SB 588

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TO THE SENATE COMMITTEES ON HEALTH
AND COMMERCE AND CONSUMER PROTECTION

TWENTY-FIFTH LEGISLATURE
Regular Session of 2009

Monday, February 23, 2009
3:00 p.m.

TESTIMONY ON SENATE BILL NO. 588 – RELATING TO NONGOVERNMENT HEALTH PLAN PAYMENTS TO CRITICAL ACCESS HOSPITALS AND FEDERALLY QUALIFIED HEALTH CENTERS.

TO THE HONORABLE DAVID Y. IGE AND ROSALYN H. BAKER, CHAIRS, AND MEMBERS OF THE COMMITTEES:

My name is J.P. Schmidt, State Insurance Commissioner ("Commissioner"), testifying on behalf of the Department of Commerce and Consumer Affairs ("Department"). The Department supports this bill.

Hospitals in Hawaii have been losing money over the past several years, particularly in rural areas. We have had numerous complaints that the reimbursements to doctors and hospitals do not recover their costs. Kahuku Hospital almost closed and the State Hospital has had to request emergency appropriations. This is a perilous situation for the public, particularly as regards critical access hospitals and federally qualified health centers which provide necessary care to the community.

Requiring commercial health plans to provide a minimum reimbursement level is one step to help ensure that these facilities can keep operating and provide services. This bill is limited to key facilities which are particularly important to our communities.

We thank these Committees for the opportunity to present testimony on this matter and ask for your favorable consideration.

HAWAII HEALTH SYSTEMS
CORPORATION
"Touching Lives Every Day"

The Senate

Committee on Health
Senator David Y. Ige, Chair
Senator Josh Green, M.D., Vice Chair

Committee on Consumer Protection
Senator Roslyn Baker, Chair
Senator David Y. Ige, Vice Chair

Monday, February 23, 2009, 3:00 PM
Conference Room #016
Hawaii State Capitol

Testimony Supporting Senate Bill 588 Relating to Nongovernmental Health Plan Payments to Critical Access Hospitals and Federally Qualified Health Centers

Requires health plans other than government payers, mutual and fraternal benefit societies, and health maintenance organizations to pay: 1) critical access hospitals no less than 101% of costs for services; and 2) federally qualified health centers no less than their respective prospective payment system rates

Thomas M. Driskill, Jr.
President and Chief Executive Officer
Hawaii Health Systems Corporation

On behalf of the Hawaii Health Systems Corporation (HHSC) Corporate Board of Directors, thank you for the opportunity to present testimony in strong support of this bill.

The purpose of this bill is to require mutual and fraternal benefit societies, and health maintenance organizations, and health plans other than government payers to pay: (1) critical access hospitals no less than 101 % of costs for services; and (2) federally qualified health centers no less than their respective prospective payment system rates.

Currently, government is subsidizing the costs for healthcare services provided to beneficiaries of mutual and fraternal benefit societies, and health maintenance organizations, and health plans other than government payers by critical access hospitals (CAHs) and federally qualified health centers (FQHCs), because health plans in Hawaii are not paying for the full costs of care provided to plan beneficiaries.

It is estimated that the enactment of this legislation could provide for approximately $5 million annually in increased reimbursements to critical access hospitals and an aggregate $47,475,544 in increased reimbursements over eight years to critical access hospitals, assuming same service levels and 5% inflation per year. It is estimated that the enactment of this legislation could provide for approximately $7.3 million in increased reimbursements to federally qualified health centers, and an aggregate $67,708,495 in increased reimbursements over eight years to federally qualified health centers, assuming same service levels and 5% inflation per year.

