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June 15, 2009

The Honorable Tom Cross  
House Minority Leader  
24047 W. Lockport Street, Suite 213  
Plainfield, IL 60544

Dear Leader Cross:

The Illinois Hospital Association (IHA) appreciates the difficult and important task of the Illinois General Assembly in identifying approaches to enable the State to be more fiscally responsible, efficient and accountable as a good steward of its resources for vital programs and services, including health care. We appreciate this opportunity to provide input during the budget process.

As you review your options, we want to take this opportunity to inform you of Medicaid cost saving and efficiency strategies the IHA conceptually supports to help the state address its fiscal challenges:

- Enhancing the non-capitated primary care case management program;
- Enhancing and expanding the State's disease management program;
- Interconceptional care management strategies to significantly improve birth outcomes;
- Rebalancing long-term care by expanding community-based programs;
- Enhancing pharmacy cost containment efforts; and
- Implementation and expansion of Health Information Exchanges.

However, we reject the notion that Medicaid spending on hospital care is out of control as has been alleged by various organizations. The fact is that the increase in hospital spending in recent years is due predominantly to expanding the number of people covered by the program. And, most significantly, the hospital community is financing the cost of covering these individuals through the Hospital Assessment Program. IHA strongly disagrees with the following strategies:

- Hospital rate cuts;
- Expanding capitated managed care;
- Global waivers; and
- Implementing contracting programs for hospital procedures.

These strategies will cost the state more in lost federal funds than they will save in state funds, causing irreparable harm to the state's Medicaid program and the people who depend on it. For example:

- While costing the state billions in lost federal revenue, these strategies would produce negligible savings of state dollars. This is because without those additional federal dollars the State of Illinois has one of the most miserly Medicaid programs in the United States. Illinois ranks 42nd in the country on spending per Medicaid recipient. Hospital

inpatient base rates have been frozen since 1995. Without the enhanced funding from the Hospital Assessment Program, Medicaid covers only 75% of the average hospital's *cost* of treating Medicaid recipients. You can't get blood from a stone, and the Medicaid program – at least in terms of hospital reimbursement – is already at rock bottom.

- The Medicaid program pays hospitals roughly \$4 billion per year. However, only \$1 billion of those payments comes from state coffers. As you know, and due to your leadership on this issue, the other \$3 billion comes from the Hospital Assessment Program where hospitals pay \$900 million a year out of their own pockets to the Medicaid program. When that extra money along with the state funds is matched by the federal government, it produces the additional \$3 billion in reimbursement. So, the state's hospitals and the federal government cover 75% of the payments to hospitals for treating Medicaid patients – leaving Illinois taxpayers to cover only 25%.
- In addition to this massive subsidy to hospital reimbursement, the Hospital Assessment Program when matched with enhanced federal funding generates yet another \$735 million for other – non-hospital – Medicaid services, like long-term care and developmental disability services.
- But the Hospital Assessment Program that generates *billions* in additional *federal* revenue for the state would be *impossible* if the strategies we strongly oppose were to be implemented. For example, moving more Medicaid recipients into capitated managed care plans lowers the global amount of federal matching funds available to Illinois, wiping out the billions in enhanced funding generated by the Hospital Assessment Program.
- So, these strategies will (1) produce trivial savings of state dollars and (2) eliminate billions in additional federal funds currently flowing into Illinois because of the Hospital Assessment Program.

We truly believe that these strategies are flawed and will have far-reaching negative budgetary consequences in the immediate future and in the years to come.

Thus, to ensure that the State can adequately support the Medicaid program (and reduce its need for state funds), we strongly urge you to implement the changes we support and in addition encourage the General Assembly and Illinois Congressional Delegation to push for a permanent increase in the State's federal Medicaid matching rate. Illinois' temporary rate increase under the federal stimulus law is in place only through the end of 2010. Without the temporary increase, Illinois is at the lowest federal matching rate (50 percent).

The IHA and the hospital community are strongly committed to its partnership with you and the State to preserve and protect the health care delivery system – especially our most vulnerable populations – by working with the State for a cost effective, efficient and quality Medicaid program and by continuing to collaborate on ways to develop and maintain reliable, sustainable and predictable funding sources. We thank you for giving us your consideration.

Sincerely,

Ken Robbins  
President

Howard A. Peters  
Senior Vice President