East South Central	-2.95%	-2.94%	-2.79%	-2.63%	-2.48%
West North Central	-6.57%	-6.48%	-6.22%	-5.95%	-5.71%
West South Central	-4.12%	-4.08%	-3.91%	-3.75%	-3.59%
Mountain	-2.89%	-2.85%	-2.70%	-2.54%	-2.39%
Pacific	-6.85%	-6.74%	-6.46%	-6.20%	-5.94%
Non-DSH	-3.01%	-3.03%	-2.84%	-2.65%	-2.46%
DSH	-6.62%	-6.54%	-6.26%	-5.99%	-5.72%
Unknown	-11.55%	-11.42%	-11.16%	-10.91%	-10.68%
Less than 50 Beds	-6.50%	-6.40%	-6.17%	-5.95%	-5.72%
50 to 99 Beds	-2.52%	-2.48%	-2.33%	-2.20%	-2.08%
100 to 199 Beds	-4.34%	-4.33%	-4.13%	-3.93%	-3.75%
200 to 499 Beds	-5.86%	-5.82%	-5.59%	-5.36%	-5.14%
500 Beds or More	-8.54%	-8.49%	-8.13%	-7.75%	-7.37%

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Section IV:

Type of Service Comparisons and National Estimates Calculation with
Costs Increasing at Market Basket (MB)

Analysis of Medicare Payments and Margins Under the BBA: 1998 to 2002
Medicare Payments in Total and by Type of Service

PROJECTIONS WITH MEDICARE COSTS INCREASING AT MARKET BASKET

Total Medicare Payments and Margins (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	\$126.50	\$132.21	\$135.94	\$139.82	\$143.90	678.37
Post-BBA Payments	\$119.08	\$120.43	\$120.93	\$122.15	\$124.39	606.98
Dollar Impact	(7.42)	(11.78)	(15.01)	(17.67)	(19.52)	(71.39)
Percent Impact	-5.86%	-8.91%	-11.04%	-12.64%	-13.56%	-10.52%
Post-BBA Costs	118.72	122.89	126.32	130.00	134.07	
Post-BBA Margin	0.31%	-2.04%	-4.46%	-6.43%	-7.79%	

Medicare Payments and Margins for Inpatient PPS Services (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	80.60	83.90	86.16	88.51	90.99	430.16
Post-BBA Payments	76.74	77.29	77.53	78.30	79.59	389.44
Dollar Impact	(3.87)	(6.61)	(8.62)	(10.22)	(11.40)	(40.72)
Percent Impact	-4.80%	-7.88%	-10.01%	-11.54%	-12.53%	-9.47%
Post-BBA Costs	67.10	69.73	71.69	73.82	76.21	
Post-BBA Margin	12.57%	9.79%	7.54%	5.71%	4.24%	

Medicare Payments and Margins for Outpatient Services (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	14.22	15.30	15.68	16.09	16.54	77.82
Post-BBA Payments	13.10	13.34	13.16	13.37	13.61	66.58
Dollar Impact	(1.12)	(1.96)	(2.52)	(2.72)	(2.93)	(11.24)
Percent Impact	-7.85%	-12.81%	-16.08%	-16.89%	-17.70%	-14.45%
Post-BBA Costs	15.84	16.22	16.63	17.06	17.54	
Post-BBA Margin	-20.92%	-21.61%	-26.34%	-27.59%	-28.84%	

Medicare Payments and Margins for Hospital-Based Home Health Services (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	4.53	4.80	5.11	5.40	5.69	25.54
Post-BBA Payments	3.79	3.98	4.14	3.98	4.11	20.01
Dollar Impact	(0.74)	(0.82)	(0.97)	(1.42)	(1.58)	(5.53)
Percent Impact	-16.30%	-17.04%	-19.01%	-26.29%	-27.71%	-21.64%
Post-BBA Costs	4.01	4.15	4.30	4.45	4.58	
Post-BBA Margin	-5.79%	-4.06%	-4.01%	-11.64%	-11.36%	

Medicare Payments and Margins for PPS-Exempt Services (in billions)						
	1998	1999	2000	2001	2002	5 Year Total
Pre-BBA Payments	8.03	8.22	8.45	8.68	8.93	42.31
Post-BBA Payments	7.45	7.62	7.82	8.04	8.27	39.20
Dollar Impact	(0.58)	(0.61)	(0.62)	(0.64)	(0.66)	(3.11)
Percent Impact	-7.19%	-7.38%	-7.39%	-7.39%	-7.39%	-7.35%
Post-BBA Costs	7.94	8.13	8.35	8.58	8.83	
Post-BBA Margin	-6.54%	-6.76%	-6.76%	-6.76%	-6.76%	

*Total Medicare payments and margins based on projections of AHA Annual Survey data.

The sum of the four types of service will not equal the total due to the cross between cost report and AHA survey data.

Crosswalk of Medicare PPS 12 and AHA Annual Survey BBA Payment Simulations

Market Basket Analysis

The Lewin Group has simulated the BBA's impact on payments using Medicare PPS12 data for inpatient PPS, outpatient, hospital-based home health, and PPS-exempt services. The resulting rates of change from this analysis were then applied to AHA Annual Survey data to simulate total payments. AHA data include the following services that are not reflected in the Medicare cost report simulations: direct graduate medical education, skilled nursing care, dialysis, outpatient rehabilitation, lab, durable medical equipment, oxygen, ambulance, and non-covered services and costs.

1. Calculate the percent impact of the BBA on payments and costs from the Medicare PPS12 (FFY 1995) payment microsimulations. Four types of service were simulated: inpatient PPS, outpatient, hospital-based home health, and PPS-exempt services.

PPS12 Simulated Payments and Costs (\$ billions)	1998	1999	2002	2001	2002
Pre-BBA Medicare payments for the four services simulated	107.38	112.22	115.39	118.69	122.15
Post-BBA Medicare payments for the four services simulated	101.09	102.23	102.65	103.69	105.59
Percent Impact of BBA on Medicare payments for the four services simulated	-5.86%	-8.91%	-11.04%	-12.64%	-13.56%
Pre-BBA Medicare costs for the four services simulated	95.59	99.07	101.98	105.10	108.53
Post-BBA Medicare costs for the four services simulated	94.89	98.22	100.97	103.91	107.16
Percent Impact of BBA on Medicare costs for the four services simulated	-0.73%	-0.86%	-0.99%	-1.13%	-1.26%

2. Calculate the rate of change to payments and costs from the Medicare PPS12 payment microsimulations of the four types of service.

Rate of Change in Simulated Payments and Costs from PPS 12	1998 to 1999	1999 to 2000	2000 to 2001	2001 to 2002
Pre-BBA Medicare payments for the four services simulated	4.5%	2.8%	2.9%	2.9%
Post-BBA Medicare payments for the four services simulated	1.1%	0.4%	1.0%	1.8%
Pre-BBA Medicare costs for the four services simulated	3.6%	2.9%	3.1%	3.3%
Post-BBA Medicare costs for the four services simulated	3.5%	2.8%	2.9%	3.1%

3. Use AHA data from 1995 to 1997 to calculate Medicare payment and costs rates of change. Payments increased at an annual rate of 5.1 percent and costs at annual rate of 2.9 percent from 1995 to 1997.
4. Apply average 1995 to 1997 AHA Medicare payment and cost rates of change to 1997 AHA Medicare payments and costs to estimate 1998 Medicare payments and costs.
5. Apply simulated payment and cost rates of change from Medicare PPS12 analysis to 1998 Medicare payments and costs estimated from AHA data to project AHA payments and costs: (1) pre-BBA; and (2) post-BBA. This methodology assumes that payments and costs for services not modeled in the Medicare cost report simulations will experience the same aggregate rates of change as the four simulated services.

Medicare Payments and Costs Projected from AHA Data (in billions)	AHA Annual Survey Data			Projected Medicare Payments and Costs Calculated by Applying Lewin Payment and Cost Rates of Change Based On Medicare PPS12 Data to 1998 Medicare Payments and Costs Estimated from AHA Data				
	1995	1996	1997	1998	1999	2000	2001	2002
Pre-BBA Medicare Payments	\$108.94	\$114.89	\$120.35	\$126.50	\$132.21	\$135.94	\$139.82	\$143.90
Post-BBA Medicare Payments				119.08	120.43	120.93	122.15	124.39
Pre-BBA Medicare Costs	109.89	112.34	116.26	119.59	123.95	127.59	131.48	135.78
Post-BBA Medicare Costs				118.72	122.89	126.32	130.00	134.07

6. Total Medicare Margins, actual and projected, from 1995 to 2002.

Simulated Margins	1995	1996	1997	1998	1999	2000	2001	2002
Margins Based On AHA Survey Data								
Actual	-0.9%	2.2%	3.4%					
Post-BBA Projections				0.3%	-2.0%	-4.5%	-6.4%	-7.8%

