American Hospital Association

Legislative Advisory

March 26, 2010

Estimating the Impact of Reform on Your Hospital

Instructions for using our coverage and payment calculators

On March 23, President Obama signed into law H.R. 3590, *The Patient Protection and Affordable Care Act*. A companion bill, H.R. 4872, *The Health Care and Education Affordability Reconciliation Act of 2010*, passed both chambers of Congress on March 25. Together, this legislation is estimated by the Congressional Budget Office to expand coverage to 32 million people (95 percent of all those legally residing in the U.S. or 92 percent of all those residing in the country) at a cost of $940 billion over 10 years (fiscal years (FYs) 2010-2019). The legislation contains an individual mandate, low-income subsidies, an expansion of Medicaid, insurance reforms, and the creation of state-based health insurance exchanges. It also calls for new, non-profit, consumer-owned and -oriented plans (or co-ops), as well as multi-state health plans overseen by the federal Office of Personnel Management to compete with other private health plans in the insurance exchanges. Financing includes taxing high-premium health insurance plans, raising the Medicare tax for high-income individuals and imposing annual fees on the pharmaceutical, medical device, clinical laboratory and health insurance industries, as well as reducing Medicare and Medicaid provider payments.

While the AHA often sends members estimates of the impact of Medicare regulations on their hospitals, estimating the reform legislation's impact is more difficult. Much of the information needed to model the impact is not readily available in public data sets, such as the percent uninsured, the percent of uninsured that are undocumented persons, and private payer and Medicaid payment levels. Additionally, many of the legislation's changes to Medicare and Medicaid – such as the readmissions policy, Disproportionate Share Hospital (DSH) reductions, payments to hospitals in low-spending areas, and the impact of the accountable care organization (ACO) and bundling pilot programs – cannot be modeled at the individual hospital level. The AHA has modeled many of these provisions in the aggregate for all hospitals but, again, drilling down to a hospital level is not reliable.

We have created two calculators to help you estimate the impact of the legislation on your organization: a coverage expansion benefit calculator and a payment impact calculator. Both are available at http://www.aha.org/aha/content/2010/spreadsheet/reformcalc.xls. The calculators ask for information specific to your hospital and your community, allowing you to create a *rough* estimate of the 10-year, net impact of key provisions. The bill contains many more policy variables and potential interactions than can be modeled here, and estimates beyond a three- to five-year horizon can be unreliable because of uncertainty regarding the future policy and market environments. Finally, the AHA and others will seek changes in the legislation in the years ahead.

Coverage Expansion Benefit Calculator

Line-by-Line Instructions

In the Excel workbook at http://www.aha.org/aha/content/2010/spreadsheet/reformcalc.xls, *go to the worksheet tab titled "Coverage Expansion Benefit Calculator."*

This analysis will provide a very rough estimate of the impact of the coverage expansion on your hospital. Actual results could vary substantially due to many implementation uncertainties. Please also note:

- This analysis does not account for any shifting of already insured individuals among various types of insurance. *Because payment rates vary dramatically by payer group, the degree of shifting is a critical unknown that could have a dramatic impact on results at the hospital level.*

- This analysis does not account for increased utilization that will likely occur as formerly uninsured individuals obtain health care coverage.

(1) Estimated Percent Reduction in Uninsured Legal Residents. This value represents the percent reduction from current levels of uninsured legal residents as projected by CBO nationally. Little change is expected before 2014. This is a national estimate. Results for your community may differ.

(2) ENTER Your Cost-based Uncompensated Care for 2009. Uncompensated care includes charity care and bad debt and should be entered at its *cost* value. Cost can be estimated by multiplying charge-based figures by your institutional cost-to-charge ratio.

(3) ENTER the Projected Annual Growth Rate in Cost-based Uncompensated Care. This number will be used to project your uncompensated care over the next 10 years. Make sure you calculate growth on a *cost* basis, otherwise your projections may be inflated.

(4) Projected Uncompensated Care. The spreadsheet uses the number you entered for uncompensated care in 2009 and projects it forward through 2019 by the annual growth rate you entered on line (3).

