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**STATE SENATE COMMITTEE ON DEFICIT REDUCTION
TUESDAY, MARCH 10, 9 A.M.**

The Challenge: Addressing the State’s fiscal problems – while preserving the health care safety net and health care delivery system, and stimulating the state’s economy and meeting the state’s capital needs to create jobs

Introduction

I am Howard Peters, Senior Vice President, Illinois Hospital Association, here on behalf of our 200 member hospitals and health systems across the state of Illinois.

I thank the Senate President and the members of this committee for the opportunity to speak about the important and critical need to protect the health care delivery system in the state budget – not only to ensure the health and well being of all the state’s residents – but just as importantly, to provide a substantial stimulus to the state’s economy and to the economies of communities across Illinois – and to preserve and create jobs.

Questions and Answers

Question 1: What areas of the state budget are you interested in protecting and why are those areas important?

Medicaid (and medical assistance programs, including Kid Care, All Kids, FamilyCare) and the state capital program.

Ensuring the health and well being of its citizens is one of the primary responsibilities of state government. Protecting insurance and public health programs, including Medicaid, is part of that responsibility.

Illinois hospitals are a strong partner with state government – not only by providing critically needed, quality health care services for all Illinoisans (and being major economic engines and employers for their communities) – but also working with the state to help find new resources to support the health care delivery system.

Hospitals welcomed the opportunity to partner with the state on three Hospital Assessment programs over the past five years. The latest version will bring the State some **Four-and-a-half Billion dollars** in federal and hospital funds for Medicaid over the next five years.

This year alone, the funds that hospitals pay into the assessment program provide the State with **\$130 million** in new money to support other Medicaid needs such as long-term care and developmental disability services. When that \$130 million is used for Medicaid, it draws down an enhanced federal match under the stimulus law, to become as much as **\$325 million**.

It is especially important during economic downturns to protect Medicaid – to pay a reasonable rate to providers and to pay them on time.

During economic downturns, more people lose their jobs and employer-based insurance, and their incomes are declining – more people become uninsured, more people who need health care can't pay for it, and enrollment in Medicaid increases.

Medicaid serves two critical functions during economic downturns.

First, it is an important health care safety net for newly unemployed Illinoisans as they work to find new jobs – as well as for the State's most vulnerable populations – children, pregnant women, the poor, disabled and elderly.

If the State were to reduce Medicaid funding, it would be limiting and reducing access to health care for families, BUT it would NOT be curtailing the need for health care. Instead of accessing primary and wellness care, people will be forced to use hospital emergency rooms, where care is provided regardless of ability to pay, and where care is more expensive to provide.

Second, and just as important, **Medicaid provides a much needed stimulus for the State economy** – especially with the State eligible to receive nearly **\$3 Billion** in **ADDITIONAL** federal Medicaid matching funds over the next two years – provided that the State meets a prompt pay requirement by addressing the Medicaid backlog.

Under the federal stimulus law, which provides the State with an enhanced federal Medicaid matching rate of 60 percent (an increase of more than 10 percent), for every \$1 Illinois spends on Medicaid, the federal government will contribute \$1 and 50 cents.

[The state's Title 21 programs – which includes many eligible beneficiaries in the Kid Care, All Kids, and Family Care programs – receive a greater federal matching rate of 65 percent, better than the enhanced FMAP rate.]

Medicaid has a tremendous multiplier effect on the economy – a greater impact than state spending on other programs – because it pulls in a large infusion of **new** dollars – federal dollars – into the economy from outside the state.

One study indicates that each \$1 of Medicaid spending generates \$2 and 50 cents of economic activity in Illinois. (*Families USA, analysis and economic model from the U.S. Department of Commerce, April 2008*)

When hospitals and other health care providers receive Medicaid payments from the State, those funds promote new rounds of spending – including supporting wages for employees and the purchases of pharmaceuticals, goods and services from other

businesses, which in turn generate further rounds of spending through out the economy AND tax revenues for the state.

Conversely, reductions in state spending for Medicaid would result in less federal funding for the State. At the enhanced FMAP rate of 60 percent, Illinois would have to cut Medicaid spending by **\$2 and 50 cents** to save \$1 in state funding.

Cutting Medicaid during an economic downturn will actually worsen the state economy, as well as reduce access to needed health care services for the State's most vulnerable populations.

It is also critical that the State invest in the health care delivery system – to keep it strong and viable – by making sure to **include hospitals in any state capital program that is enacted this year.**

Helping hospitals with their capital needs will stimulate the local and state economies – creating construction jobs and generating new rounds of spending that will ripple throughout the economy as hospitals upgrade facilities and buy new equipment and technology.