Proportion of Revenues and Costs Attributed to Each Type of Service

	1998	1999	2000	2001	2002
Pre-BBA Payments					
Inpatient PPS	75.06%	74.76%	74.66%	74.58%	74.49%
Outpatient	13.24%	13.63%	13.59%	13.56%	13.54%
Home Health	4.22%	4.28%	4.43%	4.55%	4.66%
TEFRA	7.48%	7.33%	7.32%	7.31%	7.31%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Post-BBA Payments					
Inpatient PPS	75.91%	75.61%	75.53%	75.51%	75.38%
Outpatient	12.96%	13.05%	12.82%	12.90%	12.89%
Home Health	3.75%	3.90%	4.03%	3.84%	3.90%
TEFRA	7.37%	7.45%	7.62%	7.75%	7.84%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Pre-BBA Costs					
Inpatient PPS	70.19%	70.38%	70.29%	70.24%	70.22%
Outpatient	16.57%	16.37%	16.30%	16.23%	16.16%
Home Health	4.93%	5.04%	5.21%	5.36%	5.48%
TEFRA	8.31%	8.21%	8.19%	8.17%	8.14%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Post-BBA Costs					
Inpatient PPS	70.71%	70.99%	71.00%	71.04%	71.12%
Outpatient	16.69%	16.51%	16.47%	16.42%	16.36%
Home Health	4.23%	4.22%	4.26%	4.28%	4.28%
TEFRA	8.37%	8.28%	8.27%	8.26%	8.24%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Section V:

Data Tables by Hospital Category with Costs Increasing
at Market Basket (MB)

Comparison of Total Medicare Payments to Hospitals* (in millions)

Section V. Data Tables by Hospital Category with Costs Increasing at Market Basket

	1998			1999			2000			2001			2002			6 Year Total Impact to Payments	6 Year Total Percent Impact
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact		
Total	126,503	119,064	(7,419)	132,206	120,429	(11,778)	135,941	120,931	(15,009)	139,817	122,151	(17,666)	143,902	124,395	(19,517)	(71,389)	-10.5%
Rural	19,748	18,515	(1,233)	20,820	19,118	(1,703)	21,433	19,228	(2,207)	22,060	19,412	(2,649)	22,711	19,773	(2,939)	(10,730)	-10.0%
Urban	106,755	100,549	(6,166)	111,386	101,311	(10,075)	114,508	101,705	(12,802)	117,757	102,740	(15,017)	121,191	104,612	(16,579)	(60,659)	-10.6%
Non-Teaching	61,053	57,221	(3,832)	63,914	58,131	(5,783)	65,742	58,598	(7,147)	67,645	59,284	(8,361)	69,666	60,305	(9,259)	(34,381)	-10.5%
Teaching	65,451	61,863	(3,588)	68,293	62,298	(5,995)	70,199	62,336	(7,863)	72,173	62,867	(9,305)	74,247	63,980	(10,258)	(37,008)	-10.6%
Not-for-Profit	92,718	87,335	(5,383)	97,105	88,567	(8,538)	99,803	88,849	(10,953)	102,595	89,725	(12,870)	105,524	91,320	(14,203)	(51,947)	-10.4%
For Profit	17,270	16,130	(1,139)	17,905	16,174	(1,731)	18,452	16,377	(2,075)	19,022	16,576	(2,447)	19,652	16,834	(2,719)	(10,111)	-11.0%
Public	16,515	15,818	(697)	17,197	15,688	(1,509)	17,686	15,705	(1,981)	18,200	15,851	(2,350)	18,726	16,131	(2,595)	(9,332)	-10.6%
New England	7,377	6,987	(390)	7,730	6,994	(736)	7,954	7,002	(952)	8,191	7,093	(1,097)	8,430	7,230	(1,201)	(4,376)	-11.0%
Middle Atlantic	22,029	20,631	(1,398)	22,668	20,780	(1,889)	23,289	20,703	(2,586)	23,930	20,872	(3,058)	24,609	21,245	(3,364)	(12,305)	-10.6%
South Atlantic	21,721	20,353	(1,368)	22,756	20,729	(2,027)	23,417	20,848	(2,570)	24,107	21,056	(3,050)	24,835	21,452	(3,383)	(12,398)	-10.6%
East North Central	21,772	20,596	(1,175)	22,895	20,782	(2,113)	23,534	20,900	(2,634)	24,204	21,130	(3,075)	24,895	21,513	(3,382)	(12,379)	-10.6%
East South Central	9,514	8,900	(614)	10,044	9,202	(842)	10,341	9,281	(1,060)	10,649	9,392	(1,258)	10,971	9,557	(1,414)	(5,097)	-9.9%
West North Central	9,883	9,451	(432)	10,553	9,751	(802)	10,867	9,799	(1,067)	11,197	9,918	(1,278)	11,546	10,120	(1,426)	(5,116)	-9.4%
West South Central	13,495	12,675	(820)	14,170	12,831	(1,339)	14,584	12,920	(1,664)	15,015	13,022	(1,993)	15,485	13,271	(2,214)	(8,030)	-11.0%
Mountain	5,563	5,242	(321)	5,781	5,264	(518)	5,941	5,304	(638)	6,110	5,360	(749)	6,285	5,466	(820)	(3,055)	-10.3%
Pacific	15,039	14,168	(870)	15,610	14,097	(1,513)	16,003	14,175	(1,828)	16,415	14,308	(2,108)	16,845	14,531	(2,314)	(8,634)	-10.8%
Non-DSH	48,895	45,578	(3,119)	51,068	46,489	(4,579)	52,583	46,817	(5,746)	54,121	47,367	(6,754)	55,771	48,299	(7,475)	(27,672)	-10.6%
DSH	61,985	58,475	(3,489)	64,797	58,838	(5,959)	66,585	58,938	(7,649)	68,435	59,433	(9,001)	70,382	60,447	(9,935)	(36,034)	-10.8%
Unknown	15,844	15,033	(811)	16,342	15,102	(1,240)	16,792	15,178	(1,614)	17,262	15,351	(1,911)	17,746	15,642	(2,105)	(7,683)	-9.1%
Less than 50 Beds	4,478	4,167	(311)	4,638	4,208	(430)	4,779	4,211	(568)	4,926	4,241	(684)	5,074	4,321	(753)	(2,746)	-11.5%
50 to 99 Beds	9,488	8,873	(615)	9,909	9,061	(848)	10,203	9,135	(1,068)	10,503	9,242	(1,260)	10,818	9,433	(1,383)	(5,154)	-10.1%
100 to 199 Beds	23,885	22,487	(1,447)	24,925	22,666	(2,258)	25,639	22,819	(2,820)	26,374	23,063	(3,312)	27,169	23,507	(3,662)	(13,499)	-10.5%
200 to 499 Beds	57,606	54,288	(3,338)	60,290	54,885	(5,405)	61,985	55,193	(6,772)	63,727	55,818	(7,909)	65,581	56,806	(8,755)	(32,179)	-10.4%
500 Beds or More	31,080	29,338	(1,728)	32,445	29,608	(2,836)	33,364	29,573	(3,781)	34,287	29,786	(4,501)	35,282	30,317	(4,865)	(17,811)	-10.7%

* Total Medicare payments based on projections of AHA Annual Survey Data.

Post-BBA Total Medicare Margins for Hospitals

	1998 Post-BBA Margin	1999 Post-BBA Margin	2000 Post-BBA Margin	2001 Post-BBA Margin	2002 Post-BBA Margin
Total	0.31%	-2.04%	-4.46%	-6.43%	-7.79%
Rural	-3.95%	-4.91%	-7.21%	-9.20%	-10.42%
Urban	1.09%	-1.50%	-3.94%	-5.90%	-7.29%
Non-Teaching	-0.54%	-2.65%	-4.62%	-6.34%	-7.56%
Teaching	1.09%	-1.48%	-4.30%	-6.51%	-8.00%
Not-for-Profit	-1.92%	-4.14%	-6.68%	-8.68%	-10.09%
For Profit	12.73%	10.13%	8.58%	6.84%	5.75%
Public	-0.04%	-2.71%	-5.46%	-7.54%	-8.98%
New England	-1.05%	-4.30%	-7.16%	-8.94%	-10.30%
Middle Atlantic	-1.43%	-2.44%	-5.71%	-7.93%	-9.35%
South Atlantic	5.55%	3.53%	1.33%	-0.61%	-1.91%
East North Central	-4.00%	-7.08%	-9.45%	-11.43%	-12.88%
East South Central	7.63%	6.05%	4.17%	2.50%	1.29%
West North Central	-5.45%	-6.51%	-9.07%	-11.05%	-12.41%
West South Central	0.47%	-2.56%	-4.81%	-7.13%	-8.51%
Mountain	2.38%	-0.48%	-2.42%	-4.21%	-5.50%
Pacific	0.53%	-3.39%	-5.31%	-7.02%	-8.35%
Non-DSH	-3.18%	-4.91%	-7.13%	-9.02%	-10.33%
DSH	2.86%	-0.05%	-2.65%	-4.74%	-6.19%
Unknown	0.94%	-0.98%	-3.21%	-4.94%	-6.11%
Less than 50 Beds	-7.09%	-9.76%	-12.70%	-15.05%	-16.29%
50 to 99 Beds	-1.50%	-2.66%	-4.70%	-6.49%	-7.54%
100 to 199 Beds	0.93%	-1.33%	-3.48%	-5.38%	-6.64%
200 to 499 Beds	0.75%	-1.76%	-3.99%	-5.79%	-7.19%
500 Beds or More	0.61%	-1.82%	-4.84%	-7.18%	-8.67%

