

# Ensuring Adequate Resources for Patients and Communities

## *Medicaid*

### Issue

For more than 40 years, Medicaid has served as the nation's health care safety net, providing access to health services for millions who cannot afford private insurance in a dynamic and changing economy. Today, more than 57 million children, poor, disabled and elderly individuals rely on Medicaid for care. In fact, the program now serves more people than Medicare, and with the ranks of the uninsured growing, the Medicaid program is more important than ever.

Hospitals are the backbone of America's health care safety net, providing care to all patients who come through their doors, regardless of their ability to pay. But, hospitals already experience severe payment shortfalls when treating Medicaid patients. For example, in 2005 Medicaid paid only 87 cents for every dollar spent treating Medicaid patients. And that same year, hospitals provided care at a cost of nearly \$29 billion for which no payment was received. Despite these financial pressures, the Administration is calling for further cuts in federal funds for the Medicaid program that will affect hospitals and the patients they serve.

**The Federal Budget and CMS Regulations.** President Bush's proposed fiscal year (FY) 2008 budget calls for nearly \$26 billion in administrative and legislative reductions to the Medicaid program over the next five years, of which, nearly \$7 billion directly affects payments to hospitals. The Administration's budget proposal includes the Centers for Medicare & Medicaid Services' (CMS) published rule that limits payments to public hospitals and restricts states' ability to finance their Medicaid programs. In addition to this rule, the Administration plans to issue a new regulation to restrict federal support for Medicaid graduate medical education (GME) costs. By implementing both proposed policy changes through the regulatory process, the Administration circumvents congressional review.

Specifically, CMS' harmful rule would:

- Cap payments to government providers at no more than the cost of providing health services to Medicaid beneficiaries. Because Medicaid is the most significant payer for government safety-net hospitals, prohibiting them from obtaining even a reasonable margin on Medicaid patients would be economically devastating, effectively eliminating hospitals' ability to reinvest in their facilities or pay for physician costs.
- Redefine "public hospitals," thus limiting federal matching dollars for legitimate Medicaid expenditures by public safety-net providers. The proposal would limit the type of government hospitals that qualify as public hospitals eligible to certify public expenditures, thereby restricting a state's use of certified public expenditures to obtain



Medicaid matching dollars. These funds are used to partially offset losses incurred by hospitals when caring for Medicaid and uninsured patients. Federal law clearly provides that these expenditures are eligible for federal matching funds.

- Restrict how states finance their Medicaid programs. The rule would limit how states fund their programs by restricting states' use of intergovernmental transfers, which are used to fund the states' disproportionate share hospital programs and other supplemental payment programs, such as the upper payment limit program.

#### **AHA View**

**The AHA strongly opposes these cuts in hospital Medicaid payments.** The Medicaid program continues to be underfunded, and in 2005 community hospitals experienced a \$9.8 billion shortfall in Medicaid payments. Furthermore, the Administration's proposals come on the heels of nearly \$5 billion in Medicaid spending cuts included in the *Deficit Reduction Act of 2005*.

The AHA is committed to helping hospitals keep the promise of care in every community, and protecting hospitals and patients from the kinds of shortsighted cuts that could break that promise is at the top of our advocacy agenda. We are leading efforts to stop the implementation of these policy changes by working with our members, state association partners and national partners, such as the National Association of Public Hospitals, the Association of American Medical Colleges and the National Governors Association. Our efforts thus far have largely focused on getting Congress to oppose these policy changes and place a moratorium on the issuance of any final rules. Congress appears to be listening.

Just prior to adjournment of the 109th Congress, lawmakers passed legislation establishing the maximum provider tax rate at 5.5 percent for a period of five years, reverting to 6 percent at the end of that period; thereby blocking the Administration's FY 2007 proposal to reduce the tax rate to 3 percent.

**Congress Opposes Medicaid Cuts.** Earlier this year, Congress restated its opposition to the Administration's policies and called for a legislative approach to prevent CMS from moving forward with the rule. Two-hundred twenty-six representatives, led by Reps. Anna Eshoo (D-CA) and Peter King (R-NY), and 43 senators, led by Sens. Dick Durbin (D-IL) and Elizabeth Dole (R-NC), signed letters to the Medicaid committees opposing the cuts. This strong opposition also was echoed in comment letters on the regulation to Health and Human Services Secretary Leavitt calling for the withdrawal of the rule, which were signed by 60 senators, led by Sens. John Rockefeller (D-WV) and Gordon Smith (R-OR), and 153 representatives, led by Reps. Henry Waxman (D-CA), Jan Schakowsky (D-IL), James Walsh (R-NY) and Peter King (R-NY).



In late March, both the Senate and House rejected any Medicaid cuts to hospital services when they passed their budget resolutions, which serve as a blueprint for congressional spending. Further, under the leadership of Sen. Durbin, the Senate Appropriations Committee approved an amendment to the Iraq emergency supplemental appropriations bill that would stop the rule and also prevent CMS from working on any rules relating to eliminating payments for GME under Medicaid. The Senate bill must be reconciled with a House version of the spending bill that does not include language to stop the rule.

**The AHA will continue its efforts to have Congress stop CMS' proposed rule and prevent the issuance of any rules that would restrict federal support for Medicaid graduate education costs.**

**Pursue Thoughtful Reform.** Any federal action to address the current Medicaid funding crisis or to change the program's structure should not place further financial pressure on states or diminish coverage for the children, poor, disabled and elderly Americans who rely on the program for health services. The solution to Medicaid's problems is not harsh spending cuts. The program deserves a thoughtful, deliberative reform process that ensures that the nation meets its obligation to care for the neediest of our society.

The AHA Board of Trustees, in partnership with state hospital associations, created the AHA Medicaid Task Force to assist the AHA in the Medicaid reform debate. The task force developed reform principles, which were reviewed by hospital leaders and approved by AHA's Board, to help frame the debate on Medicaid reform. They are:

- ensure accountability, adequate funding and access to quality services;
- promote system change;
- rethink long-term care; and
- encourage innovation and public dialogue.