New Jersey Hospital Association

NJHA ISSUE BRIEF

**Graduate Medical Education**

GME 101

With the ACA's coverage provisions in full effect, millions of Americans will be newly eligible for affordable health coverage. Unfortunately, our nation's antiquated physician training system may leave many of the newly covered with limited access to primary care services. The numbers bear this out – the Association of American Medical Colleges (AAMC) estimates that the physician shortage will grow nationally to over 90,000 by 2020, split evenly between primary care and specialists. These numbers are exacerbated in states like New Jersey, where the medical liability environment and cost of living can drive talented physicians to practice in other areas.

NJHA urges Congress to reaffirm its commitment to America's academic medical centers by protecting federal graduate medical education (GME) funding. Teaching hospitals serve a unique and critical role in our state's healthcare system. Not only do our state's teaching hospitals train future healthcare professionals and conduct vital medical research, but these important providers also serve a critical role in delivering patient care to our state's neediest patients.

By way of background, Medicare has two GME funding pools for academic medical centers. Indirect medical education (IME) payments are made to compensate for the higher costs associated with teaching hospitals, such as residents' "learning by doing" and the greater use of emerging technology at these facilities. The IME adjustment is a percentage add-on to the DRG rate and varies based on the intensity of a hospital's teaching program as measured by the ratio of residents to beds. The number of residents used in the calculation of resident-to-bed ratio is capped at 1996 levels.

Direct GME payments help fund the direct teaching costs of residency programs, such as resident salaries and benefits, faculty salaries and benefits and administrative overhead expenses. Payments are based on a hospital-specific, "per-resident" average cost using data from 1984 and updated annually for inflation. Separate per-resident amounts exist for primary care physicians and specialists. Like the IME formula, the resident count used in the direct GME formula also is capped (for most hospitals at 1996 levels).

Since its 1965 inception, the Medicare program has long recognized its responsibility for funding its share of the direct and indirect costs for training health professionals. These payments have served an important need in the last 49 years, and have supported the training of thousands of physicians at approximately $10 billion per year.

Across the country, teaching hospitals directly employ 2.7 million people and often are among the largest employers in their communities and major economic engines in their states. According to the Centers for Medicare and Medicaid Services, there are more than 1,000 academic medical centers training our nation's physicians. With 42 hospitals (as of 2014) with residency programs, New Jersey boasts one of the highest percentages of hospitals as academic medical centers in the country. Nationally, 29 percent of hospitals have residency programs. In New Jersey, 65 percent of our hospitals are academic medical centers. As such, GME funding – and other issues specific to academic medical centers – is particularly important for New Jersey.

Unfortunately, data from MedPAC raises serious concerns about the adequacy of current Medicare GME funding levels. In its March 2014 report, the commission indicated that the average Medicare margin for major teaching hospitals in the United States was a negative 2.6 percent. For outpatient services, the 2014 report showed an even more drastic -21.0 percent margin for major teaching hospitals. Smaller teaching facilities – many of which reside in New Jersey – are facing similar Medicare shortfalls, with average outpatient margins of -8.4 percent and an overall -5.2 percent margin on all Medicare payments.

Nevertheless, despite these alarming trends in Medicare financing and growing concerns of physician shortages in key areas, New Jersey's teaching facilities continue to train highly skilled, quality physicians on a yearly basis. However, additional resources are necessary for our state's teaching hospitals to continue their missions. In addition, the protection of current Medicare direct GME and IME funding is critical to continuing the mission of providing the critical patient care services our state has come to expect from New Jersey's teaching hospital community.

With the help of strong advocacy from the academic medicine community, Congress has not reduced Medicare direct or indirect medical education payments to teaching hospitals. However, recent deficit reduction proposals indicate that federal support for GME could be in jeopardy. The President's FY 2015 budget proposed to reduce Medicare GME payments to teaching hospitals by $14.6 billion, while GME payments to children's hospitals also would face a significant reduction. If IME payments were reduced by 10 percent, academic medical centers in New Jersey would experience a reduction of $27 million.

While the FY 2015 budget directed some of the total GME reductions to primary care workforce training – a valuable and important initiative – the bulk of the reductions would be directed to programs that have historically been of little benefit to New Jersey patients and providers.

There are several areas where New Jersey lawmakers can proactively take action to protect our state's teaching hospitals:

- The FY 2015 budget and several other long-term deficit reduction proposals – such as the "Simpson-Bowles" Commission proposal – that attack GME funding have emerged in recent years. In addition, recent years have seen MedPAC increasingly scrutinize Medicare's GME funding allocation. However, given the mounting evidence that we may face a physician shortage crisis in the near future, it is counterintuitive that Medicare would reduce its GME support with nearly 30 million newly insured Americans entering the marketplace next year. Moreover, evidence indicates reductions in IME funding would have a direct impact on jobs – a 2011 AAMC estimate found that a 60 percent IME reduction would result in a net loss of 72,000 jobs and an economic loss of $10.9 billion nationally. NJHA urges lawmakers to reject these proposals that would undermine the residency training mission of New Jersey's teaching hospitals.

- Despite the growing need for additional physicians, the Balanced Budget Act (BBA) of 1997 capped the number of Medicare-supported residency positions at 1996 levels. As a result, physician shortages in New Jersey – as many as 3,000 physicians by 2020 – are expected in primary care and other critical specialties. In the 113th Congress, bipartisan and bicameral proposals have emerged to provide for 15,000 new residency positions to help alleviate physician shortages in key areas. NJHA supports these efforts, including H.R. 1180, the Resident Physician Shortage Reduction Act, introduced by Rep. Joe Crowley (D-N.Y.), and its Senate companion, S. 577, introduced by Sens. Bill Nelson (D-Fla.), Chuck Schumer (D-N.Y.) and Harry Reid (D-Nev.). NJHA urges the New Jersey delegation to support these important measures.

- Earlier this Congress, Dr. Phil Roe (R-Tenn.) and Rep. Allyson Schwartz (D-Pa.) formed the Congressional Academic Medicine Caucus. The bipartisan member organization will provide a forum for members of Congress and their staff to gain a better understanding of the unique role of teaching hospitals in research and medical education. NJHA supports the Congressional Academic Medicine Caucus, and asks that New Jersey delegation members consider adding their names to this important effort.