(5) ENTER the Percent of Uncompensated Care Related to Insured Patients. Nationally, about a quarter of all uncompensated care is related to unpaid copayments, deductibles and other cost-sharing for insured patients. Enter here the percent of your uncompensated care that you estimate is due to *insured* patients. This portion of your uncompensated care is unlikely to be affected by coverage expansions. Insurance market reforms could reduce the uncompensated care related to *underinsured* patients, but this potential impact is not accounted for in this model.

(6) ENTER the Percent of Uncompensated Care Related to Undocumented Persons. Enter your best estimate of what percentage of your uncompensated care is related to undocumented

persons. Because undocumented persons are specifically excluded from coverage expansions, this portion of your hospital's uncompensated care is unlikely to be reduced. Records kept for purposes of applying for Section 1011 funds may be helpful in determining this percentage. Also, the percentage of uninsured persons who are undocumented may be used as a proxy for this figure. Nationally, an estimated 15 percent of all uninsured persons are undocumented, but this percentage varies substantially by state. A recent report from The Center for Immigration Studies has data on this topic.[1]

(7) Uncompensated Care Related to Uninsured Legal Residents. Subtracts from total uncompensated care the estimated amount of uncompensated care related to insured patients and undocumented persons.

(8) Estimated Uncompensated Care Related to Patients Who Will Now Be Covered. Multiplies line (9) by the percent reduction in uninsured legal residents from line (3).

(9) ENTER the Percent of Uninsured with Incomes Under 133 percent of the Federal Poverty Level [2] (FPL) - Assumed Portion of Newly Insured Who Will Be in Medicaid. New Medicaid eligibility rules will allow all legal residents who have incomes under 133 percent of FPL to enroll in Medicaid. Examining the data you collect for purposes of determining eligibility for charity care and financial assistance may help you estimate this percentage for your hospital. Nationally, CBO estimates that in 2019, 50 percent of the newly insured will be in Medicaid under the provisions of the reform legislation.

(10) Percent Newly Insured in Private Insurance or Exchange. This line is calculated by subtracting line (9) from the number one. Newly covered individuals not eligible for Medicaid are assumed to enroll in coverage through the exchange.

(11) ENTER Your Medicaid Payment-to-Cost Ratio. Enter your payment-to-cost ratio for Medicaid (net Medicaid revenues divided by estimated Medicaid costs). Include or exclude Medicaid DSH and supplemental payments in your calculation as appropriate to your hospital's Medicaid payment formulas.

(12) ENTER Your Payment-to-Cost Ratio for the Exchange. Enter what you would expect to negotiate with private plans in the exchange. Please include an allowance for bad debt in your calculated rate. Also, we encourage hospitals to vary the payment-to-cost ratio to see how it would affect the financial results.

(13) New Medicaid Net Revenues. This line is calculated by multiplying line (8), Estimated Uncompensated Care Related to Patients Who Will Now Be Covered, by line (9), Portion of Formerly Uninsured that will Become Covered by Medicaid, times line (11), Medicaid Payment-

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[1] Center for Immigration Studies. (2007) *Immigrants in the United States 2007: A Profile of America's Foreign-Born Population.* Accessed at: http://www.cis.org/articles/2007/back1007.pdf.

[2] The Federal Poverty Level for 2009 is $20,050 for a family of four. Go to: http://aspe.hhs.gov/poverty/09poverty.shtml for additional details.

to-Cost Ratio. It assumes that your hospital will experience a proportional reduction in uncompensated care cost as formerly uninsured individuals obtain coverage under expanded Medicaid eligibility. Each dollar of cost that formerly was unreimbursed will now be reimbursed at the Medicaid payment-to-cost ratio for this portion of the newly insured population.

(14) New Private Plan Net Revenues. This line is calculated by multiplying line (8), Estimated Uncompensated Care Related to Patients who will Now Be Covered, by line (10), Percent of Newly Insured in Private Insurance, by line (12), Payment-to-Cost Ratio for Exchange. It assumes that your hospital will experience a proportional reduction in uncompensated care cost as formerly uninsured individuals obtain coverage from the exchange and those costs are reimbursed at a negotiated rate.

(15) Total Net New Revenues. This line provides a sum of new Medicaid and private plan revenues.