Notes

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Comparison of Medicare Payments to Hospitals for Inpatient PPS Services (in millions)

	1998			1999			2000			2001			2002			5 Year Total Impact on Payments	5 Year Total Percent Impact
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact		
Total	80,604	76,738	(3,865)	83,901	77,289	(6,611)	86,158	77,534	(8,625)	88,512	78,296	(10,216)	90,999	79,597	(11,402)	(40,720)	-9.5%
Rural	11,503	10,996	(507)	12,096	11,380	(716)	12,426	11,481	(945)	12,768	11,588	(1,181)	13,125	11,783	(1,343)	(4,720)	-7.6%
Urban	69,100	65,742	(3,358)	71,805	65,909	(5,895)	73,732	66,053	(7,680)	75,744	66,708	(9,035)	77,874	67,814	(10,060)	(35,999)	-9.8%
Non-Teaching	36,687	34,921	(1,766)	38,252	35,356	(2,896)	39,267	35,593	(3,674)	40,334	36,051	(4,283)	41,462	36,850	(4,612)	(17,431)	-8.9%
Teaching	43,917	41,818	(2,099)	45,649	41,934	(3,715)	46,891	41,941	(4,950)	48,179	42,246	(5,933)	49,527	42,737	(6,590)	(23,288)	-9.9%
Not-for-Profit	59,270	56,376	(2,894)	61,774	56,903	(4,871)	63,443	57,075	(6,368)	65,181	57,634	(7,547)	67,005	58,588	(8,417)	(30,096)	-9.5%
For Profit	8,936	8,549	(387)	9,161	8,451	(711)	9,393	8,494	(899)	9,632	8,585	(1,047)	9,901	8,726	(1,175)	(4,220)	-9.0%
Public	10,689	10,200	(489)	11,033	10,170	(863)	11,337	10,195	(1,143)	11,660	10,292	(1,368)	11,986	10,459	(1,527)	(5,390)	-9.5%
Unknown	1,709	1,614	(95)	1,933	1,786	(147)	1,985	1,770	(215)	2,039	1,784	(255)	2,096	1,814	(282)	(1,013)	-10.4%
New England	4,638	4,428	(210)	4,845	4,395	(450)	4,982	4,400	(582)	5,127	4,443	(685)	5,271	4,517	(753)	(2,680)	-10.8%
Middle Atlantic	14,811	13,955	(856)	15,129	13,992	(1,137)	15,538	14,003	(1,535)	15,946	14,094	(1,853)	16,393	14,325	(2,067)	(7,449)	-9.6%
South Atlantic	14,222	13,509	(712)	14,835	13,716	(1,120)	15,228	13,775	(1,452)	15,641	13,937	(1,704)	16,078	14,186	(1,912)	(6,900)	-9.1%
East North Central	14,352	13,733	(619)	15,066	13,796	(1,270)	15,478	13,830	(1,648)	15,915	13,965	(1,950)	16,390	14,195	(2,195)	(7,650)	-9.9%
East South Central	5,760	5,518	(241)	6,070	5,651	(418)	6,230	5,879	(351)	6,400	5,747	(653)	6,579	5,841	(738)	(2,603)	-8.4%
West North Central	5,406	5,174	(231)	5,690	5,344	(345)	5,843	5,384	(459)	6,004	5,416	(588)	6,172	5,507	(665)	(2,309)	-7.9%
West South Central	8,068	7,707	(361)	8,466	7,762	(705)	8,684	7,791	(893)	8,910	7,854	(1,056)	9,159	7,983	(1,177)	(4,212)	-9.7%
Mountain	3,204	3,055	(148)	3,311	3,049	(262)	3,400	3,064	(336)	3,495	3,102	(393)	3,582	3,153	(430)	(1,579)	-9.3%
Pacific	10,123	9,659	(464)	10,488	9,585	(904)	10,774	9,628	(1,146)	11,074	9,739	(1,335)	11,364	9,896	(1,468)	(5,337)	-9.9%
Non-DSH	32,437	30,744	(1,693)	33,835	31,251	(2,584)	34,748	31,418	(3,330)	35,700	31,782	(3,917)	36,699	32,323	(4,376)	(15,900)	-9.2%
DSH	45,134	43,111	(2,023)	46,967	43,174	(3,793)	48,227	43,250	(4,977)	49,540	43,826	(5,714)	50,826	44,329	(6,507)	(23,304)	-9.7%
Unknown	3,033	2,883	(150)	3,099	2,864	(234)	3,183	2,866	(318)	3,272	2,888	(385)	3,364	2,935	(429)	(1,516)	-9.5%
Less than 50 Beds	1,188	1,150	(37)	1,219	1,152	(67)	1,253	1,182	(72)	1,290	1,174	(116)	1,328	1,194	(132)	(454)	-7.2%
50 to 99 Beds	3,900	3,742	(158)	4,078	3,816	(261)	4,191	3,845	(346)	4,306	3,884	(422)	4,426	3,950	(477)	(1,670)	-8.0%
100 to 199 Beds	12,486	11,914	(572)	12,928	11,964	(964)	13,288	12,035	(1,253)	13,618	12,167	(1,451)	13,999	12,369	(1,630)	(5,829)	-8.8%
200 to 499 Beds	39,530	37,568	(1,962)	41,229	37,890	(3,339)	42,339	38,047	(4,292)	43,516	38,488	(5,028)	44,733	39,122	(5,611)	(20,214)	-9.6%
500 Beds or More	23,504	22,346	(1,157)	24,447	22,466	(1,981)	25,107	22,445	(2,662)	25,783	22,583	(3,200)	26,504	22,852	(3,652)	(12,552)	-10.0%

Post-BBA Medicare Margins for Inpatient PPS Services

	1998		1999		2000		2001		2002	
	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin
Total	12.57%	9.79%	7.54%	5.71%	4.24%					
Rural	11.01%	9.66%	7.81%	6.14%	4.78%					
Urban	12.83%	9.81%	7.50%	5.64%	4.15%					
Non-Teaching	9.69%	6.98%	5.09%	3.60%	2.22%					
Teaching	14.97%	12.15%	9.82%	7.52%	5.97%					
Not-for-Profit	11.82%	9.18%	6.91%	5.07%	3.59%					
For Profit	15.83%	12.13%	10.18%	8.54%	7.15%					
Public	14.88%	11.76%	9.45%	7.58%	6.04%					
Unknown	6.58%	6.63%	4.25%	2.24%	0.75%					
New England	12.30%	8.41%	5.88%	3.97%	2.45%					
Middle Atlantic	12.58%	11.58%	9.14%	7.00%	5.51%					
South Atlantic	11.76%	9.20%	7.08%	5.46%	4.01%					
East North Central	9.64%	6.02%	3.57%	1.61%	0.04%					
East South Central	13.56%	11.61%	9.60%	8.05%	6.67%					
West North Central	9.21%	7.87%	5.62%	3.74%	2.26%					
West South Central	13.45%	9.63%	7.42%	5.41%	3.89%					
Mountain	15.97%	12.53%	10.53%	8.96%	7.55%					
Pacific	17.41%	13.30%	11.34%	9.83%	8.48%					
Non-DSH	7.89%	5.70%	3.59%	1.88%	0.44%					
DSH	15.98%	12.81%	10.50%	8.61%	7.12%					
Unknown	11.41%	8.80%	6.27%	4.19%	2.64%					
Less than 50 Beds	15.14%	11.39%	9.60%	7.81%	6.38%					
50 to 99 Beds	9.28%	7.48%	5.52%	3.61%	2.09%					
100 to 199 Beds	11.00%	8.10%	6.10%	4.39%	2.93%					
200 to 499 Beds	11.43%	8.51%	6.35%	4.68%	3.21%					
500 Beds or More	15.72%	13.13%	10.58%	8.44%	6.97%					

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Comparison of Medicare Payments to Hospitals for Outpatient Services (in millions)

