

# MEDICAID IN THE CROSSHAIRS

BY ANN WARD, APR

**The 2011 Texas legislative session will be more about the money than ever before. The Legislature faces an unprecedented shortfall of more than \$21 billion, and the victors in the 2010 General Election campaigned on pledges of “no new taxes” and “less government.” The Texas Medicaid program is dead-center in the sights for reductions in spending, despite the state’s large low-income, uninsured population and the federal plan to expand Medicaid in 2014.**

As lawmakers look for ways to reduce state spending, the Texas Health and Human Services Commission has promised more than \$600 million in net savings by expanding Medicaid managed care. However, the savings could come at the expense of hospitals that stand to lose \$500 million in federal Upper Payment Limit funds.

## Expand Managed Care

Because the state has determined that the health maintenance organization model provides it the greatest savings, THHSC has proposed expanding Medicaid managed care by replacing the primary care case management model in 202 counties across the state by:

- extending the current HMO service areas to contiguous counties;
- creating a new South Texas managed care region; and
- replacing the remaining PCCM areas with a capitated exclusive provider organization.

In addition, THHSC wants to change the way inpatient hospital services are paid in the STAR+PLUS (HMO) model, which serves disabled Medicaid clients and those dually eligible for Medicare and Medicaid. Instead of paying a “negotiated” fee for service, the agency wants inpatient hospital services to be capitated (covered by the fee paid by the state to the HMO). “The STAR+PLUS population is more diverse and its patients have multiple, often chronic conditions, which makes projecting their hospital needs more challenging than serving pregnant women and children in the STAR program,” said Dan Stultz, M.D., FACP, FACHE, president and chief executive officer of the Texas Hospital Association.

THHSC has estimated that implementing these four program changes and increased revenue from additional premium taxes paid by HMOs would result in net savings of more than \$400 million per year. “While everyone agrees that costs must be controlled and reduced, several facts should be taken into account, and the total impact of the state’s savings must be considered,” said Stultz.

## Upper Payment Limit Program

Financed with federal Medicaid funds and state funds provided primarily by local hospital districts, the Texas Medicaid Upper Payment Limit program was created to help offset the shortfall caused when the state funds inpatient and outpatient Medicaid hospital rates at levels that do not cover hospitals’ costs for treating Medicaid patients. In fiscal year 2011, the Texas Medicaid program will pay most hospitals less than 60 percent of their actual costs of providing inpatient care.

The federal Upper Payment Limit program provides supplemental payments only for patients in Medicaid fee-for-service or PCCM clients. Transitioning to an HMO (capitated) model will make these Medicaid patients ineligible for inclusion in the calculation of UPL payments and undermine the ability of local hospital districts to help fund the state’s Medicaid program. Of the approximate \$2.5 billion in UPL dollars now paid to Texas hospitals, some \$900 million are projected to be lost if Medicaid managed care is expanded as proposed.

“The hospital industry is working with THHSC to explore options where the UPL payments could be built into the capitation rate paid to HMOs,” said John Hawkins, senior vice president of advocacy and public policy. “Either statutorily or contractually, the state would need to dictate that HMOs pass the increased capitation amount directly to hospitals. There also are concerns with maintaining the actuarial soundness of the rates, and the arrangements are likely to undergo enhanced scrutiny by the federal Centers for Medicare & Medicaid Services.”

## Harris County Hospital District

Harris County Hospital District received \$146 million in UPL funds in state fiscal year 2010. THHSC and its consultants currently are conducting an analysis to assess the implications of the elimination of the hospital carve-out provision in STAR+PLUS. "It is estimated that the local impact on the Harris County Hospital District will mean a reduction of at least \$30 million," said David S. Lopez, FACHE, HCHD president/CEO. "In light of the current economic and political environment, this reduction will not be made up by a local tax increase." HCHD has a current tax rate of \$0.1921, which has been essentially the same since 2001.

"With declining tax rolls in Harris County and record deficits in both Austin and Washington, D.C., and related reduction proposals, the Houston community will see a reduction in public resources available to meet the community infrastructure demands in the critical areas of primary care and trauma service delivery," Lopez said. "This also will have implications on the private sector as uncompensated care will increase across the region."

## CHRISTUS Health System

The largest nonprofit system in Texas, CHRISTUS Health has diverse facilities across the state. "Regardless of our facility designation or location, CHRISTUS is committed to providing care for all who need it in the communities we serve," said Jay Herron, chief financial officer and senior vice president at CHRISTUS Health. "That is why it is so devastating to our ministry when we encounter further reduction of the funding designed specifically for that purpose."

The full impact of lost federal funding must be taken into account when considering the costs and benefits of a statewide expansion of the Medicaid HMO model. "Even the most conservative estimates of the adverse reimbursement impact to CHRISTUS hospitals could mean a loss of services, jobs and wages in some communities," Herron said.

Most importantly, Herron said, reductions in CHRISTUS' Medicaid reimbursement would impair the system's ability to invest in the health care safety nets of its communities. These funds are vital to closing CHRISTUS' "Medicaid shortfall," the gap between hospitals' cost of treating Medicaid patients and the amount Medicaid pays. Over the past several years, CHRISTUS' supplemental Medicaid payments have closed the gap and enabled the system to dedicate other non-Medicaid resources to care for more people in a variety of ways, including the recruitment of physicians to underserved communities and providing expanded treatment and coverage to patients at the lowest ends of the federal poverty scale. If CHRISTUS' Medicaid shortfall returns to historical levels, the system will be unable to provide its current level of community outreach services, which would result in catastrophic results for local communities.

