

October 26, 2005

Barbara Riley, Director
Ohio Department of Job and Family Services
30 E. Broad Street, 32nd Floor
Columbus, OH 43266

Re: Rule 5101:3-2-07.4 "Basic methodology for determining prospective payment rates."

Dear Director Riley:

The Ohio Hospital Association (OHA), on behalf of our member hospitals and their 230,000 employees, strongly urges the reconsideration of the proposed freeze of hospital inpatient payment rates in the upcoming calendar year. The Department of Job and Family Services has filed a change to rule 5101:3-2-07.4 that would freeze inpatient payment rates until January 1, 2007. There are several reasons why such a freeze would be detrimental, not only to the hospitals in this state, but to the entirety of Ohio's economy as well.

In calendar year 2003, when a Medicaid patient received care in an Ohio hospital, the hospital could expect to be reimbursed for only 92.4 percent of the cost of providing care to that individual. That is not a margin most businesses can absorb from a significant payer yet remain open. Furthermore, when a Medicaid patient was treated in an outpatient setting, a hospital could expect to be paid merely 80 percent of the cost of providing that care. Instead of looking at ways to cut or freeze hospital reimbursement, we believe Medicaid funding for hospitals needs to keep pace with health care inflation.

Even in the face of these shortfalls in reimbursement, nearly all of Ohio hospitals maintain a not-for-profit business model and a charitable mission. Hospitals remain the medical safety net in this state, providing care for Ohio's poor and uninsured. Nursing homes, physicians, and pharmacies are under no obligation to do likewise.

The individuals Ohio hospitals serve who have no insurance or Medicaid coverage, but fall below the poverty line, are generally the working poor. Without any form of insurance, hospitals are left to provide their care without a guarantee of even a penny in return. In 2003, Ohio hospitals provided over \$650 million in care to the uninsured, up over \$100 million in three years' time. With Medicaid losses, hospitals reported uncompensated care statewide of over \$845 million.

The federal program, the Hospital Care Assurance Program, for which hospitals provide the state share, only brings \$326 million to hospitals in 2005 to compensate for that \$845 million shortfall. By instituting this rate freeze, ODJFS is only adding misery to a problem that costs Ohio hospitals \$519 million annually.

While the uncompensated care that hospitals provide is one challenge to hospitals' survival, the rising cost of providing all types of care is another. A freeze in hospital payments will not also freeze input costs, such as new technologies, as well as the ever-rising costs of drugs and labor.

With that said, this two year delay in the inpatient update would cost Ohio hospitals nearly \$105 million in Medicaid reimbursements, but would only save Ohio roughly \$42 million in state funding. The federal matching funds for Medicaid expenditures are themselves strong arguments for increasing Medicaid funding. For every state dollar saved, \$1.44 is left in Washington where it cannot help Ohio's economy.

While OHA realizes that the State faced huge challenges in passing a biennial budget containing unproven tax reform and giant spending cuts, Ohio's hospitals continue to face fiscal challenges as well. In fact, 16 Ohio hospitals, dependent on Medicaid, have closed since 2000 as a result of financial losses. Added to this is a sweeping transformation of the Medicaid program into a full-risk, capitated managed care arrangement. This shift to managed care will force hospitals to contract with risky, profit-driven businesses that will assume this rate cut, as well as the newly recalibrated rates, in contract negotiations. With their statutory protections and this and other rate cuts in their back pockets, new Medicaid managed care corporations threaten to force hospitals into signing high-risk, low reimbursement contracts all while collecting huge capitation payments from ODJFS. While this arrangement may be sensible to investors and executives of out-of-state insurance companies, Ohio hospitals, assets in our Ohio communities, see it as abhorrent.

Lastly, OHA has not seen an economic impact analysis of this proposed rule specifically for hospitals which serve a disproportionate share of low-income patients. Without such analysis and consideration, we feel that this rule will violate the federal Medicaid statute 42 U.S.C. §1396a(a)(13)(A)(iv), by failing to take into account the situation of hospitals which serve a disproportionate number of low-income patients with special needs. OHA feels that this freeze materially disadvantages disproportionate share hospitals, clearly against Congressional intent, and threatens the survival of many hospitals in poorer areas of Ohio.

While we do take issue with this proposed policy, OHA is looking forward to working with the Department in developing strategies to manage costs effectively. But hospitals cannot survive if they continue to be reimbursed less than the costs of providing care without guarantees of continued inflationary increases. As a result, while Ohio hospitals are willing to make sacrifices in a down economy, hospitals are not willing to accept a disproportionate cut in reimbursement. With our ability to continue to deliver the best patient care in mind, OHA urges your withdrawal of rule 5101:3-2-07.4 that would freeze inpatient hospital payments.ⁱ

Sincerely,

John E. Callender
Senior Vice President
The Ohio Hospital Association

JEC/rb
attachment

ⁱ Sources: *Calendar year 2000 Medicaid and Medicare Cost Reports*