

Minnesota Hospitals

Meeting the Challenges in Challenging Times

JAN. 11, 2011



Minnesota Hospital Association

www.mnhospitals.org



Minnesota House of
Representatives
Health & Human Services
Finance

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Minnesota Hospital Association

It Really is About Health Care

- **The good news ... longer life expectancy**
- **The bad news ... fewer years are disease-free**
- **Translation: living longer through better and more health care services — yet there is a financial price.**

Source: Science Daily, Dec. 2010

Rethinking How We Think About Health Care Expenditures

OLD VIEW

Health care expenditures are a drain on our economy



REALITY

Health care is the economic engine

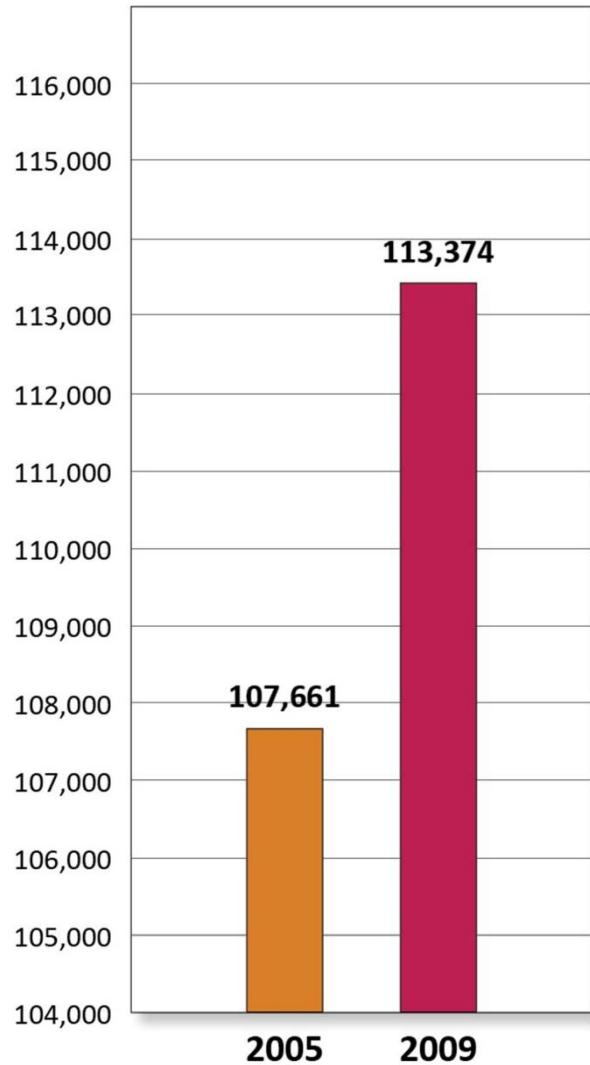


Minnesota Hospitals' Economic Impact Story

Source: Dec. 2010 MN Dept. of Employment & Economic Development	Jobs	Wages + Salaries	Value to State Economy
Direct impact	113,374	\$6.8 billion	\$13.3 billion
Indirect impact	100,734	\$4.4 billion	\$13.9 billion
Total impact	214,108	\$11.2 billion	\$27.2 billion

