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# A BILL FOR AN ACT

RELATING TO MEDICAID HOSPITAL AND LONG TERM CARE REIMBURSEMENTS.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. Hawaii's health care system consists of a  
2   myriad of services that must be coordinated and integrated in  
3   order to ensure access to quality care at the appropriate level  
4   for all of Hawaii's residents. A single user of health care  
5   often accesses different providers that deliver different  
6   products and services, and may transition from one level of care  
7   to another over a period of time.

8           Acute care hospitals deliver care to the most seriously ill  
9   patients. As such, the cost of hospital care is very high due  
10  to high staffing costs, the high costs of technology that  
11  permeates hospitals in the form of equipment and supplies, and  
12  the high costs of medication, regulatory and quality  
13  requirements. Patients who receive care at hospitals and  
14  recover enough of their health so that they no longer require  
15  hospitalization, but are still in need of services, should be  
16  transferred out of the hospital to a provider that can  
17  appropriately and safely care for their needs. Such a transfer  
18  supports an improved quality of life for the patient and



1 sustains the integrity of the acute care system by creating  
2 availability for others who may require hospitalization. This  
3 balanced flow of patient movement matches the appropriate  
4 provider to the needs of the patient. In doing so, it better  
5 manages the financing of health care.

6 The determination of an appropriate level of care is based  
7 on the patient's condition and input from a multi-disciplinary  
8 care team. The provision of long term care, either in a  
9 facility or in a home and community based setting, is far less  
10 costly than hospital care.

11 Unfortunately, due to unique and unusual circumstances,  
12 Hawaii has a shortage of beds in nursing facilities relative to  
13 its population. Most of Hawaii's long term care facilities,  
14 including skilled nursing facilities, assisted living  
15 facilities, adult residential care homes, and foster family  
16 homes, are full nearly all the time. Placement in long term  
17 care is especially difficult when a patient has a medically  
18 complex condition that demands resources which are not available  
19 at many long term care facilities in Hawaii. As a result, many  
20 acute care hospital patients who are ready for long term care  
21 cannot be discharged and must wait in the acute care hospital  
22 bed until space becomes available.



1           The shortage of long term care beds is an undesirable  
2 situation from three perspectives. First, the quality of life  
3 of the patient is diminished. Second, a patient in an acute  
4 care hospital who is waitlisted for long term care occupies a  
5 bed that may be needed by someone else with an acute illness or  
6 injury. Lastly, hospital care is very expensive, so the  
7 waitlisted patient contributes to higher costs in an acute care  
8 hospital.

9           Hawaii's medicaid program can be modified to facilitate the  
10 flow of patients from acute care hospitals to long term care  
11 facilities. When a medicaid-eligible patient is treated by an  
12 acute care hospital, medicaid pays a rate for hospital care.  
13 The payment is based upon the level of care needed by the  
14 patient. When the patient is well enough to be transferred to  
15 long term care, the medicaid payment is reduced to a rate that  
16 is twenty to thirty per cent of the actual cost of acute care  
17 hospitalization. If the hospital is not able to transfer the  
18 patient to long term care, the hospital must bear the financial  
19 burden of the reduced medicaid payments. In addition, the  
20 inability to transfer a patient who is deemed ready for  
21 discharge by a physician means that the waitlisted patient  
22 utilizes an acute care bed that may be needed by other, more



1 acutely ill patients. Thus, there is an opportunity cost to the  
2 hospital and the patients.

3 At any particular time, a total of about two hundred  
4 patients in Hawaii's hospitals are waiting to be transferred to  
5 long term care. Patients with certain conditions have been on  
6 the waitlist for weeks, months, or even years. The total loss  
7 to hospitals due to waitlisted patients was estimated to be at  
8 least \$80,000,000 in 2006.

9 A significant part of that loss is due to underpayment by  
10 medicaid. The underpayment is unfair to acute care hospitals  
11 because medicaid is, in effect, a public-private partnership.  
12 The public sector provides the funding, and the private sector  
13 provides the services. As a result of the underpayment, acute  
14 care hospitals and long term care facilities are weakened  
15 financially, and the stability of Hawaii's entire health care  
16 system is diminished.

