

Impact of Health Care Reform on
Virginia's Academic Medical Centers
Briefing to the Senate Finance Committee
Subcommittees on Health and Human Resources
and Education
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Health Care Reform will impact the clinical and educational divisions of the VCU Medical Center

- VCU Health System - the clinical delivery component of the VCU Medical Center
 - MCV Hospitals
 - Children's Hospital of Richmond
 - MCV Physicians
 - Virginia Premier Health Plan (Medicaid HMO)
- VCU Health Professions Schools
 - School of Medicine
 - School of Dentistry
 - School of Nursing
 - School of Pharmacy
 - School of Allied Health Professions



Projected impact on the VCU Health System

- Decreased DSH funding will compromise the health system's ability to continue to serve as a Safety Net provider for the Commonwealth's underserved populations (newly insured Medicaid patients and those who will remain uninsured)
- Resources available to support the education and training programs for VCU's Health Professions schools and capital needs of the clinical enterprise may be diminished
- Demand for services from newly insured Medicaid and health insurance exchange patients may exceed the capacity available

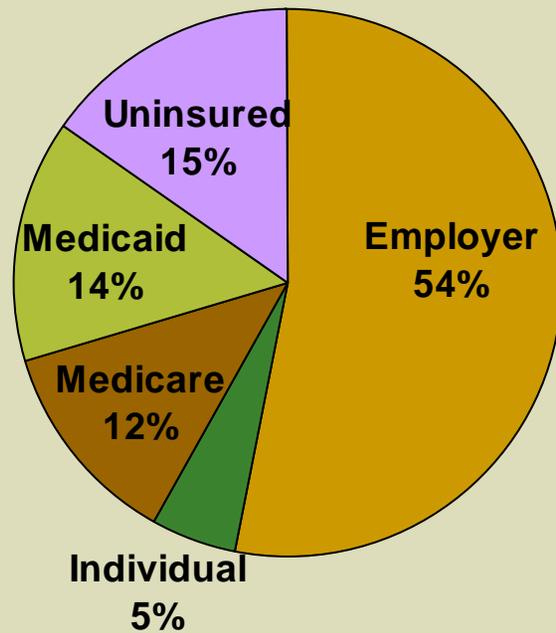
Two Bills form the Health Care Reform Law

- In March, 2010, two bills were signed that together form the foundation of the health care reform legislation:
 - The Patient Protection and Affordable Care Act (P.L. 111-148)
 - The Health Care and Education Reconciliation Act (P.L. 111-152)
- The primary goals of the laws are to ensure access to quality health care and provide affordable health insurance to the uninsured
- By 2019 the Health Care Reform laws will expand coverage to over **32 million Americans (94% of non-elderly uninsured US citizens)**
- Coverage expansions will include approximately **16 million** new Medicaid/CHIP enrollees

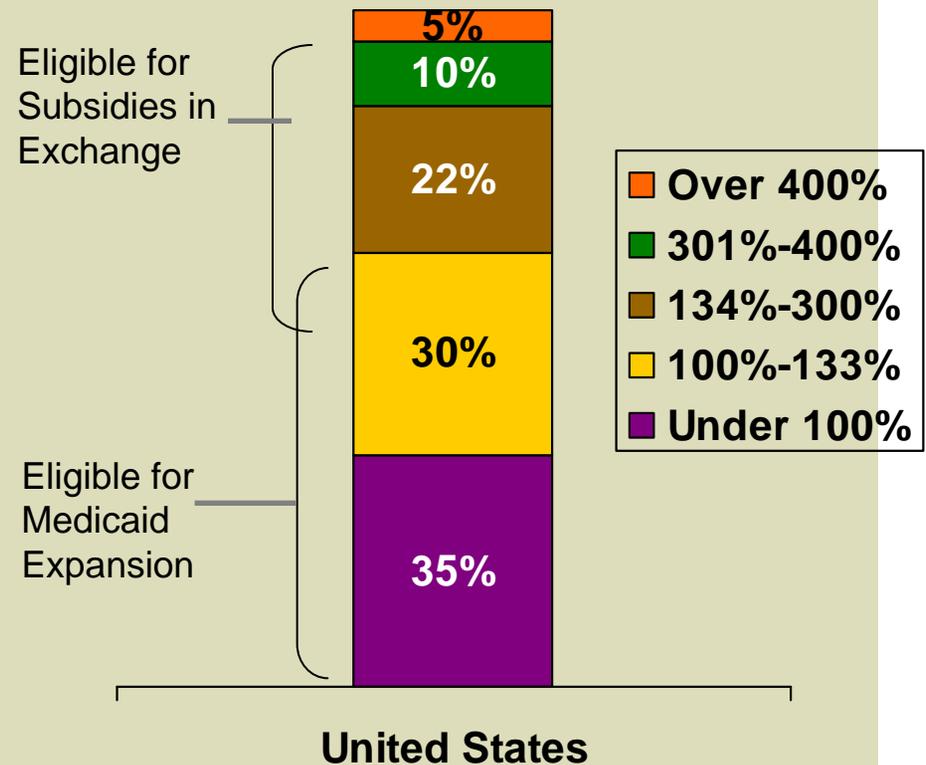
Source: Mutinsky, S. and Swartz, C., *Health Care Reform Implementation: Coverage Expansion Issues*, Webinar, May 6, 2010.