	1998			1999			2000			2001			2002			5 Year Total	5 Year Total
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Impact on Payments	Percent Impact
Total	14,216	13,100	(1,116)	15,299	13,338	(1,960)	15,681	13,160	(2,521)	16,089	13,371	(2,718)	16,540	13,612	(2,928)	(11,244)	-14.4%
Rural	2,848	2,608	(240)	3,067	2,659	(408)	3,144	2,599	(545)	3,225	2,641	(585)	3,316	2,688	(627)	(2,406)	-15.4%
Urban	11,368	10,492	(875)	12,232	10,680	(1,552)	12,538	10,561	(1,977)	12,864	10,730	(2,134)	13,224	10,923	(2,301)	(8,838)	-14.2%
Non-Teaching	7,526	6,888	(640)	8,100	7,010	(1,090)	8,303	6,948	(1,355)	8,519	7,059	(1,460)	8,757	7,188	(1,571)	(6,115)	-14.8%
Teaching	6,688	6,212	(476)	7,199	6,328	(871)	7,378	6,212	(1,166)	7,571	6,312	(1,259)	7,782	6,426	(1,357)	(5,128)	-14.0%
Not-for-Profit	10,045	9,223	(822)	10,801	9,401	(1,400)	11,071	9,277	(1,794)	11,358	9,426	(1,933)	11,677	9,586	(2,081)	(8,030)	-14.6%
For Profit	1,478	1,348	(132)	1,592	1,363	(229)	1,632	1,376	(257)	1,675	1,398	(277)	1,722	1,423	(299)	(1,193)	-14.7%
Public	2,243	2,111	(132)	2,420	2,147	(273)	2,480	2,098	(382)	2,545	2,132	(412)	2,618	2,170	(448)	(1,644)	-13.4%
Unknown	431	421	(30)	486	428	(58)	496	408	(89)	511	416	(96)	526	423	(103)	(376)	-15.2%
New England	940	875	(65)	1,012	894	(118)	1,037	870	(167)	1,064	884	(180)	1,094	900	(194)	(725)	-14.1%
Middle Atlantic	2,219	2,065	(154)	2,388	2,108	(280)	2,447	1,974	(474)	2,511	2,005	(506)	2,581	2,041	(540)	(1,953)	-16.1%
South Atlantic	2,425	2,229	(196)	2,610	2,270	(340)	2,675	2,235	(440)	2,745	2,271	(474)	2,822	2,312	(510)	(1,960)	-14.8%
East North Central	2,932	2,882	(50)	3,150	2,736	(414)	3,229	2,752	(476)	3,313	2,796	(516)	3,405	2,847	(558)	(2,215)	-13.8%
East South Central	897	816	(81)	965	828	(137)	989	829	(160)	1,015	842	(173)	1,043	857	(186)	(737)	-15.0%
West North Central	1,182	1,082	(91)	1,274	1,116	(158)	1,305	1,099	(206)	1,339	1,117	(222)	1,377	1,137	(240)	(917)	-14.2%
West South Central	1,497	1,415	(83)	1,614	1,440	(174)	1,654	1,429	(226)	1,698	1,452	(246)	1,745	1,478	(267)	(996)	-12.1%
Mountain	591	546	(45)	637	556	(81)	653	559	(93)	670	568	(101)	688	578	(110)	(431)	-13.3%
Pacific	1,530	1,381	(149)	1,650	1,391	(259)	1,691	1,412	(279)	1,735	1,435	(300)	1,784	1,461	(323)	(1,310)	-15.6%
Non-DSH	6,599	6,065	(534)	7,096	6,189	(907)	7,273	6,129	(1,144)	7,463	6,227	(1,235)	7,672	6,339	(1,332)	(5,154)	-14.3%
DSH	7,030	6,440	(590)	7,568	6,544	(1,024)	7,757	6,431	(1,326)	7,958	6,534	(1,425)	8,181	6,651	(1,530)	(5,894)	-15.3%
Unknown	587	595	8	635	606	(29)	661	600	(61)	668	610	(58)	687	621	(66)	(196)	-6.1%
Less than 50 Beds	458	423	(35)	494	431	(64)	507	411	(96)	520	417	(103)	535	425	(110)	(408)	-16.2%
50 to 99 Beds	1,155	1,062	(94)	1,246	1,081	(166)	1,278	1,053	(225)	1,311	1,069	(241)	1,347	1,088	(259)	(984)	-15.5%
100 to 199 Beds	2,760	2,506	(255)	2,970	2,548	(422)	3,044	2,510	(534)	3,123	2,550	(573)	3,211	2,586	(615)	(2,400)	-15.9%
200 to 499 Beds	6,568	6,062	(506)	7,081	6,171	(889)	7,237	6,164	(1,073)	7,426	6,263	(1,163)	7,633	6,376	(1,258)	(4,889)	-13.6%
500 Beds or More	3,275	3,049	(226)	3,527	3,108	(419)	3,615	3,023	(592)	3,709	3,071	(638)	3,813	3,126	(687)	(2,662)	-14.3%

Post-BBA Medicare Margins for Outpatient Services

	1998	1999	2000	2001	2002
	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin
Total	-20.92%	-21.61%	-26.34%	-27.59%	-28.84%
Rural	-21.13%	-21.68%	-27.57%	-28.83%	-30.09%
Urban	-20.87%	-21.60%	-26.04%	-27.28%	-28.53%
Non-Teaching	-20.35%	-21.08%	-25.22%	-26.46%	-27.70%
Teaching	-21.57%	-22.21%	-27.59%	-28.85%	-30.12%
Not-for-Profit	-19.87%	-20.41%	-25.07%	-26.30%	-27.54%
For Profit	-21.63%	-23.00%	-24.92%	-26.15%	-27.39%
Public	-25.24%	-26.11%	-32.23%	-33.53%	-34.84%
Unknown	-20.24%	-21.01%	-29.76%	-31.04%	-32.33%
New England	-17.41%	-17.66%	-23.91%	-25.12%	-26.35%
Middle Atlantic	-20.79%	-21.19%	-32.68%	-33.99%	-35.30%
South Atlantic	-18.38%	-19.04%	-23.91%	-25.13%	-26.36%
East North Central	-19.89%	-20.33%	-22.61%	-23.81%	-25.03%
East South Central	-19.35%	-20.42%	-23.28%	-24.49%	-25.71%
West North Central	-19.43%	-19.64%	-24.45%	-25.68%	-26.91%
West South Central	-30.27%	-31.04%	-35.38%	-36.72%	-38.06%
Mountain	-20.47%	-21.17%	-23.33%	-24.54%	-25.77%
Pacific	-22.18%	-24.25%	-25.43%	-26.67%	-27.91%
Non-DSH	-19.84%	-20.27%	-24.47%	-25.70%	-26.93%
DSH	-20.16%	-21.10%	-26.30%	-27.54%	-28.80%
Unknown	-40.26%	-40.97%	-45.90%	-47.33%	-48.78%
Less than 50 Beds	-22.18%	-22.73%	-31.93%	-33.23%	-34.53%
50 to 99 Beds	-22.88%	-23.60%	-30.08%	-31.36%	-32.65%
100 to 199 Beds	-22.48%	-23.32%	-28.31%	-29.58%	-30.85%
200 to 499 Beds	-19.62%	-20.31%	-23.46%	-24.68%	-25.90%
500 Beds or More	-21.38%	-21.96%	-28.51%	-29.78%	-31.05%

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Comparison of Medicare Payments to Hospitals for Home Health Services (in millions)

	1998			1999			2000			2001			2002			5 Year Total	5 Year Total
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Impact on Payments	Percent Impact
Total	4,534	3,784	(739)	4,802	3,964	(819)	5,110	4,139	(971)	5,403	3,982	(1,420)	5,691	4,114	(1,577)	(5,527)	-21.6%
Rural	1,288	1,085	(201)	1,339	1,110	(229)	1,422	1,150	(272)	1,496	1,107	(389)	1,595	1,137	(428)	(1,519)	-21.4%
Urban	3,288	2,729	(539)	3,463	2,874	(589)	3,689	2,989	(700)	3,907	2,875	(1,031)	4,126	2,977	(1,149)	(4,008)	-21.7%
Non-Teaching	3,008	2,495	(513)	3,189	2,615	(574)	3,397	2,717	(680)	3,594	2,606	(988)	3,788	2,680	(1,100)	(3,854)	-22.7%
Teaching	1,525	1,289	(226)	1,613	1,369	(244)	1,714	1,422	(291)	1,809	1,376	(433)	1,903	1,425	(478)	(1,672)	-19.5%
Not-for-Profit	2,068	2,545	(421)	3,117	2,657	(460)	3,288	2,739	(549)	3,443	2,631	(812)	3,588	2,695	(893)	(3,135)	-19.1%
For Profit	785	598	(198)	873	655	(217)	964	707	(257)	1,059	692	(367)	1,162	742	(420)	(1,458)	-30.0%
Public	627	528	(99)	660	545	(115)	699	582	(116)	735	533	(202)	770	547	(223)	(775)	-22.2%
Unknown	146	123	(23)	153	127	(26)	160	131	(29)	165	126	(39)	170	129	(41)	(158)	-19.9%
New England	154	128	(26)	166	136	(30)	180	145	(35)	194	149	(45)	208	157	(50)	(185)	-20.6%
Middle Atlantic	559	487	(72)	593	512	(82)	630	532	(98)	661	516	(145)	687	529	(158)	(555)	-17.7%
South Atlantic	1,031	828	(205)	1,106	884	(221)	1,190	933	(257)	1,272	884	(388)	1,353	923	(430)	(1,502)	-25.2%
East North Central	618	538	(80)	651	562	(89)	688	581	(107)	721	568	(154)	752	583	(169)	(598)	-17.4%
East South Central	521	442	(79)	558	467	(91)	599	491	(108)	638	486	(151)	674	504	(170)	(600)	-20.0%
West North Central	353	304	(50)	383	324	(58)	418	348	(72)	454	352	(103)	484	377	(117)	(400)	-19.0%
West South Central	665	531	(135)	717	560	(157)	778	567	(191)	840	554	(286)	905	576	(329)	(1,097)	-28.1%
Mountain	216	180	(36)	225	188	(37)	236	193	(44)	246	182	(64)	258	188	(70)	(251)	-21.3%
Pacific	417	359	(57)	403	349	(54)	391	332	(59)	377	292	(85)	362	277	(85)	(339)	-17.4%
Non-DSH	2,270	1,883	(387)	2,428	1,995	(433)	2,614	2,094	(520)	2,799	2,039	(760)	2,995	2,138	(857)	(2,957)	-22.6%
DSH	2,131	1,797	(334)	2,235	1,869	(366)	2,352	1,923	(429)	2,453	1,827	(626)	2,543	1,898	(643)	(2,438)	-20.8%
Unknown	133	115	(19)	139	119	(20)	145	122	(23)	150	116	(34)	154	117	(37)	(132)	-18.3%
Less than 50 Beds	232	188	(43)	244	192	(52)	258	197	(61)	271	185	(85)	283	189	(95)	(336)	-26.1%
50 to 99 Beds	515	435	(80)	546	451	(95)	581	468	(113)	613	451	(162)	643	465	(178)	(628)	-21.7%
100 to 199 Beds	662	621	(40)	1,047	867	(180)	1,122	908	(214)	1,195	871	(324)	1,271	909	(362)	(1,240)	-22.1%
200 to 499 Beds	1,914	1,588	(326)	2,015	1,664	(352)	2,133	1,720	(413)	2,242	1,655	(587)	2,350	1,701	(649)	(2,327)	-21.8%
500 Beds or More	891	781	(110)	950	810	(141)	1,017	846	(171)	1,081	819	(262)	1,144	852	(292)	(996)	-19.6%

