Healthcare Solutions

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Toward a High Performance Health Care System for Vulnerable Populations: Funding for Safety-Net Hospitals

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Safety-net hospitals are central to healthcare delivery systems and as such play a critical role in achieving high-performance healthcare for vulnerable populations. These hospitals serve disproportionately large numbers of low-income patients, both insured and uninsured, and rely disproportionately on Medicaid and disproportionate share hospital (DSH) payments to sustain their operations and public funds to underwrite their capital needs. The financial pressures induced by dependence on these funding streams, as well as the anticipated changes in these streams due to the expected influx of Medicaid patients and reduction of DSH payments under health reform, pose challenges to the short- and long-term viability of safety-net hospitals.

A new report, "Toward a High Performance Health Care System for Vulnerable Populations: Funding for Safety-Net Hospitals," prepared for the Commonwealth Fund Commission on a High Performance Health System by the Manatt Health Solutions team of Deborah Bachrach, Laura Braslow and Anne Karl, examines the funding streams on which safety-net hospitals must rely and suggests strategies to better target financial resources to these hospitals. Rather than focusing on simply sustaining these hospitals, the paper offers tactics to stimulate and reward high performance.

Some of the specific recommendations provided in the report include:

Invest in Medicaid payment rates. Medicaid is becoming an increasingly important revenue stream at safety-net hospitals. Given current budget constraints, it is unlikely that states will be in a position to raise Medicaid payment levels for all services and for all providers. Therefore, targeting selective investment to enhance rates paid to safety-net hospitals that are most dependent on Medicaid revenue may be necessary. If linked to performance, this offers the best opportunity to improve care and preserve access for low-income patients and communities. At the outset it must be acknowledged that targeting enhanced Medicaid payments to hospitals based on their safety-net status is far from ideal. However, a strategy that ties payment to performance and performance improvement offers a way to address quality and access concerns in an environment in which state Medicaid rates are otherwise low and state resources are limited.

Target DSH dollars to hospitals that serve the uninsured. Along with Medicaid, safety-net hospitals also rely on Medicaid and Medicare DSH payments, although neither funding stream is currently well

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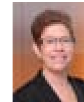

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targeted to hospitals providing the largest percentage of uncompensated care to low-income patients. DSH payments have traditionally been viewed as at least partially offsetting uncompensated care costs, low Medicaid reimbursement rates, and the added costs of serving large numbers of low-income patients. Under federal health reform, with more patients having access to health insurance coverage, Medicaid and Medicare DSH payments will be dramatically reduced starting in 2014. How states and the federal government decide to target the remaining DSH dollars will have significant implications for safety-net hospitals that continue to serve the remaining uninsured. The report recommends that the remaining Medicaid DSH dollars be targeted first to hospitals that serve uninsured patients, valued on a unit of service basis multiplied by the applicable Medicaid rate or some percentage thereof, thereby ensuring transparency and accountability for DSH spending. Any remaining DSH funds could be spent on treatment of underinsured patients.

Use federal waiver funding to support essential investments. Safety-net hospitals must change how they deliver and finance care to survive in an evolving payment and delivery system landscape. But adapting requires significant upfront investments of both human and financial capital, neither of which is readily available to many safety-net facilities. Where operating margins are not large enough to demonstrate creditworthiness, safety-net hospitals will have limited access to capital. One potential yet limited funding stream is the Health Care Innovation Challenge under the new Innovation Center at the Centers for Medicare and Medicaid Services. Another broader source of funding for safety-net hospitals are Medicaid waivers under Section 1115 of the Social Security Act. These waivers enable federal and state governments to target financial support for high-priority capital projects and system restructuring at safety-net hospitals. The report recommends that states consider using waiver funding to support essential investments at safety-net hospitals, especially those that support the development of accountable care systems at these facilities.

The full report is available on the Commonwealth Fund Web site.

This report is part of Manatt Health Solutions' library of thought leadership relating to the opportunities and challenges that exist for states in implementing federal healthcare reform and addressing issues relating to cost, quality and access to care. The team recently authored "The Role of the Basic Health Program in the Coverage Continuum: Opportunities, Risks and Considerations for States" (March 2012); "Federally-Facilitated Exchanges and the Continuum of State Options" (December 2011); and "Considerations for the Development of Accountable Care Organizations in New York State" (June 2011).

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