Safety-Net Association of Pennsylvania
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March 8, 2012

Department of Public Welfare
Office of Medical Assistance Programs
c/o Regulations Coordinator
Health & Welfare Building, Room 515
Harrisburg, PA 17120

Dear Regulations Coordinator:

I am writing on behalf of the Safety-Net Association of Pennsylvania (SNAP) to urge the Pennsylvania Department of Public Welfare (DPW) not to move forward with its plan to amend 55 Pa. Code §§1163.2, 1163.51, and 1163.52 and in so doing eliminate Medical Assistance fee-for-service payments to hospitals for the care they provide to Medicaid-eligible infants who are classified as normal newborn births.

We urge you to do so for the following reasons.

1. **Eliminating fee-for-service payment for normal newborn births undermines the very mission of the Medicaid program.**

At its most fundamental level, Medicaid historically is a program for mothers and their children in general and for expectant mothers and their newborns in particular. More than 45 years ago, our nation agreed that special steps must be taken to ensure that they receive the care they need regardless of their ability to pay for that care. Making a conscious decision that Medical Assistance not pay for the care hospitals provide to newborns deserves at the very least extensive public consideration, discussion, and debate.

2. **Dropping an entire DRG for payment purposes shifts the incentives under the prospective payment system from encouraging efficiencies to discouraging a particular service.**

DPW has characterized this proposal as a shift to making a single payment for mother and child rather than two separate payments, which is consistent with how some payers operate. The methodology DPW has proposed for implementing this policy, however, does not combine two payments – it eliminates one.

Pennsylvania employs a prospective payment system of diagnosis-related groups, or DRGs, to determine fee-for-service payments. The purpose of a DRG system is to foster efficiency among hospitals: the DRG system calculates what an efficiently run hospital should spend to treat a specific medical problem. Hospitals that spend more to provide that care lose money on the individual service
while those that can provide the care spending less are rewarded for their efficiency. Through a DRG system, hospitals compete both with themselves and with other hospitals to be the most efficient providers of care, with clear financial rewards and penalties for success or failure.

Through extensive calculations, each of these DRGs is assigned what is known as a relative weight; a relative weight is the amount of resources needed to care for a particular medical problem in comparison to the average of caring for all medical problems.

The fee-for-service system only works the way it should when the relative weights average together to equal 1.0. Removing APR-DRG 6401, the most prevalent DRG, would involve replacing the relative weight of normal newborn births with a zero and, in so doing, removing any recognition of the cost of providing

newborn care from the fee-for-service program and altering the incentives built into the program. This would severely undermine the integrity and accuracy of the current DRG system. If DPW moves forward with its intention to pay a single rate for mother and child services, it must recalibrate the relative weights simultaneous with implementing this change.

3. Eliminating fee-for-service payment for normal newborn births will jeopardize access to maternity services – both for Medical Assistance recipients and for all Pennsylvanians.

Medical Assistance has a clear responsibility to pay hospitals for the care they provide to newborns – and for any other legitimate care they provide to their Medical Assistance patients. Today, approximately half of all births in the state are covered by Medical Assistance – and an even higher proportion in safety-net hospitals. All of these hospitals understand that Medical Assistance has historically paid poorly, but they view offering this service to be so important to their communities that they make considerable financial sacrifices to do so. Many hospitals have tried this approach and failed, as the significant number of closings of hospital obstetrics units over the past 20 years so clearly attests. Further reducing the Medical Assistance payments hospitals receive for births will make this problem even worse, and over time, it will jeopardize access to obstetric services. When it does, it will jeopardize access for all Pennsylvanians, not just Medical Assistance recipients.

4. Eliminating fee-for-service payment for normal newborn births directly contradicts recently established public policy.

In response to the crisis caused by hospitals across the state closing their maternity units at an alarming rate, Pennsylvania introduced a special way to help those that continued to offer this service – and especially, to help hospitals that continued to offer this service to large numbers of Medical Assistance patients. In 2007 – just five years ago – the General Assembly established the supplemental Medical Assistance OB/NICU payment. To a degree, this new payment has helped stabilize a very fragile situation. Almost every year since its adoption, governors have proposed eliminating this payment but the General Assembly has adamantly insisted on its restoration. Now, the OB/NICU supplemental payment has been reduced twice in less than a year – approximately 33 percent compared to its FY 2011 funding level. SNAP thanks the administration for not proposing any further reductions in FY 2013 but asks that it not simply replace one cut to this vital service line with another.

5. Reducing the fee-for-service rate for normal newborn care based on a comparison of those rates to those paid by managed care organizations is inappropriate.

DPW justifies its decision to stop paying hospitals for the care they provide to some of their patients – normal newborns – by maintaining that it is paying more for this service than the managed care organizations (MCOs) with which it contracts to care for many Medical Assistance patients. SNAP believes the logic underlying this rationalization is flawed.

Hospitals negotiate rates with the MCOs – a customary business practice that DPW does not extend to Pennsylvania hospitals. With this regulation, DPW has decided to focus and act on just a single negotiated rate out of the literally hundreds of rates negotiated between hospitals and those MCOs. When evaluating the policy, DPW must consider that when hospitals and MCOs negotiate rates, both parties understand and accept that on some individual services they may do well and on others they may not fare so well. In this regard, SNAP believes that DPW is making a single comparison that favors the state while ignoring many others that do not.

6. The proposed policy change disproportionately affects safety-net hospitals.

Although only one-third of all Pennsylvania acute-care hospitals, safety-net hospitals provide most of the care to the state's Medical Assistance population. For example, 72 percent of all inpatient care provided to the state's Medical Assistance population is provided by safety-net hospitals. More important, for purposes of this issue, is that 67 percent of all Medical Assistance-covered births in Pennsylvania take place in safety-net hospitals.

Consequently, this proposed regulation calls for significantly reducing Medical Assistance payments to safety-net hospitals in particular by stopping payments on the single service most needed by the state's Medical Assistance population at the very time that the state's Medical Assistance enrollment is near its all-time high. In so doing, this policy would directly and disproportionately affect – and hurt – safety-net hospitals.

Conclusion

SNAP and its members recognize the financial challenges Pennsylvania faces today. We also recognize the challenges that face the Medical Assistance program: growing enrollment and growing costs. At the same time, however, we do not believe it is appropriate to attempt to address those challenges, and in particular the growing costs, by deciding to stop paying hospitals for the single most common service they provide to the Medical Assistance population. In so doing, the state is ignoring costs hospitals incur for providing this vital service, increasing their losses from providing this service, and potentially jeopardizing the ability of some hospitals to continue providing this service at all. Pennsylvania has just achieved a modicum of stability after nearly two decades of hospitals deciding to stop providing maternity services, but implementing this regulation could stop and even reverse that progress.

The Safety-Net Association of Pennsylvania strongly urges DPW to withdraw this regulation and not implement it and the damaging changes it would bring.

We appreciate your consideration of our request and welcome any questions you may have about the views we have expressed.

Sincerely,

Michael Chirieleison
President