Post-BBA Medicare Margins for Hospital-Based Home Health Services

	1998 Post-BBA Margin	1999 Post-BBA Margin	2000 Post-BBA Margin	2001 Post-BBA Margin	2002 Post-BBA Margin
Total	-5.79%	-4.06%	-4.01%	-11.64%	-11.36%
Rural	-4.71%	-3.60%	-3.52%	-10.48%	-10.00%
Urban	-6.21%	-4.24%	-4.19%	-12.09%	-11.88%
Non-Teaching	-5.83%	-4.32%	-4.28%	-12.27%	-12.11%
Teaching	-5.71%	-3.58%	-3.48%	-10.47%	-9.95%
Not-for-Profit	-4.75%	-2.91%	-2.84%	-9.65%	-9.26%
For Profit	-11.41%	-8.88%	-8.78%	-19.19%	-19.17%
Public	-4.83%	-4.22%	-4.22%	-12.84%	-12.62%
Unknown	-4.12%	-2.59%	-1.69%	-6.73%	-4.97%
New England	-3.70%	-3.03%	-2.59%	-4.92%	-4.34%
Middle Atlantic	-3.36%	-2.06%	-1.92%	-8.01%	-7.29%
South Atlantic	-9.19%	-6.95%	-6.85%	-18.07%	-18.10%
East North Central	-2.91%	-1.32%	-1.19%	-6.28%	-5.66%
East South Central	-3.86%	-2.77%	-2.68%	-7.90%	-7.77%
West North Central	-3.90%	-2.53%	-2.26%	-6.60%	-5.58%
West South Central	-8.27%	-7.30%	-7.94%	-19.94%	-20.76%
Mountain	-7.29%	-3.73%	-3.36%	-10.90%	-10.13%
Pacific	-5.89%	-2.67%	-2.14%	-9.49%	-8.31%
Non-DSH	-5.75%	-4.02%	-3.97%	-11.60%	-11.25%
DSH	-5.81%	-4.14%	-4.10%	-11.83%	-11.65%
Unknown	-6.14%	-3.58%	-3.21%	-9.49%	-8.82%
Less than 50 Beds	-6.26%	-6.68%	-7.04%	-16.39%	-16.75%
50 to 99 Beds	-4.19%	-3.77%	-3.80%	-10.92%	-10.42%
100 to 199 Beds	-5.51%	-3.83%	-3.63%	-12.30%	-11.90%
200 to 499 Beds	-6.60%	-4.52%	-4.43%	-11.52%	-11.32%
500 Beds or More	-5.20%	-2.92%	-2.96%	-10.51%	-10.19%

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Comparison of Medicare Payments to Hospitals for PPS-Exempt Services (in millions)

	1998			1999			2000			2001			2002			5 Year Total	5 Year Total
	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Pre-BBA Payment	Post-BBA Payment	Payment Impact	Impact on Payments	Percent Impact
Total	8,030	7,453	(577)	8,223	7,616	(607)	8,445	7,821	(624)	8,682	8,040	(641)	8,933	8,273	(660)	(3,110)	-7.3%
Rural	1,204	1,112	(92)	1,233	1,137	(97)	1,267	1,167	(99)	1,302	1,200	(102)	1,340	1,235	(105)	(496)	-7.6%
Urban	6,826	6,341	(485)	6,990	6,479	(510)	7,178	6,654	(525)	7,379	6,840	(539)	7,594	7,039	(555)	(2,614)	-7.3%
Non-Teaching	4,825	4,290	(535)	4,736	4,386	(350)	4,884	4,504	(380)	5,000	4,630	(370)	5,145	4,765	(380)	(1,796)	-7.4%
Teaching	3,405	3,163	(242)	3,487	3,230	(257)	3,561	3,317	(244)	3,681	3,410	(271)	3,788	3,508	(279)	(1,313)	-7.3%
Not-for-Profit	4,204	3,914	(291)	4,305	3,998	(307)	4,422	4,106	(316)	4,545	4,221	(324)	4,677	4,343	(334)	(1,572)	-7.1%
For Profit	850	1,706	(144)	1,894	1,744	(150)	1,946	1,791	(154)	2,000	1,842	(159)	2,058	1,896	(163)	(770)	-7.9%
Public	662	800	(62)	882	817	(65)	906	839	(67)	931	862	(69)	959	887	(71)	(335)	-7.4%
Unknown	1,114	1,033	(81)	1,141	1,057	(84)	1,172	1,085	(87)	1,205	1,115	(89)	1,240	1,148	(92)	(433)	-7.4%
New England	987	630	(357)	683	644	(39)	702	661	(40)	721	680	(41)	742	700	(43)	(200)	-5.7%
Middle Atlantic	1,496	1,371	(125)	1,535	1,400	(135)	1,576	1,436	(139)	1,621	1,478	(142)	1,666	1,521	(145)	(690)	-8.7%
South Atlantic	1,155	1,122	(33)	1,224	1,147	(77)	1,257	1,176	(79)	1,292	1,211	(82)	1,330	1,246	(84)	(396)	-6.3%
East North Central	1,401	1,309	(92)	1,435	1,337	(97)	1,473	1,373	(100)	1,515	1,412	(103)	1,559	1,453	(106)	(497)	-6.7%
East South Central	449	423	(26)	460	432	(28)	472	444	(28)	485	456	(29)	499	470	(30)	(140)	-5.9%
West North Central	462	433	(29)	473	442	(31)	486	454	(32)	500	467	(33)	514	480	(34)	(159)	-6.5%
West South Central	1,260	1,160	(100)	1,290	1,186	(104)	1,325	1,218	(107)	1,362	1,252	(110)	1,402	1,286	(115)	(535)	-8.1%
Mountain	297	278	(19)	304	284	(20)	312	292	(20)	321	300	(21)	330	309	(21)	(101)	-6.4%
Pacific	600	726	(126)	819	743	(76)	841	763	(79)	865	784	(81)	890	807	(83)	(392)	-9.3%
Non-DSH	3,949	3,695	(254)	4,043	3,775	(268)	4,153	3,877	(276)	4,269	3,986	(283)	4,393	4,101	(292)	(1,372)	-6.6%
DSH	3,107	2,860	(246)	3,181	2,923	(258)	3,267	3,002	(265)	3,359	3,086	(273)	3,456	3,175	(281)	(1,323)	-8.1%
Unknown	975	897	(78)	998	918	(81)	1,025	942	(83)	1,054	969	(85)	1,085	997	(88)	(415)	-8.1%
Less than 50 Beds	294	287	(7)	301	273	(27)	309	281	(28)	317	289	(29)	327	297	(30)	(140)	-9.0%
50 to 99 Beds	1,682	1,449	(233)	1,600	1,481	(118)	1,643	1,521	(122)	1,689	1,564	(125)	1,738	1,609	(129)	(606)	-7.4%
100 to 199 Beds	1,727	1,601	(126)	1,768	1,636	(132)	1,816	1,680	(135)	1,867	1,727	(139)	1,921	1,777	(144)	(675)	-7.4%
200 to 499 Beds	2,679	2,680	(1)	2,948	2,748	(199)	3,027	2,822	(205)	3,112	2,901	(211)	3,202	2,996	(206)	(1,021)	-6.7%
500 Beds or More	1,559	1,446	(113)	1,607	1,477	(130)	1,650	1,516	(134)	1,696	1,559	(138)	1,746	1,604	(142)	(667)	-8.1%

