

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.

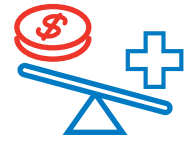
Multitude of Payers

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 insurance marketplace.

Public Payers

Medicare

Medicare provides health coverage for individuals age 65 and over as well as people with specific disabilities. About 3.2 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 84% of hospitals' costs of care for Medicare patients.**



Medicaid

Medicaid is a jointly funded state-federal program that typically provides health insurance to about 4 million low-income Texans. Texas Medicaid enrollment currently exceeds 5 million due to the public health emergency. Medicaid reimbursement for inpatient and outpatient hospital care is funded by state general revenue (40%) and federal matching funds (60%). **Yet, Medicaid reimbursement is well below the cost of care.** Hospitals' base Medicaid reimbursement, on average, covers 72% of inpatient care costs and 75% of outpatient care costs for Medicaid clients. This underpayment leaves Texas hospitals with a multibillion-dollar Medicaid shortfall.

Private Payers

Employer-provided health insurance is the most common private payer. Yet, nationwide, **Texas has a below-average rate of employer-provided health coverage, with just 46% of Texans having this form of private health insurance in 2021.** An additional 1.7 million Texans purchased individual private health insurance through the health insurance marketplace or independent brokers in 2021. 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 deductibles, copays or coinsurance. 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. **5.2 million Texans are uninsured.** **When these uninsured people seek care in a Texas hospital, the hospital commonly absorbs the cost of that care.** Under federal law, Texas hospitals must treat and stabilize anyone who presents in an emergency setting regardless of ability to pay. 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 Texans without a payment source forces a heavy reliance on hospital supplemental payments.

Supplemental Payments

Texas hospitals receive supplemental payments through several Medicaid programs:

Outside 1115 waiver:

- Medicaid disproportionate share hospital (DSH) program

Enabled by 1115 waiver:

- Uncompensated care pool
- Direct payment programs

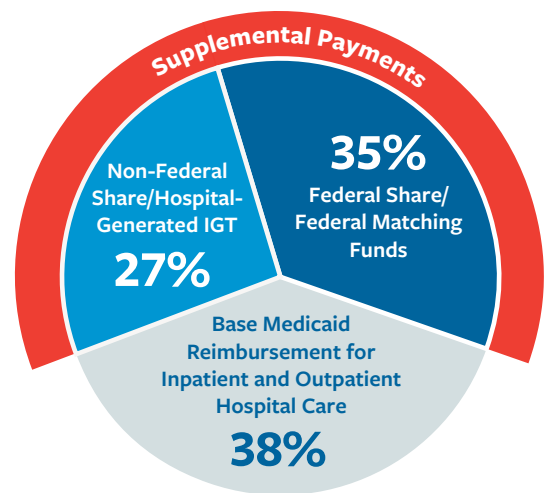
Under the Texas Health Care Transformation and Quality Improvement program section 1115 waiver, Texas currently operates five directed payment programs (DPPs). DPPs enhance Medicaid reimbursement payments to close the gap between coverage and actual cost of care.

The five DPP programs are:

DPP	Name	Amount (STATE FISCAL YEAR 2023)	Benefiting	Approval delayed thru Mar. 2022
CHIRP	Comprehensive Hospital Increase Reimbursement Program	\$5.24 billion	Hospitals	Yes
TIPPS	Texas Incentives for Physicians and Professional Services	\$738 million	Physician groups, including those affiliated with hospitals	Yes
RAPPS	Rural Access to Primary and Preventive Services	\$31.2 million	Rural health clinics, including hospital-based clinics	Yes
QIPP	Quality Incentive Payment Program	\$1.1 billion	Nursing facilities, including public hospital-owned	No
DPP-BHS	Directed Payment Program for Behavioral Health Services	\$253 million	Community mental and behavioral health providers	No

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.**

Public hospitals and hospital districts provide the non-federal share of supplemental



Texas Hospitals' Estimated Medicaid Reimbursement and Supplemental Payments

Supplemental Payments

payments by levying local property taxes. The state's five largest public hospitals provide 100% of the intergovernmental transfer funds for DSH.

Local provider participation funds (LPPFs) are a way for private hospitals in Texas to join public hospitals in generating the non-federal share of supplemental Medicaid payments. With approval from the Texas Legislature, local governments can assess a uniform 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. Although the Centers for Medicare & Medicaid Services (CMS) has permitted Texas to use LPPFs to generate the nonfederal share of Medicaid supplemental payments since 2013, LPPFs are now subject to increasing federal scrutiny. CMS withheld approval of three directed payment programs from September 2021 through March 2022 due to a dispute over the permissibility of Texas' LPPF financing. **During the delay, hospitals lost more than \$7 million per day in reimbursement for Medicaid patient care.** CMS eventually approved the programs, but reserved its authority to disallow payment or withhold future approvals if it finds Texas' method of finance to be impermissible. The federal Health and Human Services Office of the Inspector General is currently auditing Texas' LPPFs, with a report expected in 2023.



TEXAS HOSPITALS LOST \$7 MILLION PER DAY

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 180 Texas hospitals (2021).

Uncompensated care (UC) pool

- Provided **\$3.8 billion** in UC payments to 399 Texas hospitals (2021).
- The UC pool has been re-sized to **\$4.5 billion** annually starting in 2023. This re-sizing was based on actual amounts of uncompensated charity care provided by Texas hospitals.

Comprehensive Hospital Increase Reimbursement Program (CHIRP)

- A directed payment program under Medicaid managed care organizations are directed to increase hospital inpatient and outpatient payments by a uniform dollar amount or percentage increase for all of their contracted hospitals.
- CHIRP was approved at **\$5.24 billion** for 2023. Actual program size can fluctuate based on caseload.



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