

As we usher in a new year, the murky healthcare landscape of the last few years has finally started to clear. Whereas contentious healthcare reform debates and lawsuits dominated media coverage of the industry recently, in 2013 implementation of the law accelerates with a lot of the action shifting to states and local communities.

Healthcare issues are expected to dominate legislative discussions in 2013. As lawmakers debate various ways to improve healthcare quality while driving down healthcare costs, the Northeast Ohio hospital community would like to weigh in on key issues and highlight how The Center for Health Affairs is making an impact. Part one of this two-part series focuses on the impact federal healthcare reform will have on the healthcare industry, why the state should expand the Medicaid program, how funding cuts threaten hospital care and why nonprofit tax status is so essential to the region's hospitals.

For access to in-depth information about The Center's key initiatives, as well as links to all of the written publications mentioned in this Policy Snapshot, visit www.healthpolicyissues.com.

Federal Healthcare Reform: Full Speed Ahead

The federal healthcare reform law survived two major challenges in 2012 – a legal one and a political one. The Supreme Court ruling upholding the bulk of the law and President Obama winning re-election have all but guaranteed that the law will continue to be implemented.

Almost any subject in the healthcare industry has to be looked at through the lens of the federal healthcare reform law. From healthcare quality to funding to insurance coverage, the law's reach is far and wide. The new year promises to be a busy one as providers, insurers and consumers prepare for many of the law's key provisions to take effect in 2014.

While we kick off the new year with greater confidence in the law withstanding legal and political threats, there are still many details about how the law will be implemented that need clarification. Many states are still determining what their health insurance exchanges will look like as well as whether or not to expand their Medicaid programs.



How The Center is Making an Impact

The Center's [federal healthcare reform issue site](#) provides access to the latest reform information including:

- Videos of CEO Bill Ryan speaking about health reform at [The City Club of Cleveland](#) and on [WKYC](#)
- Access to The Center's related publications including [Federal Healthcare Reform: The Decision is In](#), our June 2012 Policy Snapshot

Medicaid Expansion Should Move Forward In Ohio

The Supreme Court's June 2012 ruling on the legality of the federal healthcare reform law made the previously mandatory Medicaid expansion optional. Many states, including Ohio, are now grappling with whether or not to expand their Medicaid programs to all people earning up to 133 percent of the federal poverty level (FPL) - essentially 138 percent with the 5 percent income disregard or \$31,809 for a family of four.

State officials have signaled that Ohio lawmakers will likely decide in the context of the upcoming state budget negotiations whether or not to expand Medicaid. The state's budget – which runs from July 1, 2013 through June 30, 2015 - will be approved by roughly July 1st.

While federal reimbursement for Medicaid is roughly 64 percent in Ohio, under the expansion federal reimbursement for new enrollees is 100 percent from 2014 through 2016 then drops gradually until reaching 90 percent by 2020 and for all subsequent years. States that decide not to expand Medicaid coverage will be passing up generous federal financing and ensuring that healthcare costs for this group of low-income uninsured individuals get passed on to the state, local governments, hospitals and consumers through increased uncompensated care costs. Moreover, a recent independent report found that a Medicaid expansion would actually improve the state budget picture in the 2014-2022 period, increase Ohio employment and earnings, improve county finances and lower healthcare costs for employers and residents.¹

Aside from whether or not the state will expand the Medicaid program, it appears the way Medicaid is administered is also likely to undergo a transformation. Ohio Governor John Kasich has signaled his desire to consolidate the Medicaid program into a single, Cabinet-level agency by July 1, 2014. Currently Medicaid in Ohio is administered through five state agencies.²

How The Center is Making an Impact



- As a member of [The Northeast Ohio Medicaid Expansion Coalition](#), The Center has joined a diverse alliance advocating for the expansion of Medicaid in Ohio.
- The Center's November 2012 Policy Snapshot, [Medicaid: Why Expanding Coverage Makes Sense](#), describes why lawmakers should support a Medicaid expansion in Ohio.
- The Center's [Medicaid in Ohio issue site](#) offers additional resources.

Funding Cuts Threaten Hospitals

Prior to passage of the federal healthcare reform law, hospitals agreed to billions of dollars in funding reductions with the understanding that greater numbers of individuals who had previously been uninsured would now be insured through expansions of both private coverage and Medicaid coverage. One example of the funding reductions applied to hospitals under the law was a \$14.1 billion reduction in Medicaid disproportionate share hospital (DSH) funding through federal fiscal year 2019. DSH funding helps hospital cover the uncompensated care costs associated with caring for uninsured and low-income patients.

