Federation of American Hospitals®

Charles N. Kahn III
President and CEO

March 20, 2013

The Honorable Orrin Hatch
Ranking Member, Senate Finance Committee
United States Senate
Washington, DC 20510

Dear Senator Hatch:

The Federation of American Hospitals (FAH), representing America's investor-owned hospitals and managed health systems, appreciates your vision and leadership in issuing, for discussion, a number of structural entitlement reforms.

Your proposals provide an important foundation for a needed national conversation on how best to sustain the promise of health care coverage to seniors and the most vulnerable Americans. We need this conversation to address the challenge of an aging America, which is the primary driver of growth in entitlement spending over the long term.

It is noteworthy, for the entitlement discussion, that recent data clearly indicates a dramatic, sustained, and, quite possibly, structural decline in health spending. National health expenditure (NHE) growth rates have remained historically low for three years running. NHE per capita spending growth in 2011 was even below Gross Domestic Product (GDP) per capita. Medicare per beneficiary cost growth was only .4 percent in 2012 and only 1.9 percent, on average, over the last three years, well below GDP growth for the same period. Further, according to Congressional Budget Office projections, over the next 10 years Medicare per beneficiary spending growth will remain below the growth in GDP. This new health spending paradigm reverses a forty year trend, from 1970-2010, when Medicare spending per beneficiary exceeded the growth in GDP by 2.7%.

The nation's changing demographics, on the other hand, will place increasing pressure on entitlement programs in the future. The aging of the U.S. population is projected to result in a 3% annual increase in the number of Medicare beneficiaries. The Medicare Payment Advisory Commission's (MedPAC) March 2013 Report to Congress highlights that Medicare enrollment will grow by one-third over the next ten years as the baby boomer generation enters the program. It is imperative that these defining changes in the beneficiary growth curve for the Medicare program provide a base for the start of entitlement reform discussions.

Clearly, the path to reduced Federal health spending growth in the decades ahead demands creative, sensible and sustainable solutions. Arbitrary and blunt provider cuts, which may appear the political path of least resistance, are more likely to curtail access rather than serve as a long term solution to the issue of fiscal viability confronting the Medicare program.

The cumulative effect of $95 billion in hospital cuts just over the last three years is taking its toll, on top of earlier reductions, and is evidenced in part by eleven consecutive years now that MedPAC has reported Medicare payments falling below the cost of care – a projected six percent below in 2013.

Proposals that continue to cut critical reimbursement to hospitals are shortsighted, counterproductive, and mask the true drivers of cost in the health care system. Your proposal recognizes that. It moves the entitlement reform discussion forward to a new path; one that recognizes current health care spending trends while also leading to a broader policy terrain that must be explored as we search for ways to strengthen the Medicare program for future generations.

We look forward to learning more about the details that underpin your policies so that we can provide further feedback, and we welcome the opportunity to work with you.

FAH thanks you for your ongoing, thoughtful leadership and your vital support in helping to ensure that hospitals can continue to meet our community mission and provide seniors with the health care that they expect and deserve.

Sincerely,

