

IHA Legislative Position 2010 Hospital Provider Assessment



★ Overview

Due to declining state revenues, several states have recently turned to health care provider assessments as a means of generating greater federal financial participation in state Medicaid programs. These proposals, which must be approved by the federal government, assess health care providers as a means of raising the state share of Medicaid expenditures.

Under these plans, states then raise Medicaid payments to the affected providers as a means of supporting care to the state's Medicaid population. However, disparities arise because hospitals do not serve an equal number of Medicaid beneficiaries. This means that some hospitals that serve a higher number of Medicaid patients may actually see payment increases in excess of their assessments while other hospitals that see fewer Medicaid patients will in fact lose money under these proposals. That is a significant issue when hospitals are experiencing increased cost pressures and growing charity care needs.

★ Background

The Iowa Hospital Association (IHA) has historically *opposed* provider assessments as poor public policy. Not only do these plans by their very nature create “winners” and “losers” from a financial perspective, but they also detract from the central need for the state to adequately fund its own insurance program (Medicaid). Iowa's Medicaid program actually reimburses hospitals *less* than Medicare. The federal government will only allow payment increases up to Medicare rates. In Iowa, this upper payment limit (UPL) is currently \$68 million for prospective payment system (PPS) hospitals, meaning that is the maximum amount Iowa hospital Medicaid payments could be raised (a figure recently increased by across-the-board Medicaid budget cuts). This calculation does *not include* Iowa's 82 critical access hospitals.

★ Iowa Hospital Association Position

IHA and Iowa's community hospitals recognize that the state of Iowa faces extreme budget challenges in FY 2011, including within the Medicaid program. Recent estimates from the Legislative Services Agency indicate that the Medicaid shortfall alone could exceed \$250 million in the next state budget. Preserving Iowa's Medicaid program—both in terms of services to beneficiaries and payments to health care providers—must be a priority for state government, especially in the current economic environment. In these challenging budget times, the hospital community understands the potential state benefits of a provider assessment; Iowa hospitals would be willing to consider supporting a hospital assessment program if certain principles were adhered to. These principles include:

- Funds generated by such an assessment must be spent for health care-related purposes and receive federal approval.
- The negative impact on Iowa's community hospitals must be minimized to the extent possible.
- Any future reductions in hospital Medicaid payments would void the tax.
- There must be a sunset provision on any such plan to evaluate its impact on Iowa's hospitals and overall health care system within three years after implementation.
- No labor initiatives or other salary adjustments for any class of hospital workers would be a part of the agreement or contingent upon this agreement.
- Passage of additional federal Medicaid funding not currently available to cover Iowa's Medicaid beneficiaries or to offset losses within Iowa's Medicaid program would void the plan.

There are many ways such proposals can be modeled. However, given the Medicaid upper payment limitations previously cited, such a plan would have limited gains for Iowa. Yet a hospital provider assessment proposal does hold the potential of benefiting both the state budget and health care services in Iowa. For example, such an assessment could be structured to generate approximately \$40 million that could be used to match federal Medicaid dollars. Once matched, this would mean that Iowa would see roughly an additional \$133 million to support Medicaid/health care expenditures (under current federal matching rates). Under this scenario, hospital support for an assessment is contingent upon the following health care issues being made legislative priorities in 2010:

- Bringing hospital Medicaid payments to Medicare levels (the upper payment limit previously highlighted) and tie future increases to increases in the UPL. This addresses the longstanding disparity between Medicaid and Medicare payments and in fact would help to mitigate private health insurance rate increases that currently offset these government payer losses.
- Fully funding the hospital Medicaid rebasing process set to occur in FY 2012. Fully funding the rebase—at a cost estimated at less than \$10 million—would prevent some hospitals from seeing Medicaid payment decreases when the rebasing is calculated (the hospital Medicaid rebasing process currently occurs every three years).
- Establishing a base year calculation that sets a specific annual assessment amount over the three years of the plan's implementation.
- Oversight of the assessment plan by an appointed board of hospital executives who would be charged with insuring the assessment proposal is administered effectively and to make recommendations regarding the assessment plan at the end of the three-year lifespan.
- Allowing the plan to be implemented retroactive to July 1, 2010, giving CMS the opportunity to approve the plan while still making it applicable to Iowa's FY 2011 budget year.

In addition, IHA supports funding for key health care concerns such as IowaCare charity care being provided by community hospitals, hospital outpatient behavioral health services, and statewide mental health service programs, for the increased physician residency program created in 2009 (but not funded), additional pay for statewide nursing faculty and incentive programs to help Iowa hospitals recruit physicians from assessment plan revenue.

Under such a proposal, Iowa's Medicaid program would still net approximately \$65 million in FY 2011 to address Medicaid utilization shortfalls or other needs. If additional funds are needed, those could be generated from other health care interests, such as repealing all or a portion of the insurance premium tax reductions previously passed by the Iowa General Assembly, to supplant the state portion of Medicaid expenses.