Minnesota's Hospitals' Economic Impact Story

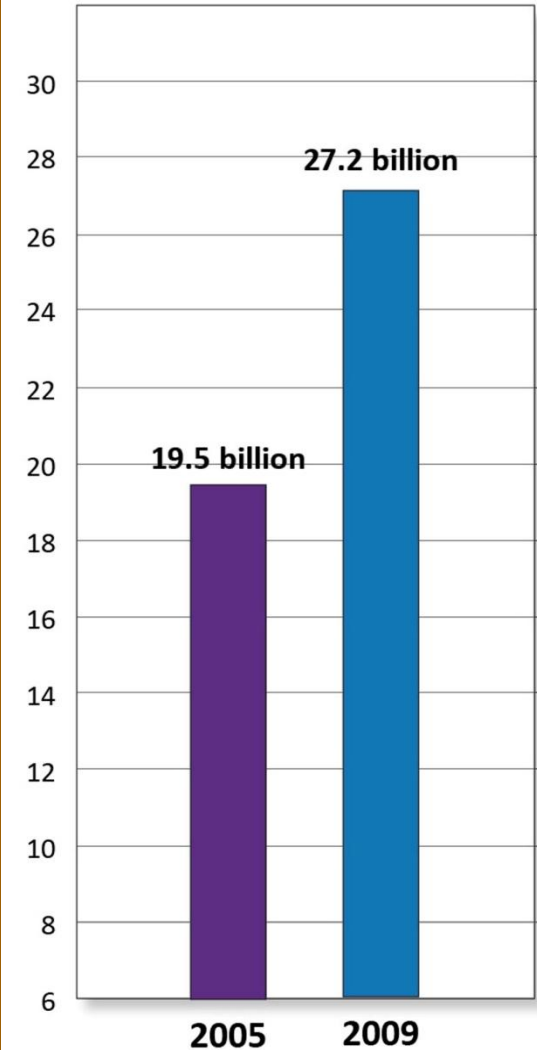
Jobs



Wages



Economic Impact

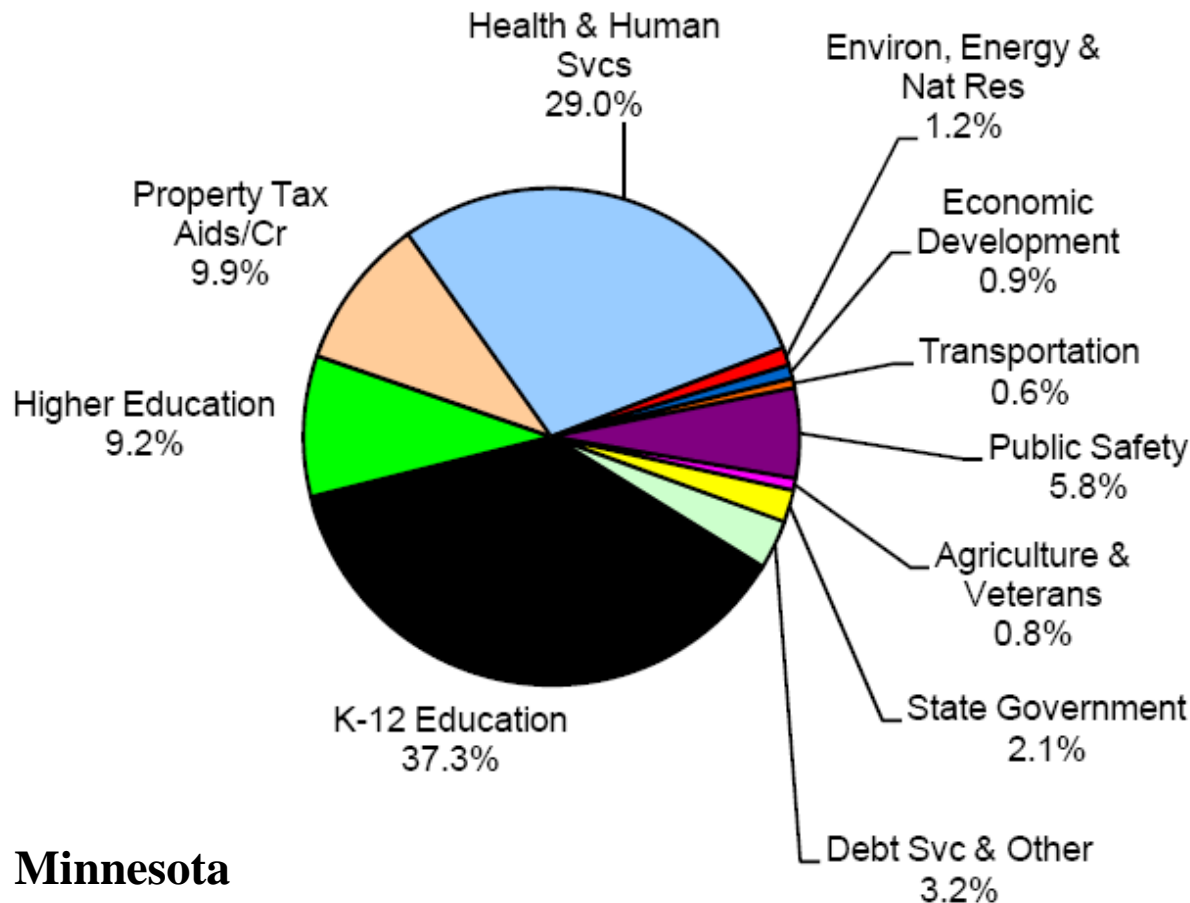


2010-11 Biennium

Where the General Fund Dollars Go

February 2010 Forecast

2010-11 BIENNIUM
\$31,102 Million Spending
\$350 Million Cash Flow Account



**Source: Minnesota
Management & Budget**

2012-13 Biennium

Where the General Fund Dollars Go

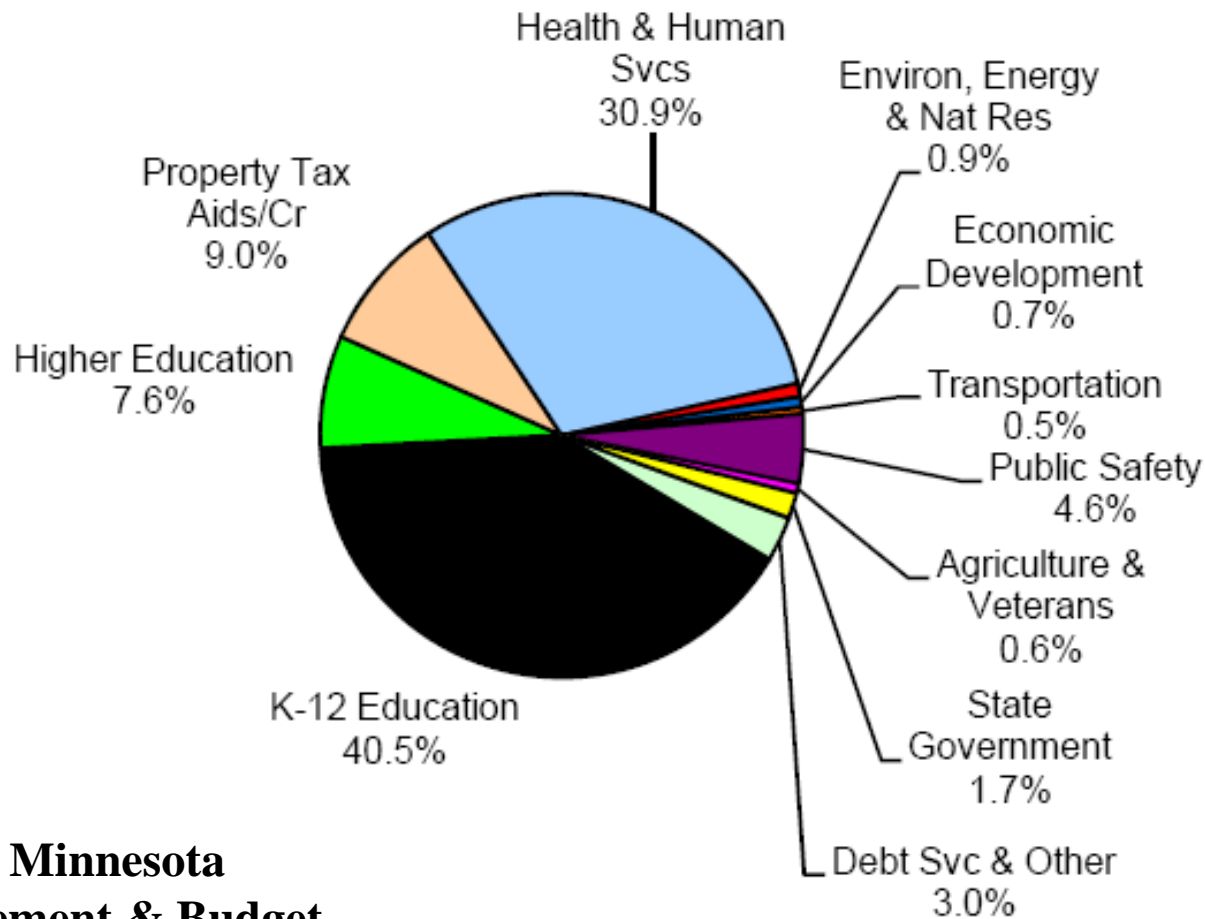
November 2010 Forecast

2012-13 BIENNIUM

\$38,591 Million Spending

\$266 Million Cash Flow Account

\$9 Million Budget Reserve



**Source: Minnesota
Management & Budget**

Budget Realism

- **The HHS Budget is projected to grow by 6.5%. The K-12 Budget is projected to grow by 8.5%.**
- **Historically, the HHS Budget has been about a third of the state budget. The K-12 Budget has been about 40% of the state budget.**
- **For every dollar the state spends in the MA program, it is matched by a federal dollar.**
- **For every 10 jobs created in a hospital, 9 jobs are created in the community.**

