



# About Medicare



with Emily Ames, Department of Information Services

### • • • What is Medicare?

Founded in 1965, Medicare is an insurance program administered by the Centers for Medicare and Medicaid Services (CMS), an agency of the U.S. government. It covers people age 65 or older, people under age 65 with certain disabilities, and people of all ages with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a kidney transplant).

Twelve (12) percent of the U.S. population (35.9 million) is eligible for Medicare benefits.

### • • • How does Medicare Reimburse Providers?

Medicare pays for covered products and services in 15 different settings including hospitals, ambulatory care centers, nursing facilities, and physician and therapist offices. Provider payments are based on predetermined rates and are unaffected by their posted (billed) charges, or the hospital's actual expenditure on the patient. The foundation of Medicare's Prospective Payment System for medical services is based on how efficiently providers should run their operation and deliver quality patient care. These reimbursements are updated annually, consistent with changes in provider input costs, technology, practice patterns, market conditions and other factors that may affect efficient providers' costs over time. Medicare sets a national base payment rate. However, adjustments are made for local market conditions as input prices differ among markets across the U.S., and these differences generally affect efficient providers' costs.

### • • • How does Medicare Impact Non-Medicare Payers?

Medicare payments for inpatient (hospital) account for the largest component of its spending. These payments also provide the largest source of revenue for US hospitals – comprising 23 percent of hospital revenues. When combined with Medicaid (healthcare coverage for low-income individuals and families) payments, government reimbursements to providers can represent up to 50% of their revenues.

In a recent move designed to reduce an overwhelming budget deficit, the U.S. House of Representatives approved legislation to reduce Medicare funding by \$6.4 billion. While this represents a modest reduction in Medicare expenditure, it increases financial pressures, according to providers. Medicare reimbursements provide hospitals an overall margin of 1-2% (with slightly more for inpatient care and less for outpatient care).

While billed charges are the same for all payers, as a result of declining government reimbursements, provider charge higher net prices (known as cost shifting) to all non-government payers, i.e., commercial payers and the uninsured. However, private payers are able to negotiate discounted rates, with commercial payers (insurers, large employers, HMOs, PPOs) having the greatest success.

Another way that Medicare impacts private payers is that many commercial payers have adopted Medicare's fee-for-service payment models to try and control costs. Like Medicare, commercial payers try to leverage their relationships and claim volume to negotiate set reimbursement rates for specific commonly-occurring DRGs with physicians and hospitals.

Finally, Medicare's administrator, CMS also publishes extensive data on hospital cost, utilization, efficiency and quality that can be used by commercial payers to benchmark the performance of their cost containment programs.

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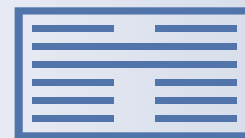
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### CORPORATE HEADQUARTERS

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Editor: Michele I. Andwele