Pennsylvania's Safety-Net Hospitals: The Need for Stable and Predictable Funding Amid Increasing Challenges

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The American health care landscape is changing rapidly, posing new challenges for hospitals. Reforms brought about through the Affordable Care Act, the prospect of some form of Medicaid expansion in Pennsylvania, and powerful, long-term economic and policy forces seeking to bring about fundamental change in the delivery of health care appear, at least on the surface, to solve many problems, but they also bring with them new challenges – especially for Pennsylvania's 41 private safety-net hospitals.

Against the backdrop of this dynamic and promising yet challenging environment, safety-net hospitals need stable and predictable Medical Assistance funding now more than ever.

The Challenge of Serving Patients With Greater and Distinct Needs

Pennsylvania's safety-net hospitals serve a distinct patient population: more low-income and low-income elderly patients, some insured by Medicare, some by Medical Assistance, and some not at all, than other hospitals. Often, these patients have had only periodic and episodic contact with the health care system during their lives, including limited access to primary care, and when they turn to safety-net hospitals for care they are fundamentally sicker than the typical hospital patient, often suffering from more than one chronic medical condition, and require more time and more resources to treat. But the challenges these patients face and present also go beyond the hospital's walls: many lack a combination of the education, resources, and community supports needed to follow and to follow through on medical instructions so they can help themselves recover from their illnesses and injuries. 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 is the highest tier, indicating the greatest level of need, and in Pennsylvania, 56.1 percent of safety-net hospitals have a CNI greater than four compared to just 9.8 percent of non-safety-net hospitals – a true reflection of the challenges confronting Pennsylvania's safety-net hospitals every day.

Major Medicare Cuts

While the Affordable Care Act will greatly enhance access to health insurance for millions of Americans, the federal reform law and other laws adopted since its passage also call for a number of painful cuts in Medicare payments to hospitals. Some of these cuts have already begun, some will begin in the next few years, and all are especially harmful to safety-net hospitals.

Among the Medicare cuts safety-net hospitals are suffering are:

- *Reduced annual cost-of-living payment rate increases*. These increases are now less than the rise in the cost of living.

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- *Reduced reimbursement for Medicare bad debt*. When low-income Medicare patients cannot afford their Medicare co-pays and deductibles, Medicare reimburses them for some of those costs. Until recently, it reimbursed them for 70 percent of those losses; now, that reimbursement has been reduced to 65 percent – and a recent proposal calls for cutting it to just 25 percent.
- *Financial penalties associated with Medicare's new hospital readmissions reduction program*. This program offers incentive payments, and imposes financial penalties, based on the rate at which hospitals readmit Medicare patients they only recently discharged. A growing number of studies show that this program is unfairly punitive to hospitals – like Pennsylvania's safety-net hospitals – that serve especially large numbers of low-income patients.
- *Reduced Medicare DSH payments*. Hospitals that serve especially large numbers of low-income and uninsured patients receive supplemental Medicare payments called disproportionate share hospital payments, or Medicare DSH. Medicare has begun reducing these vital payments and may eventually cut them as much as 75 percent.
- *Medicare sequestration cuts*. A 2012 federal sequestration law requires Medicare to reduce all its payments to hospitals by two percent. These cuts will continue well into the next decade.

In addition, Affordable Care Act-mandated cuts in hospitals' Medicaid DSH payments – something all Pennsylvania safety-net hospitals receive – have been delayed by Congress for three years but eventually will reduce hospitals' Medicaid DSH payments, a vital resource for these hospitals, as much as 50 percent.

Powerful Economic Forces Calling for Change

Hospitals serve many masters. Insurers, government, and others are demanding change from health care providers, but they are not all asking for the same changes. Insurers and government are using their financial influence – that is, the rates they pay hospitals – to influence these changes. In some cases, the incentives are contradictory and complying with the demands of one payer may mean losing revenue from another. Among the changes they are demanding are:

- They want hospitals to reconfigure their care delivery structures and mechanisms and develop and invest in new ways of serving their patients and their communities.
- They want to pay for health care outcomes (results), not inputs (services).
- They want hospitals to work more cooperatively with doctors, skilled nursing facilities, and others to realign financial incentives through bundled payments, accountable care organizations, and other new care delivery and payment mechanisms.
- They want more care to be provided on an outpatient basis and less in the hospital. This is not an unreasonable expectation – but it is a potentially devastating one for Pennsylvania safety-net hospitals because Medical Assistance outpatient payments are far, far less adequate than inpatient payments. Hospitals suffer profound losses providing Medical Assistance outpatient services, and among them, safety-net hospitals suffer the greatest losses of all because they provide so many of these services.
- They want hospitals to invest heavily in costly information technology.

Unknown Medicaid Expansion

Pennsylvania appears to be well on the path toward expanding access to Medicaid benefits; safety-net hospitals are enthusiastic about this prospect. While SNAP supports Medicaid expansion because it would unquestionably benefit safety-net hospitals, it still poses a number of challenges for them.

Today, Medical Assistance routinely underpays hospitals for the care they provide to their Medical Assistance patients. This means that the more Medical Assistance patients a hospital serves, the more money it loses. Medicaid expansion would increase the number of Medical Assistance patients in the state by more than 500,000 – most to be served by safety-net hospitals (which, despite being only 25 percent of the state's acute-care hospitals, provide 59 percent of all of the inpatient care the state's Medical Assistance population receives). Depending on how expansion is undertaken, this could multiply safety-net hospitals' Medical Assistance losses rather than reduce them.

For Medical Assistance expansion to work well in Pennsylvania and not cause unintended harm to the state's safety-net hospitals, state funding for Medical Assistance hospital payments must be stable and predictable and the state's regulatory and payment environment must support hospitals' efforts to respond to patient needs and payer demands – especially as more and more care is delivered on an outpatient basis.

Conclusion

Pennsylvania's private safety-net hospitals are enthusiastic about the future, but they know that the changes demanded of them will not come about easily: they will take time, they will take money, and they will take capabilities that many institutions do not currently have and will need to develop and acquire. These demands are being made of safety-net hospitals, moreover, at a time when some of them are losing money and half of them have margins of less than four percent – the minimum needed to operate a hospital effectively.

More than anything else, these safety-net hospitals need financial stability and predictability: they need to know that their Medical Assistance funding will not be at risk as the state experiences budget challenges and that the state continues to view them as partners in fulfilling a core function of state government: providing a health care safety net for Pennsylvania's Medical Assistance and low-income populations.

About the Safety-Net Association of Pennsylvania

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. These 41 hospitals provide disproportionate amounts of care to the state's 2.2 million Medicaid recipients and one million uninsured residents. As a result of the patients they serve and the communities in which they are located, safety-net hospitals face a significant, continuing challenge to their financial health. SNAP's mission is to secure better, fairer reimbursement for the hospitals that serve as partners of the state in ensuring that Medicaid recipients receive the benefits to which they are entitled. While all of these safety-net hospitals share the common characteristic of their unusual level of service to low-income Pennsylvanians, they are diverse in many other ways: they include community hospitals, teaching hospitals, children's hospitals, and academic medical centers; they are large, small, and medium-sized hospitals; they are located in urban, suburban, and rural areas as well as in the western, eastern, and central parts of the state; and they can be found in 24 of Pennsylvania's 67 counties.