All hospitals are adversely affected by declining reimbursement trends, but rural facilities are especially disadvantaged, due to the low volume of patients and high expense of providing care in remote areas. Federally qualified health centers (health centers) are especially disadvantaged due to low payments from commercial health plans, even though enhanced payments from government programs (Medicare and Medicaid) tend to cover operating costs. Recognizing the financial challenges faced by rural hospitals, the federal government passed 42 United States Code 1395i-4, which established the Medicare rural hospital flexibility program, a national program designed to assist states and rural communities in improving access to essential health care services through the establishment of limited service hospitals and rural health networks. The program creates the critical access hospital as a limited service hospital eligible for Medicare certification and reimbursement, and supports the development of rural health networks consisting of critical access hospitals, acute general hospitals, and other health providers.

Congress also established federally qualified health centers as a category of provider that specializes in comprehensive primary health care for underserved communities. Among mandated provisions for federally qualified health centers are cost-related reimbursement for Medicaid and Medicare services.

The U.S. Department of Health and Human Services Medicare and Medicaid Services pay critical access hospitals on the basis of one hundred and one per cent of costs for acute care inpatient and outpatient services. The State of Hawaii Department of Human Services calculates payments to critical access hospitals on a cost basis for acute inpatient and long term care services to beneficiaries of the Medicaid program.

This bill will enable critical access hospitals and federally qualified health centers to continue to provide the current levels of services to patients in rural communities, whose access to limited hospital services and outpatient services is adversely affected by the decreasing amounts of reimbursements from commercial health plans.

The state's ability to provide safety net services will significantly degrade, if commercial health plans continue to refuse to pay amounts that cover the costs for providing care, unless the state continues to provide special subsidies to CAHs and FQHCs to cover operating losses of CAHs and FQHCs from providing services to beneficiaries of mutual and fraternal benefit societies, and health maintenance organizations, and health plans other than government payers. Financial and social burdens will fall increasingly on agencies of the state and county governments because of the health and economic impact of declining and degrading healthcare services if government would not continue to subsidize costs of healthcare services provided to beneficiaries of mutual and fraternal benefit societies, and health maintenance organizations, and health plans other than government payers

We respectfully ask that the committee support this initiative by passing this bill.

February 23, 2009, 3:00 p.m. in Room 016

To: Senate Committee on Health
Senator David Y. Ige, Chair
Senator Josh Green, MD, Vice Chair

Senate Committee on Commerce and Consumer Protection
Senator Rosalyn H. Baker, Chair
Senator David Y. Ige, Vice Chair

By: Hawaii Medical Association
Gary A. Okamoto, MD, President
Philip Hellreich, MD, Legislative Co-Chair
Linda Rasmussen, MD, Legislative Co-Chair
April Donahue, Executive Director
Richard C. Botti, Government Affairs
Lauren Zirbel, Government Affairs

Re: SB 588 RELATING TO NONGOVERNMENT HEALTH PLAN PAYMENTS TO CRITICAL ACCESS HOSPITALS AND FEDERALLY QUALIFIED HEALTH CENTERS.

Chairs & Committee Members:

Hawaii Medical Association supports this measure, with the recommendation that the requirement be extended so that all private providers receive no less than 101% of costs for services. Private practice physicians treat most of the underserved population and are hurt by the current reimbursement trends that do not cover the entire cost of care.

Limiting this requirement to only a few providers would encourage a two-tiered system whereby the underserved will not receive the same standard of care. Extending it to the private practice physicians who take care of those who are often Hawaii's sickest patients, particularly those in rural areas, will help preserve access to care for this patient population.

Thank you for the opportunity to provide this testimony.

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To: **The Senate Committee on Health**
The Hon. David Y. Ige, Chair
The Hon. Josh Green, MD, Vice Chair

The Senate Committee on Commerce & Consumer Protection
The Hon. Rosalyn H. Baker, Chair
The Hon. David Y. Ige, Vice Chair

Testimony in Support of Senate Bill 588
Relating to Nongovernment Health Plan Payments to Critical Access Hospitals and Federally Qualified Health Centers
Submitted by Beth Giesting, CEO
February 23, 2009, 3:00 p.m. agenda, Room 016

The Hawaii Primary Care Association asks your support for this measure, which would provide appropriate compensation for Hawaii's health care safety net. Both Critical Access Hospitals and Federally Qualified Health Centers (FQHCs) are recognized by the federal government as essential community providers and are guaranteed enhanced reimbursement rates from public insurance (Medicare and Medicaid) to cover costs.