Minnesota Hospital Members

Minnesota Cities with MHA Member Hospitals



**MHA represents
148 hospitals and
15 health systems**

• equals a hospital
★ equals a system

Minnesota Hospital Members

- 54 publicly owned
- 59 with attached nursing homes
- 79 Critical Access Hospitals
- 87 part of a larger health system
- 612,000 inpatient visits (top reasons: births, mental health, orthopedic procedures and digestive disorders)
- 1.66 million emergency room visits
- 9.2 million outpatient visits

Minnesota Hospitals:

National Leaders in Quality and Patient Safety

- Minnesota ranks third in the nation in patient safety (HealthGrades Patient Safety in American Hospitals Study 2010)
- Seven Minnesota hospitals, the third highest number in the country, won the 2010 HealthGrades Distinguished Hospital for Clinical Excellence Award.
- Minnesota was the first state in the nation in 2003 to pass mandatory Adverse Health Event Reporting based on National Quality Forum standards.

Minnesota Hospital Transparency Initiatives

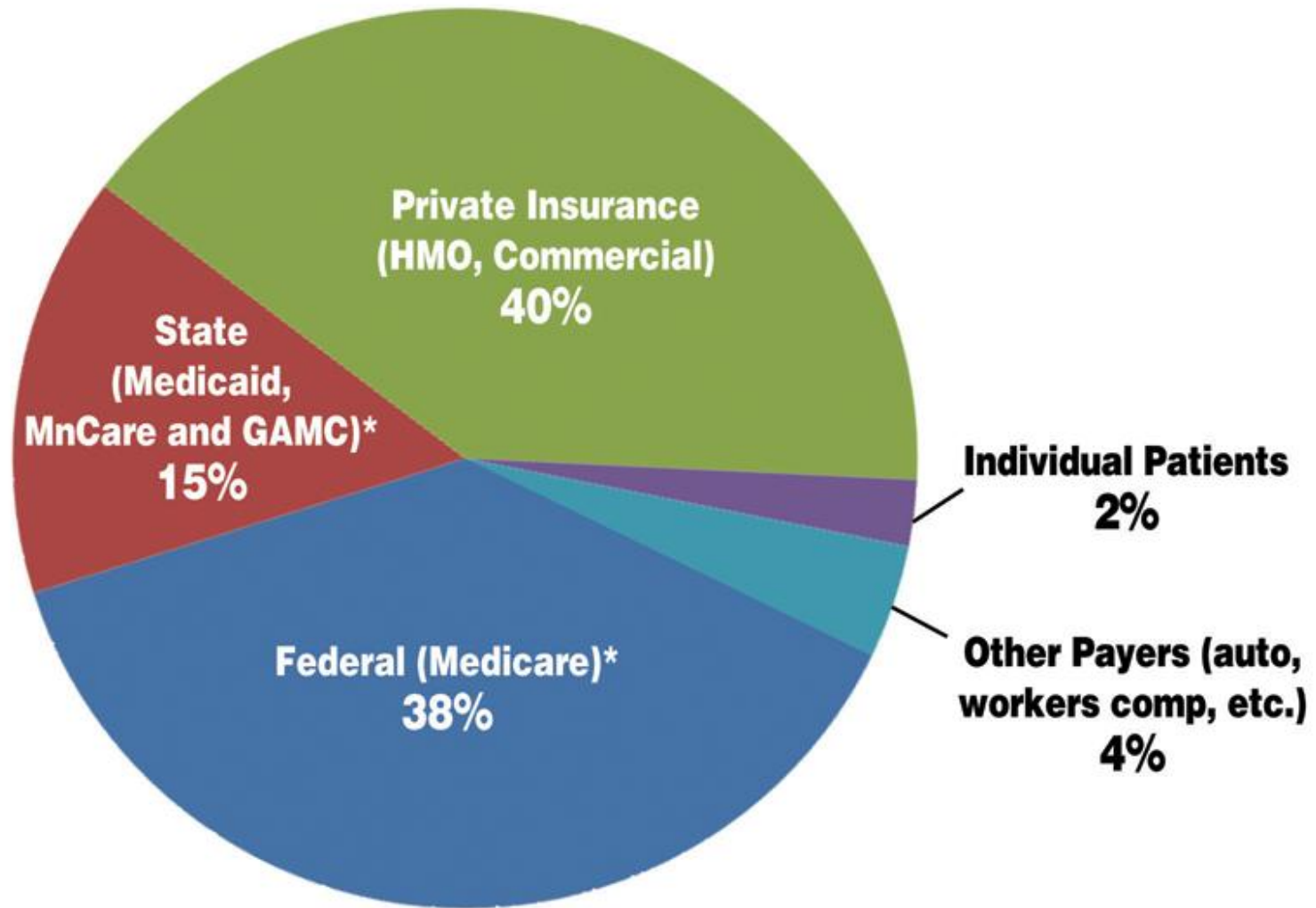
- **Minnesota Hospital Quality Report**
www.mnhospitalquality.org
- **MN Price Check**
www.mnhospitalpricecheck.org
- **Hospital Community Benefit Report**
www.mnhospitals.org/index/commben