Current U.S. Coverage

Current U.S. Health Insurance Coverage



Current U.S. Nonelderly Uninsured by FPL

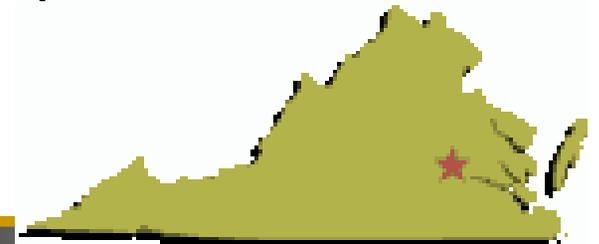


2008 U.S. Data, from The Kaiser Family Foundation, "State Health Facts: Health Coverage & Uninsured"

Impact on the Commonwealth of Virginia

- Ensure affordable coverage options for **1.2 million** Virginians who are uninsured [HealthReform.gov]
- Close the "donut hole" and improve other Medicare benefits for **1.1 million** Virginia seniors. [HealthReform.gov]
- Expand Medicaid enrollment by approximately **270,000-425,000** Virginians [Senate Finance Committee presentation, 2010]
- Provide access to more federal funding for **146** Community Health Centers in Virginia. [National Association of Community Health Centers, 2009]
- Allow as many as **25,800** young adults aged 19 to 25 in Virginia to stay on their parents' insurance plans. [WhiteHouse.gov]

http://dpc.senate.gov/docs/sr-111-241_states/va.pdf



There are various sources of funding for covering the cost of Health Care Reform

- Taxing High Premium Health Plans
- Increased Medicare taxes on investment income
- Annual fees on components of the health industry (pharmaceutical companies, medical devices, insurance companies, etc.)
- Employer payments for not providing health care coverage for their workforce
- Penalties for individuals who do not obtain coverage
- Reallocation of Disproportionate Share Hospital (DSH) payments

