

The Windfall Hospitals Will Make Under Medicaid Expansion

by Sen. Rob Schaaf, M.D., District 34

This rectangle represents all the costs a typical hospital must pay for all the care it delivers in a year:

\$18.17 Billion in total operating expenses for all hospitals in Missouri in 2010 (most recent data from Missouri Department of Health and Senior Services spreadsheet, previously distributed.)

The rectangle can be divided into four columns, representing the cost associated with caring for Medicare patients, Medicaid patients, insured patients, and uninsured patients, in 2009 Missouri proportions (from Kaiser—www.StateHealthFacts.org), like this:

Medicare 14% of patients	Medicaid 14% of patients	Insured, 58% of patients	Uninsured 14% of patients
\$	\$	\$	\$

Hospitals are paid by Medicare on what is called the “DRG” basis. DRG stands for diagnosis related group, and it means that the hospital is paid the same for all patients with a given diagnosis. The payment is supposed to reflect the cost to the hospital for providing the care. It is not exact, but a hospital gets pretty much what it spends*, like this:

Medicare 14% of patients	Medicaid 14% of patients	Insured, 58% of patients	Uninsured 14% of patients
\$	\$	\$	\$

Hospitals are paid by Medicaid on a cost basis. It means that they receive whatever they put on their cost reports, multiplied by the percent of their charges that are for caring for Medicaid patients. So they are paid like this:

Medicare 14% of patients	Medicaid 14% of patients	Insured, 58% of patients	Uninsured 14% of patients
\$	\$	\$	\$

Hospitals get approx. 30 to 40% of their cost of caring for the uninsured through what are called DSH payments (disproportionate share hospital payments) from the federal government, like this:

Medicare 14% of patients	Medicaid 14% of patients	Insured, 58% of patients	Uninsured 14% of patients
\$	\$	\$	\$
			DSH \$

So how are hospitals paid for the rest of the cost of caring for the uninsured? (Keep in mind that in Missouri in 2010, hospitals made a net profit of about \$871,000,000 *after* providing all the charity care they claim—data from a previously distributed MO DHSS spreadsheet) The answer is, they get paid under private insurance even more than what it costs them to provide care to insured patients (According to 2013 testimony in Senate Appropriations Committee by MO DSS Director Ian McCaslin, commercial rates are 120% to 130% of Medicare rates.) The inflated charge to insurance plans pays for the rest of the cost of caring for the uninsured (called the “Cost Shift”) and for hospital profit (most darkly shaded), which looks like this, with a dotted line denoting the indirect payment:

		Extra buried in insurance premiums to pay hospitals for unreimbursed uninsured care (the “Cost Shift”)	PROFIT (\$871,000,000)	
Medicare 14% of patients	Medicaid 14% of patients	Insured, 58% of patients		Uninsured 14% of patients
\$	\$	\$		\$
				DSH 30 to 40% \$

Under the new federal healthcare law* (PPACA), some of the DSH will go away, and some of the uninsured—about 45% who earn more than 138% of the federal poverty level (data from Medicaid Expansion Opt-Outs and Uncompensated Care, John A. Graves, Ph.D., NEJM, 367;25, Dec. 20, 2012)—will receive tax credits for the purchase of insurance through the federal exchange, so they will be covered *at Commercial rates*... like this:

		The "Cost Shift"	PROFIT (\$871,000,000)	E X C H A N G E	U N I N S U R E D
Medicare 14% of patients \$	Medicaid 14% of patients \$	Insured, 58% of patients \$			

As you can see, most of it is shaded darkly because it will mostly be profit, since the "Cost Shift" does not go away under PPACA. Without Medicaid Expansion the number covered by the exchange would be even higher, since those over 100% FPL and less than 138% would also be eligible for tax credits, increasing a hospital's profit even more.

As you can see, the profit (shaded darkly) of hospitals will have increased under PPACA, even without Medicaid Expansion.

Finally, with Medicaid Expansion the uninsured below 138% of the FPL would be covered *at commercial rates*, also (testimony by Director McCaslin). Since PPACA does not lower the "Cost Shift", most of this will also be profit, so is shaded darkly, and will look like this:

		The "Cost Shift"	PROFIT (\$871,000,000)	E X C H A N G E	M E D I C A I D EXP
Medicare 14% of patients \$	Medicaid 14% of patients \$	Insured, 58% of patients \$			

Notice what has happened to hospital profits under Medicaid Expansion.**

IS IT ANY WONDER HOSPITALS ARE PUSHING SO HARD FOR MEDICAID EXPANSION???

*This analysis does not account for sequestration or the unknown effects of PPACA on Medicare reimbursement.

**An estimate of the increased profit is $\$18.17 \text{ B} \times 14\% \times (60\% - \text{not DSH} + 20\% - \text{Commercial Rate Increase}) = \2.03 B .