

Hospital & Health System Perspective on Virginia Budget

Senate Finance Health & Human
Resources Subcommittee
February 8, 2010



Consequences of Deep Medicaid Cuts

- **Statewide Perspective**
 - **Jobs**
 - **Economy**
- **Behind the Numbers**
- **Impacts on Rural Hospital/Community**
- **Impacts on Specialty Children's Hospital**
- **Impacts on Academic Health Center**

Virginia's Hospital & Health Systems

Economic & Job Impacts

- **Economic Impact of Hospitals & Health Systems**

- Total economic impact of **\$30.3 Billion** - \$13.4 direct and \$16.9 indirect
- Top tier employer in every part of the Commonwealth
- Especially critical to rural communities where nearly one in five jobs are hospital related

- **Jobs**

- More than **111,000 Virginians** are employed in Virginia's hospitals and health systems
- These support another 89,000 jobs in the community

- **Community Benefit**

- Collectively, Virginia hospitals and health systems provided more than **\$900 million** in community benefit programs and services in 2008
- From charity care, to 24/7 emergency services, to support for other safety net providers, hospitals are central to community health and well being

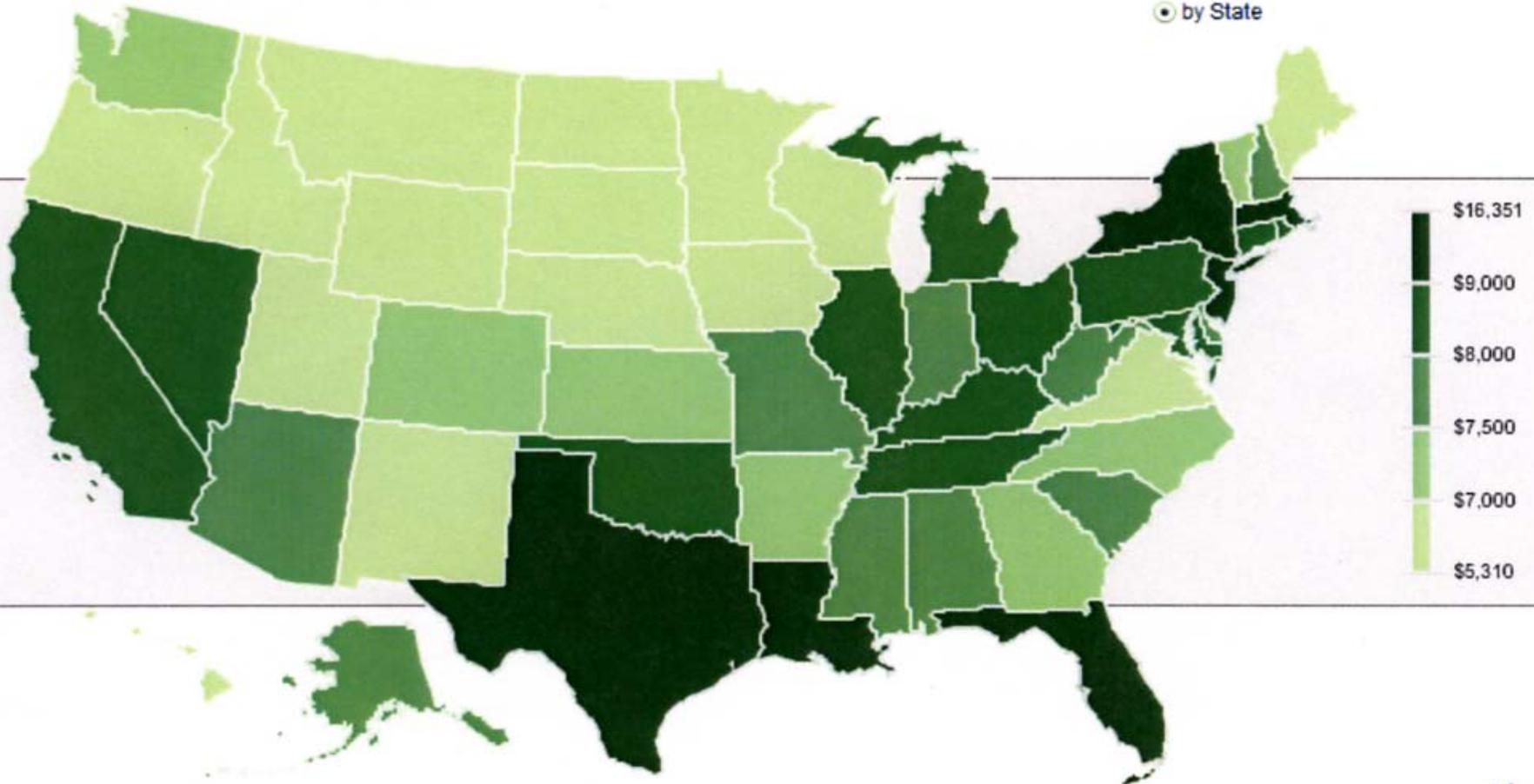
Virginia Healthcare Value

Medicare Reimbursements Per Enrollee

2006 Medicare Reimbursements by State

Total Reimbursements (2006) ▾

- by Hospital Referral Region
- by State



This interactive map demonstrates a vexing issue facing policymakers as they struggle with the cost of health care: Medicare spends vastly different amounts to care for its enrollees depending on where they live, and growth rates vary dramatically across U.S. states and regions. The data show average age-sex-race adjusted Medicare spending per