## South Texas Expansion

"Combined with the replacement of the PCCM model and the expansion of STAR and STAR+PLUS to contiguous counties and South Texas, the amount of UPL dollars coming to Texas will drop significantly over the next two years," said Stultz. "The inability of hospitals to make up their Medicaid losses through the UPL program will result in cost shifting to local taxpayers and other payers." Lost UPL funds also could reduce services, such as clinics and outpatient services, leaving the hospital emergency room as the only point of access, which will increase overall health care costs.

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## PROPOSED EXPANSION FOR 2011

### Bexar Service Area (STAR and STAR+PLUS)

Bandera

### Harris Service Area (STAR and STAR+PLUS)

Austin  
Wharton  
Matagorda

### Jefferson Service Area (STAR and STAR+PLUS)

Chambers  
Hardin  
Jasper  
Jefferson  
Liberty  
Newton  
Orange  
Polk  
San Jacinto  
Tyler  
Walker

### Lubbock Service Area (STAR)

Carson  
Deaf Smith  
Hutchison  
Potter  
Randall  
Swisher

### Nueces Service Area (STAR and STAR+PLUS)

Brooks  
Goliad  
Karnes  
Kennedy  
Live Oak

### Travis Service Area (STAR and STAR+PLUS)

Fayette

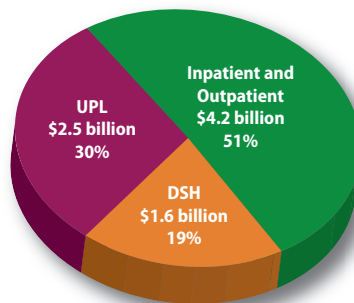
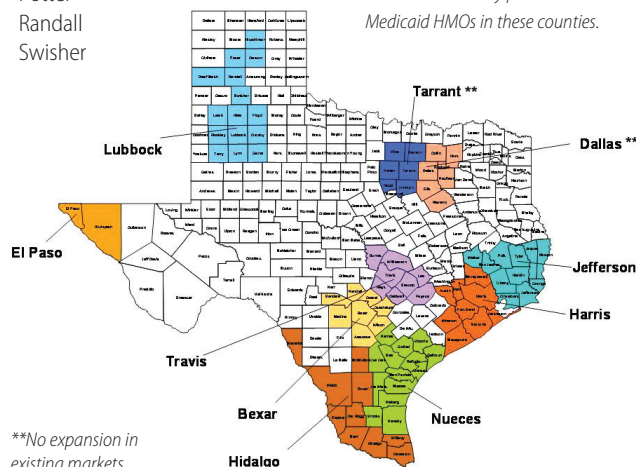
### El Paso Service Area (STAR)

Hudspeth

### Proposed South Texas Counties

Cameron\*  
Duval  
Hidalgo\*  
Jim Hogg  
Maverick\*  
McMullen  
Starr  
Webb  
Willacy  
Zapata

\*State law currently prohibits use of Medicaid HMOs in these counties.



Medicaid Payments to Hospitals (2009)

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“Texas hospitals agree that health care services should be better managed, which is the job of the HMO or PCCM,” Hawkins said. “Texas hospitals will continue to work with THHSC to explore options that ensure UPL dollars ‘flow through’ the Medicaid managed care rates the state pays to HMOs directly to hospitals. If a viable option cannot be developed, the state should carve out hospital services from the capitated rate paid to HMOs while still requiring HMOs to better manage the care provided to Medicaid recipients.”

## Opting Out of Medicaid

Because of the future financial impact of Medicaid expansion, several lawmakers have proposed dropping out of the program altogether.

“Texas lawmakers have legitimate concerns about the costs of expanding Medicaid under the new health care reform law,” Hawkins said. “State leaders and legislators should be working with members of the Texas Congressional Delegation to revisit the idea of expanding coverage through subsidies in the private-market insurance exchanges rather than Medicaid expansion. We need to have that discussion.”

It is projected that for the 2012-2013 biennium, the Medicaid program will cost the state about \$50 billion (all funds), with the federal government financing about 60 percent of the program. While Texas would “save” some \$20 billion per biennium by dropping out of Medicaid, the state would lose \$30 billion in federal funds. “The real question is what would replace Medicaid if the state opts out,” said Hawkins.

“Eliminating Medicaid would shift a tremendous financial burden to counties and local government entities, such as hospital districts.

Those patients with private insurance likely would see higher premiums and co-pays as a greater percentage of uncompensated care would be shifted to paying patients,” Hawkins said. “The challenge is for the state to come up with a better, more effective program. Reducing eligibility and/or covered services could solve budget problems but does not eliminate the need for health care, and a free-market model would leave millions of Texans without health care because they could not afford to purchase insurance coverage without subsidies.”

## Bottom Line

As the Texas Legislature convenes, it is critical that lawmakers and the leadership carefully consider the ripple effects of decisions on Medicaid, whether it be an expansion of the HMO managed care model statewide or opting out of participation altogether.

“While Medicaid financing is extremely complex and convoluted, the simple math shows that unless the state is thoughtful and deliberate, changing Medicaid will reduce federal dollars coming to Texas. This biennium especially, the state budget needs every bit of revenue possible,” Stultz said. “Beyond the financial equation, changing Medicaid will affect millions of Texans who rely on the program for services as well as the providers who deliver health care and long-term care to low-income Texans.”

“The Texas Hospital Association looks forward to helping the state consider various options and weigh the consequences of potential actions,” Hawkins concluded. ★

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**Editor’s note:** THA’s legislative agenda brochure will be available in late December.

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