

News and Views from the Safety-Net Association of Pennsylvania

March 2006

Administration Targets Safety-Net Hospitals for Cuts

As part of its proposed fiscal year 2007 budget, the Rendell administration has called for slashing Medical Assistance supplemental payments to hospitals by more than \$170 million. Of that amount, Pennsylvania's safety-net hospitals – just 25 percent of the state's acute-care hospitals – would shoulder \$135 million, or 80 percent, of the total cuts.

In general, supplemental payments are intended for hospitals that care for the highest proportions of low-income Pennsylvanians. This means that the administration has zeroed in on safety-net hospitals to shoulder most of the pain caused by its proposed cuts.

The \$135 million in supplemental payment cuts that safety-net hospitals would absorb would exceed the additional revenue those hospitals might expect from a proposed four percent increase in fee-for-service rates. The budget also calls for a four percent increase for Medical Assistance managed care plans.

Among the cuts would be the entire million Community Access Fund program and all medical education payments.

Also slated for a major reduction is the inpatient disproportionate share hospital program (DSH). The administration proposes cutting DSH payments in half.

“The proposed cuts in supplemental payments threaten the very lifeblood of Pennsylvania's safety-net hospitals,” according to SNAP executive director Michael Chirieleison. “Once again, the administration has targeted the hospitals that do the most for low-income Pennsylvanians for the greatest share of its spending cuts.

“That's not how the state should treat its partners,” Chirieleison added.

State officials cite the loss of \$1 billion in federal Medicaid funds – a figure that SNAP disputes – as well as rising Medical Assistance enrollment and health care costs as the driving forces behind its decision to cut supplemental payments.

The bottom line is that once again, Pennsylvania's safety-net hospitals are being asked to do more with less.

SNAP intends to work vigorously against that possibility by lobbying legislative leaders and administration officials to prevent the proposed cuts from becoming law. ■

DPW Proposes “Hospital Restructuring Initiative”

As part of the proposed budget, the Department of Public Welfare (DPW) has proposed a “hospital restructuring initiative” that will seek to revamp how it pays hospitals for Medical Assistance services.

At the heart of this restructuring initiative, according to DPW, are four key concepts.

1. Move to Medicaid-specific reimbursement for hospitals.
2. Recognize and reward hospitals for their risk related to providing Medical Assistance services.
3. Tie special payments for hospitals more closely to the volume of services provided to low-income patients.
4. Provide incentives for providing quality inpatient services.

On the surface, this looks like the Medical Assistance reform that SNAP has advocated since its founding more than three years ago: a fundamental effort to direct more state resources to the hospitals that do the most, at the greatest risk to their financial well-being, to serve low-income Pennsylvanians.

In the coming months, SNAP will participate in talks with DPW officials and other hospital industry groups to negotiate how this initiative will be implemented. SNAP will work to ensure that the state directs more of its Medical Assistance resources specifically to safety-net hospitals rather than simply making policy changes politically palatable by sharing those resources with as many hospitals as possible – including many that do not need the extra assistance. ■

SNAP Enthused Yet Wary About Hospital Restructuring Initiative

“It's an excellent opportunity, but at the same time we need to be very careful,” Chirieleison explains. “Yes, we want reform, and we've been pretty specific about the kind of reform we want. We also know that DPW officials have their own ideas about what constitutes ‘reform,’ so we need to remain alert about a number of areas where our ideas and their ideas may not be entirely similar.”

In general, SNAP believes that DPW's payment system should direct more resources to the hospitals that do the most to care for Medical Assistance recipients and the uninsured.

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SNAP Enthused . . .

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This is so important, SNAP feels, because current rates cover only about 75 percent of hospitals' actual costs for caring for Medical Assistance patients, so the more Medical Assistance patients hospitals serve, the more money they lose.

For most hospitals around the state, SNAP believes, such losses are relatively minor and can be made up through privately insured patients. Safety-net hospitals, on the other hand, serve more Medical Assistance patients on the whole and more as a proportion of their overall patient mix.

For this reason, safety-net hospitals have become increasingly dependent on supplemental payments to compensate for at least some of the difference between the cost of the care they provide to Medical Assistance patients and what the state pays them for such care. Because most state budget proposals in recent years have begun with reductions in supplemental payments, this leads to an annual cycle of the state singling out safety-net hospitals for large, disproportionate Medical Assistance revenue cuts.

Changing the Medical Assistance payment system – whether through “Medical Assistance reform” or a “hospital restructuring initiative” – offers the potential to redirect the state's limited resources, use those resources more effectively, and help close a payment gap that has been widening in recent years.

Guiding SNAP's participation in upcoming “restructuring” talks with DPW officials will be recommendations presented in a 2003 SNAP white paper entitled “Pennsylvania's Medical Assistance Program: Recommendations for Hospital Policy Reform” (available on the SNAP web site at www.pasafetynet.org). Overarching those specific recommendations are the following principles:

1. The state should direct more of its scarce Medical Assistance resources to its safety-net hospitals because those hospitals care for more Medical Assistance recipients than other hospitals, assume the greatest financial risk through their efforts, and are hurt most by the state's inadequate Medical Assistance payments.
2. Supplemental payments, regardless of their form, are the best way to fill some of the gap between the state's low Medical Assistance payments and the actual cost of providing care. Because hospitals that receive supplemental payments are, in effect, more important to the Medical Assistance program than other hospitals, whenever the state must, for budget reasons, attempt to reduce Medical Assistance spending, cutting supplemental payments should always be the last resort rather than the first choice, which they are now.

3. The best way currently to determine whether a hospital is truly a safety-net hospital and should receive supplemental payments is its low-income variable – the measure currently used to determine eligibility for tobacco uncompensated care funds. The low-income variable is the combined proportion of uninsured patients, Medical Assistance recipients, and Medicare SSI recipients that a hospital serves. Because the pool of funds for such payments is limited, SNAP believes they should be directed to where the need is greatest: the 25 percent of the state's acute-care hospitals that constitute Pennsylvania's health care safety net.

As DPW officials and hospital industry representatives – including SNAP – begin to discuss the state's proposed “restructuring” initiative, SNAP intends to remain faithful to these principles and will work closely with its member hospitals to ensure that their needs are understood by state officials and addressed by whatever restructuring is ultimately undertaken. ■

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.