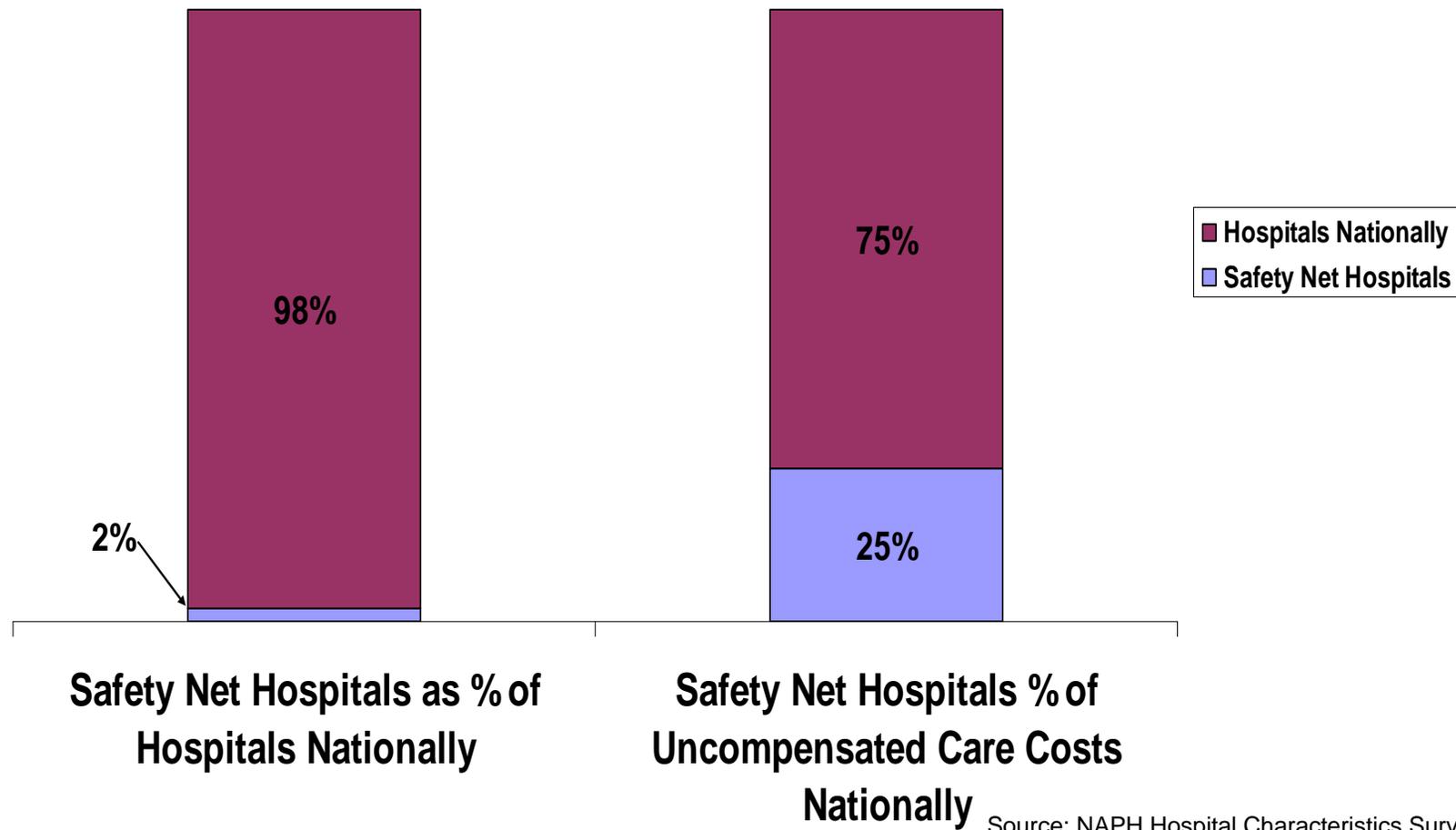
Source: Mutinsky, S. and Swartz, C., *Health Care Reform Implementation: Coverage Expansion Issues*, Webinar, May 6, 2010.

Financing of Virginia's Academic Medical Centers will be significantly impacted by reductions in DSH

- Beginning in 2014 reductions will occur in Disproportionate Share Hospital (DSH) payments
 - Medicaid DSH - \$14 billion over 10 years
- Criteria for distribution of remaining DSH to be determined by CMS
- Approximately 2,700 (50%) of U.S. Hospitals receive DSH payments
 - A small percentage of these hospitals (Safety Net Hospitals) provides most of the nation's charity care
- Reductions in Medicaid DSH will result in a significant reduction in funding for the nation's Safety Net Hospitals (institutions that care for a disproportionate number of Medicaid and uninsured patients)

Will Safety Net Hospitals survive health reform? www.msnbc.msn.com, Sept. 8, 2009

Safety Net Hospitals like VCUHS provide a disproportionate share of care to the uninsured



