



Toward Evidence-Based Health Care Reform

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2006 Hospital Budgets: Cost Shifting and Lessons for Reform

Welcome to "Toward Evidence-Based Health Care Reform," a periodic e-memo providing facts, figures, examples and analysis of current issues in health care reform in Vermont. The memo is written by Jeanne Keller, Keller & Fuller, Inc., and sponsored by BRS, Inc., a member organization providing a range of services and support to Vermont's small businesses. For more about BRS, please visit our website: [LINK](#)

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When Rutland Regional Medical Center (RRMC), Southwestern Medical Center (SWMC), Springfield and Brattleboro Hospitals presented their 2006 proposed budgets to the Public Oversight Commission (POC) and the Department of Banking, Insurance, Securities and Health Care Administration in August 2005, the hospitals cited the legislature's cuts to Medicaid reimbursement as one of the major drivers of their rate increase requests.

"[RRMC President and CEO Tom] Huebner said recent reductions in government reimbursement are expected to cost RRMC about \$1.8 million more than is customary. The loss of Medicare and Medicaid dollars is 'worth 3 percent so our rate increase would be down to 6 percent [from a proposed 9%],' Huebner said. 'Government programs need to start paying what it costs to care for their patients.'" (Rutland Herald, Aug. 28, 2005)

"The Southwestern Vermont Medical Center plans to submit a rate increase request of 9.8 percent, the second highest of any hospital in the state. The request is largely due to cutbacks in state Medicaid payments, according to Thomas Lenkowski, the hospital's chief financial officer.

"The state is looking for hospitals across the state to make do with \$19 million less from state Medicaid sources and SWMC's share of that cutback is slated at \$1 million. The money will have to be made up from somewhere, Lenkowski said. 'They're paying \$1 million less for the same services we provided last year,' he said. 'The state is forcing someone else to pick up the costs.'" (Bennington Banner, Aug. 14, 2005)

This demonstrates that any list of what is driving up the costs of health insurance has to include the cuts to Medicaid reimbursements for hospitals. The hospitals responded to the Medicaid cuts this year by raising next year's rates to private payers to cover the gap -- in other words, the legislature's recent action to cut back on Medicaid reimbursements to providers didn't actually "contain costs," it simply added to the cost shift from Medicaid to private payers.

In a "single payer" or payroll tax funded model proposed by current legislative leaders, what happens if the legislature still cannot make the tough choices to rein in Medicaid costs by reducing eligibility or benefits, requiring more co-pays, etc? What would happen if they put

everyone into a state program as rich as Medicaid (which is basically what H. 524, tried to do)?

Currently the "release valve" for the hospitals and physicians is to cost shift to private insurance --- the legislature can over-commit on Medicaid and underpay providers, and the hospitals and doctors reallocate their costs out to the private payers (protecting the legislature from having to raise taxes or impose other pain directly). If the legislators don't have that release valve any more, will they simply raise the new payroll tax instead?

If the legislature wants to take on the discipline of running a health care system, shouldn't they start with what they are running now (Medicaid)? It's ironic that the response of legislative leaders to Governor Douglas's Medicaid Global Commitment is a deep concern that VT taxpayers will end up holding the bag if Medicaid costs can't be controlled, when their own proposal would put everyone in the state into a single payer with taxes as the only source of financing.

The opposition among employers and providers to the legislature running health care isn't that businesses and providers are mean-spirited, greedy or stingy. It's because they are concerned, based on their experience, that what is now the cost shift to private insurance premiums might simply become a cost shift to employers and employees through a new payroll tax. They would like to see some hard evidence of the political and fiscal discipline that will be necessary to make a state-directed universal program affordable and sustainable