TEXAS
Health and Human
Services Commission

Medicaid Reform and Hospital Financing

Presentation to the House Appropriations Subcommittee on Health and Human Services

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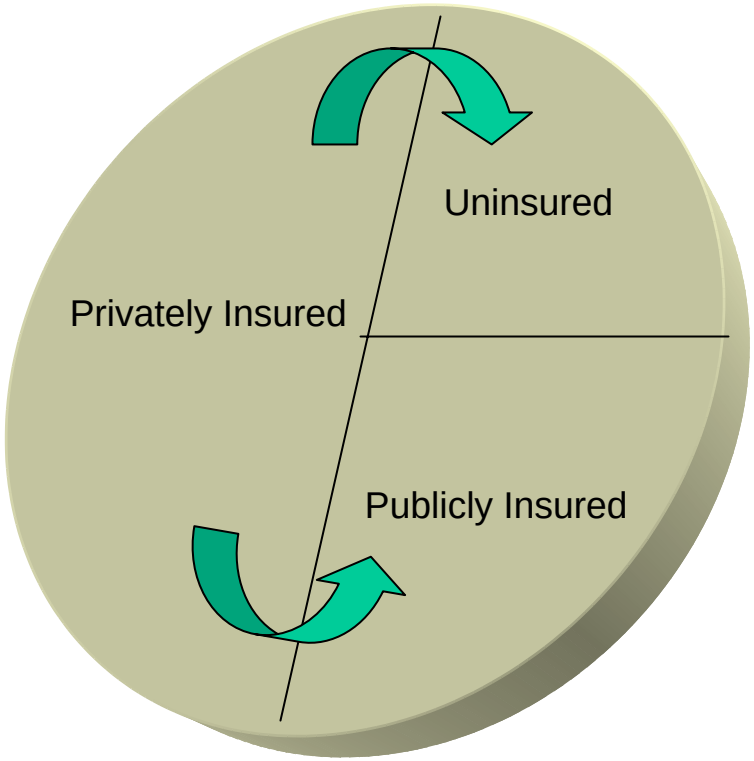
Insurance Status in Texas

24.4%, or 5.5 million Texans, are uninsured

Half of all Texans have Private insurance paid by businesses, employees and tax offsets.



Half of all Texans are uninsured or have publicly financed insurance

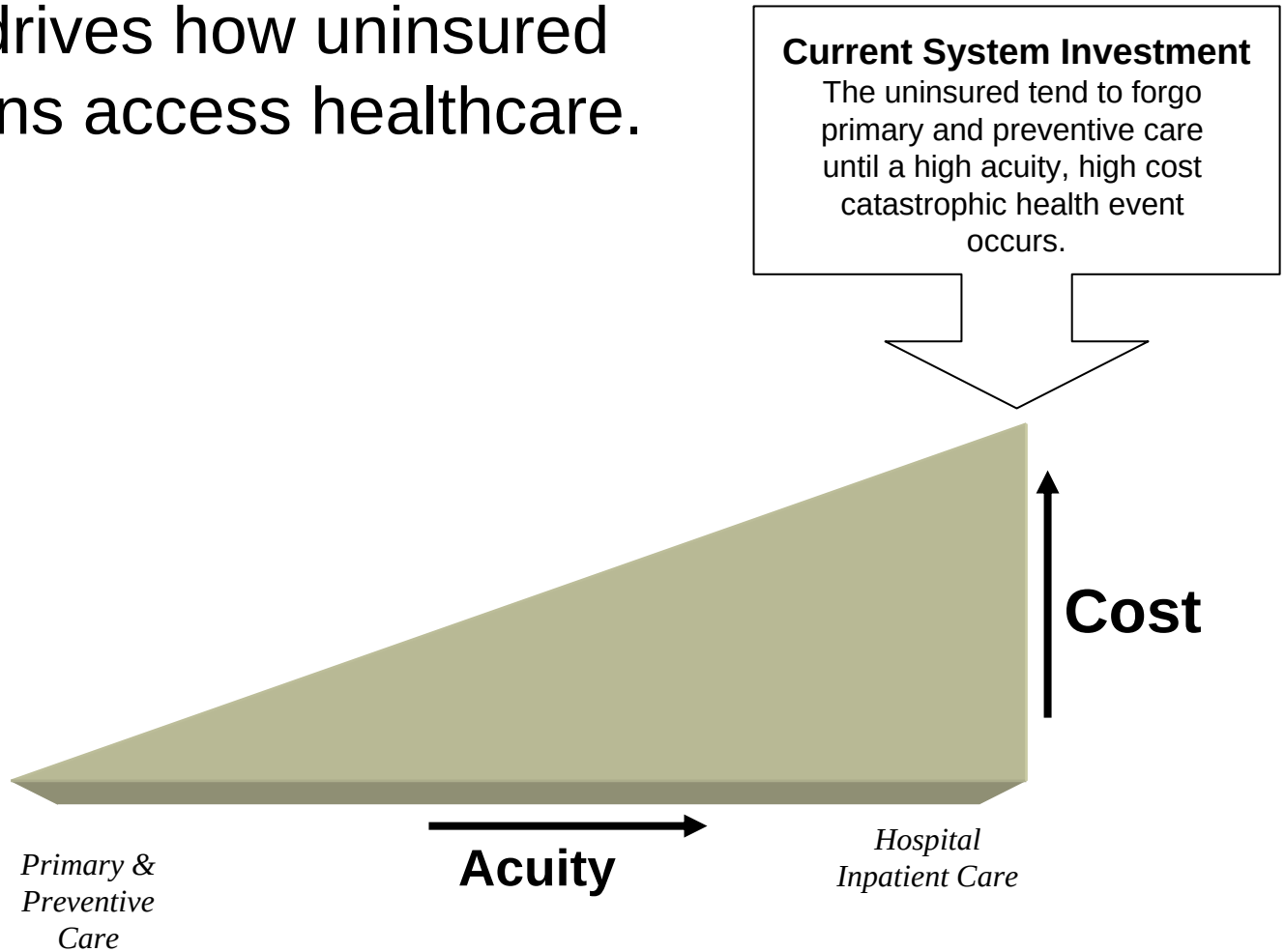
Care for the Uninsured, if not paid by the individual, is paid for by local taxes, property taxes, hospital district taxes, tax offsets; commercial subsidies; and intergovernmental transfers and federal match (Disproportionate Share Hospital and UPL).