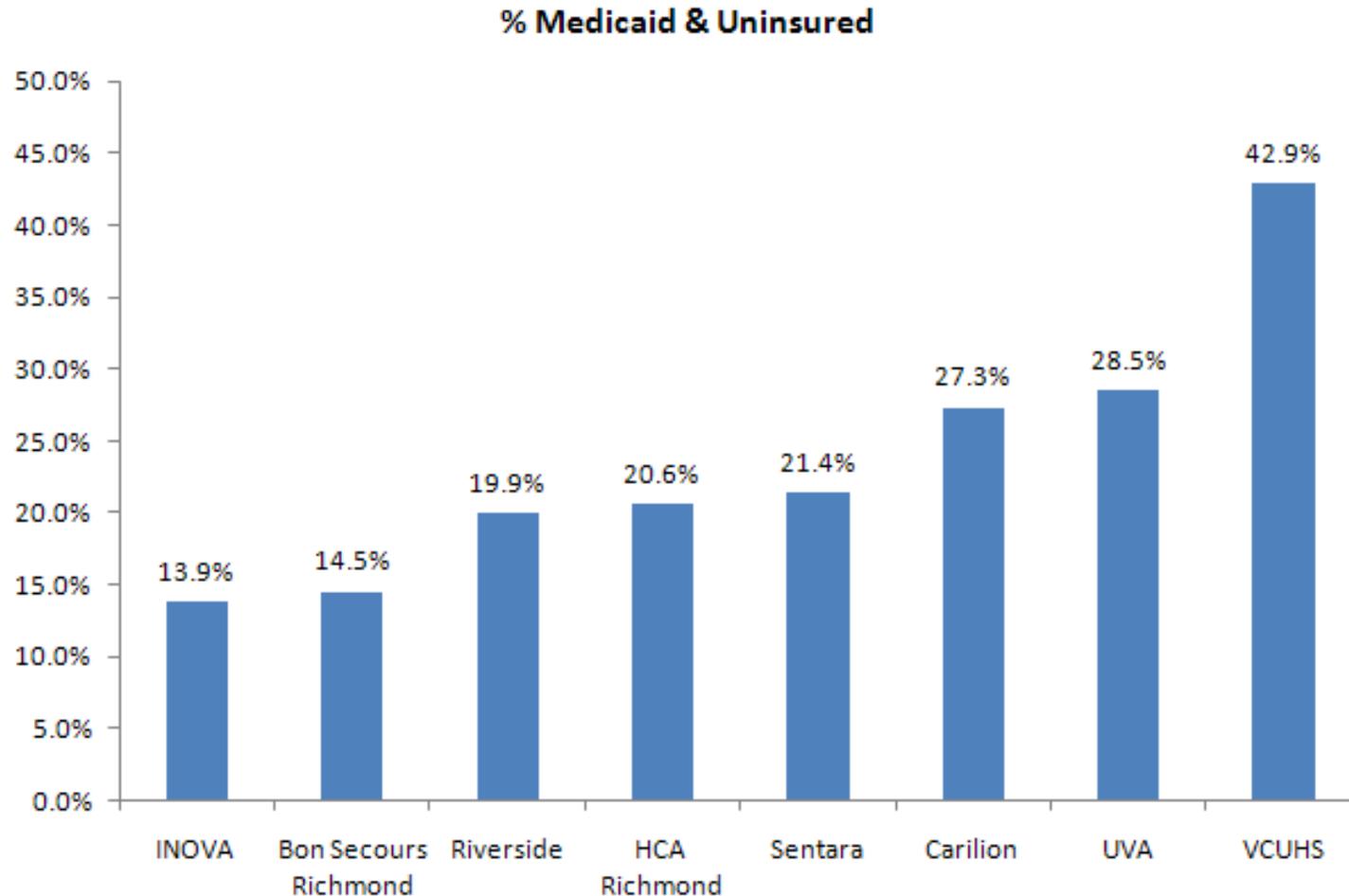
The missions of VCUHS will be impacted by Health Care Reform

- Reduction/loss of DSH support will compromise the **ability to serve the Commonwealth's underserved**
 - Rates for newly insured Medicaid and Health Insurance Exchange patients may be inadequate to cover costs
 - Increased subsidization from commercial payers will be needed to support care for the newly insured
 - Smaller margins from commercial payers will reduce the level of funding available to support capital needs

- Smaller margins will diminish the **ability to support the education and training** of adequate numbers of health care professionals (ex: primary care providers)

- **Supporting demand for services** from new Medicaid and health insurance exchange patients may prove problematic due to lack of available capacity
 - Availability of providers due to workforce shortages
 - Concerns regarding reimbursement rates

A large percent of VCUHS' inpatient activity is caring for the under- and un-insured



