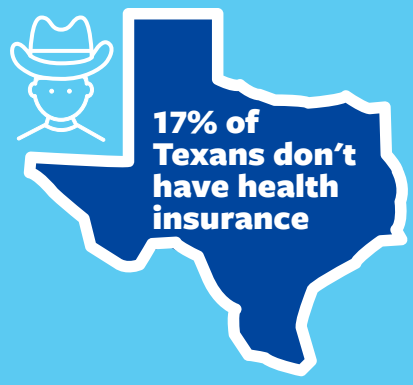
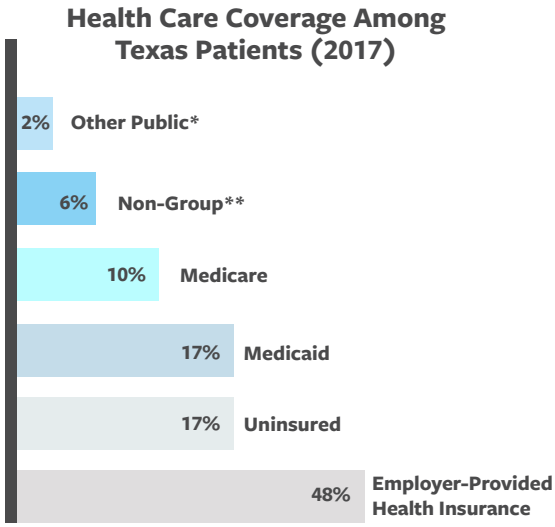
PART 6 in THA's educational series on hospital finance

Hospital Payment Sources



UNINSURED

4.8 Million Texans



HOW PATIENTS GET COVERAGE

While they serve diverse communities across the state, Texas hospitals are unified under one core mission: providing the highest quality care to every Texan in need. Fair and equitable payment is critical to achieving this goal. **This document provides an overview of the major sources of hospital payments and why reimbursement often is insufficient.**

Hospital payments come from a number of sources, including state, federal and local governments, health insurers and individuals. Payments, however, often fall below the actual cost of providing care.

The amount a hospital charges for a procedure or service can vary by facility. The level of care a facility can provide is one important factor in determining charges. For example, a hospital that provides trauma, neonatal or other specialized care may charge a different amount for a service than a facility with more limited capacity to provide such services. Facilities that provide a higher level of care are able to do so because the hospital's infrastructure includes around-the-clock physicians and staff and specialized equipment to address complex, high-acuity conditions for high-risk and vulnerable patients. The significant cost of maintaining this infrastructure is included in their charges. Hospitals also consider **other factors when determining their charges, including market conditions and demographics, such as geographic location and patient mix**. While charges and care capacity can vary by facility, reimbursement usually is less than the charge and varies widely based on the payer—public or private and, importantly, which private payer.

Other Public*: Includes those covered under the military or Veterans Administration.
Non-Group**: Includes those covered by a policy purchased directly from an insurance company, either as policyholder or as dependent.

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Multitude of Payers

Public payers include Medicare and Medicaid. Private payers include employer-sponsored health insurance, self-pay patients and individually purchased private health plans, such as those available through the federal health care marketplace.

Public Payers

Medicare

Medicare provides health coverage for individuals age 65 and over as well as people with specific disabilities. About 4 million Texans have Medicare coverage. The federal government determines Medicare reimbursement, but payment amounts vary according to certain hospital characteristics, such as teaching hospital status and location. Medicare payments cover about 88 percent of Medicare allowable costs.

Medicaid

Medicaid is a jointly funded state-federal program that provides health insurance to approximately 4 million low-income Texans and those with disabilities, the majority of whom are children. Medicaid reimbursement for inpatient and outpatient hospital care is funded by state general revenue (40 percent) and federal matching funds (60 percent). Yet, Medicaid reimbursement is well below the cost of care. In 2016, hospitals' base Medicaid reimbursement, on average, covered 67 percent of inpatient care costs and 68 percent of outpatient care costs for Medicaid clients. This underpayment leaves Texas hospitals with a multi-billion dollar Medicaid shortfall.

Private Payers

Employer-provided health insurance is the most common private payer. Yet, nationwide, Texas has one of the lowest rates of employer-provided health coverage, with just 48 percent of Texans having this form of private health insurance in 2017. An additional 1.2 million Texans purchased individual private health insurance through the health insurance marketplace in 2017. Depending on the terms of their plans, private health plan enrollees often are responsible for a significant portion of their health care bill due to high co-pay, co-insurance and/or deductible obligations. Under these cost-sharing arrangements, even having private insurance does not necessarily mean the full cost of a service will be covered.