Now that the Medicaid expansion is a state option, rather than a requirement, hospitals face the possibility that many of the patients they will be taking care of might not have healthcare coverage and will not be able to pay for their care — a situation that makes hospitals vulnerable to large uncompensated care costs. At the same time, hospitals will lose the federal aid that has helped them to care for uninsured and low-income patients in the past.

Furthermore, the first day of 2013 ushered in several new hospital funding cuts as a result of negotiations in Congress, including a \$4.2 billion additional Medicaid DSH funding reduction over the next decade and a \$10.5 billion reduction in projected Medicare payments over the next decade.³ More hospital funding reductions are possible as Congress takes up negotiations on a series of automatic federal spending cuts commonly referred to as the “sequester” — including a two percent cut in Medicare provider payments — scheduled to be voted on by February 28th. The possibility of additional funding cuts threatens to create longer waits for hospital care, hampered access to the latest treatments and fewer caregivers to provide services.



How The Center is Making an Impact

- The Center's [Reimbursement Forum](#) brings together the region's hospital finance professionals for collaborative learning opportunities and to pinpoint opportunities to educate lawmakers.
- Wage index is one of the factors used to determine Medicare reimbursement for hospitals. Each year, Northeast Ohio hospitals rely on The Center to coordinate a regional wage index project that ensures its member hospitals receive the maximum reimbursement to which they are entitled. The Center's most recent [Wage Index Initiative](#) resulted in an increase in wage index, which is estimated to return more than \$10 million in additional reimbursement to The Center's members.

The Importance of Hospital Nonprofit Tax Status

The majority of hospitals are 501(c)(3) organizations, or what are commonly referred to as nonprofit hospitals. The role that hospital nonprofit tax status plays in hospitals' ability to deliver the vast array of services they provide is of paramount importance. Moreover, the value that comes back to the community far exceeds what hospitals would be able to provide as taxable entities.

Each day Northeast Ohio hospitals provide care to patients who cannot afford to pay, adding up to over \$300 million of free care each year. Hospitals also provide necessary, unprofitable services, such as trauma and burn care units, to benefit the community. Beyond community benefits, the economic impact that local nonprofit hospitals bring to the region should not be forgotten when lawmakers consider nonprofit hospitals' value. Northeast Ohio hospitals create over 168,000 jobs throughout a variety of industries in the region and generate more than \$676 million in state and local tax revenues.⁴

State Revenues Stemming from Northeast Ohio's Nonprofit Hospitals

Employee Income Taxes	\$341 million
Retail Sales Taxes	\$237 million
Motor Vehicle Fuel Taxes	\$65 million
Other Consumption Taxes	\$33 million
Total	\$676 million

Source: The Center for Health Affairs, "The Economic Impact of Northeast Ohio Hospitals."

Recently passed federal healthcare reform legislation has added additional requirements that nonprofit hospitals must fulfill to qualify for and retain their tax exemptions, such as conducting a community needs assessment once every three years and developing an implementation strategy to meet the identified community health needs.

How The Center is Making an Impact



- The Center spearheaded efforts to engage the Hospital Council of Northwest Ohio (HCNO) to conduct county-by-county [community health needs assessments](#) of its members' counties. Community needs assessments are currently underway or complete for Ashtabula, Cuyahoga, Geauga, Lorain and Medina counties.
- The Center's [hospital nonprofit tax status issue site](#) provides access to a wealth of information, including our latest economic impact report, [The Economic Impact of Northeast Ohio Hospitals](#).

Conclusion

The healthcare community is committed to continuing its focus on boosting quality of care. Yet the threat of shrinking reimbursement looms as hospitals work to address anticipated workforce shortages, implement provisions of the federal healthcare reform law and ensure they are equipped for any disaster Northeast Ohio may face. As conversations unfold in Columbus and on Capitol Hill, The Center will continue to advocate for policies that best position hospitals to provide top-notch care to the communities they serve. Stay tuned for The Center's February 2013 Policy Snapshot, which will contain part two of this series.

Endnotes

1. Health Policy Institute of Ohio, et al. "Expanding Medicaid in Ohio: Preliminary Analysis of Likely Effects." January 18, 2013. http://a5e8c023c8899218225edfa4b02e4d9734e01a28.gripelements.com/pdf/publications/oh_medicaid_expansion_study_1_15_2013_final_numbered.pdf
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3. Combs, V. "Hospitals Join Device Firms on Losing End of Fiscal Cliff." *MedCity News*. January 2, 2013. <http://medcitynews.com/2013/01/hospitals-join-device-firms-on-losing-end-of-fiscal-cliff-fix/>
4. The Center for Health Affairs. "The Economic Impact of Northeast Ohio Hospitals." April 2012. http://chanet.org/TheCenterForHealthAffairs/MediaCenter/Publications/~media/CHA/Files/Publication%20PDFs/Final_EconomicImpactReport2012.aspx