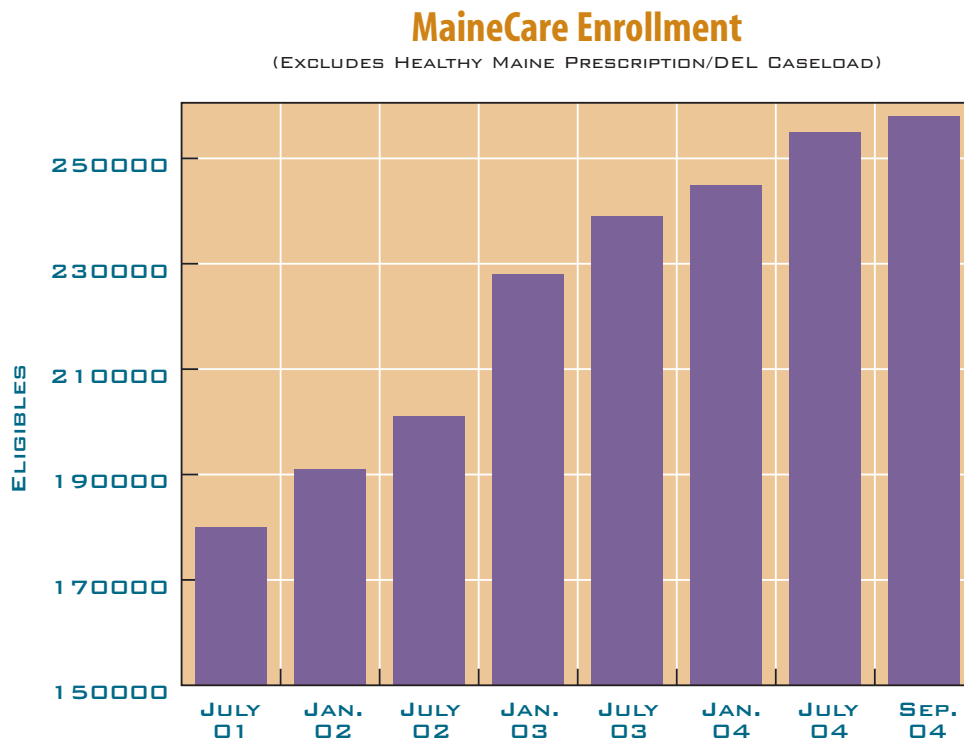


MaineCare Hospital Reimbursement

Enrollment

MaineCare (Medicaid), the state's health insurance program for low-income and disabled individuals has seen an explosion in enrollment in the past four years, since eligibility was expanded:



Utilization

Such increases in enrollment inevitably lead to increases in utilization. Because Maine hospitals own about 200 physician practices, hospitals have not only experienced the increasing utilization within the hospital but also in the hospital-owned physician practices.

Hospital Reimbursement

Maine's hospitals support efforts to increase access to coverage to ensure that people have access to appropriate health care services. But programs such as MaineCare must fairly cover the costs of providing care. Currently, hospitals lose money on every MaineCare patient they serve. *For every \$1 of the cost of care provided, MaineCare reimburses hospitals on average only 75 cents.* Although the MaineCare Benefits Manual includes a provision that allows the Department to give hospitals a cost of living adjustment (COLA), the COLA has been irrelevant for at least the past five years because hospital rates have been set based upon the amount of money that the Legislature has appropriated for hospital payments. For instance, in the current biennium, hospital payments were reduced by \$58 million, which resulted in hospital rates being dramatically reduced instead of increasing.

Currently, the state also taxes Maine's community non-profit hospitals \$49 million in order to leverage additional federal Medicaid dollars to plug holes in the state budget. Tax and match artificially inflates hospital MaineCare rates, thereby further marginalizing the cost of living adjustment. Furthermore, most of Maine's hospitals lose money as a result of the tax, receiving less additional MaineCare payments than the tax they paid.