Post-BBA Medicare Margins for PPS-Exempt Services

	1998	1999	2000	2001	2002
	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin	Post-BBA Margin
Total	-6.54%	-6.76%	-6.76%	-6.76%	-6.76%
Rural	-7.67%	-7.86%	-7.86%	-7.86%	-7.86%
Urban	-6.34%	-6.57%	-6.57%	-6.57%	-6.57%
Non-Teaching	-5.73%	-5.91%	-5.91%	-5.91%	-5.91%
Teaching	-7.63%	-7.91%	-7.92%	-7.92%	-7.92%
Not-for-Profit	-6.26%	-6.51%	-6.52%	-6.52%	-6.52%
For Profit	-2.88%	-3.04%	-3.04%	-3.04%	-3.04%
Public	-17.73%	-18.04%	-18.05%	-18.05%	-18.05%
Unknown	-4.97%	-5.11%	-5.11%	-5.11%	-5.11%
New England	-8.96%	-9.18%	-9.19%	-9.19%	-9.19%
Middle Atlantic	-8.34%	-8.64%	-8.65%	-8.65%	-8.65%
South Atlantic	-5.21%	-5.40%	-5.40%	-5.40%	-5.40%
East North Central	-6.10%	-6.37%	-6.38%	-6.38%	-6.38%
East South Central	-3.83%	-3.98%	-3.99%	-3.99%	-3.99%
West North Central	-7.90%	-8.12%	-8.12%	-8.12%	-8.12%
West South Central	-5.05%	-5.21%	-5.22%	-5.22%	-5.22%
Mountain	-3.80%	-3.95%	-3.96%	-3.96%	-3.96%
Pacific	-8.07%	-8.24%	-8.25%	-8.25%	-8.25%
Non-DSH	-4.01%	-4.24%	-4.25%	-4.25%	-4.25%
DSH	-7.84%	-8.06%	-8.07%	-8.07%	-8.07%
Unknown	-12.78%	-12.95%	-12.96%	-12.96%	-12.96%
Less than 50 Beds	-7.55%	-7.73%	-7.74%	-7.74%	-7.74%
50 to 99 Beds	-3.40%	-3.56%	-3.57%	-3.57%	-3.57%
100 to 199 Beds	-5.36%	-5.57%	-5.57%	-5.57%	-5.57%
200 to 499 Beds	-6.96%	-7.19%	-7.20%	-7.20%	-7.20%
500 Beds or More	-10.00%	-10.29%	-10.30%	-10.30%	-10.30%

Notes:

- 1) Aggregation by category may not equal the total due to rounding.
- 2) Unknown in the DSH/ Non-DSH category represents hospitals where DSH status cannot be determined and where data between the AHA annual survey and Medicare cost reports cannot be linked.
- 3) Unknown in the Ownership category represents hospitals without an ownership/ control status in the Medicare cost report data.

Section VI:

Methodologies for the Four Types of Service Simulated in the Study

INPATIENT OPERATING PAYMENTS AND COSTS: METHODOLOGY AND ASSUMPTIONS

I. OVERVIEW

This study analyzes the financial impact of the 1997 Balanced Budget Act (BBA) on hospital inpatient operating payments from 1998 to 2002. The analysis:

- Simulates inpatient operating payments assuming the BBA was not in effect (“pre-BBA” scenario); and
- Simulates inpatient operating payments and margins assuming the BBA is in effect (“post-BBA” scenario).

We then simulated operating payments, costs, and margins pre-BBA and post-BBA for five years, from 1998 to 2002. We relied on the PPS hospital market basket reported in the *Federal Register* when projecting payments and costs; the market basket rates of change are presented below:

- 1997: 2.1 percent;
- 1998: 2.7 percent;
- 1999: 2.4 percent;
- 2000: 2.5 percent;
- 2001: 2.6 percent; and
- 2002: 2.8 percent.

In these simulations we did not model any changes in hospital behavior, the number of Medicare inpatient discharges, or patient case mix beyond FY99.

II. COST PER CASE PROJECTIONS

The Hospital Cost Report Information System (HCRIS) Minimum Data Set for PPS12 (FY95) provided Medicare cost per case data. We assumed that cost per case decreased by 0.46 percent in 1996, decreased by 0.6 percent in 1997, remained constant from 1997 to 1998, and then increased at the market basket rate minus one percentage point each year from 1999 to 2002. The Medicare Payment Assessment Commission (MedPAC) provided the cost inflation data for 1996 to 1998. In addition, in its March, 1998 *Report to Congress*, MedPAC assumed that cost per case would increase at the market basket less one percentage point. We also performed a sensitivity analysis with the assumption that inpatient operating cost per case would increase at the market basket rate from 1999 to 2002.

We assumed costs remained the same pre-BBA and post-BBA.

III. PRE-BBA PAYMENT PER CASE

For the pre-BBA simulations, we projected payments to be equal to the rates specified in the FY97 payment rule from 1998 to 2002, except for the payment update. For 1997, we modeled the payment update to be the market basket minus one-half a percentage point, and from 1998 to 2002, we assumed the payment update factor to be the full market basket. This is consistent with Medicare statute prior to the enactment of the BBA.

We used other PPS payment variables as they were reported in the HCFA's FY97 Impact File. Finally, discharges and case mix variables reflect the pre-transfer payment policy scenario (see BBA transfer provisions in the post-BBA payment per case simulations below).

IV. POST-BBA PAYMENT PER CASE

Under the BBA, the payment update is frozen in 1998 and then increases at the market basket less 1.9 percentage points in 1999, market basket less 1.8 percentage points in 2000, and market basket less 1.1 percentage points in both 2001 and 2002.

Other BBA provisions that were simulated included the following:

- The Medicare Dependent Hospital payment rule for 1998 to 2000, which was similar to the 1993 payment formula;
- Transfers – if a patient's diagnosis belongs in one of 10 DRGs (numbers 14, 113, 209, 210, 211, 236, 263, 264, 429, and 483) and is discharged from a PPS hospital to another Medicare recognized care setting (e.g., a PPS exempt hospital, home health agency, or SNF) before the geometric mean length of stay for the DRG is reached, that discharge is treated as a transfer. The hospital that discharges a transfer case is paid on a per diem basis up to the full PPS payment amount for that DRG. HCFA provided the AHA with a file that the AHA provided to us that included a case mix index and number of discharges for each PPS hospital before and after the transfer policy is enacted.¹ We used the pre-transfer case mix and discharge data to estimate payments pre-BBA and the post-transfer case mix and discharge data to estimate post-BBA payments;
- Sole Community Hospital payments (which were similar to pre-BBA payments);
- Puerto Rico: the national percentage in the payment blend for PPS hospitals increases from 25 to 50 percent;

¹ Under the transfer policy, a transfer case is considered to be a single discharge across all care settings. Pro-rated discharge shares of each transfer case are then assigned to each care setting. This reduces the total number of discharges at each PPS hospital. Under the transfer policy, each PPS hospital's case mix index also changes slightly, because transfer cases are weighted as less than a full discharge in the case mix calculations.

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- Temporary Relief Provision – this was simulated for 1998 and 1999. These are special payments for hospitals that are not Medicare-dependent hospitals, do not receive indirect medical education payments (IME) or disproportionate share hospital payments (DSH), are located in states where these types of hospitals had negative margins in 1995, and that these hospitals are projected to have negative margins in 1998 and 1999. There were 17 states that HCFA identified. The payment updates for these hospitals were increased by 0.5 percent in 1998, and 0.8 percent (as opposed to 0.5 percent) in 1999; and
 - IME and DSH payment factors were reduced as specified by the BBA.

We selected PPS payment variables from the FY98 Impact File for FY98, and from the FY99 Impact File for 1999 to 2002.

V. INPATIENT CAPITAL METHODOLOGY

This note summarizes the methodology used in simulating the financial impact of the 1997 Balanced Budget Act (BBA) on hospital inpatient capital payments during 1998 to 2002. The impact study comprises:

- (1) comparing payments under the BBA to the baseline payments (i.e., payments that would have been had the BBA not been in place); and
- (2) comparing BBA margins to the baseline margins.

This requires that we simulate three items: (1) capital cost per case for each year from 1998 to 2002, (2) baseline (pre-BBA) capital payment per case, and (3) BBA capital payment per case.

This study does not simulate hospital behavioral changes, annual changes in Medicare discharges, and case mix changes beyond FY 1999.

A. Cost Per Case Projection

Since payments for capital (specifically under the hold harmless provision) depend on costs (which have to be broken down into old and new capital), the first step is to forecast old and new capital costs to 2002.

Data on costs are provided by the HCRIS Cost Report for PPS12. PPS12 provides data on total capital cost for 4,806 hospitals, and on new capital and old capital costs for about 3,000 hospitals. Missing data for new capital costs are imputed using regression analyses on state binaries, urban/rural, teaching status, DSH status, and bed size. Then old capital costs are constrained by total capital costs and the imputed new capital costs.

New capital and old capital costs from PPS12 are then forecasted based partly (fifty percent) on the predicted annual rates of change derived from the Provider Specific Files 1997, 1998, and 1999 (these changes are called hospital specific rates of change) and the expected national rate of change (the other fifty percent).

The hospital specific predicted annual rates of change of both new and old capital are computed using regression equations that include state, urban/rural, teaching status, DSH status, and bed size as explanatory variables.