Public programs financed by federal taxes, state taxes, and Medicare enrollee premiums.

Odds are 50/50 that any Texan will have private insurance, or be either uninsured or in a public program (e.g., Medicaid, CHIP, Medicare, Veterans' Assistance).

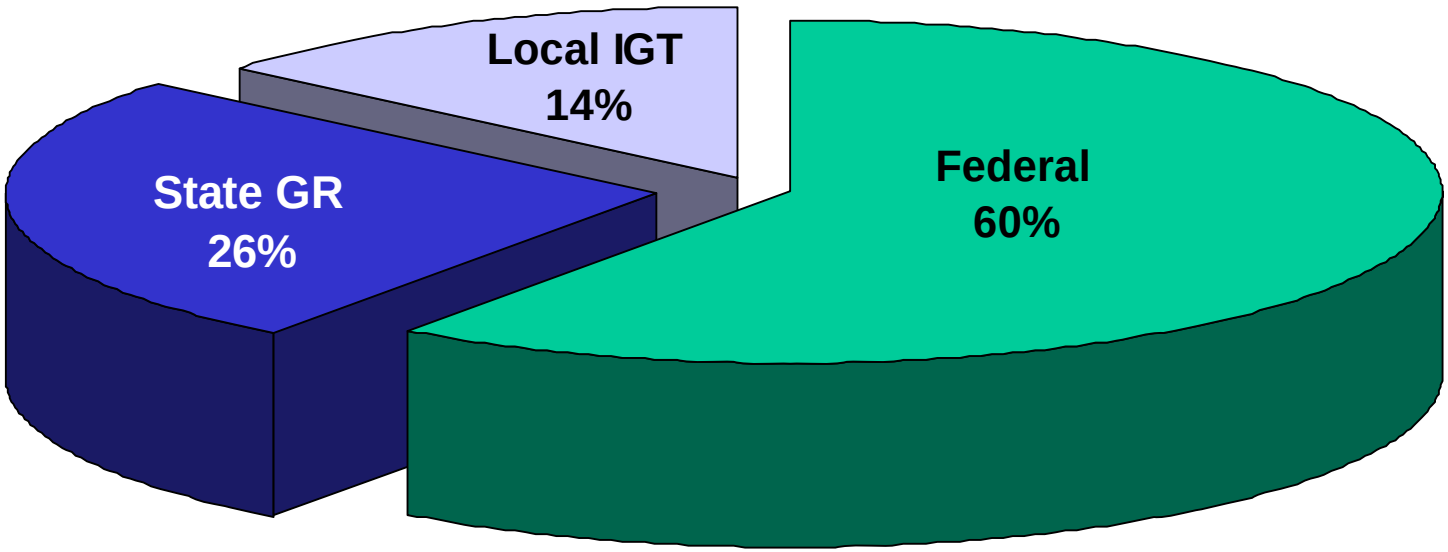
Medicaid Funded Indigent Care

Medicaid funded indigent care focuses on hospitals, and drives how uninsured Texans access healthcare.



