

Safety-Net Association of Pennsylvania

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Making Medical Assistance Hospital Payment Policy in Pennsylvania: A Broken Process in Need of Fixing

**A Perspective of the Safety-Net Association of Pennsylvania
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Pennsylvania's Medical Assistance hospital payment system is broken, the victim of decades of neglect. To compensate for its many underlying shortcomings that have emerged over the years, legislative initiatives have been employed to create an ad hoc mixture of supplemental payments for groups of hospitals and even, under some circumstances, for individual hospitals. While these special payments may help their recipients cope financially with the rising cost of treating low-income patients, some of these special arrangements currently lack a sound public policy rationale. Worse, this failure to reform the underpinnings of the Medical Assistance hospital payment system has left unaddressed the needs of the state's safety-net hospitals: the 25 percent of all acute-care hospitals in the state that provide roughly half of all Medical Assistance services. The Safety-Net Association of Pennsylvania (SNAP) believes the state should pursue thorough and systematic reform of this payment system and correct these problems.

Background

Pennsylvania's current Medical Assistance hospital payment system traces its roots back to 1983, when the state introduced a new prospective payment system, based on diagnosis-related groups, or DRGs, through which it pays hospitals for the inpatient care they provide on a fee-for-service basis to Medical Assistance recipients. That system is now more than a quarter of a century old, and during that time, the health care delivery, legal, technological, political, and medical landscapes have changed dramatically. While there have been numerous, mostly minor adjustments to this system over the years, it has never been the subject of a comprehensive review and its underlying foundation has neither been examined nor changed. Such a review, SNAP believes, is long overdue.

Incremental Changes Over the Years: The Group "Fixes"

Over the years, policy-makers and hospital industry leaders have identified and attempted to address a number of shortcomings in the Medical Assistance payment system, but they have always done so on a piecemeal basis, adding new wrinkles to the reimbursement system rather than attempting to correct underlying flaws. One aspect of this approach has been the creation of various new, supplemental payments for selected groups of hospitals that meet designated criteria – payments such as outpatient disproportionate share hospital (DSH) payments, Community Access Fund payments, Tobacco Uncompensated Care and Tobacco Extraordinary Expense payments, OB/NICU payments, trauma center payments, critical access payments, and burn center payments. The common thread that joins these payments is that while they were developed to address specific, legitimate needs, the criteria under which hospitals qualify for them and how those hospitals are paid may no longer be grounded in sound public policy; instead, that foundation is often based at least in part on political considerations. Consequently, each of these supplemental payment programs serves at least some hospitals that appear neither to need nor deserve this special assistance based on the program's guiding rationale. Because some arguably undeserving hospitals receive much of this money, more deserving providers – like Pennsylvania's safety-net hospitals – receive less of the aid they so clearly need.

Incremental Changes Over the Years: Individual Hospital “Fixes”

At the same time, a number of individual hospitals have turned to their elected representatives in Harrisburg in search of additional money to supplement their Medical Assistance revenue. On various occasions over the past 20 years, the legislature has – with good intentions – responded by arranging “special” Medical Assistance payments for some of these hospitals. For years, the merits of assisting most of these hospitals were hard to dispute, but in recent years, supplemental assistance appears to be going more to those with the loudest voices and best political relationships rather than those whose need is greatest. Whether merited or not, these special payments – like the supplemental payments for designated groups of hospitals – amount to applying a bandage to a problem without addressing or even probing the problem’s underlying cause. Again, diverting scarce state resources to hospitals that do not really need or deserve them detracts from the state’s ability to help hospitals with more legitimate needs.

The Product: A Flawed Payment System

As a result of this piecemeal approach to the Medical Assistance payment system, two major problems have emerged. First, the state is spending more than \$150 million a year (\$330 million in all, including federal Medicaid matching funds) outside of the fee-for-service payment system to attempt to correct shortcomings, both real and perceived, in that system; it appears that while some of that money is well spent, some of it is not. Second, the proliferation of supplemental payments for groups of hospitals has created a tempting target for public officials looking to reduce state spending because those supplemental payments are discretionary and subject to the annual appropriation process rather than part of the underlying payment system. As a result, the hospital industry must fight for these payments virtually every year and turn to the legislature for help. This would not be necessary if the payment system were updated to reflect today’s realities and needs as well as changes in the health care environment.

SNAP’s Request: Medical Assistance Payment Reform

SNAP believes this is a short-sighted approach to administering Pennsylvania’s Medical Assistance hospital payment system. SNAP also doubts that the General Assembly is interested in making Medical Assistance payment policy on a hospital-by-hospital basis every year and suspects it would prefer a more traditional legislative role in which it establishes the overarching objectives of that system and then monitors it for faithfulness to those objectives.

Accordingly, SNAP believes it is time to launch a comprehensive review of Pennsylvania’s Medical Assistance payment system. We ask the General Assembly to join us in urging the Department of Public Welfare to initiate such a process with a goal of reforming that system into one that recognizes that with the state’s resources so clearly limited, every effort must be made to direct those limited resources – including this vast amount of “off the books” Medical Assistance money – to where they are needed most and to where they will do the most to help ensure access to care for all Pennsylvanians. SNAP hopes that such reform will pay special attention to the needs of Pennsylvania’s safety-net hospitals, which play such a vital role in caring for the Medical Assistance population and so many other low-income, uninsured, and under-insured Pennsylvanians – hospitals that in many ways are poorly served by the outdated, jerry-rigged approach that characterizes that payment system today, 26 years after its conception.