

113339
HTD

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Rising Hospital Costs Can Be Restrained By Regulating Payments And Improving Management

Cost-based retrospective payment for hospital services is inherently inflationary. Yet, because retrospective payment is the prevalent reimbursement method used by third-party payers, both government and private, most hospital payments today are based on costs. Since this system guarantees hospitals the recovery of virtually all reasonable costs incurred, hospitals nationwide have not adopted, to the extent possible, effective and easily implemented management techniques to restrain cost increases.

Some States that have abandoned the practice of paying hospitals based on costs and adopted hospital rate regulation programs have been effective in restraining rising hospital costs. Hospital rate regulation offers promise as a means of restraining future cost increases.

The Congress should amend the Social Security Act to allow the Health Care Financing Administration to broaden Medicare participation in hospital rate regulation programs which contain stronger incentives for improved hospital management.



113339



012074/113339

HRD-80-72
SEPTEMBER 19, 1980