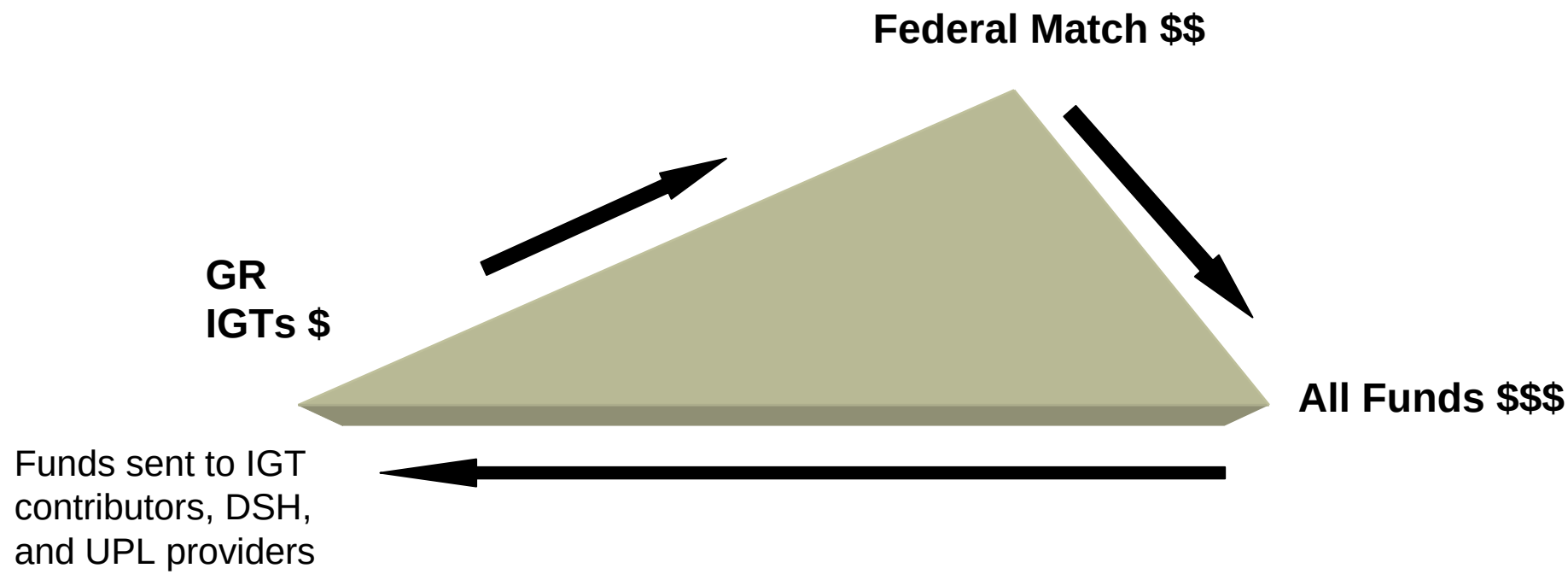
Total Medicaid Hospital Funding by Source of Funds

