



NEWS RELEASE

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Commonwealth Fund Commission on a High Performance Health System Offers Recommendations to Strengthen Safety Net Hospitals Under Health Reform

New Report Offers Ways to Leverage Medicaid and Disproportionate Share Hospital Payments to Sustain and Support Safety Net Institutions and Improve Care for Vulnerable Populations

New York, NY, March 8, 2012—A new report released today by the Commonwealth Fund Commission on a High Performance Health System offers a series of recommendations to help shore up safety net hospitals and make sure under health reform that they can continue to provide high-quality care to low-income, vulnerable patients.

According to the report, *Toward a High Performance Health Care System for Vulnerable Populations: Funding for Safety Net Hospitals*, by Deborah Bachrach and colleagues at Manatt Health Solutions, generally low Medicaid payment rates coupled with anticipated reductions under the Affordable Care Act in Medicaid and Medicare payments to hospitals that serve a disproportionately large share of poor and uninsured patients, and expected changes in funding streams due to an influx of Medicaid patients, pose challenges to the short- and long-term viability of these institutions. To address those challenges, the Commission's report suggests strategies that would better target public dollars to these hospitals to sustain them, as well as to stimulate and reward high performance.

"Closing the health care divide for vulnerable populations is critical for a high-performing health care system. Safety net hospitals fill and will continue to fill an important need for these patients," said Commission Chair David Blumenthal, M.D., Samuel O. Thier Professor of Medicine and Professor of Health Care Policy at Massachusetts General Hospital/Partners HealthCare System and Harvard Medical School. "The challenge is to find ways to make sure that these institutions have the operating and capital dollars they'll need to flourish and survive while providing high-value care to their patients."

As major provisions of the Affordable Care Act take effect, safety net hospitals will likely see their percentage of Medicaid patients increase and their percentage of uninsured patients decline. Overall, an estimated 34 million Americans will become newly insured as a result of the reform law. About 17 million of those will enroll in Medicaid.

Medicaid is the single largest payer for safety net hospitals and it will become an even more important revenue stream for safety net hospitals under health reform. By 2019, Medicaid is expected to cover 25 percent of the American population.

"The Commonwealth Fund Commission has laid out a framework for ensuring that as the Affordable Care Act is implemented, resources are used appropriately to ensure that safety net providers will continue to play a vital role in caring for uninsured and low-income patients," said Pamela Riley, M.D., M.P.H., Program Officer for the Commonwealth Fund Program on Vulnerable Populations.

The Commission warns that current Medicaid payment policies threaten the viability of safety net hospitals, and payment levels are declining as state revenues have fallen and Medicaid enrollment has grown due to increases in poverty and unemployment rates.

According to the Commission, targeting dollars in a more strategic way can advance three goals:

- 1) sustaining safety net hospitals;
- 2) supporting delivery system reform at safety net hospitals; and
- 3) ensuring that vulnerable populations have access to high-quality, coordinated, efficient care.

Highlights of the Commission's recommendations:

- **Increase Medicaid Rates Based on Performance.** Because Medicaid is the single largest payer for safety net hospitals, where Medicaid rates are unreasonably low, states should increase Medicaid rates paid to hospitals with the highest share of Medicaid patients and lowest share of privately insured as a share of all their patients, contingent on meeting quality targets and delivering high-quality, accessible, cost-effective care. While targeting enhanced Medicaid payments to hospitals based on their safety net status is far from ideal, the Commission recommends tying payments to performance and improvement targets would offer a means to address quality and access concerns at a time when state Medicaid rates are otherwise low and state resources limited.

The Commission recommends that states consider the degree to which these rate increases can be targeted to accomplish the goals of preserving access to care and encouraging improved performance, promoting care being delivered in the most appropriate and efficient setting, and improving capacity in areas with limited access.

- **Target Medicaid and Medicare DSH payments.** Safety net hospitals rely on Medicaid and Medicare disproportionate share hospital (DSH) payments to at least partially offset uncompensated costs, low Medicaid reimbursement rates, and the added cost of serving large numbers of low-income, uninsured patients. Because more patients will have access to health insurance coverage under the reform law, Medicaid and Medicare DSH payments will be dramatically reduced in 2014. But while 34 million more Americans will gain coverage under the Affordable Care Act, 22 million people are expected to remain uninsured and will likely continue to rely on safety-net hospitals for care. How states and the federal government target the remaining dollars will have significant implications for safety net hospitals that serve the uninsured and underinsured.

The Commission recommends that when targeting Medicare and Medicaid DSH payments, priority should be given to covering the uncompensated care costs of uninsured patients. Medicaid DSH dollars should be targeted first to hospitals that serve uninsured patients and should be paid out based on services provided to uninsured patients. Any remaining DSH funds should be spent on treatment of underinsured patients.

- **Support Access to Capital.** With extremely limited access to capital, safety net hospitals will require a level of public support to adapt to a rapidly changing health care market. The law provides funding to underwrite the capital needs of community health centers but it does not provide comparable amounts to safety net hospitals. Medicaid waivers under Section 1115 of the Social Security Act offer a potential solution for states to consider, according to the Commission. These waivers enable federal and state governments to target financial support for high priority capital projects and system restructuring at safety net hospitals and more generally drive delivery system reform. Both California and New York have secured federal waiver funding and they have had good experiences. For example, San Francisco General Hospital's use of this waiver has allowed innovative primary care and preventive service programs to be implemented that may otherwise not have been funded.

"The Affordable Care Act will advance a number of important changes in how Medicaid covers and finances care, and safety net providers will need to adapt in important ways," said Commonwealth Fund President Karen Davis. "In the transition to expanded coverage beginning in 2014, public payers should target resources for safety net health care providers in ways that will both improve access and quality of care for vulnerable patients, especially those with low incomes and the uninsured."

The Commonwealth Fund is a private foundation supporting independent research on health policy reform and a high performance health system.