

SNAP-Inspired Payment Changes Coming Soon

Continuing talks on reforming Pennsylvania's Medical Assistance payment system are expected to produce the first major changes in how the state pays hospitals in more than 20 years. The Safety-Net Association of Pennsylvania (SNAP) played the leading role in promoting this reform effort and has been a major participant in advocating the distinct needs of safety-net hospitals during reform negotiations.

Changes Coming

In the near future, Medical Assistance is expected to introduce a number of changes in how it pays hospitals, including new base rates; a new DRG system; changes in inpatient DSH and medical education payments; and a new outlier payment system.

SNAP Leads the Way

These and other changes have been part of SNAP's ambitious agenda since its founding in 2002. As early as June of 2003, SNAP articulated its vision of Medical Assistance payment reform in a policy paper entitled "Pennsylvania's Medical Assistance Program: Recommendations for Hospital Policy Reform" (see SNAP's web site at <http://pasafetynet.org/whitepapers.html>).

At the time, SNAP was the only hospital group calling for reform of the Medical Assistance payment system; neither the Department of Public Welfare (DPW) nor other industry groups had expressed any such interest.

That changed as a result of SNAP's persistent and forceful advocacy, and the first meeting between DPW and hospital industry representatives to discuss the Medical Assistance payment system was held in October of 2003 – less than a year after SNAP's founding. (For an account of this first meeting, see "Memo on first Medical Assistance reform meeting with state officials" on the SNAP web site at http://pasafetynet.org/ma_reform.html).

Preparation for Reform

Prior to payment reform talks, SNAP took two major steps that proved essential to its ability to deliver for its member hospitals. First, SNAP firmly established what it meant by "safety-net hospitals." The SNAP definition of "safety-net hospitals" used the same criteria that the state employs to determine Tobacco Uncompensated Care payments; this gave

SNAP an accepted, policy-based rationale for its criteria. SNAP then successfully lobbied the state House to pass a resolution recognizing safety-net hospitals and establishing SNAP's criteria as the official definition of "safety-net hospital."

Second, SNAP's research on the financial performance of Pennsylvania hospitals managed to put a specific price tag on the cost of the state's long-running underpayments for Medical Assistance services to safety-net hospitals (see *The Challenges Facing Safety-Net Hospitals in Pennsylvania*, available on the SNAP web site at <http://pasafetynet.org/whitepapers.html>). This would later prove critical during payment reform negotiations. The possibility of an MA shortfall of \$1 billion and major spending cuts, however, suggest that this budget may be anything but traditional.

Payment Reform Talks

The path to Medical Assistance payment reform was nothing if not slow. From their October 2003 start, the talks dragged into and through 2004, 2005, 2006, and 2007. In late 2006 and 2007, however, the talks grew more serious. When the state showed enough interest to suggest that it might put additional money on the table to pay for some aspects of reform, the other hospital industry groups grew more interested. SNAP's dream appeared closer to becoming a reality.

A New DRG System

From its earliest days, SNAP has advocated the adoption of a new DRG system for Medical Assistance: a system called All Patient Refined DRGs, or APR-DRGs. APR-DRGs have more classifications than the current DRG system and within each classification are sub-classifications that reflect patients' severity of illness. While the current DRG system was developed to pay for services for Medicare patients, APR-DRGs, co-developed by the National Association of Children's Hospitals and Related Institutions, were developed to reflect health care utilization by a much younger patient population. APR-DRGs would benefit safety-net hospitals, SNAP has long maintained, because these hospitals see patients who are fundamentally sicker than the average hospital patient and therefore require more resources to treat

(continued on page 2)

because they are poorer, less likely to comply with physicians' orders, and less likely to engage in practices that help prevent medical problems. The current DRG system does not account for severity of illness and therefore does not reflect these differences in resources. The APR-DRG system, SNAP reasoned, would pay hospitals more accurately, and more fairly, for the additional resources they expend treating their Medical Assistance patients. This, SNAP believed, would be good for safety-net hospitals.

Now, it appears that APR-DRGs will be an integral part of a reformed Medical Assistance payment system in Pennsylvania.

30% Base Rate Increase

SNAP has long maintained that Medical Assistance underpayments exact an especially heavy toll on safety-net hospitals. Because of those inadequate payments, SNAP argued, these hospitals were forced to suppress their costs, and as a result, they were unable to invest in equipment, technology, and facilities at the same rate as non-safety-net hospitals. SNAP's 2002 study *The Challenges Facing Safety-Net Hospitals in Pennsylvania* quantified this cost suppression for the first time, using hospital cost data and statistical analysis to demonstrate that safety-net hospital costs had risen 30 percent less than those of non-safety-net hospitals in recent years for this very reason.

During payment reform talks, SNAP argued that safety-net hospitals should be compensated for this hardship imposed by the current payment system. This was the subject of lengthy negotiations, but DPW and the rest of the hospital industry ultimately accepted this argument and SNAP prevailed: under the new Medical Assistance payment system, safety-net hospitals – only those that meet SNAP's criteria – will receive a 30 percent "cost suppression adjustment" increase in their base rates when those rates are recalculated.

While not all safety-net hospitals will feel the full effect of this cost suppression adjustment because the state intends to cap how much additional money hospitals may receive, this major victory for SNAP means that nearly every safety-net hospital in the state stands to benefit from Medical Assistance payment reform once it is implemented.

More Safety-Net Hospitals to Receive Supplemental Payments

Supplemental payments are critical for safety-net hospitals because Medical Assistance payments remain so far below hospitals' actual costs. Once the new payment system is in place, 12 safety-net hospitals that currently do not receive inpatient DSH payments will become eligible for those payments and two safety-net hospitals will be newly eligible for medical education payments.

More Medical Assistance Money

Because of the challenge inherent in developing a new payment system without harming providers, DPW has put a substantial amount of money – more than \$41 million – on the table to help pay for reform. Clearly, this money would not have been forthcoming without SNAP's aggressive leadership in pursuing Medical Assistance payment reform.

Leadership Now

Without question, Medical Assistance payment reform never would have arisen without SNAP. From the start, SNAP's members kept the Medical Assistance payment system first and foremost on their agenda and insisted that the organization continue to pursue it even when other industry groups were lukewarm to the idea. With no need to compromise its agenda to balance the needs of its members, SNAP was able to move forward forcefully and effectively. In the end, the new payment system, once implemented, will be far better than the old for Pennsylvania's safety-net hospitals.

Leadership in the Future

SNAP's Medical Assistance advocacy will not end when the new system is put in place. A number of issues of interest to SNAP were not addressed at all in this four-year process and others were not addressed satisfactorily. SNAP hopes to pursue some of these issues in the near future.

Further Information on Payment Reform

For further information about these and other aspects Medical Assistance payment reform, including a specific breakdown of how reform will affect your hospital and how and when it will be implemented, please contact SNAP executive director Michael Chirieleison at 717-234-6970. ■

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 Michael Chirieleison, executive director, at 717-234-6970.