Source: CY 2009 VHHA state discharge database

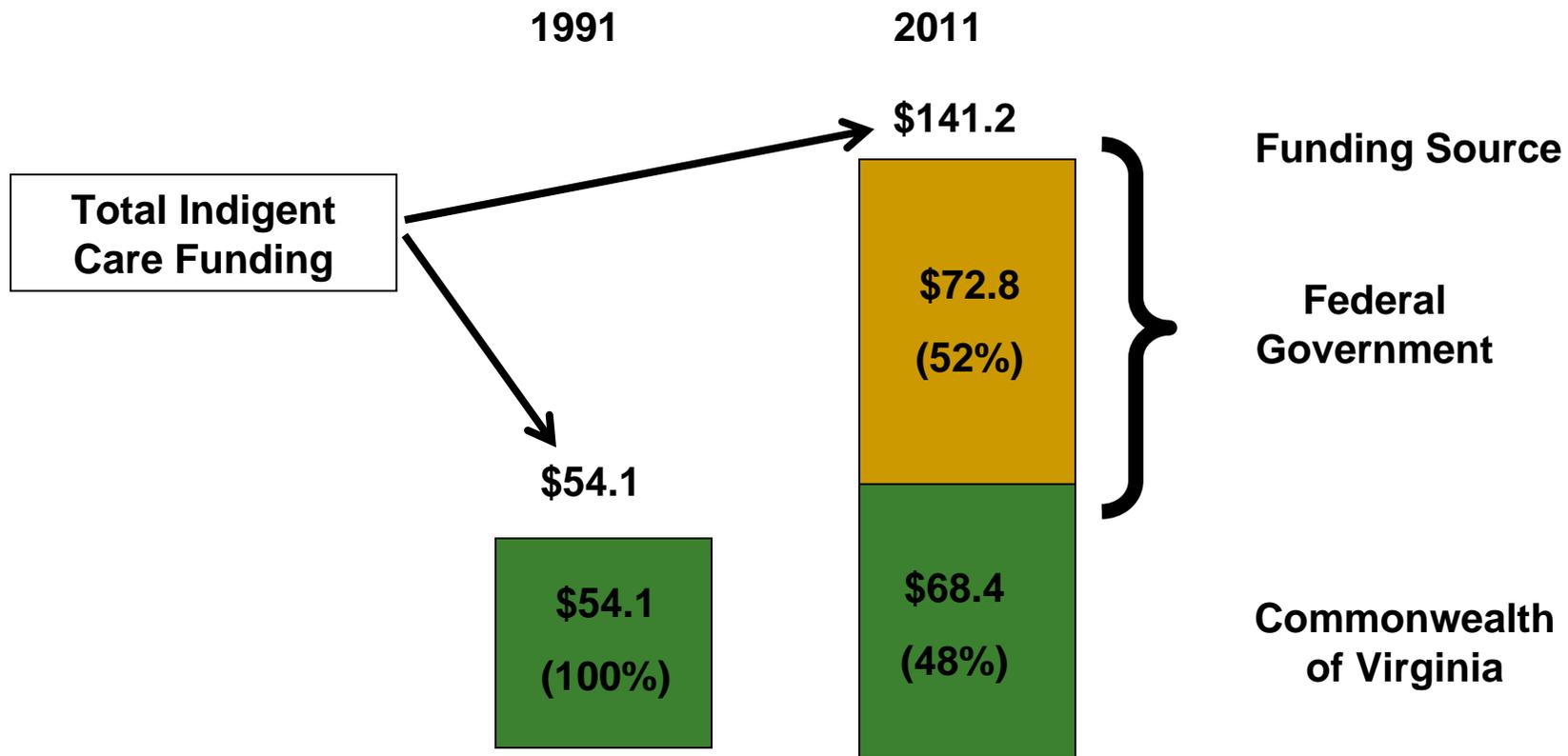
Private beds have left the City of Richmond, leaving majority of uninsured to seek services at VCUHS

- Over 700 beds have left Richmond City and gone to new modern suburban facilities since 1980



Federal funds have been used to absorb the growth in Indigent Care since 1991

Virginia Indigent Care Funding By Source



All Indigent Care and Medicaid funding goes towards patient care

VCUHS depends on revenues from commercial payers for...