Hospital Financing

State and federal government programs account for about 53% of hospital patient charges.

- 1. Medicare**
- 2. Medicaid (Medical Assistance)**
- 3. MinnesotaCare**
- 4. General Assistance Medical Care**

Hospital Payer Mix



*includes managed care options

Based on 2009 data reported to Health Care Cost Information System (HCCIS)

Formula to Remember

$$C = P \times V \times S$$

Costs: What the state pays.

Price: What the provider receives for the services that they have already rendered.

Volume: Number of people enrolled/served.

Services: What services individuals are receiving/the severity.

Hospital Portion of MN's Medical Assistance Program

	FY 2012	FY 2013
Inpatient Hospital FFS	\$637 million	\$707 million
Outpatient Hospital FFS	\$106 million	\$101 million
Total Hospital FFS (as a % of MA Budget)	8.5%	8.6%
Estimated Hospital Portion of PMAP (26%)	\$618 million 7.0%	\$671 million 7.2%
Total Hospitals' estimated share of MA Budget	15.5%	15.8%

Medical Assistance Rate Setting

- **The old days – the Boren Amendment.**
1980-1997 federal law required that payment rates for hospitals and nursing homes be “reasonable and adequate” to meet costs. (Repealed in 1997.)
- **Regularly scheduled inflation increases built into the state’s budget and a rebasing process for hospitals.**

Medical Assistance Rate Setting (cont'd.)

The Rebasing Process

- **DHS reviews the costs within the Medicaid program and makes updates to hospital payments. *Big catch:* Based on 5-yr. old cost reports.**
- **Rebasing done in 2007, based on 2002 costs. All previous ratable reductions apply. Cancelled in 2009, 2011.**

Ratable Reductions to Hospitals

Hospital Inpatient Medicaid Rates

2002	.5 percent reduction
2003	5.0 percent reduction (excludes mental health services)
2005	6.0 percent reduction (excludes mental health services)
2008	1.9 percent reduction (excludes mental health services)
2009	1.0 percent reduction
2010	An additional 1.96 percent (effective July 1, 2011)
Cumulative Total:	-16.36 percent rate reduction (applied to 2002 costs)

Key Principles of “Internal” Hospital Financing

1. **Cross Subsidization**: Hospitals use resources from services that generate a positive margin to subsidize services that operate at a loss.
(It’s the mission thing.)
2. **Cost Shifting**: Hospitals need to offset underpayments in Medicare and Medicaid programs by seeking reimbursements above costs from private insurers and private payers.
(It’s the survival thing.)

EMTALA

- **Emergency Medical Treatment And Labor Act**
- **Hospitals required by federal law to care for patients with emergency conditions regardless of their ability to pay.**
- **Because of this, hospital ERs become utilization point for the uninsured.**
- **Other providers have no such charitable mandate.**
- **Coverage – as well as better care management – opportunity for payment reform.**

Impact of Recent Recession on Hospitals

- 1. Growing number of uninsured. Individuals seek care in hospital emergency rooms.**
- 2. State government has made cuts in provider payments.**
- 3. Employers increasingly unable to bear the costs of government underpayments.**
- 4. More HSA market penetration in Minnesota causes those with insurance to delay care and increased uncompensated care to hospitals.**

