

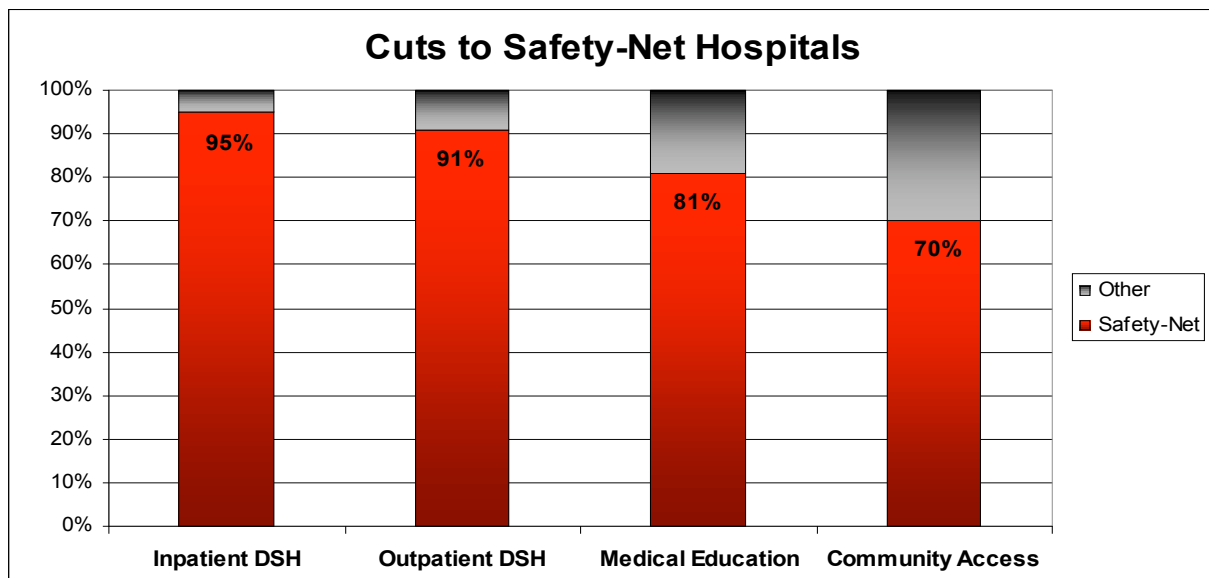
Proposed Medical Assistance Budget Shortchanges Safety-Net Hospitals:

An FY 2010 Budget Perspective of the Safety-Net Association of Pennsylvania March 3, 2009

What the Budget Proposes

The Medical Assistance spending cuts targeted in the Rendell administration's proposed FY 2010 budget would fall most heavily on Pennsylvania's safety-net hospitals.

The administration's proposed budget calls for cutting \$20 million in state spending on several core supplemental Medical Assistance payments to acute-care hospitals – payments critical to helping safety-net hospitals care for the most vulnerable Pennsylvanians. Eighty-six percent of the payment cuts to acute-care hospitals would be borne by Pennsylvania's safety-net hospitals: the 25 percent of acute-care hospitals that serve as the backbone of the commonwealth's health care safety net. The following table illustrates the impact of these cuts.



In addition, the budget calls for a reduction of nearly \$2 million in state spending on supplemental payments made to hospitals with maternity and neonatal intensive care units that care for especially high proportions of Medical Assistance patients. It also eliminates all funding – \$5.5 million – for the state's designated burn centers, two-thirds of which are safety-net hospitals.

In all, the administration proposes cutting \$27.5 million in state spending on these critical payments – a cut that will translate into a \$61 million reduction (including state and federal funds) in payments to the very hospitals that Pennsylvania depends on most to care for its most vulnerable residents.

Why This is an Ill-Conceived Approach

Ironically, these supplemental payments were originally developed to compensate for shortcomings in the Medical Assistance payment system. Inpatient and outpatient disproportionate share hospital (DSH) payments, in particular, are intended to help hospitals that care for especially high proportions of uninsured patients and also reflect a basic recognition that because of where they are located, hospitals that serve especially high proportions of Medical Assistance patients also serve especially high proportions of uninsured patients. DSH payments also seek to compensate providers of such large volumes of Medical Assistance services for the gross underpayments that have characterized Pennsylvania's program for decades: currently, Medical Assistance payments cover only about 80 percent of the actual cost of services provided on an inpatient basis and about 50 percent of the cost of services provided on an outpatient basis. This means that the more Medical Assistance patients a hospital serves, the more money it loses. In Pennsylvania today, safety-net hospitals serve the most Medical Assistance patients – by far – and therefore experience the largest losses doing so.

The same proposed budget that calls for cutting payments to the very safety-net hospitals that shoulder the greatest share of the responsibility for caring for low-income Pennsylvanians also projects a 3.2 percent increase in Medical Assistance enrollment in FY 2010. In effect, the administration is telling safety-net hospitals to care for more people with less money in FY 2010 – and it has proposed a budget that would have its greatest impact, in a potentially very damaging way, on the very acute-care hospitals that do the most in the state to care for low-income Pennsylvanians: the state's safety-net hospitals.

The Bottom Line

The Safety-Net Association of Pennsylvania believes this is the wrong approach in a time of economic crisis and limited resources. Safety-net hospitals work in partnership with the state to serve low-income Pennsylvanians – after all, Pennsylvania has no public hospitals to help with this responsibility – and at a time of limited state resources, the state should do more to target those resources to those partners, where they are needed most. The proposed approach does the exact opposite: it demands that those hospitals most involved in caring for Medical Assistance recipients and the uninsured absorb millions of dollars in cuts while serving on the front line in caring for low-income Pennsylvanians.

The Safety-Net Association of Pennsylvania urges policy-makers to weigh the wisdom of forcing safety-net hospitals to bear the brunt of these cuts and to work together to direct the state's limited resources to where they are needed most.

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