

January 16, 2015

The Honorable Mitch McConnell  
Majority Leader  
U.S. Senate  
S-230 U.S. Capitol  
Washington, DC 20515

The Honorable Harry Reid  
Minority Leader  
U.S. Senate  
S-221 U.S. Capitol  
Washington, DC 20515

The Honorable John Cornyn  
Majority Whip  
U.S. Senate  
S-208 U.S. Capitol  
Washington, DC 20515

The Honorable Richard J. Durbin  
Minority Whip  
U.S. Senate  
S-321 U.S. Capitol  
Washington, DC 20515

Dear Majority Leader McConnell, Minority Leader Reid, Majority Whip Cornyn and Minority Whip Durbin,

Healthcare spending in the United States continues to be a significant and growing issue for taxpayers, private insurers, employers and patients. Despite the work being done by you and your colleagues in Congress, our nation still faces rising – and often unnecessary – healthcare costs that pose threats to the *sustainability* of the Medicare program and to the availability of *affordable* healthcare coverage for all Americans.

Although a wide range of factors contribute to healthcare costs in the United States, certain areas exist where excess spending is obvious, and reasonable reforms are urgently warranted. **The Alliance for Site-Neutral Payment Reform** has been created to address one such issue: disparities in payments between the same clinical patient services provided in different healthcare settings.

Medicare policies today often allow significantly higher reimbursement for essential healthcare services that are provided in hospital outpatient department (HOPD), even when the same service or treatment is available in a physician's office—which is a concern when the specific service is not dependent on the hospital facility and its associated technologies. For example, a colonoscopy that costs \$625 in the office setting is reimbursed more than double that amount – \$1,383 – when performed in an HOPD. These disparities are far reaching – from lab work, to radiology imaging exams, to cancer care – and are driving up healthcare costs to the tune of billions annually. The facts show that payment disparities incentivize care in less efficient settings and increase patient costs. The result is higher, and unnecessary, spending.

In fact, a study released recently by the IMS Institute concluded that Americans are paying higher prices for cancer treatments because more patients are receiving care from oncologists whose practices have been bought by hospitals. According to the report, reimbursement levels for drug administration costs in hospital outpatient facilities are, on average, 189 percent higher than physician office reimbursement costs for commercially

insured patients under the age of 65 years. In 2014, Medicare paid the HOPD twice as much as a physician office for the same drug administration service.

The same is true in the delivery of post-acute care where costs vary widely for similar services provided in different settings, including inpatient rehabilitation facilities (IRFs) and skilled nursing facilities (SNF). The 2015 President's Budget estimates that site neutral payment for select rehabilitation services could reduce Medicare costs by \$2.4 billion over 10 years.

These spending disparities are not unique to Medicare. In a separate study conducted by the National Institute for Health Care Reform, drawing upon private insurance claims data from 590,000 active and retired nonelderly autoworkers and their dependents across 18 metropolitan areas, researchers discovered that increased spending on HOPD services is playing a major role in overall spending growth on both the publicly and privately insured because of increases in both prices and quantities.

Data show these disparities also drive up patient costs, which can therefore limit patient access and choice. For example, data from Milliman show cancer care delivered in the hospital setting costs Medicare beneficiaries \$650 more in out-of-pocket copayments compared to community-based care.

Hospitals and hospital-owned outpatient practices should be fully transparent about their billing policies to ensure patients fully understand their financial obligations and those of their health plan before care is delivered.

Reforms must be further designed to stop hospitals' reliance on revenue from HOPD services to fund the delivery of unrelated care services. Some hospitals now depend on HOPD payments to cross-subsidize other necessary patient care services, therefore alternative funding sources may be required to secure access to this care.

Leading healthcare experts have voiced concern.

In their November 2013 comment letter on Proposed SGR Repeal and Medicare Physician Payment Reform to Senators Max Baucus and Orrin Hatch, Brookings' Engelberg Center for Health Care Reform experts wrote, "Analogous reforms to make payment rates more equal for certain ambulatory and outpatient procedures that are currently reimbursed at much higher rates in hospital outpatient departments compared to physician offices and ambulatory surgical centers could also provide savings while encouraging higher-value care."

The Medicare Payment Advisory Commission (MedPAC) has also expressed support for payment neutrality by recommending a reduction to or elimination of differences between hospitals and physician offices for selected outpatient services. Most recently, at MedPAC's December 2014 meeting, the Commission acknowledged the market share is shifting to the higher cost hospital setting, which they estimate increased Medicare and beneficiary spending by \$1.44 billion last year alone.

**The Alliance for Site-Neutral Payment Reform** and our member organizations feel that it is time to address payment parity across site of service in order to decrease Medicare and commercial spending, ensure patients receive the right care in the right setting, lower taxpayers and beneficiary costs and increase patient access. Our growing membership represents healthcare providers, patient and consumer groups, insurers and others who believe patients – and the healthcare system – would be better served by policies that are fiscally wise and preserve and enhance options.

As Congress works on issues related to improving healthcare for your constituents, **we ask that you give due attention to reimbursement parity across site of service.** Whereas patients need to access various outpatient services in hospital and non-hospital settings, often simultaneously, we encourage a parity policy that does not reduce patient access nor quality of care. In the coming months, we look forward to providing you and your staff with additional information and resources related to the detrimental effects these disparities have on healthcare spending, and how we can work together to improve the outlook.

Sincerely,

**The Alliance for Site Neutral Payment Reform**

American Academy of Family Physicians  
American College of Physicians  
American Health Care Association  
America's Health Insurance Plans  
Blue Cross and Blue Shield Association  
Brain Tumor Alliance  
Community Oncology Alliance  
Lung Cancer Alliance  
Men's Health Network  
The US Oncology Network

Cc: House Leadership  
Senate Finance Committee  
Senate HELP Committee  
House Energy and Commerce Committee  
House Ways and Means Committee