Safety-Net Association of Pennsylvania

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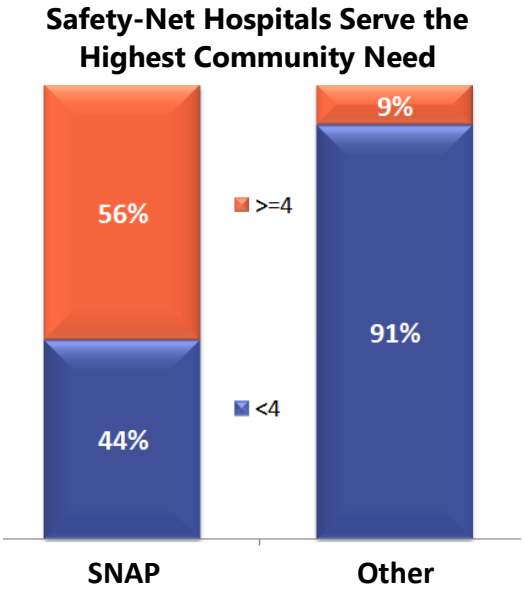
The American health care landscape is changing rapidly. Reforms brought about by the Affordable Care Act, and now, through Medicaid expansion in Pennsylvania, are combining with powerful, long-term economic and policy forces to bring about fundamental change how we deliver and pay for care. While these reforms may solve some problems, they also pose new challenges – especially for Pennsylvania's 41 private safety-net hospitals.

Challenge #1: Distinct Hospitals Serving Distinct Patients

Many of the low-income and medically vulnerable patients served primarily by safety-net hospitals pose a special challenge: often, they have had only episodic contact with the health care system over the years and have years of accumulated and chronic medical problems. Upon discharge from the hospital, a lack of resources and social and community supports jeopardizes their recovery. Additionally, a measure known as the community need index (CNI) quantifies the existence and extent of five key socio-economic barriers to care – income, culture/language, education, insurance status, and housing – in every zip code in the country. A score of four or higher (with five being the maximum) is the highest tier, indicating the greatest level of need, and in Pennsylvania, 56 percent of safety-net hospitals have a CNI greater than four compared to just 9 percent of non-safety-net hospitals. These problems demand special responses – responses that involve investing more time and atypical resources than what is needed to serve the standard hospital patient. Highly complex patients combined with a programmatic shift towards reform incentives poses a major challenge for safety-net hospitals, which provide most of the care to the state's Medical Assistance population.



Challenge #2: Inadequate Payments for Medical Assistance Services

Pennsylvania's Medical Assistance program and the managed care organizations with which it contracts routinely underpay hospitals for the care they provide. As a result, the more Medical Assistance patients a hospital serves, the more financial strain it places on the hospital. This is especially a challenge for the state's safety-net hospitals because they serve so many more Medical Assistance patients than the typical hospital.

While this situation has improved somewhat in recent years, more still needs to be done: in particular, at a time when government, insurers, health care economists, and others are encouraging hospitals to provide more and more care in outpatient settings, it is generally accepted that Pennsylvania's Medical Assistance payments for outpatient care covers less than 50 percent of the cost of that care. To improve Medical Assistance, the state must do a better job of aligning its Medical Assistance payment system with its policy objectives.

Challenge #3: Uninsured and Underinsured Patients

The enhanced access to health insurance introduced through Affordable Care Act reforms will unquestionably reduce the number of uninsured Americans – but not even the most optimistic observers believe those reforms will eliminate the problem of people without health insurance. There will still be people without insurance, they will still turn primarily to safety-net hospitals for care, and they will still leave those hospitals with bills they will never pay.

Now, moreover, a new challenge is emerging: lower-cost, high-deductible health plans offered through health insurance exchanges are leaving lower- and even some middle-income policy-holders with large deductibles they cannot afford to pay, which in turn is leaving hospitals with unpaid bills they will most likely be unable to collect. Because safety-net hospitals care for more of these lower-income patients than the typical hospital, they are starting to amass more of this uncompensated care.

Challenge #4: Threats to Vital Supplemental Payments

Hospitals that serve especially large numbers of low-income and medically vulnerable patients, or that provide certain especially important and typically high-cost and money-losing services, qualify for various supplemental state and federal Medicare and Medicaid payments; Pennsylvania's safety-net hospitals qualify for many of these payments: Medicare disproportionate share hospital payments (Medicare DSH), Medicaid DSH payments, burn center payments, trauma center payments, neonatal/intensive care unit payments, critical access hospital payments, medical education payments, Community Access Fund payments, and Tobacco Uncompensated Care payments. The federal government has already begun reducing Medicare DSH payments, as required by the Affordable Care Act, and Medicaid DSH payment reductions will begin in 2017 and are expected to be significant.

The rationale for the supplemental Medicaid payments made by the state is virtually unaffected by Affordable Care Act reforms: safety-net hospitals will still be providing the services for which they receive these supplemental payments, they will still be providing them primarily (although not exclusively) to low-income and medically vulnerable patients, and they will still be incurring additional, unusual costs to provide them. Consequently, safety-net hospitals face the challenge of ensuring that their continued ability to provide these services survives threats to the adequacy of these payments – threats that, if unaddressed, could lead to a loss of access to critical health care services in parts of the state.

Challenge #5: Reforming the Health Care Delivery System

Today's health care system is not built to provide tomorrow's health care. Providers are being challenged to improve access to primary care, yet a 2012 survey by the journal *Health Affairs* found that only 68 percent of primary care physicians in Pennsylvania were willing to serve more Medical Assistance patients because Medical Assistance pays so poorly for their services. Pennsylvania will need to do more to ensure that access to health insurance leads to access to actual health care for a major influx of newly insured people, including as many as 600,000 new Medical Assistance beneficiaries.

Hospitals are being challenged to shift the focus of much of the care they provide from the inpatient to the outpatient setting. As noted, however, providing outpatient care exacts a serious financial toll on Pennsylvania's safety-net hospitals, so the state must better align Medical Assistance payment mechanisms with its Medical Assistance policy objectives. The increased focus on paying for health care outcomes – for quality – instead of just health care services – quantity – will require yet another realignment of payment mechanisms with policy objectives.

Finally, the existing infrastructure for delivering yesterday's care does not meet tomorrow's needs. Reshaping that infrastructure – not only its facilities but also its programs and delivery systems – will require substantial investment by safety-net hospitals and a new chapter in their long-time partnership with government.

Additional Challenges…

- ✓ *Administrative case backlogs*
- ✓ *Unnecessary retroactive payment determinations*
- ✓ *Continual pressure from credit rating agencies*
- ✓ *Outdated Medicaid cost reporting process*
- ✓ *Current reimbursement practices are not consistent with the information collected*

Conclusion

Safety-net providers have long been the primary providers of care to Pennsylvania's low-income and medically vulnerable residents. Because of where safety-net hospitals are located, this will not change. For them to do this effectively, for them to do this efficiently, and for them to do this in a manner commensurate with the changing demands being made of all health care providers, they must overcome a series of major challenges. The Safety-Net Association of Pennsylvania looks forward to working in partnership with the state to address and overcome those challenges and develop and implement the health care system the citizens of our state deserve.

Safety-Net Association of Pennsylvania, www.pasafetynet.org
President, Michael Chirieleison, at 717-234-6970 or mike@pasafetynet.org