

## **The Governor's Budget: Its Impact on Maryland's Unique Hospital Rate-setting System**

For the past few years, Maryland's unique hospital rate-setting system has been used to fund important health care coverage initiatives. The Maryland Health Insurance Program (MHIP), which covers high-risk, difficult-to-insure individuals, is funded in part by a 1 percent assessment added to hospital rates; the Legislature's expansion of Medicaid eligibility that was effective in 2008 is funded in part by an assessment added to hospital rates; and, since 2009, hospital rate assessments have been used to raise revenue for the struggling program.

For Fiscal Year (FY) 2012, the Governor's budget proposes to increase these assessments by about \$265 million, bringing the total to \$656 million. At the same time, the proposal would double the amount that can be assessed each year, and make that increase permanent.

### **The problem**

Maryland's unique all-payor hospital rate-setting system ensures that everyone who pays for hospital services--insurance companies, self-insured employers, federal and state programs like Medicaid and Medicare, and individuals--pay the same amount for the same service. Among the benefits of this system are that costs are kept in check, and a broad base of financial support is generated to make sure all Marylanders get the care they need. The rates hospitals receive for services are determined by the state's Health Services Cost Review Commission (HSCRC), under a "waiver" from the federal Medicare program that allows Maryland to set its own rates. To realize the benefits of this unique system and maintain the waiver, Maryland's annual inpatient hospital costs must rise more slowly than the same costs nationwide.

The problem is that the unprecedented magnitude of the new assessments would boost Maryland's rate of growth beyond that of Medicare across the nation. Use of the assessment mechanism for the next two years is certain to jeopardize the waiver.

### **What we're for**

- Funding of this year's unprecedented Medicaid budget shortfall must be shared among the broadest number of stakeholders by putting all of the assessment into hospital rates.
- Maryland's hospitals support a long-term solution to the state's deepening Medicaid budget deficit. Such a solution must include consideration of alternative revenue solutions that will not impact the Medicare waiver.
- We support modernization of Maryland's unique rate-setting system, a system that must be developed within the next year; with it must come an updated calculation of the Medicare waiver to align with the delivery of health care today and in the future.
- Until an alternative calculation is defined, we support recognition by the HSCRC that protecting the Medicare waiver must not become a basis for lowering hospital rates.