Medicaid Pays for both Publicly Insured and Uninsured Texans

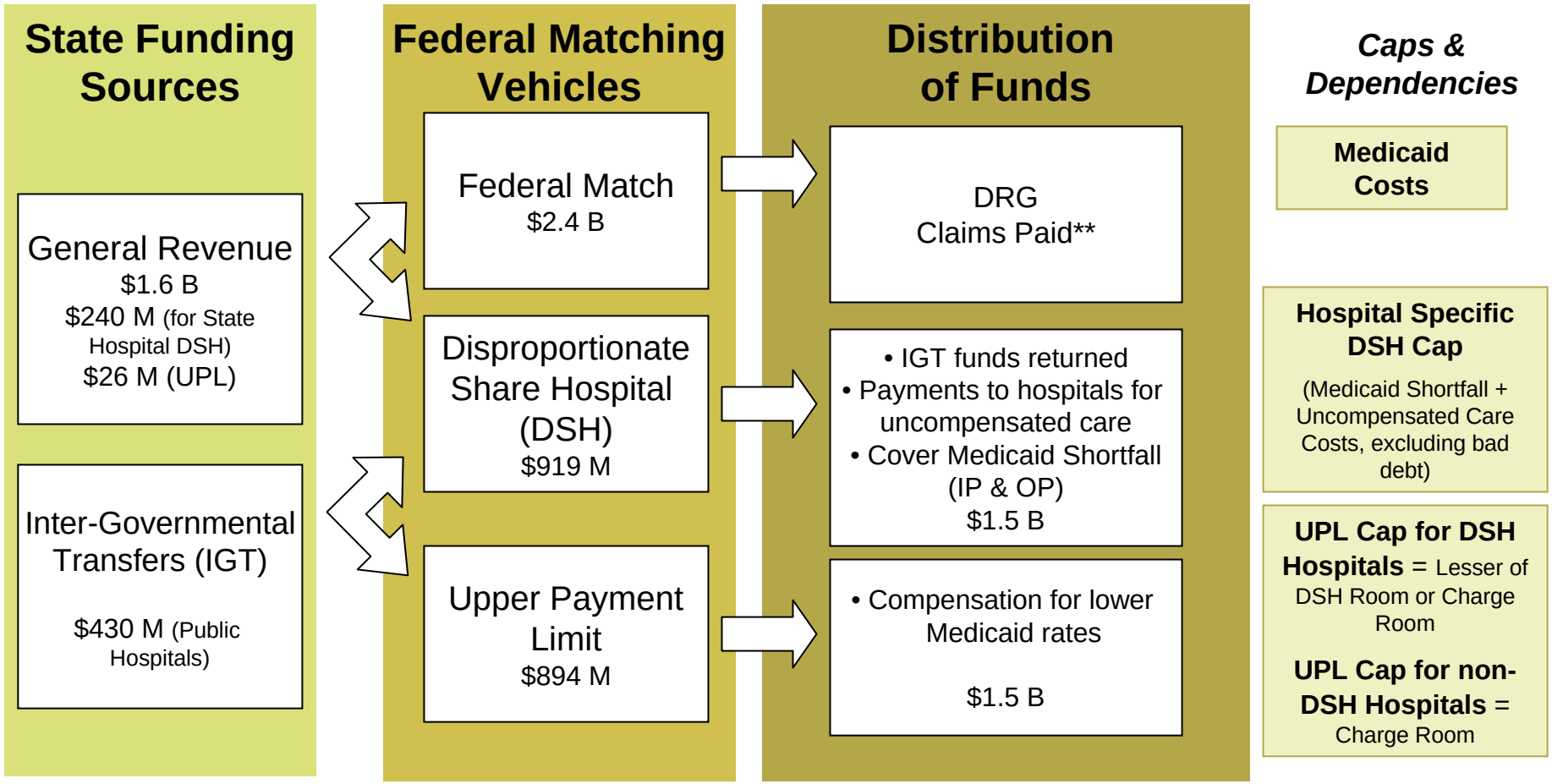


Medicaid DSH and UPL

Medicaid DSH and UPL financing and distribution



Medicaid Funding Sources and Vehicles for Federal Match: State GR and IGTs



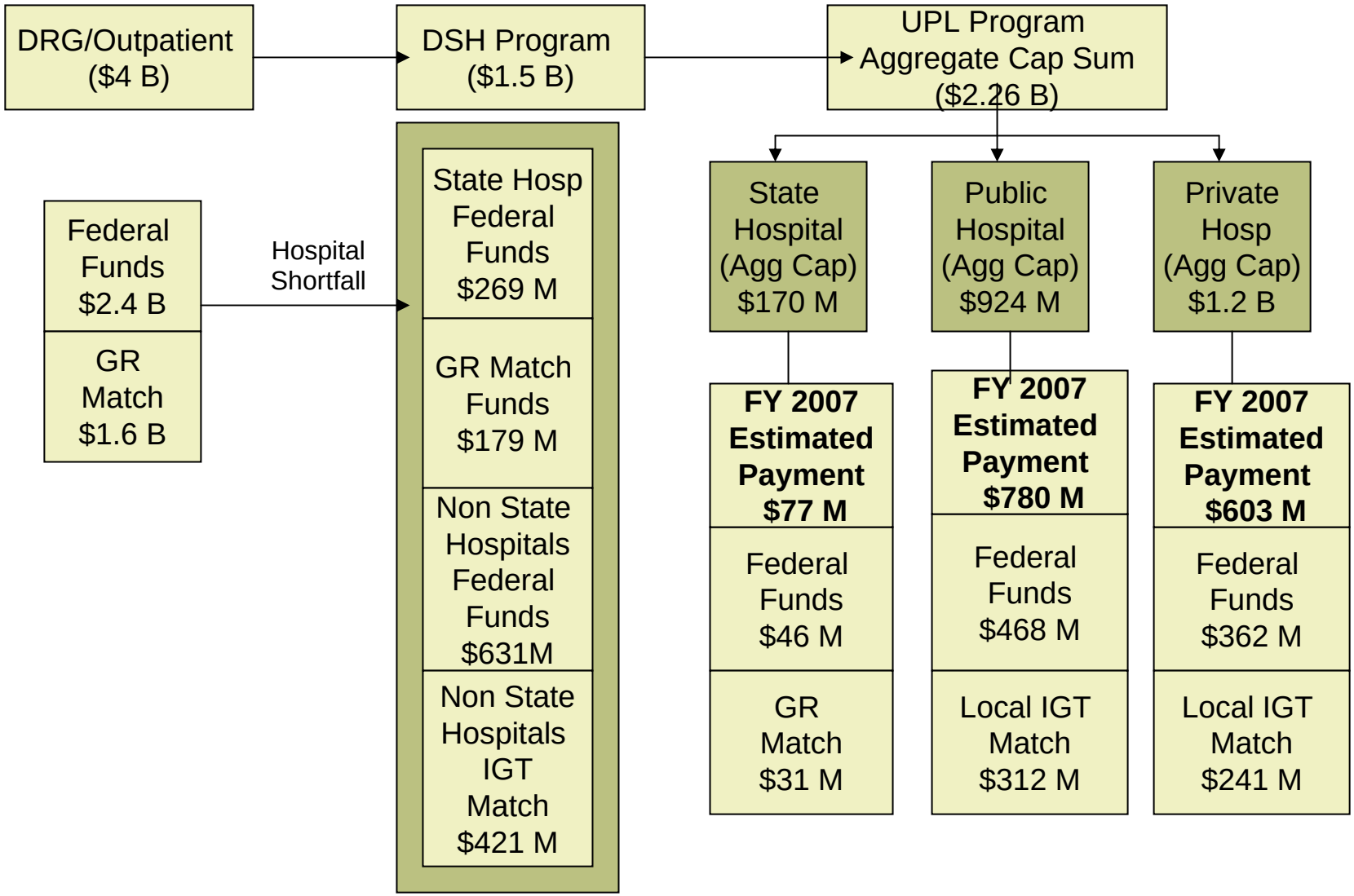
Cap Definitions

****Medicaid Shortfall ($900 M)** = Medicaid Costs – Actual Payments

DSH Room = Hospital Specific DSH Cap – DSH payments

Charge Room = Medicaid charges – Medicaid payments

Medicaid Hospital Financing Interdependence



Challenges: Federal Funding Changes Affecting UPL

The federal government has increased state limitations on Hospital UPL payments

- No UPL allowed if hospitals paid through capitation.
  - Impact in Texas is the hospital carve-out for STAR+PLUS expansion. Florida's waiver addresses this.
- State-specific UPL denials
  - California, Massachusetts, Iowa and Florida all negotiated with the Centers for Medicare and Medicaid Services (CMS) to protect UPL funding by converting UPL to expanded Medicaid coverage, or to Low Income Pools, covering the uninsured, and changing health care payments from lump sum to more patient-specific payments.
- Across the board limitation on UPL for all states
  - Administration's proposed rule would limit public provider funding for UPL payments; Texas could lose nearly $500 million in federal fund payments.