The National Rate of Change of Capital Costs for PPS Hospitals

Year	1997	1998	1999	2000	2001	2002
Change (%)	4.46	4.5	5.0*	5.0*	5.0*	5.0*

Sources: 1997-1998 from *Federal Register* 08/29/1997 p. 46129

* 1999-2002 are estimates (trended forward from 1997-1998).

B. Payment Per Case Under the Baseline

The baseline scenario is simulated by projecting the payment rule applied in FY 1997 (the year before the BBA) forward to 2002. Under the baseline scenario, the update was the full market basket.

Exception payments are put back into the system by readjusting the standardized amount and the hospital specific amounts by the exception payment budget neutrality factor for 1997.

To be consistent with the operating side, the payment variables are taken from HCFA's Impact File FY 1997 and the Provider Specific File 1997. In addition, for 1999 to 2002, discharges and case mix variables reflect the pre-transfer payment policy scenario.

C. Payment Per Case Under the BBA

The BBA scenario is simulated by applying the BBA payment rules for each year from FY 1998 to 2002.

Exception payments are put back into the system by readjusting the standardized amount and the hospital specific amounts by the exception payment budget neutrality factor. For FY1998, we used the exception payment budget neutrality factor for 1998 and the standardized amounts for 1998. For FY1999 to 2002, we used the exception payment budget neutrality factor for 1999 and the standardized amounts for 1999.

For FY 1998, we used the payment variables from the Impact File 1998 and the Provider Specific File 1998. For FY 1999 to 2002, we used the payment variables from the Impact File and the Provider Specific File 1999. Discharges and case mix variables, however, reflect the post-transfer payment policy scenario.

OUTPATIENT PAYMENTS AND COSTS: METHODOLOGY AND ASSUMPTIONS

I. OVERVIEW

The 1997 Balanced Budget Act (BBA) changed hospital outpatient payments in four ways:

- Elimination of formula driven overpayment (FDO) – ambulatory surgery, radiology, and other diagnostic are reimbursed using payment blend formulas. Prior to the BBA, these formulas assumed part of the beneficiary copayments were equal to 20 percent of the ambulatory surgical center (ASC) rate or 20 percent of the physician fee schedule amount instead of actual beneficiary copayments, which were equal to 20 percent of billed charges. The BBA eliminates FDO by using actual beneficiary copayments in the payment blend calculations starting in FY98;
- Establishment of a prospective payment system for outpatient services (OPPS) – the proposed OPPS establishes new payments for a large portion of outpatient hospital services;
- Extension of hospital outpatient and operating cost reductions – the BBA extends through December 31, 1999, operating cost reductions of 5.8 percent and capital cost reductions of 10.0 percent that were scheduled to expire at the end of FY98; and
- Reductions in the payments for enrollee bad debt for hospitals. The provisions in the BBA reduce the amount of bad debt treated as allowable costs by 25 percent for FY98, 40 percent for FY99, and 45 percent for subsequent fiscal years.

II. PAYMENT AND COST SIMULATIONS

The outpatient cost and payment simulations relied on three data sources:

- The Outpatient Impact File – HCFA has released a file that includes estimates of pre-OPPS and post-OPPS payments for those services covered under the proposed OPPS for each hospital. These payments have been FDO-adjusted;
- The PPS12 Hospital Cost Report Information System (HCRIS) Minimum Data Set; and
- The PPS13 HCRIS.

Our analytic approach consisted of six phases:

- We used the PPS13 HCRIS file to estimate outpatient payments adjusted for FDO and for changes in the treatment of bad debt. With this information, we calculated the percent impact of eliminating FDO and reducing the payments for bad debt on PPS13 pre-BBA payments for each hospital. Three percentages were calculated. The first percentage was based on a 25 percent reduction in payments for bad debt, which we used to simulate payments for FY98. The other two percentages were based on a 40 percent and 45 percent reduction in payments for bad debt and were used to simulate payments for FY99 and FY00 through FY02,

respectively. Karen Heller of the Greater New York Hospital Association provided us with the logic required to calculate outpatient costs, pre-BBA payments, and FDO-adjusted payments using PPS13;

- We used the Outpatient Impact File to estimate the percent impact of the OPPI on outpatient payments relative to PPS13 FDO-adjusted payments for each hospital. We linked the information from the Outpatient Impact File to PPS13 because the Outpatient Impact File is based on calendar year 1996 and therefore more directly related to payments in PPS13 than in PPS12;
- We used the PPS13 file to estimate the percent impact of the capital and operating cost reductions on payments for each hospital. To do this, we estimated payments in PPS13 without the cost reductions and then compared these payments to PPS13 payments with the cost reductions.
- We then calculated pre-BBA payments and costs using PPS12;
- Merging the combined effects of the BBA provisions (FDO, OPPI, and bad debt) together and linking them to PPS12 to calculate post-BBA payments—To adjust payments for provisions in the BBA, we applied the estimated total percent change in payments for each hospital due to OPPI, the elimination of FDO, and the reduction in payments for bad debt to pre-BBA payments calculated from PPS12.

The elimination of the cost reductions starting in January 2000, as called for in the BBA, is assumed to have no effect on post-BBA payments, because under OPPI payments are no longer linked to costs. However, we did adjust pre-BBA payments for the elimination of the cost reductions beginning in FY99, since prior to the BBA the law requiring the cost reductions was due to expire at the end of FY98.

- Projecting payments and costs forward from 1998 through 2002 – After calculating post-BBA payments for 1998 as specified in the previous bullet, we trended post-BBA payments forward at the market basket from 1998 to 2000 and then at the market basket less one percentage point from 2000 to 2002.

We trended pre-BBA payments based on PPS12 using the PPS market basket for 1998-2002. In addition, we applied the estimated percent change in payments for each hospital due to the elimination of the capital and operating cost reductions to pre-BBA payments starting in FY99.

To check the sensitivity of our estimated hospital outpatient margins to our assumptions about the growth rate of costs, we performed two cost projections. For the first simulation, we projected costs at market basket from 1998 to 2002. We then projected costs at market basket minus one percent and compared the findings from the two simulations.

In certain instances, we needed to make one or more of the following special adjustments to our calculations:

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- Hospitals that were in PPS12 but not in PPS13 or the Outpatient Impact File – if a hospital was not in the PPS13 file, we applied the average combined impact of the elimination of FDO and the reduction in payments for bad debt to a hospital's PPS12 payments to calculate post-BBA payments. These average percent impacts were based on our analysis and equaled 7.8 percent for FY98 (based on the elimination of FDO and a 25 percent reduction in payments for bad debt), 8.3 percent for FY99 (based on the elimination of FDO and a 40 percent reduction in payments for bad debt), and 8.5 percent for FY00 through FY02 (based on the elimination of FDO and a 45 percent reduction in payments for bad debt). If the hospital was not in the Outpatient Impact File, we applied the average OPSS impact based on our analysis (2.6 percent of total outpatient payments) to its PPS12 outpatient payments.
 - Because the OPSS only affects a subset of outpatient services, payments (FDO adjusted) for OPSS services pre-OPSS should be less than total (FDO adjusted) outpatient payments. There were some hospitals where total pre-OPSS payments for OPSS services from the Outpatient Impact File exceeded FDO-adjusted total outpatient payments from PPS13. For these hospitals, we scaled down pre-OPSS payments for OPSS services to be 64.7 percent of total outpatient payments. This reduction is based on the average ratio of payments for OPSS services pre-OPSS (from the Impact File) to total (FDO adjusted) outpatient payments (from PPS13).
 - For PPS12 it was not possible to calculate total outpatient payments as reported on the cost report without over-stating these payments because ASC, Radiology, and Diagnostic payments excluded deductibles and coinsurance while payments for cost-based services included these payments. In addition, deductibles and coinsurance for all four service types were grouped under a single PPS12 HCRIS variable and thus were not reported separately. To avoid double-counting deductibles and coinsurance payments received for cost-based services, we obtained the payments net of deductibles to total payments ratio for cost-based services from PPS13 for each hospital. We then reduced total payments for cost-based services in PPS12 by multiplying the total payments for these services by this ratio. This method will be accurate when the share of payments for cost-based services accounted for by deductibles and coinsurance is stable through time for each hospital.
 - If a hospital was in PPS12 but not in PPS13, we used the overall average ratio of deductibles and coinsurance payments (38.1 percent) to reduce total payments for cost-based services.
 - If a hospital was not in PPS13, we could not eliminate the impact of the capital and operating cost reductions for calculating pre-BBA payments. For these hospitals, we applied the average percentage increase in payments (7.7 percent) due to the elimination of the cost reductions to adjust projected pre-BBA payments starting in FY99.

HOME HEALTH PAYMENTS AND COSTS: METHODOLOGY AND ASSUMPTIONS

This part of the analysis explores the potential impact of changes in Medicare home health reimbursement on Home Health Agencies (HHAs). The Balanced Budget Act (BBA) of 1997 included significant changes to the reimbursement methods for Medicare services provided by home health agencies. For fiscal years 1998 and 1999, the interim payment system (IPS) reduces the limits for reimbursement, including the establishment of a new per beneficiary cost limit. The Act also calls for the implementation of a home health prospective payment system (HHPPS) beginning in fiscal year 2000. The interim payment system for Medicare home health services reduces the per-visit cost limits and institutes a per-beneficiary annual limit.