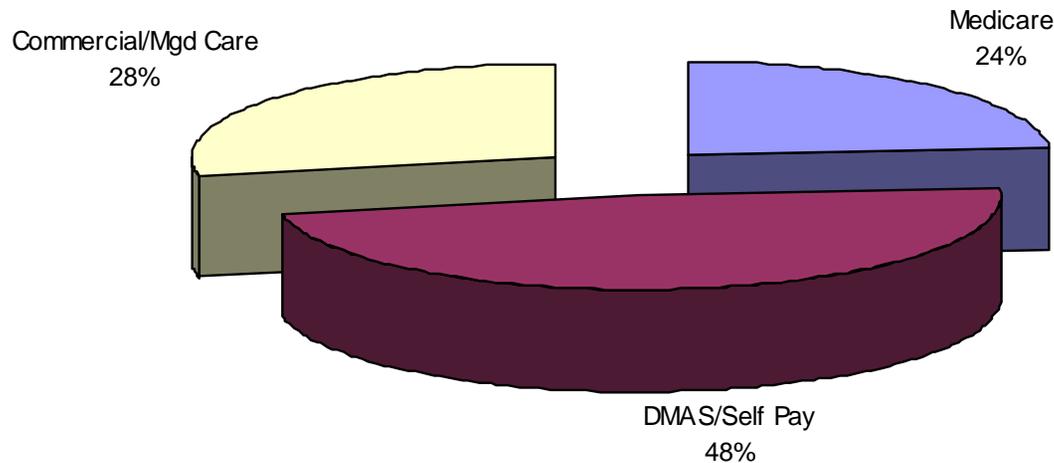
- Subsidization of Medicare, Medicaid and Indigent care losses
- Capital project funding
- Educational programs

...if Disproportionate Share Hospital funding decreases, VCUHS will:

1. be forced to re-evaluate the level of care provided to Medicaid and uninsured patients, weakening the safety net for Virginia's most vulnerable populations,
2. not be able to maintain capital infrastructure needed to support all patients, negatively impacting the ability to attract commercial payers (compounding impact on Medicaid and uninsured populations)
3. limit or eliminate support for educational programs

Margins needed to support clinical, education and capital needs are derived from Commercial Payers

VCU Health System
Patients by Payer
54,285 Adj. Discharges for FY2009
Government Payers/Self Pay are 72% of Total Volume



Cost Containment is an area of focus

- VCUHS has maintained costs below 3%, far below the rate of medical inflation (5-6%)
- Efforts of the Health System's management team have contributed to our success:
 - Efficiency initiatives across the medical center
 - Value analysis activities have resulted in reductions in general med/surg supplies, capital expenses and vendor contracts
 - Innovative programs such as the VCC