The Uninsured

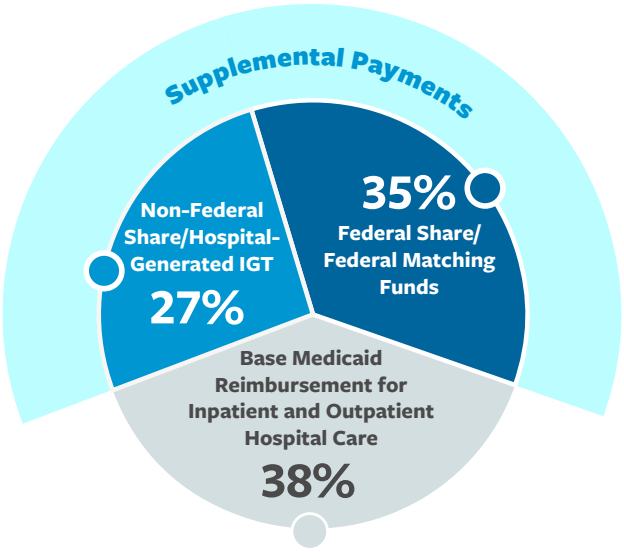
Texas leads the nation in number of residents without any form of health insurance coverage—public or private. 4.8 million Texans are uninsured. When these individuals seek care in a Texas hospital, they may self pay, or, more commonly, the hospital absorbs the cost of that care. Texas hospitals' unreimbursed costs for providing health care for the uninsured are in the several billions of dollars.

The combination of underpayment from payers, most significantly Medicaid, and the cost of caring for such a large number of individuals without a payment source forces a heavy reliance on hospital supplemental payments.

Texas hospitals receive supplemental payments through several Medicaid programs:

- The Disproportionate Share Hospital Program.***
- Uncompensated care pool funding through the Medicaid 1115 Waiver.
- The Uniform Hospital Rate Increase Program.

Texas Hospitals' Estimated Medicaid Reimbursement and Supplemental Payments ($13.862 Billion All Funds, FY 2016)



Like all Medicaid payments, supplemental payments require the combination of a non-federal payment and federal payment. In Texas, the Legislature appropriates no general revenue for the non-federal share of these supplemental payments. As a result, **Texas hospitals themselves finance the non-federal contribution through intergovernmental transfers from public hospitals, taxing hospital districts and local provider participation funds.**

The state's six largest public hospitals/hospital districts historically have provided the lion's share of the non-federal supplemental payments by levying local property taxes.

Local provider participation funds are a relatively new way for Texas hospitals to generate the non-federal share of supplemental Medicaid payments. With approval from the Texas Legislature, local governments can assess a fee on the net patient revenue of hospitals in their geographic region to generate these funds.

Providing almost two-thirds of hospitals' total Medicaid payments, supplemental Medicaid payments are critical for Texas hospitals. Yet, the policy governing these programs is continually

***Some Texas hospitals also receive Medicare Disproportionate Share Hospital payments that are intended to preserve access to care for Medicare and low-income populations by supporting the hospitals they traditionally use.
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changing. In 2016, the federal government disallowed approximately $27 million in federal supplemental uncompensated care payments to private hospitals in North Texas because of the way they generated the non-federal share of the payments, which previously was deemed acceptable. Hospitals' ability to generate the funding needed to qualify for federal supplemental Medicaid payments also is in jeopardy at the state level. With pressure to reduce local property tax rates, state lawmakers have committed to capping the amount of tax revenue local jurisdictions can generate. Doing so could jeopardize Texas hospitals' ability to receive supplemental payments, which would have a detrimental effect on access to quality health care for all Texans.

Fully funding Medicaid is the most effective way for state lawmakers to reduce the burden on taxpayers while ensuring Texas hospitals are paid appropriately. **Short of Medicaid reimbursement commensurate with the cost of care, Texas hospitals need flexibility to design funding arrangements that align with the unique markets in which they operate in order to provide specialized, lifesaving care to every Texan in need.**

Texas Hospitals' Supplemental Payment Programs

Medicaid Disproportionate Share Hospital Program

- Provided $1.8 billion in payments to 170 Texas hospitals (2017).
- As required by the Affordable Care Act, Medicaid DSH payments are scheduled to be cut effective October 2019.

Uncompensated care payments through the Medicaid 1115 Waiver

- Provided $2.7 billion in UC payments to 574 Texas hospitals (2017).
- Before the methodology to calculate total UC funding changes in 2020, the UC pool is approximately $3.1 billion for 2018 and 2019.

Uniform Hospital Rate Increase Program

- A directed payment program under which hospitals provide IGT to fund the non-federal share of payment increases for Medicaid managed care organizations in their service delivery area. MCOs then increase hospital inpatient and outpatient payments by a uniform dollar amount or percentage increase for all of their contracted hospitals.
- The UHRIP pool for 2019 is $1.25 billion.

THA's educational series on hospital finance includes:

Part I: Medicaid's Role in Hospital Financing
Part II: Local Provider Participation Funds in Texas
Part III: Value-Based Payment
Part IV: Rural Hospital Financing
Part V: Graduate Medical Education
Part VI: Hospital Payment Sources