enrollee by state and by hospital referral regions for 1992 and 2006 and the average annual growth rate for the period 1992 to 2006. Hospital referral regions represent regional health care markets for tertiary medical care. The data from the Center for Medicaid and Medicare Services is a 5 percent sample of Medicare spending for people over 65 years old and not enrolled in HMOs.

Graphic: [The Robert Wood Johnson Foundation](#) Source: [Dartmouth Atlas Project](#) at The Dartmouth Institute for Health Policy & Clinical Practice.



Virginia Healthcare & Medicaid Realities

Healthcare Value

- Virginia is in the lowest tier of states in per capita health care costs
- We are in the top one or two tiers in acute care quality

Lean Medicaid

- Virginia Medicaid ranks 48th among the states in spending per capita
- 45th in Medicaid spending as a share of the state budget

Cuts Have Consequence

- Therefore, additional Medicaid cuts will have consequences on jobs, access and individual lives

Consequences of Additional Medicaid Cuts

Jobs

If Medicaid bears a proportional share of \$2 billion more in state spending reductions

Direct Health Care Jobs At Risk 3,363

Community Jobs At Risk 2,657

Total Virginia Jobs At Risk **6,020***

* Assumes \$2 billion in additional state budget cuts of which 15 percent (\$300 million) goes to Medicaid reductions. With federal match, Medicaid impact is \$600 million. Remainder of estimate applies labor share of hospital expenses and hospital average salary to determine direct jobs. Health care labor multiplier per BEA.

Consequences of Additional Medicaid Cuts

Loss to Virginia Economy

Cutting Medicaid saves the Commonwealth much less, and costs the Virginia economy a lot more, than most appreciate