To investigate the Interim Payment System's (IPS) impact, we compiled a database from a variety of different HCFA data sources. Cost report data for individual agencies from the 1994 and 1995 Home Health Agency Practical Data Sets was used to obtain Medicare costs and visits. Trend data from HCFA's Health Care Information Systems (HCIS) database were used to develop assumptions for projecting individual Medicare-certified home health agency costs to 1998. Information on provider characteristics was selected from the 1996 Provider of Service File.

Estimates were made of the impact of the IPS compared to pre-BBA where neither the IPS nor HHPPS were enacted. Because the structure of the PPS is not yet known, we did not model HHPPS separately, but rather assumed the trends during the IPS continue under the HHPPS; however, we did include the 15 percent reduction in payment limits imposed concurrent with PPS. The estimates are:

- Pre-BBA: the baseline measurement, assumes the IPS was not enacted, and agencies would not change their practices; and
- Post-BBA: assumes home health agencies would reduce their cost and service intensity and increase the number of beneficiaries served sufficiently so that the impact on home health agency revenue matches actuals for 1998 and uses lower growth assumptions than pre-BBA.

The key components of expenditure growth necessary for modeling the impact of the Medicare IPS reimbursement changes are: (1) the number of beneficiaries using fee-for-service (FFS) home health; (2) the number of visits per beneficiary using FFS home health; and (3) the average cost per visit. Individual agency characteristics, including the number of Medicare visits, the Medicare certification date, ownership, affiliation, and region were included in developing growth trends for all three components. Trending assumptions from 1997 to 1998 reflect the agency behavior required to meet 1998 aggregate payments as described above. Aggregate trending assumptions from 1998 to 2007 appear below.

While individual agencies were trended forward using historical growth rates, the growth assumptions below were used as a benchmark for growth in the aggregate. This approach preserves variation across agencies while remaining consistent with our aggregate modeling assumptions.

Assumptions used for 1998-2007 Trending

	Pre-BBA			Post-BBA		
	Beneficiaries	Visits/ Beneficiary	Reimbursement/ Visit	Beneficiaries	Visits/ Beneficiary	Reimbursement/ Visit
1998-1999	1.0181	1.02	1.0317	1.0181	1	1.022
1999-2000	1.0283	1.02	1.0300	1.0283	1	1.020
2000-2001	1.0258	1.02	1.0300	1.0258	1	1.020
2001-2002	1.0270	1.02	1.0300	1.0270	1	1.020
2002-2003	1.0250	1.02	1.0300	1.0250	1	1.020
2003-2004	1.0200	1.02	1.0300	1.0200	1	1.020
2004-2005	1.0150	1.02	1.0300	1.0150	1	1.020
2005-2006	1.0100	1.02	1.0300	1.0100	1	1.020
2006-2007	1.0100	1.02	1.0300	1.0100	1	1.020

The modeling sample of 6,728 included agencies that had sufficient information to project cost and utilization (visits and beneficiaries), and of these there are 2,137 hospital-based home health agencies included in our simulations. The modeling sample could not include any newly created agencies between 1995 and 1998 or any agencies in existence in 1996 that did not have a Medicare cost report in the Practical Data Set.

PPS-EXEMPT PAYMENTS AND COSTS: METHODOLOGY AND ASSUMPTIONS

I. OVERVIEW

This part of the analysis considers the impact of the 1997 Balanced Budget Act (BBA) on PPS-exempt provider payments from 1998 to 2002. The analysis:

- Compares simulated payments assuming the BBA was not in effect (“pre-BBA” payments) with simulated payments under the BBA (“post-BBA” payments); and
- Simulates operating margins under the BBA (post-BBA).

We then simulated operating payments, costs, and margins pre-BBA and post-BBA for five years, from 1998 to 2002. We relied on the PPS Hospital Market basket reported in the *Federal Register* when projecting payments and costs; the market basket rates of change of presented below:

- 1997: 2.5 percent;
- 1998: 2.7 percent;
- 1999: 2.4 percent;
- 2000: 2.7 percent;
- 2001: 2.8 percent; and

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- 2002: 2.9 percent.

In these simulations we did not model any changes in hospital behavior, the number of Medicare inpatient discharges, or patient case mix beyond FY99.

II. COST PER CASE PROJECTIONS

The PPS-Exempt Cost Report for PPS12 provided our cost data. We then assumed that cost per case would increase at the market basket less one percentage point from 1998 to 2002. We also performed a sensitivity analysis with the assumption that cost per case would increase at the full market basket from 1998 to 2002.

III. PRE-BBA PAYMENT PER CASE

We calculated pre-BBA payments by projecting FY97 payment rules forward from 1998 to 2002. The following terms are used in several payment formula calculations below:

- C – cost per case (updated to the current year). PPS-exempt/TEFRA facilities are paid on a per discharge basis, where payments per case depend in part upon the facility's cost per case.
- TA – target amount. Each PPS-exempt provider must establish a target amount using three years of historic cost data. This target amount is then updated each year.

The TA is updated each year based on the update adjustment percentage (UA) determined in FY90:

$UA = (C - TA) / TA$, and is then multiplied by 100 to express this amount in percentage terms. For FY94 to FY97, the update factor applicable to each provider's TA is:²

If $UA < 10$ percent, the update factor is equal to the market basket less the minimum of one percentage point and $(10 - UA)$ percentage points; and

If $UA \geq 10$ percent, the update factor is equal to the market basket.

For FY98 and beyond, the update factor is the market basket. We need to simulate a 1997 TA and update this TA to 1998 to simulate pre-BBA payments from 1998 to 2002.

IV. BBA PAYMENT PER CASE

Our simulations of payment per case from 1998 to 2002 under the BBA include the following steps:

- BBA TA = minimum (pre-BBA 1997 TA, CTA), where CTA is the TA cap set at the 75th percentile as specified in the BBA;³

² In theory, the UA percentage is increased each FFY by the sum of the hospital's applicable reductions applied to the market basket percentage increase for previous years. Because we do not include this add-on in our pre-BBA calculations, our pre-BBA payment calculations are conservative.

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- 1998 Payments = minimum(operating costs excluding pass-throughs, BBA TA) + relief payments + bonus payments + improvement payments; where:
 - Relief payments = \$0 if $BBA\ TA < C < 1.10*BBA\ TA$, or minimum($0.50*(BBA\ TA - C)$, $0.1*BBA\ TA$), if $C > 1.10*BBA\ TA$;
 - Bonus payments = minimum($0.18*(BBA\ TA - C)$, $0.02*BBA\ TA$) if $BBA\ TA > C$, or \$0, if $C \geq BBA\ TA$; and
 - Improvement payments – a provider is eligible for improvement payments if (1) the provider has been PPS-exempt for at least three full years; and (2) $C < \text{minimum}(TA, \text{trended cost, expected cost})$; where: trended costs = minimum(C and TA in 1996), updated to FY98 by the market basket increase for a hospital with its third or subsequent cost reporting period ending in FY96. For all other hospitals, trended $C = C$ for its third full cost reporting period increased at a compounded rate until FY98. We did not consider trended cost in our simulations. Finally, expected $C = \text{minimum}(C \text{ or } TA \text{ from the previous year}) * (1 + \text{market basket rate of increase})$.

The improvement payment then equals minimum(maximum(0, $0.5*(\text{Expected } C - C)$, $0.01*BBA\ TA$);

- We then calculated Medicare margins = (payments less costs)/payments;
- We updated the percentile cost cap at the market basket;
- We calculated 1999 C from the pre-BBA;
- We computed the 1999 update factor to be:
 - If $1998\ C \geq 1.10*TA$, then 1999 update factor = 1999 market basket;
 - If $BBA\ TA < 1998\ C < 1.10*BBA\ TA$, then 1999 update factor = maximum(1999 Market basket – $0.25*(1.10*BBA\ TA - 1998\ C)/(1998\ C)$, 0);
 - If $2/3*BBA\ TA \leq 1998\ C < BBA\ TA$, then 1999 update factor = maximum(0, 1999 market basket – 2.5 percentage points; and
 - If $1998\ C < 2/3*BBA\ TA$, 1999 update factor = 0.
- Compute the new $TA = \text{minimum}(TA \text{ from previous year} * (1 + \text{update factor})$, capped TA);
- Payments for 1999 = minimum (C, TA) + relief + bonus + improvement; where

³ The formula below implies that the TA has been frozen at its 1997 level – i.e., the update is zero.

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- Relief = \$0 if $TA < C < 1.10 \cdot TA$, and relief = $\text{minimum}(0.5 \cdot (TA - C), 0.1 \cdot TA)$ if $C \geq 1.10 \cdot TA$;
 - Bonus = $\text{minimum}(0.15 \cdot (TA - C), 0.02 \cdot TA)$, if $TA > C$, or \$0 if $C \geq TA$;
 - Continuous improvement payments are as above.

We then continue to iterate these steps each year to calculate payments from 2000-2002.