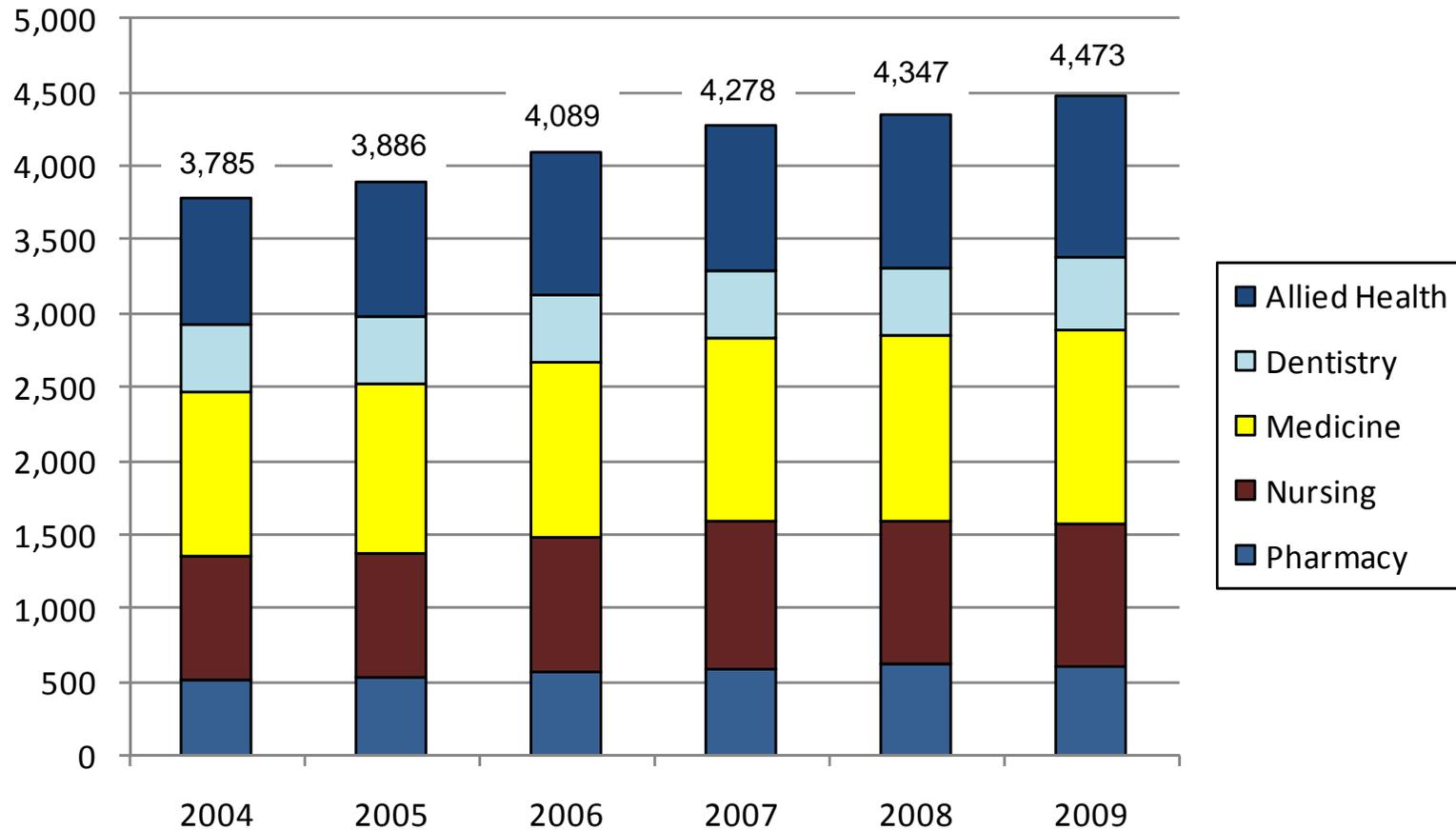
VCUHS has identified approximately \$1.3 billion in critical capital projects to complete over the next 10 years including:

- Emergency Room upgrades
 - Completion of the Pediatric Emergency Room
 - Renovation of the Existing Emergency Room
- Replacement of North Hospital
- Children's Pavilion Replacement and Parking
- Surgical Suites Infrastructure Modernization
- Labor and Delivery Floor Upgrades
- Medical Equipment Replacement and Upgrades
- Information Systems improvements including EMR
- VTCC replacement

VCU's health professions education and training programs are dependent upon support from VCUHS

- **Between 2003-2009, the VCU Health System contributed \$168.7 million to VCU's health science schools.**
 - ❑ \$85.2 M from MCV Hospitals, MCV Physicians and Virginia Premier to the School of Medicine for new faculty recruitment and educational capital needs;
 - ❑ \$52.7M from MCV Hospitals for faculty teaching residents;
 - ❑ \$15.9M from MCV Physicians toward faculty for teaching medical students and residents;
 - ❑ \$14.9M for teaching students in Pharmacy, Nursing, and other health professions.
- **All support has come from VCUHS's margin from commercial payers**

Despite state budget cuts, VCU Medical Center continues to expand training programs for the Commonwealth's Health Professional students



Gaps in State funding for VCU SOM are also partially made up from VCUHS commercial margins