Payment Impact Calculator

Line-by-Line Instructions

In the Excel workbook at http://www.aha.org/aha/content/2010/spreadsheet/reformcalc.xls, *go to the worksheet tab titled "Payment Impact Calculator."*

(1) – (7) Projected Market Basket Updates under Current Law. These lines show the current market basket projections for each payment system for Rate Years 2010-2019 as estimated by IHS Global Insight, Inc. and provided on the Centers for Medicare & Medicaid Services' Web site.[3] You may elect to enter projected growth rates specific to your facility that incorporate both projected volume and rate increases.

Note: These projected rate increases do not include potential reductions due to any behavioral offset implemented to adjust for changes in documentation and coding related to the move to MS-DRGs.

(8) – (14) ENTER Projected Payment. Enter your projected Medicare operating payments for each payment system for FY 2009 in the blue highlighted cells. The spreadsheet then calculates projected operating payments under current law using the growth rates from lines (1) – (7).

(15) – (21) Productivity Reductions to Payment Update. These lines provide the payment reduction for productivity based on estimates of the productivity growth rate. Please note that not all payment systems are immediately affected by the productivity cuts. These numbers represent estimates; the productivity factors that are actually used in each year will come from the Bureau of Labor Statistics (BLS) and represent the 10-year moving average of annual economy-wide private nonfarm business multi-factor productivity. BLS does not project productivity into the future.

Note: For inpatient acute care hospitals, this productivity adjustment is in addition to, and would interact with, the existing market basket incentives/penalties tied to hospital quality reporting and requirements for becoming a "meaningful user" of health information technology. Hospitals may experience additional payment reductions due to policies related to readmissions, value based purchasing or hospital-acquired conditions; those reductions could not be included in this model. Hospitals in counties that fall into the lowest quartile for Medicare spending per beneficiary adjusted for age, sex and race will be eligible for additional payments that are not accounted for in this model.

(22) – (28) Other Reductions to Payment. These lines account for the additional cuts to payment specified in the reform bill.

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[3] Market basket projections can be found at:
http://www.cms.hhs.gov/MedicareProgramRatesStats/04_MarketBasketData.asp#TopOfPage

- Medicare and Medicaid DSH payments: The estimated reduction to DSH payments represents the national average percentage cut as estimated by CBO in its March 20 analysis of the reform bill.
  Note: Actual results will vary at the hospital level. In FY 2015 and beyond, a portion of the Medicare DSH payment will be based on each hospital's continuing uncompensated care costs. Hospitals that have higher-than-average uncompensated care levels after the coverage expansion will likely see less of a cut to Medicare DSH, while hospitals that have lower-than-average uncompensated care levels will likely see a greater cut. Medicaid DSH reductions will depend on the rate of uninsured in each state, whether the hospital is in a low DSH state and other factors.

(29) – (35) Projected Payment under the Provisions of the Reform Legislation. These lines apply the payment reductions outlined in the reform legislation to each payment system and Medicare and Medicaid DSH to project total payments for 2010-2019. These figures incorporate the fact that not all payment reductions apply to the entire fiscal year.

(36) – (42) Projected Reductions to Payment under the Provisions of the Reform Legislation. These lines represent the difference between the projected payment under current law in lines (8) – (14) and the projected payment under the reform bill in lines (29) – (35). Please note that the formulas for FY 2010 reflect the fact that many of the reductions only apply to part of the fiscal year. Calculations of future payments, however, must be done as if these payment reductions applied to the full year.

(43) Total Reduction in Payment. Total of lines (36) – (42).

(44) Total Benefit from Coverage Expansion. From line (15) of Coverage Expansion Benefit Calculator.

(45) Net Impact. This line takes the cuts in line (43) from the increase in net revenues from line (44) to provide an estimate of the total impact incorporating both the benefits of expanded coverage and the payment reductions to Medicare and Medicaid.

Please see the tab labeled "Technical Notes" in the Excel workbook, as well as the Special Bulletin at http://www.aha.org/aha/advocacy-update/2010/100322-bulletin.html for additional information on the payment reductions included in the health reform bill as passed on March 21.