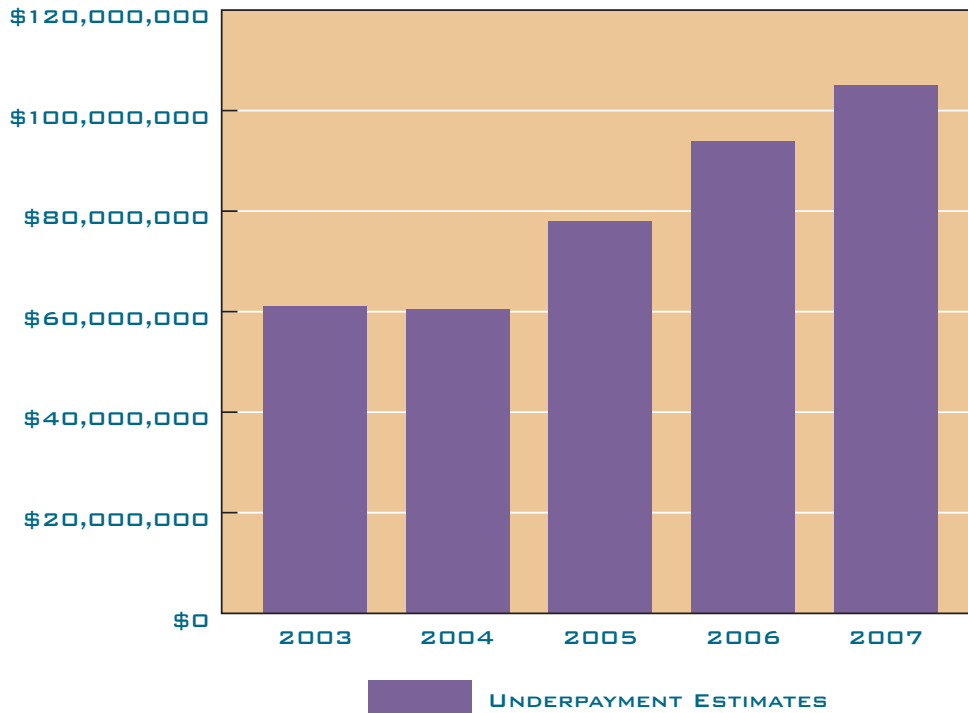
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Finally, the state owes hospitals more than \$127 million over the past two years for services provided to MaineCare patients for which the hospital has not been paid at all.

Estimates of MaineCare Hospital Underpayments

BASED UPON CURRENT PIP LEVELS, FEBRUARY 22, 2005



*2003 AND 2004 ARE CLOSED YEARS AND WILL RESULT IN HOSPITAL SETTLEMENTS.
2005-2007 ARE HOSPITAL ESTIMATES OF PIP UNDERPAYMENTS, WHICH WILL ALSO RESULT IN FUTURE SETTLEMENTS.

Maine hospitals' financial challenges are greatly exacerbated by current MaineCare funding:

- ▶ **Below cost reimbursement for services provided to MaineCare patients: 75 cents on the dollar of cost, on average;**
- ▶ **Weekly Prospective Interim Payments (PIP) that are based on patient volumes in 2002 and therefore do not include payments for current patient loads at hospitals: \$75 million per year in underpayments;**
- ▶ **Significant delays in state settlements with hospitals to eventually pay for patients that were not included in the hospital PIP payments: \$130 million in current debt owed to hospitals;**
- ▶ **A \$65.5 million hospital tax for the '04/'05 biennial budget & approximately a \$116 million hospital tax for the '06/'07 biennial budget; and**
- ▶ **A claims system that makes it impossible to reconcile and settle previous years because it doesn't produce a claims history.**

The combination of significant state debt to hospitals, ongoing underpayments and the hospital tax is creating severe cash flow problems for Maine's community hospitals. Many hospitals are being forced to draw on their lines of credit to meet payroll. Others are evaluating which programs and services they may need to cut.



Maine Hospital Association

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