

## Medicaid Hospital Rate Assessments

As part of his Fiscal Year (FY) 2012 budget proposal, Governor O'Malley is calling for the use of a hospital rate assessment of \$370 million to help address a \$1.16 billion Medicaid funding shortfall. There has in the past been general agreement among insurers and other payors, state regulators, and the hospital field that an assessment is the most efficient means to cover Medicaid funding shortfalls. The question has been, how is the burden of that assessment shared? **All of the FY 2012 assessment--100 percent--should be added to hospital rates.**

### What is a Hospital Rate Assessment?

The National Conference of State Legislatures (NCSL) defines it this way: "A 'provider tax,' sometimes termed a 'fee' or 'assessment,' is a state law that authorizes collecting revenue from specified categories of providers. In most states, it is used as a mechanism to generate new in-state funds and match them with federal funds so that the state gets additional federal Medicaid dollars." NCSL reports that for both FY 2009 and 2010, 44 states and the District of Columbia had at least one Medicaid provider tax. By imposing this tax, the assessment increases Medicaid revenues and draws dollar-for-dollar matching funds from the federal government, thus avoiding having to impose even greater program cuts.

Maryland authorized the use of a hospital assessment in 2007 and has used it as a mechanism to shore up Medicaid funding in both FY 2009 and FY 2010. With this mechanism, the rates the state sets for hospitals are increased by the amount of the assessment. Under current law, the amount that can be raised via this assessment is capped at 3 percent of total hospital net patient revenue; the Governor's budget would permanently double that amount to 6 percent.

### Why is a Hospital Assessment Most Efficient?

- The amount Maryland spends on Medicaid is matched dollar-for-dollar by the federal government. For every dollar the state spends, the federal government pays a dollar; for every dollar the state cuts, the federal government takes a dollar.
- To close Medicaid funding gaps, the state has two options: cut Medicaid spending or increase revenues to support the program.
- State cuts in Medicaid spending must therefore be twice the amount actually needed, because every dollar cut from Medicaid results in a dollar lost to the federal government.
- The impact of program cuts on Maryland's Medicaid program and on the lower income people who depend on it would be severe at a time they need these services the most.
- Use of a hospital rate assessment is a more efficient, targeted way to close the gap.

### How Should a Hospital Rate Assessment Work?

An assessment should be:

- **Efficient**—It should take advantage of the federal match on state revenues for Medicaid to avoid larger, unnecessary cuts in Medicaid services that would reduce access to care.
- **Effective**—It should ensure the needed funding and limit its disproportionate impact on financially vulnerable hospitals and those treating large numbers of Medicaid patients.
- **Broad-based**—It should be included in hospital rates, so its impact is minimized by being spread across the largest number of stakeholders.

### **What is the Impact of a Hospital Rate Assessment?**

If the assessment is levied on hospitals without allowing them to pass on its cost:

- Because the state determines the fees hospitals charge for their services, hospitals are the only business upon which a tax can be levied without its cost being shared with others. This leaves hospitals no choice but to pay for it by cutting costs, which usually translates into cutting jobs and services people need.
- Service cutbacks are the inverse of the assessment's goal: preserving health care services for Maryland's most vulnerable people.
- Financially troubled hospitals are hurt more than others, of course, and can ill-afford additional reductions to their already shaky financial health.
- Hospitals have already experienced below-inflation increases in the rates they are allowed to charge, putting additional pressure on their ability to provide the services their communities need.

If all of the assessment is added to hospital rates:

- A very small cost is spread among the thousands of people who use hospital care in the state, the insurers who charge their premiums, and the employers who self-insure their employees.
- Hospitals, as the largest employers in most Maryland communities, would pay their share of any increase in rates, just like these other employers.
- The impact on insurance company premiums, which have been increasing at rates unrelated to hospital rate increases, would be minimal.
- The result: a more equitable way to fund the state's expansion of health care coverage for lower income Marylanders.