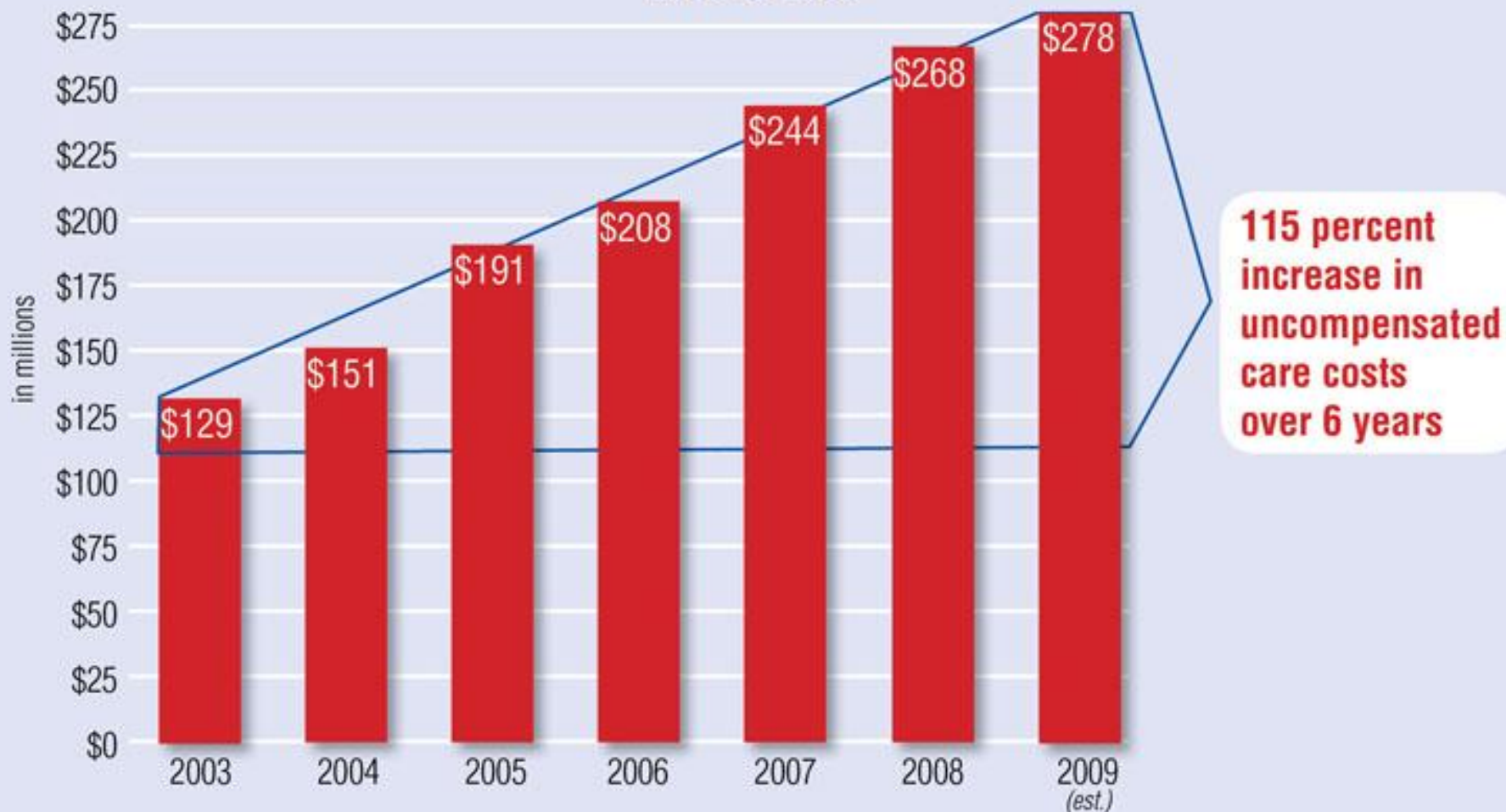
Impact of Recent Recession on Hospitals

In 2008, 16% of hospitals operated at a loss. 61% had a margin under 5% which is the minimum amount experts say hospitals need in order to make investments in technology, replace equipment and maintain staff.