Illinois hospitals are now facing a tremendous challenge in raising the financial capital needed to maintain, renew and upgrade their physical plants, equipment and technology – because of the weakening economy and the frozen credit markets.

A recent IHA survey of its members found that nearly half are having significant and moderate problems gaining access to capital.

Nearly two-thirds said they are experiencing higher costs in obtaining lines of credit or bonds – with more than 70 percent saying they are postponing plans for capital investments, and nearly 80 percent deferring plans for NEW capital investments.

Capital is critical for hospitals to comply with life safety codes and other requirements and to expand and improve operations in order to remain viable, effective, and up-to-date. New technology is needed to improve the quality and efficiency of care delivery, including improved CT scanners and MRI technology, electronic health records, and computerized physician order entry systems.

The median average age of plant of Illinois hospitals is nearly 11 years – higher than the national median of 9-point-7 years, and higher than the median value for surrounding midwestern states of 9-point-6 years. (“Average” is just an average – many hospitals in Illinois have been struggling to shore up facilities that are several decades old.)

Question 2: What revenue enhancements would you recommend be implemented to support those areas?

Enhancements of broad-based revenue sources that are steady, reliable and predictable; AND maximization of federal funding for state health programs.

Broad-based revenue sources that could be enhanced include the income and sales taxes. While there are other revenue source enhancements that could be explored – such as alcohol, tobacco, gambling and gasoline taxes – enhancements of those revenue sources would not be sufficient to adequately support the areas outlined in Question 1.

In addition, the State should take steps to ensure that it obtains the maximum amount of federal funds that are available under the stimulus law, including nearly \$3 Billion in enhanced federal Medicaid matching funds.

To draw down the additional federal Medicaid funds, the State must meet a prompt pay provision in the stimulus law by addressing the Medicaid backlog. One possible approach is short-term borrowing as proposed under **Senate Bill 324**.

Question 3: What reforms would you recommend in state-provided health care services to save taxpayers' money and improve access to services?

Work toward universal access – insurance reforms - maximize federal funding for state health programs – expand primary care case management and disease management programs – maximize federal funding for state health programs

IHA continues to support moving Illinois toward **universal and continuous access** to health insurance coverage that incorporates the strengths of a pluralistic private and public system. We need to protect private health care coverage where possible to save taxpayers' money and prevent the erosion of coverage for those currently insured.

Reforms could include:

- Creating purchasing pools, alliances and policies to help people obtain and retain their private insurance coverage;
- Eliminating or minimizing the use of exclusions from coverage based on pre-existing conditions;
- Encouraging employers to continue to provide and improve benefits to their employees. As we do this, we need to keep in mind that “bare bones” and “high deductible health plan” policies are not the answer for those who cannot afford high out-of-pocket expenses. Such policies can leave individuals without the coverage they need. In some cases, of catastrophic illness or injury, a bare bones policy can result in individuals facing bankruptcy.

If more people, including the working poor, have access to affordable private coverage, this would slow down the growth in Medicaid enrollees, saving the State money.

The State should expand primary care case management and disease management efforts, to manage the care of people eligible for public programs AND to promote preventive care and quality. The results of the State's efforts so far are very promising.

Last spring, the Illinois Department of Healthcare and Family Services reported that it had achieved \$34 million in **NET** savings in fiscal year 2007 through its primary care case management (“Illinois Health Connect”) and disease management (“Your Healthcare Plus”) programs.

HFS is working with nearly 1.9 million individuals who receive their health care through HFS programs, including Medicaid, to have access to primary care doctors who provide regular checkups and preventative care.

The state’s primary care case management and disease management programs keep people healthier and help keep costs in check by preventing inappropriate and costly emergency room visits and hospitalizations. Each client is assigned a “medical home” where they receive regular ongoing care.

Through extensive outreach efforts, Illinois Health Connect has more than 5-thousand “medical homes,” including physicians and Federal Qualified and Rural Health Centers across the state.

The disease management program provides an even more intensive and comprehensive approach to patients with chronic disease, such as coronary artery disease, asthma or depression. The program coordination includes the use of nurses and social workers to ensure that participants obtain the help they need for their health, food and housing issues to get better control of their situations and reduce the incidence of costly medical crises.

However, capitated, risk-based managed care for Medicaid (through HMOs) is not the answer and is not a real reform. Capitated, risk-based HMO-managed care will only take hundreds of millions of dollars out of the health care delivery system in the form of profits and administrative expenses.

