HOSPITAL PAYMENT REFORM: MONEY FOLLOWS THE PATIENT

What is Louisiana Medicaid's "Money Follows the Patient" proposal for hospital payment reform?

Rural and public hospitals are the foundation upon which Louisiana's medical safety net is built. They provide healthcare services to our most vulnerable populations, but there have long been concerns on how their financial instability may impact their ability to maintain that provision of care. This is particularly concerning during emergency situations that strain the already weak infrastructure.

Medicaid's Money Follows the Patient (MFP) program is designed to address these concerns and establish a sustainable service delivery network. MFP will implement tiered rate increases for certain hospital classes through the implementation of a directed payment program under federal regulations at 42 C.F.R. § 438.6(c).

When will Medicaid implement the program?

Medicaid recommends and is prepared to stand up the program starting July 1, 2020.

Throughout the month of May, Medicaid will work with stakeholders to obtain feedback on the model while simultaneously preparing and submitting the appropriate federal and managed care contract documentation for approval with the Centers for Medicare & Medicaid Services (CMS) and state authorities. A budget request for the non-federal share will be submitted through the FY 21 appropriations process.

Why is the timeline expedited?

Going back to the early days of Gov. Edward's administration, shoring up the hospital safety net infrastructure has been a focus for Medicaid, prioritized after years of repeated rate cuts and instability starting in 2009. The agency initially studied the possibility of implementing a diagnosis-related group (DRG) payment system. Though that proved an imperfect financing model for Louisiana, the lessons learned and data gathered in that intensive analysis have helped inform the Hospital MFP approach.

In November 2019, CMS proposed the Medicaid Fiscal Accountability Regulation (MFAR), aimed at strengthening the fiscal integrity of the Medicaid program, with a focus on supplemental payments and financing arrangements. Hospital payment reform in Louisiana became an imminent issue with MFAR on the horizon. In response, Medicaid has designed the Hospital MFP with MFAR requirements in mind, working to create a uniform payment system based on utilization that will fit CMS's definition of a compliant, directed payment methodology.

Further, the current COVID-19 public health emergency has exposed the weaknesses and shortcomings of the current hospital financing system, making the need for action all the more pressing. This was painfully evident in New Orleans, which quickly emerged as one of the pandemic hot spots. A large percentage of area residents get their healthcare through Medicaid, and the stress to this already anemic system proved that we cannot maintain access to care through pandemic-level emergency response and recovery without immediate reform.

What is the impact to the Disproportionate Share Hospital (DSH) program?

The expansion of Medicaid in 2016 dramatically decreased the number of uninsured adults in Louisiana, and the cost to hospitals providing their care. As we increase the base rate with the Hospital MFP program, we further decrease the shortfall that drives DSH expenditures. This will help close the gap and reduce reliance on DSH funding, just as we approach the federal implementation of DSH caps in the near future.

What are the costs and funding methods with the Hospital MFP implementation?

Medicaid anticipates funding the Hospital MFP program with a majority of existing funding sources. There is only a limited incremental increase in state effort of approximately 1.9% to support the overall financing of the complete Hospital MFP program ($2.3 billion). Of this amount, $44 million is needed in new state effort. Below is a breakdown of the financing to support this effort:

- $1.6 billion in **existing funding** will shift to Hospital MFP program moving supplemental payments into the base rates of hospitals, stabilizing the current payment system. This funding will come from the following sources:
  - $750 million: Replacing the current Full Medicaid Pricing supplemental payment program, which provided enhanced payments to practitioners employed or contracted with hospitals.
  - $757 million: Reducing DSH funding as base rates increase and the DSH funding shortfall decreases.
  - $62 million: Reducing Upper Payment Limit (UPL) enhanced payments to hospitals.
- $745 million will be an injection of new federal funding with an incremental $44 million in new state effort for FY 21 and $55 million in out years. Medicaid anticipates this state effort will be financed through self-generated revenue via intergovernmental transfers and not require State General Fund. This state effort represents 6% of the $745 million in new funding, which is 1.9% of the overall $2.3 billion financing structure.

Because the Hospital MFP program will be largely funded from current programs, it is **imperative** that current hospital financing in Medicaid stay intact. The maintenance of effort must be preserved to access financing to make this program successful.

➤ Which hospitals will be impacted by the rate increase?

Hospital Class	Rate Increase	Count of Hospitals
Rural Hospitals	95%	50
Urban Public Hospitals	95%	13
Teaching Hospitals	35%	19
Non-teaching Acute Care & Children's Hospitals	20%	40
Hospitals with High Medicaid Utilization	60%	34
Region 1 (New Orleans) Hospitals	60%	10
Adult ICU Bed Capacity of 30 or more	15%	15
Telemetry Bed Capacity of 75 or more	15%	9
Emergency Department Capacity of 50 or more	15%	11
Med/Surgical Bed Capacity of 200 or more	15%	11

Classification Rationale:

The COVID-19 pandemic highlighted the challenges that rural hospitals and urban public hospitals face and the importance of adequate support to avoid funding shortfalls so they can continue to provide access to services and rapid response to public health emergencies. Teaching hospitals educate and prepare future physicians to care for Medicaid enrollees while also leading the industry in the development of efficient, innovative, and quality service delivery. Stabilizing funding for other short-term acute care hospitals, including children's hospitals, will ensure Medicaid enrollees in all areas of the state have access to services.

Hospitals with significant Medicaid patient populations are defined as facilities with at least 20% utilization or at least 5% of the entire state's Medicaid days based on hospital utilization data gathered in the DRG study. With traditionally high utilization rates, these facilities felt some of the greatest impact with the COVID-19 emergency. New Orleans is the most densely populated in the state with 1 out of every 3 residents enrolled in Medicaid. The area has been disproportionately impacted by COVID-19, with 1 in 4 COVID cases in Louisiana.

Data is collected through Louisiana's Emergency Support Function (ESF) for hospitals that have exhibited certain capacity related to emergency operations (i.e., high Intensive Care Unit (ICU), telemetry, medical/surgical and emergency department bed counts). Increased payments to these hospitals will aid LDH in meeting access needs during periods, such as the ongoing COVID-19 emergency, where increased capacity is required. This is especially highlighted as people have limited physician access and are hyper-utilizing emergency rooms for testing and specialty hospital beds for treatment relative to COVID-19.