

Introducing... Pennsylvania's Safety-Net Hospitals

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Safety-net hospitals play the leading role in caring for the poor, the disadvantaged, and the uninsured residents of Pennsylvania. The 25 percent of acute-care hospitals in the state that care for the highest combined proportion of uninsured patients, Medical Assistance (Medicaid) recipients, and Medicare SSI recipients constitute Pennsylvania's health care safety net. Pennsylvania's 38 safety-net hospitals are large and small and can be found throughout the state – east and west, north and south, and in 20 of Pennsylvania's 67 counties. They are all private hospitals: unlike most states, Pennsylvania does not have any public hospitals and therefore depends on its private hospitals to work in partnership with the state to serve its low-income residents.

The Importance of Medical Assistance and State Payments for Uncompensated Care to Safety-Net Hospitals

Because safety-net hospitals care for more Medical Assistance and uninsured patients than other hospitals, Medical Assistance payments and state payments for uncompensated care constitute a much larger proportion of their revenue and safety-net hospitals are far more dependent on that revenue than other hospitals. Those supplemental state payments for uncompensated care consist of two types: Community Access Fund payments, which are additional state funds paid to hospitals that care for low-income patients who just miss eligibility for Medical Assistance, and Tobacco Uncompensated Care Fund payments, which are supplemental state payments made to the 50 percent of hospitals in the state that care for the highest combined proportion of Medical Assistance, Medicare SSI, and uninsured patients. The inadequacy of these payments poses a major problem for safety-net hospitals. Currently, Medical Assistance payments cover only about 80 percent of hospitals' costs for providing inpatient care and only about 50 percent of the cost of outpatient care. This hurts hospitals' bottom lines: the more Medical Assistance patients a hospital serves, the more money it loses. Because safety-net hospitals serve more and higher proportions of Medical Assistance patients than other hospitals, they lose more money serving Medical Assistance patients than other hospitals. Similarly, state payments for uncompensated care do not even begin to approach the level of uncompensated care that hospitals actually provide.

The Special Challenges That Pennsylvania's Safety-Net Hospitals Face

In addition to the state's chronic underpayment for the care they provide to Medical Assistance patients, Pennsylvania's safety-net hospitals face other challenges to their ability to continue serving their communities. The low-income patients who turn to them for care are often fundamentally sicker than the "average" hospital patient and are more expensive to treat. Many of those low-income patients are uninsured, so the hospitals must absorb the cost of their care. Some of these hospitals offer money-losing services that are needed by their communities – services like neonatal intensive care, behavioral health, trauma and burn care, and others – that many other hospitals choose not to offer. Many have troubled finances that make it extremely expensive, if not impossible, for them to borrow the money they need to keep their facilities commensurate with the demands of modern medicine.

One of the biggest challenges that safety-net hospitals face is the threat posed by changes in public policy. Medical Assistance is perennially a target for would-be budget-cutters because it is one of the biggest items in the state budget. When not calling for reductions in eligibility – reductions that just increase the

number of uninsured patients they treat – these budget-cutters often propose reductions in payments specifically directed to safety-net hospitals, such as disproportionate share or “DSH” payments (special payments to help selected hospitals pay for the care they provide to their many uninsured patients); Community Access Fund payments; and medical education funds (supplemental payments to train new physicians, many of whom are directly involved in the care of low-income patients). In recent years, state officials have proposed enormous cuts in Medical Assistance funding – and the hospital industry sadly views as a “victory” any success in reducing the size of those cuts even though what they really need is increased state funding to ensure access to care.

Such cuts potentially affect more than Medical Assistance recipients, too: they affect entire communities. When hospitals close for financial reasons – as three Pennsylvania hospitals did in 2006 alone – access to care is jeopardized for *all* of those communities’ residents, including those with private health insurance.

Doing Their Fair Share

Safety-net hospitals are doing their fair share to help low-income and uninsured Pennsylvanians. The state’s hospitals, led by its safety-net hospitals, collectively provide more than \$500 million a year in uncompensated care to uninsured Pennsylvanians and absorb another \$500 million worth of losses a year in Medical Assistance underpayments. As a result, roughly one-third of all Pennsylvania hospitals lose money in any given year, with many others suffering operating margins so low that it detracts from their ability to serve their communities. Pennsylvania’s safety-net hospitals bear the biggest part of this burden because while only 25 percent of the state’s hospitals, they provide well over one-half of all Medical Assistance services, treat approximately three times as many Medical Assistance patients as other hospitals, and serve about two-thirds more uninsured patients than other hospitals.

The Prospect of Health Care Reform – and Medical Assistance Reform

At a time of limited public resources, safety-net hospitals believe that state policy-makers need to make hard decisions about the best possible use of those resources and direct them to where the need is greatest: to Pennsylvania’s safety-net hospitals. Pennsylvania’s hospital industry is currently in the midst of talks with the state’s Department of Public Welfare about instituting fundamental Medical Assistance payment reform. At the same time, the Rendell administration is proposing a major health care reform initiative geared toward making health care insurance more accessible to more Pennsylvanians.

For Pennsylvania to enjoy true health care reform, these two undertakings must intersect. The Safety-Net Association of Pennsylvania supports any attempt to extend health insurance to more Pennsylvanians as long as such an effort includes recognition that additional funds are needed to pay for care for more people. Insurance alone, however, does not mean access. Insurers do not stitch wounds, set broken bones, or diagnose the cause of mysterious pains. Doctors do – doctors working in hospitals. Consequently, health care reform must recognize the financial needs of the institutions that would be caring for the recipients of these new benefits: the state’s safety-net hospitals.

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For additional information about safety-net hospitals, the Safety-Net Association of Pennsylvania, or any of the issues addressed in this paper, please contact Michael Chirieleison, the association’s executive director, at 717-234-6970 or mike@debrunner.us.