Untapped and Unmatched Local Funds

- Local tax supported programs for indigent care are paid 100 percent with Texas funds; not matched with federal funds
- Waivers provide an option to use Unmatched State and Local Funds as the basis for match. These can offset IGTs or other funds now used to generate federal match
- Previous attempts to use Texas local funds to provide matched coverage failed (1995's Intergovernmental Initiative) because of federal disapproval; however, recent waivers indicate CMS' renewed interest and flexibility in negotiations

Options for Improvement

Options to Improve Efficiency of Medicaid Indigent Funding

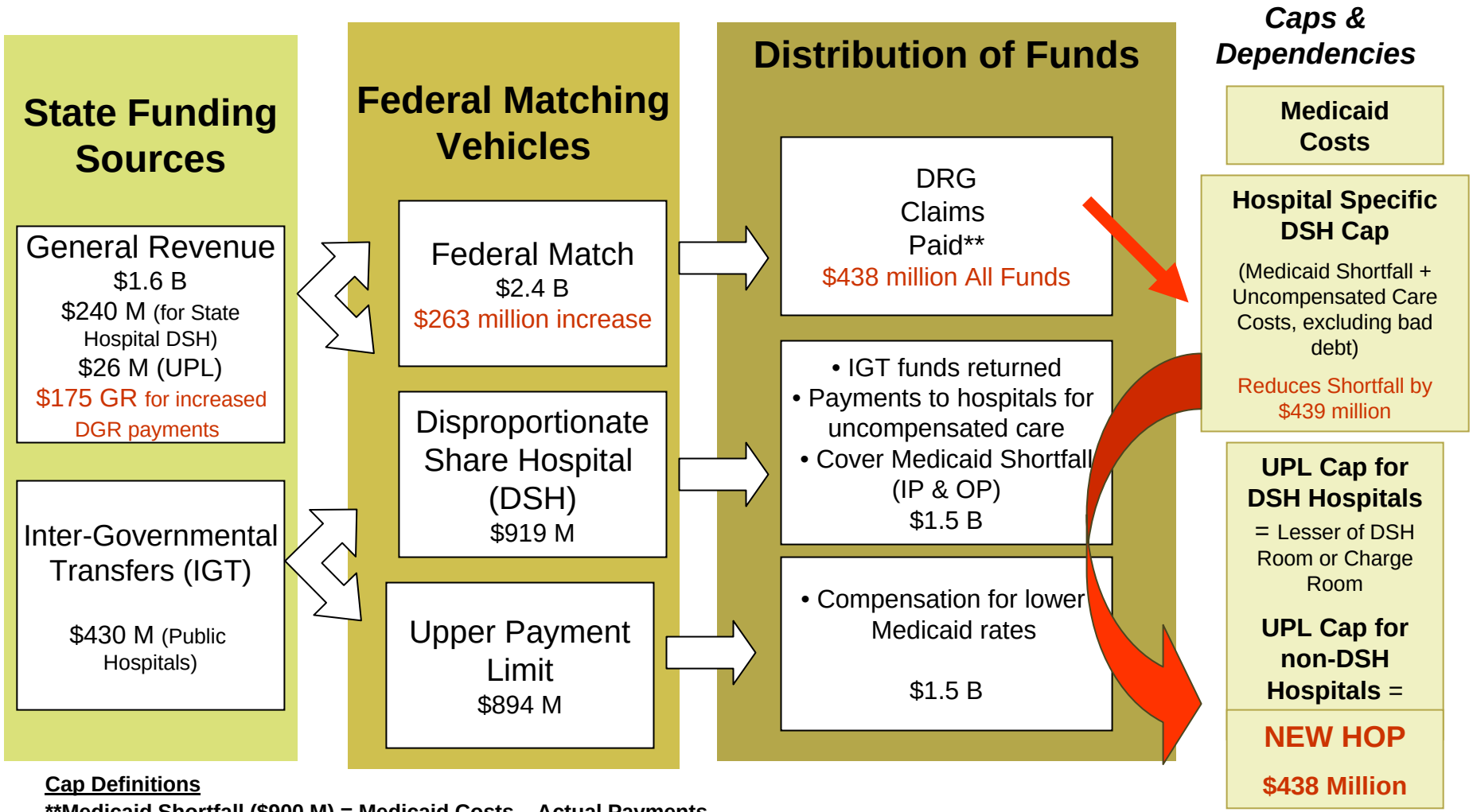
- Current methods of Medicaid funding for indigent care which focus on paying hospitals for uncompensated care:
    - Drive how and where uninsured Texans access healthcare—now through hospitals.
    - Increase uncompensated care costs by funding a high acuity, relatively unmanaged point of access.
    - Limit accountability for use of funds in DSH/UPL, and
    - Are less efficient and exacerbate uncompensated care in Texas.

