

News and Views from the Safety-Net Association of Pennsylvania

February 22, 2008

Payment Reform Should Help Safety-Net Hospitals

Most Pennsylvania safety-net hospitals will benefit in the near future from anticipated changes in how the state pays for Medical Assistance-covered services.

These changes should take effect sometime in the state's 2009 fiscal year if the Department of Public Welfare (DPW) and hospital industry representatives can iron out the last remaining details of proposed changes in Medical Assistance payment practices.

These changes would mark the culmination of a five-year effort initiated by the Safety-Net Association of Pennsylvania (SNAP), which has called for Medical Assistance payment reform since its founding in the fall of 2002. Actual payment reform talks began more than two years ago.

The key changes in the Medical Assistance payment system would be reformulated base rates, a new DRG classification system, and a new system of outlier payments. The governor's proposed FY 2009 budget apparently includes additional state funds needed to pay for these changes.

Under the proposed changes, all hospitals would have their base rates recalculated. Safety-net hospitals alone also would receive a 30 percent increase in their base rates, known as a "cost suppression adjustment," to reflect the state's recognition that years of low Medical Assistance payments forced safety-net hospitals to keep their costs low and that rebasing after years of such cost suppression would be disadvantageous to safety-net hospitals.

"We absolutely insisted on this cost-suppression adjustment," notes Michael Chirieleison, SNAP's executive director. "The state had to acknowledge the cumulative impact of its long-running underpayments to our hospitals and make a meaningful step toward addressing it."

While the cost suppression adjustment is 30 percent, base rate revenue would be capped at 10 percent greater than the current level for individual hospitals – a step needed to limit the growth of the state's Medical Assistance spending under the payment reform proposal.

DPW also would introduce a new DRG system: the APR-DRG system, which includes more classifications and multiple levels of severity within each classification. This system does a more precise job of capturing patients' severity of illness and is generally thought to be better for safety-net hospitals because the larger proportions of low-income patients they serve typically are sicker than the average hospital patient.

More hospitals would receive inpatient DSH and medical education payments under the reformed Medical Assistance payment system, and it is possible that more may be eligible for outpatient DSH payments as well.

"To sell these changes to the rest of the state's hospital industry, we had to make a number of compromises. As a result, we weren't able to redistribute some state funds as much as we had hoped, but this is a good start. We're pleased to be able to deliver this significant victory for Pennsylvania's safety-net hospitals." *Continued on page 2*

Safety-Net Hospitals Mostly Spared By Budget Proposal

For the first time in recent memory, safety-net hospitals have largely been spared major Medical Assistance and other cuts in Governor Rendell's proposed FY 2009 budget.

But that budget is not without potential pain for many hospitals.

Under the proposed budget, which was unveiled by the governor on February 5, Medical Assistance inpatient DSH, outpatient DSH, medical education, and trauma center payments would remain at their current levels – no cuts, but also no cost-of-living increases.

The budget also apparently includes additional money needed to pay for the Medical Assistance payment reforms currently being negotiated between the state and the hospital industry.

On the other hand, it calls for eliminating burn center and OB DSH payments. The latter were only introduced earlier this year and still have not been made to any hospitals.

The budget is unclear on the fate of Community Access Fund payments, although it appears that FY 2009 funding will remain at the current, FY 2008 level.

In addition, the proposed budget calls for \$180 million in cost-containment initiatives but only specifies how \$25 million of those savings would be achieved.

"We're pleased that inpatient and outpatient DSH and the medical education and trauma payments apparently haven't been targeted for cuts but are very concerned about the proposed OB DSH cuts," said SNAP executive director Michael Chirieleison. "This state is still in the midst of a

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“Overall, the majority of Pennsylvania safety-net hospitals would benefit considerably from these changes,” explains Chirieleison.

The proposed changes are not perfect, Chirieleison concedes, but they are a start.

Much of the credit, Chirieleison said, goes to SNAP members.

“It took several years for us to get the state interested in talking about reforming the Medical Assistance payment system, and it was just as hard to sell the idea to the rest of the industry. But our membership wanted payment reform and kept us focused on encouraging state officials and others in the industry to work on it, and eventually, the pieces fell into place.”

But SNAP is not finished with the Medical Assistance payment system, Chirieleison insists.

“There are some things we’ll want to look at again, including a more rational distribution of supplemental payments.

“We applaud the state for taking these important steps toward recognizing the extraordinary role safety-net hospitals play in caring for Pennsylvania’s most vulnerable residents,” Chirieleison continued. “At the same time, there remains significant room for improvement, and we’ll continue to pursue such improvements in the future. Payments are still too low, for example, and not enough of the state’s resources are going to the hospitals like ours that provide most of the Medical Assistance services. We’ll continue to work to address these and other problems.” ■

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crisis when it comes to maintaining enough facilities to deliver babies, and it’s puzzling that the administration would propose ending payments that were introduced just recently to help deal with that problem.”

Other major Medical Assistance proposals include a two percent increase in capitation payments to HealthChoices managed care organizations – and incentives that can bring them another 2.5 percent increase; an announced intention to carve out drug benefits from the HealthChoices plans in southeastern Pennsylvania and the Lehigh-Capital zone; and a new HealthChoices/Access Plus initiative in 16 western Pennsylvania counties.

In addition, Governor Rendell is again proposing his “Prescription for Pennsylvania” plan, including its “Cover All Pennsylvanians” health insurance plan, and his twice-defeated Jonas Salk Legacy Fund.

The governor’s February budget address is just the first step in a process that by law is supposed to end no later than June 30 – but that has gone beyond that point several times in recent years. In the coming weeks, state legislative committees will hold hearings on individual aspects of the budget. In addition, DPW Secretary Estelle Richman will offer a closer look at the Medical Assistance budget in early March, at which point hospitals will learn much more about the state’s intentions for FY 2009.

A more detailed summary of the governor’s proposed budget, with an emphasis on issues of importance to safety-net hospitals, can be found on the SNAP web site at http://pasafetynet.org/whats_new.html. ■

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.