

When the Smoke Clears: Post-Budget Medical Assistance

The Rendell administration has proposed cutting direct Medical Assistance payments to hospitals by about \$350 million as part of its proposed FY 2006 budget. It appears unlikely that the full \$350 million cut will be approved by the General Assembly – but equally unlikely that all \$350 million will be restored. Within the next 30-40 days, there will be some kind of compromise, some unhappy medium struck that leaves everyone relieved that the issue has been settled but no one happy with the outcome.

What's Next?

But what will happen after this year's bruising budget battles are history? What's next for Pennsylvania's safety-net hospitals?

Clearly, "business as usual" is no longer working. Annual, painfully negotiated rate agreements have replaced consistent, planned, purposeful public policy development. Rate increases constantly trail actual health care inflation, causing hospitals to fall further and further behind. Hospitals are closing, falling into and then rising out of bankruptcy, and waging a never-ending struggle to stay solvent. Supplemental payments – inpatient and outpatient DSH, medical education, the Community Access Fund, and the Tobacco Uncompensated Care Fund – have become annual targets for elimination. The latter has become such a chronic problem that when cuts are proposed, recipients of these funds consider it a "victory" when the cuts are restored – and give up pursuing the increases they need and deserve.

The Safety-Net Association of Pennsylvania (SNAP) believes the time has come to look beyond business as usual. We believe the time for true Medical Assistance (MA) reform has come.

MA Reform: Not Starting From Scratch

SNAP has been a proponent of MA reform since its founding in the fall of 2002. In support of this objective, SNAP published "Pennsylvania's Medical Assistance

Program: Recommendations for Hospital Policy Reform" in June of 2003. This paper, available at www.pasafetynet.org, outlines SNAP's ambitious agenda for MA reform.

This SNAP reform paper quickly became the driving force behind formal MA reform talks between hospital industry representatives and DPW officials, first inspiring those talks to begin and then providing a definitive blueprint for the issues to be addressed and the concerns of Pennsylvania's safety-net hospitals. SNAP's reform paper truly became the talks' agenda.

Those talks took place for nearly a year leading up to the February 2005 release of the governor's budget proposal. While the need to address that proposal temporarily derailed MA reform discussions, that derailment should be viewed only as temporary. SNAP believes it is imperative to push for the resumption of reform talks as soon as the budget is passed – whatever that budget might include for safety-net hospitals.

The Need to Redirect Resources

Underlying SNAP's approach to MA reform has been its core belief that in an era of limited public resources and rising demand for publicly subsidized health care, more must be done to ensure that a greater proportion of those limited resources finds its way to the institutions that do the most to care for low-income Pennsylvanians.

The importance of this approach is reinforced by the current budget crisis. With Medicaid now the biggest item in many state budgets, it is increasingly clear that whenever states find themselves with budget problems, Medicaid is going to be the first place officials look for savings. In the past year alone, virtually every state in the nation has considered some combination of tightened eligibility requirements, reduced benefits, and lower payments to providers. Pennsylvania clearly is no different – this year, the state opted for greatly reduced benefits – and in such an environment, it is critical that hospitals that do the most to care for low-income

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patients are spared the brunt of cost-cutting when the state is suffering hard economic times.

Future MA reform talks will center around cutting different-sized slices of the same pie rather than dividing a new, bigger pie. For SNAP, the reality that the pie will not always be larger makes the need for reform, and for cutting those future slices in different sizes, more important than ever. This is why SNAP exists: to represent the interests of hospitals that play the biggest role in caring for MA recipients – and to represent only those hospitals.

The Issues

SNAP has an extensive MA reform agenda. Among the issues SNAP has advanced are supplemental payments to hospitals that care for especially large proportions of MA patients – inpatient and outpatient DSH payments, medical education payments, and Tobacco Uncompensated Care Fund payments. SNAP also believes that talks should address the Community Access Fund, which recent governors annually and routinely propose eliminating – and which legislators just as routinely restore every year, but only after the expenditure of a great deal of effort and considerable political capital by hospitals.

SNAP also believes that MA rates need to be addressed. A 2001 study prepared for the Pennsylvania General Assembly found that MA reimburses hospitals for less than 80 percent of the costs they incur providing MA services. Since that time, moreover, payments have fallen even further behind rising health care costs. Consequently, SNAP believes that the entire MA rate structure needs to be addressed, including DRG rates and the DRG system itself, which SNAP believes should be replaced with a newer DRG system that more accurately captures the severity of illness of MA patients.

SNAP's policy agenda also includes capital payments; access to capital for hospital improvements; and outliers. Another issue is the effectiveness of the commonwealth's decade-long experiment with mandatory managed care for large portions of the state's MA population.

Health care quality is another issue that would best be addressed in the context of broader MA reform. In April of 2004, SNAP responded to a suggestion by state officials that quality be a consideration in MA payments by preparing a comprehensive plan (also available at

www.pasafetynet.org) suggesting how that might be accomplished. That paper constituted the foundation of preliminary reform talks between hospital representatives and DPW officials and should continue to guide future talks in a broader reform context.

SNAP's Role

In better economic times, growing state revenue enables lawmakers to satisfy larger proportions of their constituents. As recent years have demonstrated, however, better economic times alternate with leaner times. In those leaner times, state health care budgets become a zero-sum game, and helping one group must come at the expense of others – a very difficult approach for elected officials to take.

SNAP believes it should be formal state policy to ensure that adequate state resources reach the health care providers that do the most to care for low-income Pennsylvanians – especially during the lean times when budget-cutting becomes the order of the day. When MA reform is discussed, moreover, SNAP is the only group that truly understands the needs of safety-net hospitals and the only group with an uncompromising agenda.

Pennsylvania needs a real plan for its MA program – and SNAP intends to push the commonwealth in that direction and play the pivotal role, the primary role, in ensuring that this plan truly meets the needs of the state's safety-net hospitals. ■

What is SNAP?

The Safety-Net Association of Pennsylvania represents the interests of private, acute-care hospitals that play the leading role in caring for the poor, the disadvantaged, and the uninsured residents of the commonwealth. Safety-net hospitals are the twenty-five percent of hospitals in Pennsylvania that care for the highest combined proportion of uninsured patients, Medical Assistance recipients, and Medicare SSI recipients and that therefore constitute the state's health care safety net. As a result of the patients they serve, safety-net hospitals face a significant, continuing, disproportionate challenge to their financial health.

For further information about the Safety-Net Association of Pennsylvania or any of the information or views offered in SNAPshots, please contact Charles DeBrunner, president, at 717-234-6970.