Options for Protection

Options to Protect UPL, Reduce Uninsured and Reduce Uncompensated Care

- Negotiate for:
  - UPL protection -- trended UPL funds or trended cap UPL
  - UPL maintenance under capitation to allow better care and cost-management
- In Exchange for:
  - Agreement to begin transition to use of DSH for insurance coverage; medical home
- Health Opportunity Pool (HOP) as funding distributor
- Transition from lump sum payments to insurance subsidies
- Develop coverage models for target populations
- Program flexibility
  - Can incorporate Connector or other components

Funding the HOP– an Example



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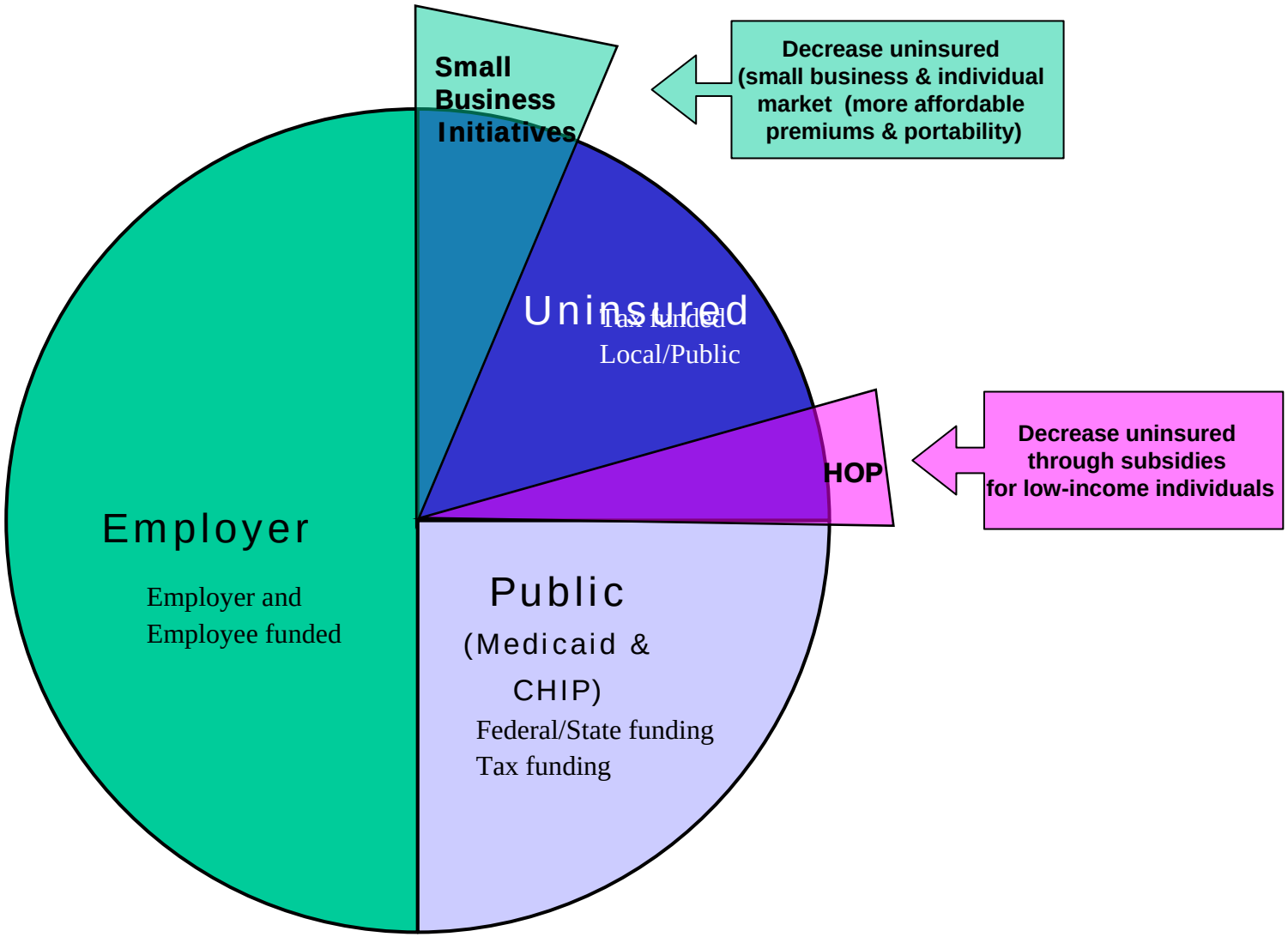
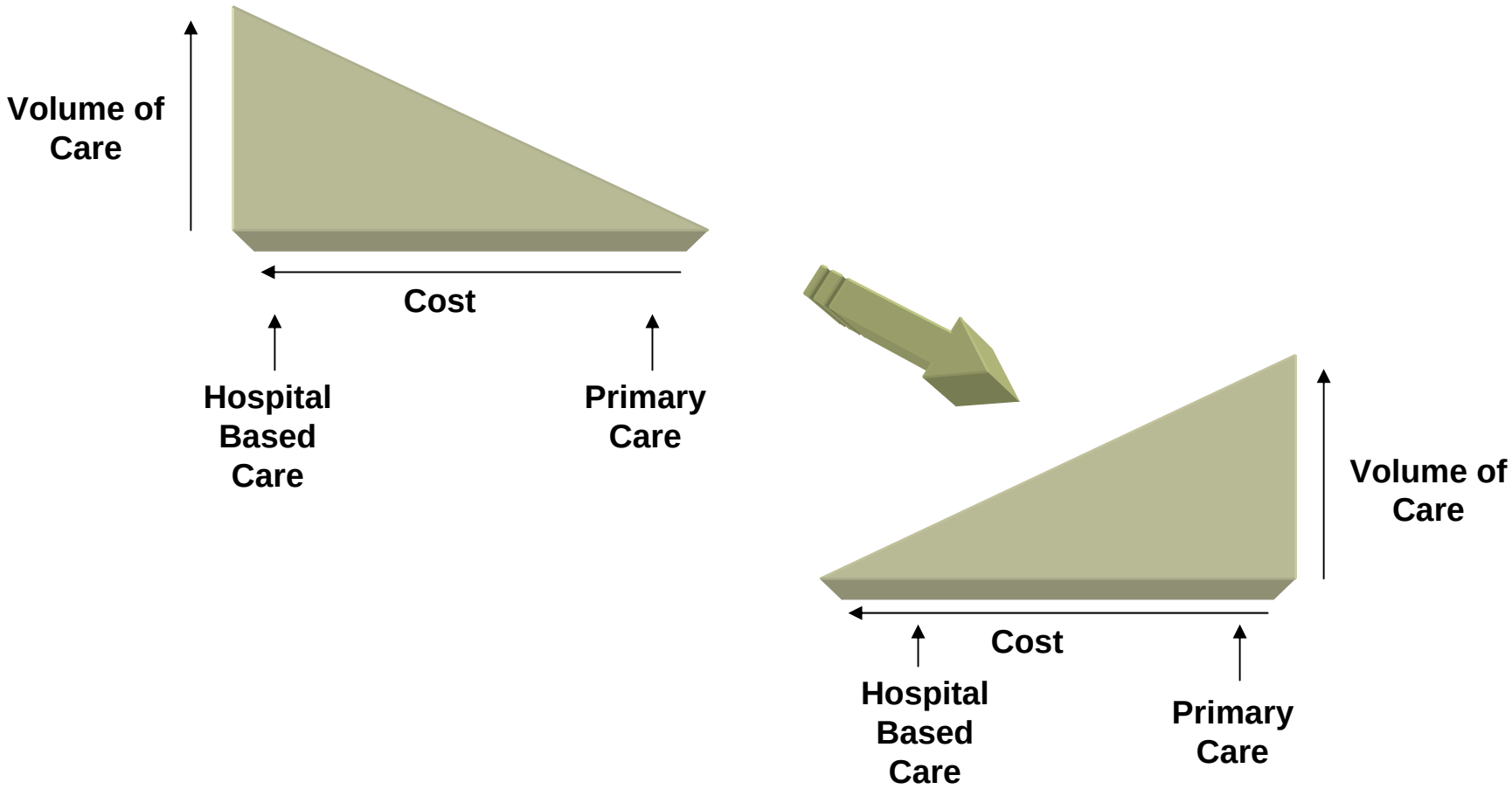
Health Insurance Coverage



Transforming Access and Quality for Provision of Health Care to Uninsured Texans

Continuum of Access to Health Care



Summary

Benefits of transformation:

- Limited public dollars become more productive in purchasing health care.
  - Uninsured Texans are encouraged to access health care system at less costly access points.
  - By funding access to primary care, dollars used to pay for uncompensated care in hospitals can purchase more care than they would otherwise.
- Uninsured Texans will be encouraged to seek preventive care and to access the health care network when their illness is in its earlier rather than later stages.
  - This type of access, as conditions are developing, helps to keep people healthier.
  - This increases the quality of health care for uninsured individuals.