Speaking for FQHCs, these enhanced rates are provided both so that they won't have to use federal grants to subsidize the cost of public insurance programs but also in recognition of the additional services that are needed by and provided to FQHC patients. These include offering care with linguistic and cultural competence; ensuring that transportation is available; and providing extensive care management that includes outreach, follow-up, referral arrangements, and application assistance. FQHCs also provide medical, behavioral health, and dental care all on the same site, which increases the likelihood that patients will get all the primary care they need in a timely and appropriate way. The integration of behavioral health with medical care is particularly clinically and financially effective. Some FQHCs serve geographically isolated places where it isn't economically feasible for other care providers to practice and this may result in higher unit costs as well.

IN 2007, 24% of FQHC patients – 25,000 individuals – had private insurance. Neighbor Island FQHCs tend to have higher percentages of privately insured patients because they are more frequently the only providers in the communities they care for. We estimate that FQHCs earn about $7 million less per year from private insurers than it costs to deliver care to their patients. At the same time the FQHCs saved more than $46 million[1] for the plans because of the care they delivered to privately insured patients. These savings are due to the FQHC model of care that provides comprehensive and timely primary clinical and management services which greatly reduce duplicative diagnostic testing, specialty referrals, ER use, and hospitalization.

Every FQHC has its own Prospective Payment System (PPS) rate based on reasonable costs following Medicare principles of reimbursement. Both the federal Center for Medicare and Medicaid Services and the state Med-QUEST Division regulate initial rate determination, changes due to adjustments in practice, and annual increases based on the Medicare Economic Index. Med-QUEST Division maintains a file on all FQHC PPS rates.

We believe this measure deserves your thoughtful consideration and appreciate the opportunity to provide this testimony.

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[1] A study prepared by the Robert Graham Center using Medical Expenditure Panel Survey data for 2007 shows that FQHCs save an average of $1,914 per privately insured patient per year when compared to the private practice system. $1,914 x 24,364 privately insured patients served by FQHCs in 2007 = $46.6 million.

HMSA

Blue Cross Blue Shield of Hawaii

An Independent Licensee of the Blue Cross and Blue Shield Association

February 23, 2009

The Honorable David Ige, Chair
The Honorable Rosalyn Baker, Chair
Senate Committees on Health and Commerce and Consumer Protection

Re: SB 588 – Relating to Nongovernment Health Plan Payments to Critical Access Hospitals and Federally Qualified Health Centers

Dear Chair Ige, Chair Baker and Members of the Committees:

The Hawaii Medical Service Association (HMSA) appreciates the opportunity to testify on SB 588 which requires health plans pay Critical Access Hospitals (CAH) no less than 101% of costs for services Federally Qualified Health Centers (FQHC) no less than their respective prospective payment system rates. HMSA has concerns with this measure.

While HMSA supports assisting CAHs and FQHCs, we do foresee some issues with the way in which payment determinations would be calculated. The changes in payments to CAHs and FQHCs raise many issues including:

Self-Reporting of Costs

Under the payment structure outlined in SB 588, the payments for CAHs would be tied to their costs which are self-reported. On the surface this may seem to make sense, however the measure contains no quality control or standardization to verify the costs being reported by each facility are appropriate. Without any oversight or standardization the cost of the same item could vary from facility to facility. For example an aspirin at Ka'u Hospital could be reported at a cost of 1 dollar while an aspirin at Kohala Hospital could be reported at a cost 5 dollars. Health plans would have to reimburse based on these variable costs.

A More Systemic Approach

We would also argue that the majority of these facilities are not unlike others operating in proximity to them. While a handful of the CAHs are in areas that do not have health care alternatives, others are within minutes of larger facilities which may be better equipped to provide less costly services. We would argue that for a health plan to pay a CAH or an FQHC at a rate that is greater than that of any other nearby provider is difficult, if not impossible, to justify to the greater provider community. These facilities are providing the same services to our members regardless of the government's designation of a CAH or FQHC.