I should note that over the past several years, the growth in Medicaid spending for hospitals in Illinois is primarily the result of two factors – the additional federal funds brought in by the Hospital Assessment Program, and increases in enrollment. General revenue fund spending for Medicaid payments to hospitals has been relatively level.

To help improve access to services and reduce expenses for the State, hospitals have partnered with the State on the assessment program, one way that the State has **maximized federal funding for state health programs.**

Hospitals contribute substantial funds -- \$900 million a year -- to the assessment program to generate the federal matching funds that are used to cover Medicaid costs for hospitals AND to generate about \$325 million annually for the State to use for other Medicaid needs such as long-term care and developmental disability services (*when the additional \$130 million a year provided to the State by hospitals is used for Medicaid and draws down the enhanced federal match*).

Question 4: How can the state improve service delivery while reducing expenses?

Build on and expand the use of primary care case management and disease management programs. (See Question 3)

We support efforts that improve and better manage the health care and health status of Illinoisans, prevent unnecessary and costly visits to the emergency room, increase access to preventative health care and early detection, and improve the management of chronic conditions. The State's primary care case management and disease management programs are very promising approaches that have already delivered some significant savings for the State.

Question 5: How can Illinois reduce health care fraud to save taxpayers dollars?

Health care fraud in Illinois, in most cases, does not involve hospitals.

Over the past several years, Illinois has been a leader in fraud avoidance and detection, and we need to build on those efforts.

Illinois was the first state in the nation to perform a study to measure and determine the accuracy of Medicaid payments.

Illinois was among the first states to voluntarily participate in the federal Payment Error Rate Measurement Project – audits conducted by the Centers for Medicare and Medicaid Services – to determine the accuracy of Medicaid and SCHIP payments AND the accuracy of eligibility determinations made by the State.

In addition, in the past year, the Department of Healthcare and Family Services has implemented the requirement of concurrent reviews for many hospital inpatient admissions.

The Illinois Attorney General's Office has been very aggressive in recent years in investigating and prosecuting health care fraud, as well as assisting health care consumers with problems in obtaining the care and benefits that they are entitled to.

Since 1998, the Attorney General Office's Health Care Bureau has received and followed up on thousands of consumer complaints annually related to health care issues. According to the Bureau, the most common consumer complaints include denial of insurance benefits, slow pay on claims, claims only partially paid, problems gaining access to specialty care and out-of-network care, and problems obtaining and keeping health insurance coverage.

One area that we recommend that the State consider exploring is tightening up enforcement and prohibitions against physician self-referral to facilities in which they have a financial or ownership interest.

In January of this year, the Attorney General's Office reached a settlement with a group of 14 Illinois radiology (MRI) centers that allegedly paid illegal kickbacks to doctors in exchange for referrals.

As the Attorney General noted in announcing the settlement: "When patients are referred to MRI facilities, they should be able to feel confident that the referrals were made for medical reasons only. This settlement sends a strong message that medical professionals cannot engage in schemes to line their pockets, at the expense of providing the best patient care."

Question 6: What deficit reduction measures do you support?

One of the greatest drivers of cost increases in the Medicaid program is pharmaceutical drugs. We recommend that the State's pharmaceutical programs move to have all drugs on a 90-day supply rather than a 30-day supply, and purchase generic drugs more widely (currently, 70 percent of the drugs in the Medicaid program are generic).

Again, I should point out that the hospital community has helped the State in a very major way by collaborating on the development of the Hospital Assessment Program. This program not only brings in some \$640 million a year in federal Medicaid funds for hospitals – but also provides the State with about \$325 million annually to support other Medicaid needs (*when the \$130 million in hospital taxes is used for other Medicaid needs and draws down the enhanced federal match*).

Without this infusion of funds from the Hospital Assessment Program, the State's deficit would be substantially bigger.

Conclusion

- The State should support Medicaid with a reliable, broad-based funding source and maximize federal funding sources, including the enhanced FMAP Medicaid matching funds from the stimulus law, by addressing the Medicaid backlog.
- Don't cut Medicaid – such a move would have a devastating impact on millions of the state's most vulnerable people, including the newly unemployed, on hospitals and the health care delivery system, AND on the state's economy.
- Each dollar reduced in state spending on Medicaid would mean the loss of one-and-a-half dollars in federal matching funds – money that otherwise would flow through the local and state economies to generate successive rounds of spending on employee salaries, goods and services AND tax revenues for the State.
- Medicaid is good for patients and for the State's economy.