In fact, every \$1 “saved” costs the economy \$4.25

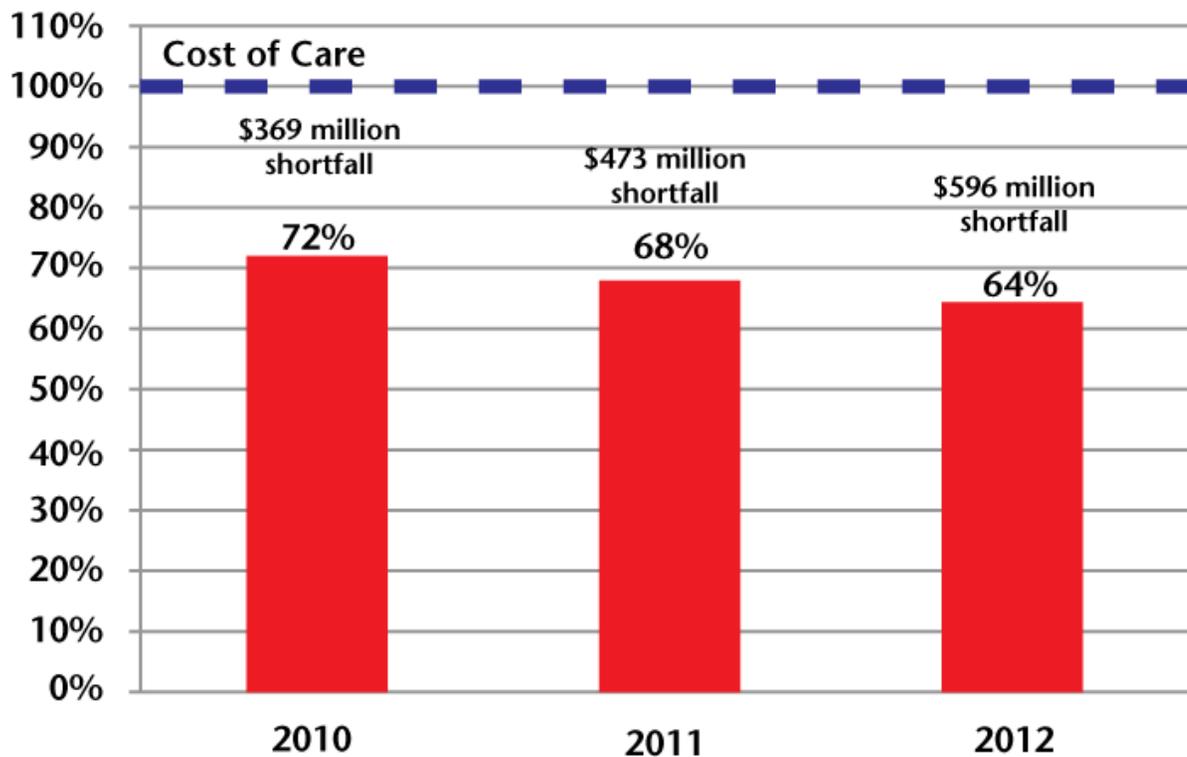
Introduced budget Medicaid reductions	\$420 GF
Potential additional cuts	\$300 GF
Less negative effects on Virginia revenues	-\$140
Net state “savings	\$580 GF

Economic Effects

Medicaid GF “savings” forfeits equivalent fed funds	\$720
Total impact on state health care spending	\$1.44 billion
Loss of \$1.4 billion reduces the state economy	\$1.2 billion
Total loss to state economic activity	\$2.6 billion

Medicaid Hospital Shortfall

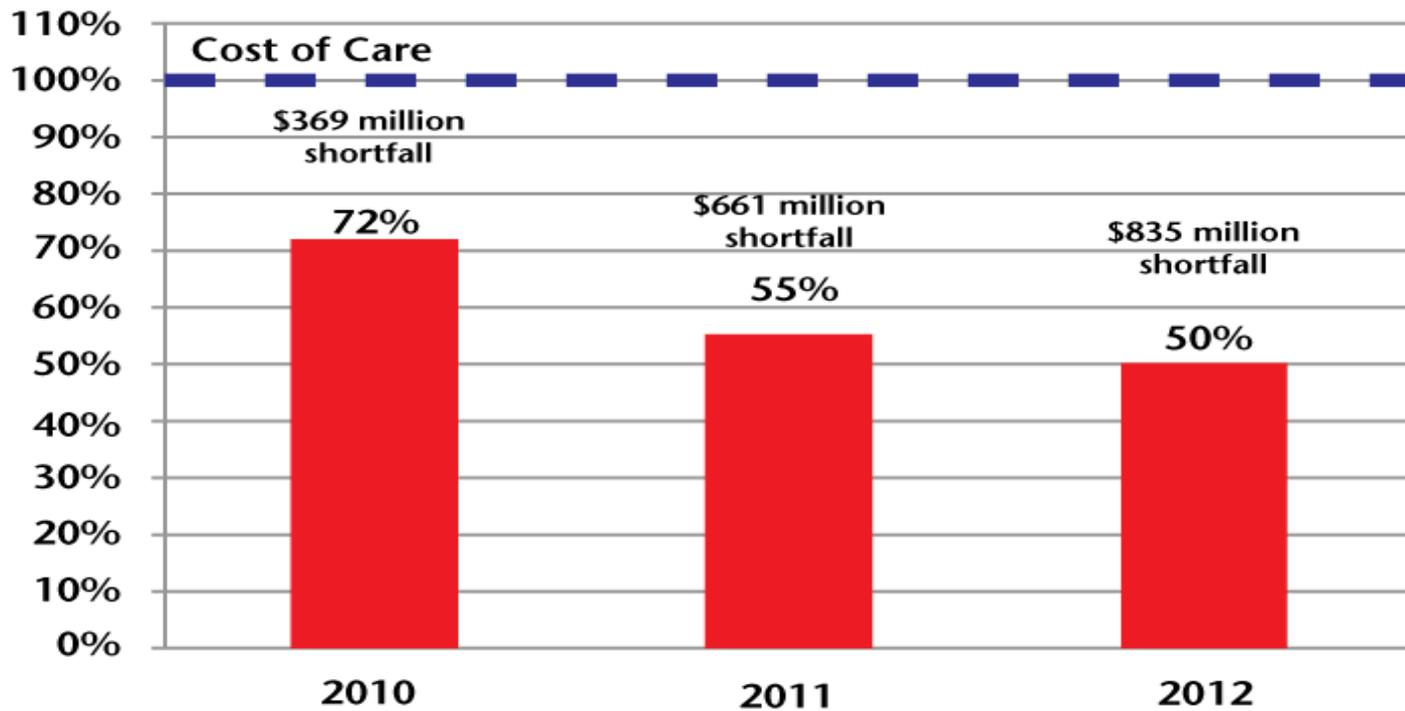
Hospital Medicaid Costs vs. Payments 2010-2012
Under Governor Kaine's Proposed Budget