We believe that rather than taking a piecemeal approach that attempts to force private plans, and by extension employers, to subsidize these facilities, a more comprehensive examination of the system is needed. We would

begin by requesting data from both the CAHs and the FQHCs so that we can examine the true impact of the language in SB 588. Without this information, it is difficult to determine how this measure might affect HMSA.

Regulating Reimbursements

A health plan's reimbursement rates to providers are not in statute. We believe that a health plan should have the ability to set its own rates. Placing reimbursement rates in statute may cause problems in the long run as they will be difficult to revise to react to changes in the health care environment.

Additionally, reported costs from each facility may not be relevant to the services being provided to the member. For example, the health plan would not know if the cost for a member who receives a blood test at a facility includes direct charges for staffing.

Additional Administrative Burden

Both health plans and facilities must comply with a myriad of state and federal regulations. Including the Insurance Commissioner as the entity which would have to validate payment rates would be an additional administrative and regulatory burden to health plans and the facilities.

It is also important to note that the administrative burden for HMSA to comply with SB 588 could be quite large while the number of HMSA members who utilize services from CAHs is quite small. It is unlikely that changes to the payments to CAHs for private plan members would change enough to truly make a difference for the facilities themselves. Below you will find a table showing HMSA's private plan discharges from Critical Access Hospitals. As you can see, the overall utilization for our members for these facilities is quite low.

Critical Access Hospital	Total Facility Discharges	HMSA Commercial Plan Discharges
Lanai Community Hospital	27	0
Ka'u Hospital	17	1
Samuel Mahelona Memorial Hospital	170	31
Kohala Hospital	13	3
Kauai Veterans Memorial Hospital	1,210	368
Kula Hospital	8	3

*2007 HHSC Data

While we appreciate the legislature's proactive approach in assisting CAHs and FQHCs we do not believe that this measure will be able to accomplish this worthy goal. Thank you for the opportunity to testify on SB 588.

Sincerely,

Jennifer Diesman
Assistant Vice President, Government Relations

TO: Senator David Y. Ige, Chair
Committee on Health
Senator Rosalyn H. Baker, Chair
Committee on Consumer Protection & Commerce

FROM: Summerlin Life & Health Insurance Company, Lori Naylon

DATEL February 23, 2009

RE: SB588: RELATING TO NONGOVERNMENT HEALTH PLAN PAYMENTS TO CRITICAL ACCESS HOSPITALS AND FEDERALLY QUALIFIED HEALTH CENTERS

Chair Ige, Chair Baker, and Members of the Committees:

Thank you for the opportunity to respectfully testify in opposition of SB588.

Summerlin has established contracts with hospitals and health centers. Facilities are contracted individually and the reimbursement rate is a negotiated rate. Summerlin has always been open to negotiating with our providers, including critical care facilities and health centers. SB588 would invalidate existing contracts.

At issue is at what rate should Critical Care Access Hospitals and Federally Qualified Health Centers be reimbursed.

For Critical Care Access Hospitals, the ambiguous nature of "cost" is a major concern. SB588 would allow individual facilities to charge 101% of cost.

- Who determines "cost" and "101% of cost"?
- Does "cost" change from day to day and location to location?
- Will all insurance carriers be charged the same "cost" or will larger carriers be charged a lower "cost" than smaller carrirs?

Is it the intent of this bill to set a standard "cost" for all group health insurance carriers?

To properly administer payment, parameters and guidelines must be established. If the payment rate, "cost", is ambiguous, then reimbursement at the correct rate will be difficult.

Group health insurance subscribers pay a percentage of the charges. If the charges increase then the subscriber's portion would increase. Employers would see the rate increase in higher premiums. During these tough economic times, drastic increases in rates will hurt both businesses and subscribers.

I urge you to not pass SB588. Thank you very much for the opportunity to testify on this measure.