

Medicare/ Medicaid



Minnesota Hospital Association (MHA) members pursue life-saving, mission-driven, dedicated work — 24 hours a day, seven days a week. At a time when hospitals face the simultaneous challenges and uncertainties of implementing federal health care reform, a weak economy and state budget shortfalls, it is more important than ever to ensure that every hospital can continue to fulfill its critical role as a safety net for its community.

Nationally, the hospital field recognized the importance of extending health care coverage to the growing ranks of the uninsured and the accompanying need for cost savings to pay for that coverage. Accordingly, hospitals understood that some cuts to Medicare and Medicaid payments were necessary to achieve the federal health care reform's expansion of coverage to 32 million people. Nevertheless, these cuts, which amount to more than \$150 billion over ten years, pose a significant challenge for hospitals, especially when some of the payment cuts go into effect before coverage expansion begins. In other words, hospitals' uncompensated care costs will not be addressed before they will be required to absorb

decreased revenues.

Even when fully implemented, coverage expansion will not resolve hospitals' financial concerns. State and federal health care programs pay below the cost of delivering care. Because many of the newly insured will be covered through Medicaid, these

underpayments and the financial strain they place on Minnesota's hospitals and health systems will persist.

The biggest payers of hospital services in Minnesota are the Medicare and Medicaid programs. In a struggling economy, more people become eligible for and depend upon these public health care programs. Consequently, hospitals face a growing problem of underpayments.

Additionally, more people seeking care in hospitals are simply unable to pay for the services they receive. For uninsured Minnesotans, the hospital emergency room remains the safety net.

Minnesota's state budget also remains grim. After attempting to reach a balanced budget through cuts and unallotments, the February budget forecast showed that we still face a nearly \$1 billion shortfall. Despite imposing cuts to hospital payments year after year, policymakers continue to look to Minnesota hospitals to shoulder a disproportionate share of the proposed cuts to solve state budget problems this year.

FEDERAL ACTION REQUESTED:

Preserve initiatives to move forward with a Medicare payment system that recognizes value over volume.



over

Medicare

According to the Kaiser Family Foundation, as of July 2008 there were 44.8 million Medicare beneficiaries nationwide and 747,000 Medicare beneficiaries in Minnesota.

Medicare, excluding Medicare Advantage plans, represents 31 percent, on average, of hospitals' payer mix statewide. Greater Minnesota hospitals tend to have a higher mix of Medicare patients with 37 percent compared to Twin Cities hospitals at closer to 27 percent.

Medicare payments to Minnesota hospitals are not adequate; do not keep pace with the growing costs of drugs and technology, work force shortages, care for the uninsured, patient safety initiatives and medical liability premiums; and leave Minnesota's hospitals and health systems at a disadvantage with our peers around the country. Medicare currently pays only 88 cents for every dollar of costs in treating Medicare patients in Minnesota. According to MHA's community benefits reporting, hospitals and health systems reported more than \$1 billion in Medicare shortfalls in 2008.

Seventy-nine hospitals in Minnesota are designated as critical access hospitals (CAHs) and receive cost-based reimbursement under the Medicare program. This designation and corresponding payment formula have restored financial stability to many of these rural hospitals and allow them to continue providing high-quality, accessible health care services to residents in their communities.

Medicaid

Medicaid's role as the insurance mechanism for 58.7 million poor, disabled and elderly individuals nationwide has never been more critical than today. According to the most recent data from the Minnesota Department of Human Services, Minnesota has almost 550,000 Medicaid beneficiaries.

At the State Legislature, hospitals have endured six rounds of state budget cuts since 2002 while facing increased volumes of uncompensated care and a growing inability of individuals to afford their out-of-pocket deductibles and co-pays. Public program enrollees that lose coverage due to state budget cuts will still need care and will end up in emergency rooms — the most expensive place to receive care. Minnesota hospitals provided \$476.2 million in uncompensated care (charity care + bad debt) in 2008.

Hospitals experience severe payment shortfalls when treating Medicaid patients. Medicaid currently pays only 73 cents for every dollar of costs in treating Medicaid patients in Minnesota.

According to MHA's community benefits reporting, hospitals and health systems reported more than \$487 million in Medicaid shortfalls in 2008. This underfunding results in increased financial strain on hospitals and forces greater cost-shifting to private sector payers.

It is imperative that any federal action regarding changes to the Medicare and Medicaid programs not put further financial pressure on states or diminish the guarantee of coverage for the nation's most vulnerable patients.