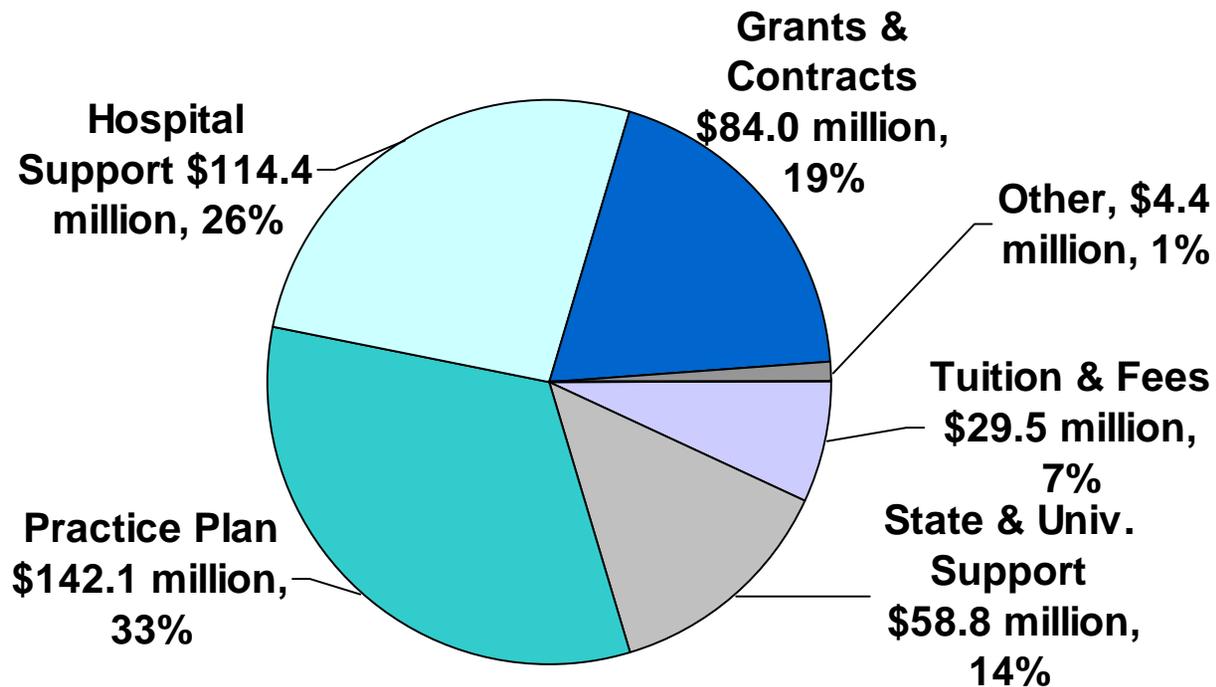
- Based on FY09 AAMC data, VCU SOM receives ***less than two-thirds the level of state support of its public peers.***
 - Compared to all U.S. public medical schools, VCU received \$48,700 in state support per student¹ compared to an average of \$79,500.
- **Without Health System support, the School's efforts to address the physician shortage issue will be impacted.**
 - Planned increase in the MD class size
 - Maintenance of the residency program
 - Simulation training to improve clinical proficiency and quality of care
 - Continuing medical education for practicing physicians

¹ Includes all M.D., M.S, and Ph.D students.

Where the Health System goes, so goes the School of Medicine

Clinical support totals almost 60%

VCU Medical School - Academic Health Center Sources of Revenue (FY 2008)



Source: AAMC,
Annual Financial
Questionnaire, 2008.

Ensuring access to care for “newly insured” patients will be driven by reimbursement rates

- ❑ Reduced reimbursement rates for the new Medicaid and Health Insurance Exchange populations may be detrimental to the academic medical centers
 - Reimbursement rates may be inadequate to cover the costs of care
- ❑ Increased demand from the newly insured may stress access points in the entire health care delivery system
 - Concern that Emergency Departments may become default access points due to inadequate and underfunded primary care
- ❑ Community hospitals can increase volumes and revenues with the newly insured to fill unused capacity
 - The shift of newly insured populations to competitors may result in negative impacts to clinical and educational programs

Innovation at VCUHS is critical for success

- Implemented the “Safety First” program with the vision of becoming the safest health system in America
- Expanded health system’s EMR to support integrated communications across the continuum of care
- Opened a state-of-the-art Critical Care Hospital
- Implemented award winning workforce development initiatives
- Established the Virginia Coordinated Care (VCC) program to manage care for the uninsured
- New School of Medicine building will house the Center for Human Simulation and Patient Safety
- Establishing the Commonwealth Center for Health System Innovation

Conclusion

- It is anticipated that Virginia's Academic Medical Centers will be significantly impacted by the Health Care Reform laws
- Concerns for VCU Health System relate to:
 - Financial viability of the clinical enterprise
 - Continued support for health professions education and training programs
 - Ability to support the access needs of the Commonwealth's underserved
- Strategic alliances with the Commonwealth will be needed to ensure that VCUHS remains a viable partner in the provision of health care and educational support for health care professionals

