

## Medical Assistance Payment Modernization—Act 49 of 2010



There are currently more than two million Pennsylvanians enrolled in Medical Assistance (MA), which is funded by the federal and state governments, and provides safety net health care to the elderly, the disabled, low-income children, and families who are eligible financially and have no insurance.

Adequate financing for hospital payments assures that MA patients have continued access to quality health care.

### Historic Hospital Underpayments Leads to Creation of New Payment System

The state sets payments for hospital care for Medical Assistance patients. Medical Assistance has historically paid low rates to hospitals for care and services. In Pennsylvania, until the passage of Medical Assistance modernization legislation, hospitals have been paid, on average, less than 75 cents for each dollar care cost to provide for Medical Assistance patients. For outpatient care, payment was at 54 percent of costs. Medical Assistance hospital payments have not kept pace with the increases in the cost of care, such as diversified workforces, older and sicker patients, new technology, and pharmaceutical costs.



Since Medical Assistance has not paid adequate rates, other health insurers have to make up the shortfall left by Medical Assistance's lower payment rates—thus, creating a hidden tax on citizens who pay higher insurance premiums, or on whose behalf employers pay higher premiums to make up the difference.

### Medical Assistance Payment Modernization—Act 49 of 2011

In July 2010, the Pennsylvania General Assembly passed, and the Governor signed into law, Act 49 of 2010, which modernizes Pennsylvania's inpatient fee-for-service hospital payment system, establishes enhanced hospital payments through the state's Medical Assistance managed care program, and secures additional matching Medicaid funds through the establishment of the Quality Care Assessment. Act 49 was a result of the hospital community's efforts to:

- Establish a uniform base rate for all hospitals using the most current cost information, and make adjustments for differences in regional labor costs, teaching programs, and Medical Assistance volume.
- Replace the obsolete clinical classification system with a new clinical classification system (APR-DRG) in which payments recognize and support patient needs and appropriate levels of service unique to Medical Assistance patients.
- Address the inadequacy of Medical Assistance payment rates by establishing new federal funding.

- Secure a multi-year (Act 49 covers three years) approach that would provide new funding in the state budget process.

The Centers for Medicare & Medicaid Services approved all provisions of Act 49 of 2010, ensuring that the state will be able to make the payments for the current fiscal year by the fourth quarter (April-June 2011), and to levy the assessment once payments are made.

### Hospitals Contribute Assessment Funds to State for Three Years

The provisions of Act 49 ensured that the new Medical Assistance hospital payment system would not cost the state new dollars. This was a critical part of the law since the hospital community recognizes the state’s budget deficit. The increased funding for the payment system comes from the Quality Care Assessment, a fee paid by hospitals that will allow the state to access additional federal dollars. In addition, hospitals help the state by contributing a portion of the fee to the commonwealth—\$121 million for fiscal year 2010-2011, and \$125.5 million for fiscal years 2011-2012 and 2012-2013.

### 2011-2012 State Budget Must Maintain Adequate Funding

All of the elements of this new payment system must be maintained as delineated to assure state and hospital funding and continuation of hospital assessment dollar contribution to the state’s general fund. Given the \$4 billion shortfall in revenue, the governor and the state legislature are likely to seek spending reductions to avoid tax increases. At a time when Medical Assistance enrollment has increased in Pennsylvania due to the economic downturn, elected officials need to protect this new payment system and guard against cuts to hospital payments to protect the health of Pennsylvanians and the economic health of communities.

### What Needs to be Done?

- Maintain funding for health care for Pennsylvania’s most vulnerable populations of people—the elderly, persons with disabilities, pregnant women, and children.
- Maintain hospital funding included in Act 49 of 2010, so that the state budget continues to receive funds.
- Maintain important hospital supplemental funding for hospitals that serve large numbers of uninsured persons, and hospitals that provide critical access, trauma, obstetrics, and burn services, so that hospitals are fairly compensated for providing services to Medicaid recipients.
- Improve eligibility determinations to ensure that recipients are eligible for Medicaid services.

“Better and more stable Medical Assistance funding for hospitals will help to preserve and enhance patient access to care, provide hospitals with additional funding needed to improve quality and safety for all patients, and contribute approximately \$246 million in revenue to the state over the next three years.”

*Carolyn F. Scanlan  
President & CEO  
The Hospital & Healthsystem  
Association of Pennsylvania*