17 In the past, acute care hospitals were able to absorb  
18 medicaid losses since payments from commercial and other payers  
19 helped to offset the under funded costs of care for medicaid  
20 patients. Over time, the cost of healthcare has increased at a  
21 faster rate than increases in payments from all payers. In  
22 addition, significant enhancements in medical technology over



1 the past several years have placed a greater expectation for  
2 acute care hospitals to invest in medical equipment and  
3 information technology. As a result, acute care hospitals are  
4 no longer able to cover the underpaid cost of caring for  
5 medicaid patients and adequately invest in medical technology.  
6 The result is that many acute care hospitals are on the verge of  
7 financial failure. For example, Kahuku hospital would have  
8 ceased operations due to bankruptcy if it were not annexed by  
9 the Hawaii health systems corporation, which is subsidized by  
10 state government. One of the major reasons given for Kahuku  
11 hospital's financial troubles was underpayment by medicaid. The  
12 Hawaii health systems corporation itself is seeking an emergency  
13 appropriation largely because of losses due to underpayment by  
14 medicaid. All hospitals in Hawaii face the same problem.  
15 Acute care hospitals must be supported financially so that they  
16 can continue to care for our acutely ill while longer term  
17 solutions to the waitlisted patient problem are being developed.  
18 As described more fully in the Waitlist Task Force report to the  
19 2008 legislature, pursuant to Senate Concurrent Resolution  
20 No. 198 (2007), this is one piece of the problem. The multi-  
21 faceted waitlist problem is being addressed from a number of  
22 angles, both legislatively and non-legislatively.



1 In addition, medicaid payments for long term care must be  
2 addressed, with payments for individuals with medically complex  
3 conditions, such as bariatric patients and severely obese  
4 patients, needing immediate attention. These payments should be  
5 cost-based since the current system of acuity-based  
6 reimbursement does not effectively address these types of  
7 patients.

8 Furthermore, medicaid managed care (QUEST expanded) is  
9 projected to begin in November 2008. Long term care providers  
10 will need to negotiate rates with managed care plans.  
11 Historical patterns in other states where managed care entered  
12 the market resulted in long term care facility closures due to  
13 low payments for long term care. The 2008 medicaid  
14 reimbursement rates for long term care facilities in Hawaii, as  
15 established by medicaid on January 1, 2008, should be  
16 established as the base rate for all future negotiations with  
17 managed care companies. These rates should be the lowest  
18 allowable to long term care providers in future negotiations  
19 under QUEST expanded. This assurance will maintain Hawaii's  
20 current level of nursing home providers as well as be an  
21 incentive for interested entrepreneurs to expand current



1 operations or consider building additional long term care beds  
2 in Hawaii in response to the demand for post acute care.

3       The purpose of this Act is to provide fair compensation to  
4 acute care hospitals for the service they provide to medicaid  
5 patients who have been treated for acute illnesses and injuries  
6 and who have recovered sufficiently so that they should be  
7 transferred to long term care, but for whom long term care is  
8 not available. In addition, this Act provides fair compensation  
9 to long term care facilities for patients in acute hospitals  
10 with medically complex conditions when their level of care  
11 changes from acute to long term care. This Act also ensures  
12 that when Quest expanded is implemented, long term care  
13 facilities will receive medicaid payments that are at least  
14 equal to the rates in effect immediately prior to the  
15 implementation of Quest expanded.

16       SECTION 2. **Medicaid reimbursements.** (a) Medicaid  
17 reimbursements to hospitals for patients who are waitlisted for  
18 long term care shall be equal to the acute medical services  
19 payment rate.

20       (b) Medicaid reimbursements to long term care facilities  
21 for patients with medically complex conditions who are in acute  
22 care hospitals and whose level of care has been changed from



1 acute to long term care shall be based on actual costs to the  
2 long term care facility.

3 (c) Reimbursements received by long term care facilities  
4 under QUEST expanded shall be no less than those received under  
5 medicaid immediately prior to the implementation of QUEST  
6 expanded.

7 SECTION 3. There is appropriated out of the general  
8 revenues of the State of Hawaii the sum of \$ or so  
9 much thereof as may be necessary for fiscal year 2008-2009 for  
10 increased medicaid reimbursements to hospitals, for patients who  
11 are waitlisted for long term care, that are equivalent to the  
12 acute medical services payment rate.

13 The sum appropriated shall be expended by the department of  
14 health for the purposes of this Act.

15 SECTION 4. There is appropriated out of the general  
16 revenues of the State of Hawaii the sum of \$ or so  
17 much thereof as may be necessary for fiscal year 2008-2009 for  
18 medicaid payments to nursing facilities based on the actual  
19 costs of long term care for patients with medically complex  
20 conditions who were waitlisted in acute hospitals for long term  
21 care.





1           The sum appropriated shall be expended by the department of  
2 health for the purposes of this Act.

3           SECTION 5. This Act shall take effect on July 1, 2008.



**Report Title:**

Medicaid Hospital and Long Term Care Reimbursements;  
Appropriations

**Description:**

Establishes reimbursement guidelines and provides appropriations  
for medicaid hospital and long term care reimbursements. (SD1)