SOURCE: HEALTH CARE COST INFORMATION SYSTEM (HCCIS) DATABASE

Trends in Uncompensated Care Costs in Minnesota Hospitals

2003 to 2009

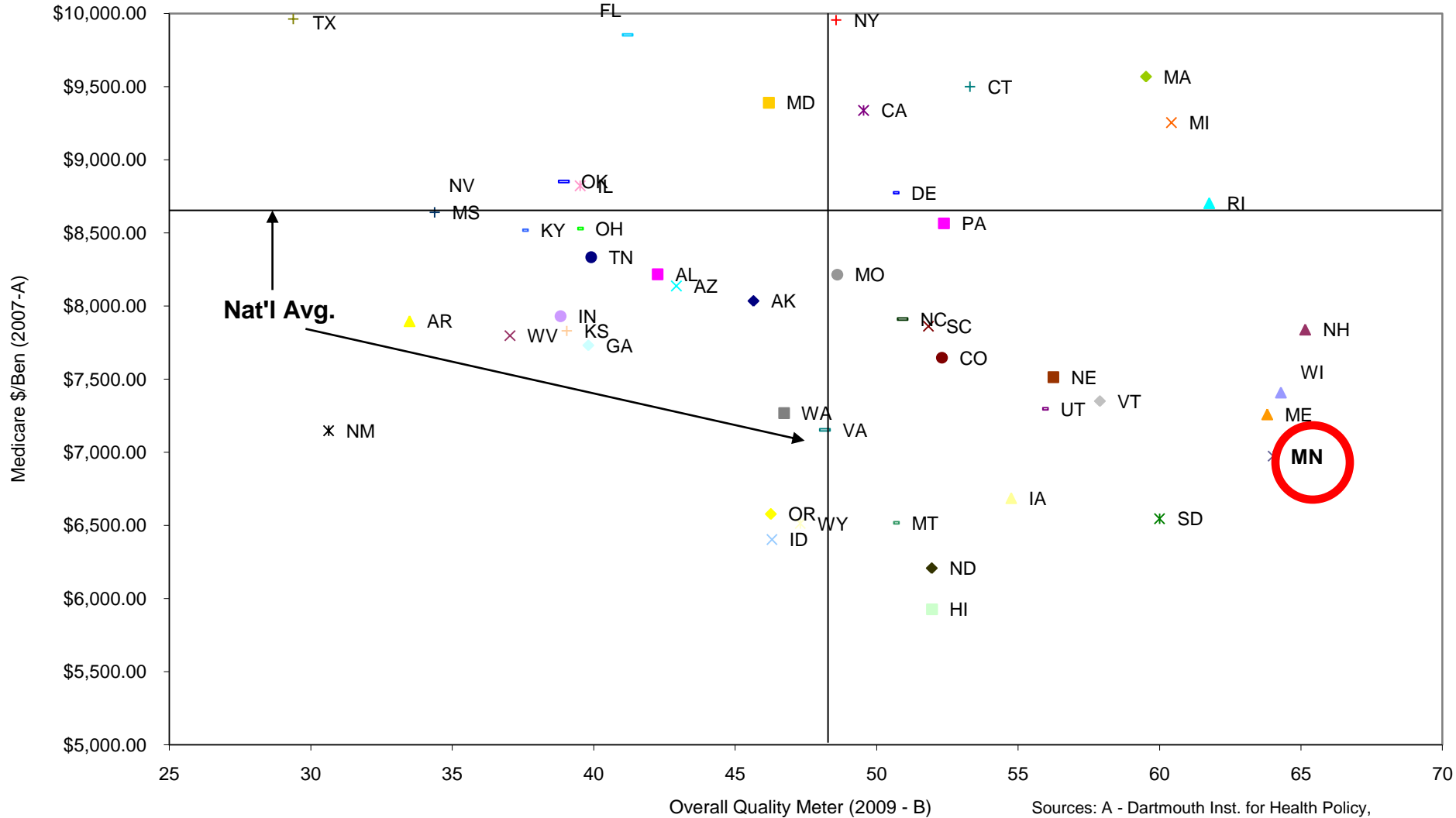


*Uncompensated care figures are adjusted to reflect costs of providing services.
Source: MDH, Health Care Cost Information System

Hospitals Support MN's Health Care Infrastructure

- **Hospitals currently pay a 1.56% Medicaid surcharge applied to all payments except Medicare. Generated \$119 million in 2010.**
- **Hospitals (like other health care providers) pay a 2% tax (on all services except Medicare) into the HCAF to support the MnCare program. Hospitals pay approx. \$184 million a year.**

Value Comparison by State (updated 7/10)



Sources: A - Dartmouth Inst. for Health Policy,
B - 2009 NHQR State Snapshots