

**Pennsylvania's Hospitals:  
Doing Their Fair Share to Support the Medical Assistance Program**

**Presented by the Safety-Net Association of Pennsylvania  
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**Background**

Whenever policy-makers in Harrisburg seek to slow the growth of state spending on health care for low-income Pennsylvanians, they inevitably consider cost-cutting measures that would come at the expense of health care providers. Whether in the context of budget deliberations, Medical Assistance policy changes, or health care reform initiatives, such proposals – to tighten Medical Assistance eligibility requirements, reduce Medical Assistance benefits, provide less-than-adequate Medical Assistance rate increases, or reduce or eliminate Community Access Fund or Tobacco Uncompensated Care fund payments – typically call on providers to continue delivering the same quantity of care to the same pool of low-income patients (or even more patients) while receiving less state money to pay for that care.

Among health care providers, this burden historically has fallen most heavily on hospitals – so heavily that it raises the question of how much more they can be expected to do. Before asking hospitals to do more, it is important Pennsylvanians understand the enormous role that the state's hospitals already play in underwriting care for low-income residents of this commonwealth.

**Doing Their Fair Share: Uncompensated Care**

Few businesses are expected to give away significant quantities of their services. Nursing homes, for example, do not provide free care. All of their patients – whether privately insured, publicly insured, or self-paying – have a clear means of paying for the care they receive and are accepted as patients with this understanding. Similarly, Medicaid managed care organizations (MCOs) never enroll non-paying individuals just because those people need care.

Hospitals, on the other hand, are expected to provide free care to those who have no means of paying – and they do. In 2004, the state's hospitals provided \$521 million worth of uncompensated care, according to the Pennsylvania Health Care Cost Containment Council (PHC4). In 2005, they provided \$541 million worth of free care. PHC4 makes no comparable calculations of uncompensated care delivered by providers such as nursing homes and Medicaid MCOs – because their uncompensated care burdens are minimal.

**Doing Their Fair Share: Involuntary Discounts**

When budget times are tough, the state often compels health care providers to accept less for the Medical Assistance services they provide – but it only makes this demand of hospitals. Medical Assistance payments to nursing homes continue to increase, year in and year out, while historically, Medical Assistance premiums to Medicaid MCOs have guaranteed those MCOs a profit through actuarially sound rates formulated to assure positive margins. Hospitals, on the other hand, are always and routinely asked

to accept less than cost for their services: currently, Medical Assistance fee-for-service payments to hospitals cover less than 80 percent of hospital costs (Medicaid MCOs tend to pay slightly better but still much less than cost). This means that every time a hospital provides \$1000 worth of care to a Medical Assistance patient, it is paid less than \$800 – and it loses more than \$200. The more Medical Assistance patients a hospital serves, the more money it loses.

These underpayments add up – to more than \$500 million a year. Thus, between uncompensated and undercompensated care, *hospitals now contribute more than \$1 billion a year to caring for low-income Pennsylvanians*. This figure, moreover, does not include tens of millions of dollars worth of services that hospitals provide every year at no charge through various community programs.

### **Doing More Than Their Fair Share: Hospitals in the Red**

Hospitals pay a huge price for all of this uncompensated and undercompensated care. In 2005, 27 percent of all acute-care hospitals in the state lost money. This news was headlines throughout the state – but there were no comparable headlines about nursing homes and Medicaid MCOs because nursing homes and Medicaid MCOs rarely lose money.

### **The Special Burden of Safety-Net Hospitals**

Pennsylvania's safety-net hospitals – the 25 percent of acute-care hospitals in the state that care for the highest proportion of uninsured, Medical Assistance, and Medicare SSI patients – bear the greatest part of this extraordinary financial burden. These hospitals provide 55 percent of all Medical Assistance inpatient services and treat three times as many Medical Assistance patients and two-thirds more uninsured patients than non-safety-net hospitals. Every time the Department of Public Welfare imposes an “across-the-board” cut in Medical Assistance payments or reduces eligibility or benefits, the burden falls much more on safety-net hospitals than others. The effect of a two percent cut in Medical Assistance payments on a hospital for which Medical Assistance revenue constitutes three percent of patient revenue, for example, pales in comparison to the impact of a two percent cut on a hospital for which Medical Assistance accounts for 15 percent of patient revenue.

### **Looking to the Future**

Without question, Pennsylvania's hospitals are doing a great deal to help the state deal with the enormous financial burden of caring for 1.9 million Medical Assistance recipients and roughly 900,000 uninsured Pennsylvanians. They provide significant amounts of uncompensated care – unlike other health care providers; they provide huge amounts of discounted care for which they are significantly underpaid – unlike other health care providers; and a few among them – the state's safety-net hospitals – bear a disproportionate share of a growing financial burden that now exceeds \$1 billion a year. No other group is making the contribution to serving Pennsylvania's Medical Assistance population that the state's hospitals – especially its safety-net hospitals – are now making. No other group is making the same financial sacrifice.

Pennsylvania's safety-net hospitals hope that policy-makers understand the extent to which hospitals have already been called upon to help – and how often they have answered that call and done their fair share.