Totals include fee-for-service and managed care payments for inpatient hospital services.

Medicaid Hospital Shortfall

Hospital Medicaid Costs vs. Payments 2010-2012
If Additional \$2 Billion Is Cut from the State Budget
and Medicaid Receives 15% of Additional Cuts



Totals include fee-for-service and managed care payments for inpatient hospital services.

Behind the Numbers

Access to OB

Valley Health's Shenandoah Memorial Hospital closed its maternity unit in Woodstock in 2009. Key to that decision was the number of Medicaid patients utilizing the service, and the inadequacy of Medicaid reimbursements, which doesn't come close to covering the costs of services. **Half a dozen other hospitals in Virginia have closed OB units in recent years**, with low Medicaid reimbursements playing a role in each instance.

Now, women in Shenandoah County, whether covered by Medicaid or not, have to travel much further distances to deliver their newborns at Warren Memorial Hospital in Front Royal, Winchester Medical Center or Rockingham Memorial Hospital in Harrisonburg.

Community Memorial Healthcenter, South Hill

Community Role

- Largest employer in region (where unemployment is 12%)
- Own and subsidize 2 rural health clinics, OB, ENT, Orthopedics, General Surgery and other practices
- Operate a nursing home where 85% of residents are Medicaid
- Only inpatient psychiatric unit in the region
- 72% of deliveries are Medicaid, requires \$1 million annual subsidy to keep OB's, NP's and program viable

A monopoly on every essential, but money-losing health care service in the region

Community Memorial Healthcenter, South Hill

Consequences of Cuts

Actions to Date

- **Cut administrative positions**
- **No pay raises, no contributions to employee retirement funds**
- **Squeezed all non-labor costs**
- **But maintaining essential services, despite doubling of indigent care**

With Deep Medicaid Cuts

- **May have to eliminate one or more Medicaid dependent service**
- **Trim or eliminate community service programs**
- **With service reductions will come job losses (often only job for family)**
- **Lower health insurance below reasonable levels**

Behind the Numbers

Sarah

Sarah, an 85 year-old widow, worked hard all her life but had few assets. Her only income was a small Social Security check each month. Until five years ago Sarah lived alone until she became disabled from heart disease and a hip fracture and was admitted to Community Memorial Healthcenter (CMH). Her only relative, a niece, lived several states away and there was no one to take care of Sarah after her health deteriorated. She couldn't go back home by herself and she couldn't afford a nursing home.

Our hospital social worker recognized Sarah's situation, facilitated her enrollment in Medicaid and admission to our CMH Long-Term Care (LTC) facility where she has been a resident for the past five years. Sarah is getting the care she needs and is doing well. She is able to participate in activities, enjoys being with the other residents; her quality of life is good.

Imagine where Sarah would be without Medicaid paying for her nursing home care. What would happen to Sarah and other residents if CMH had to close its LTC because of Medicaid cuts?

Sarah's story is not unlike many of our seniors. In fact 92 percent of our nursing home residents depend on Medicaid for their care. Cutting Medicaid would be devastating to our hospital, our community and most of all these LTC residents. Literally over 140 nursing home residents would have no place to go and no one to take care of them.

CHKD in the Commonwealth

- Virginia's only freestanding children's hospital
- Regional referral center serving all of SE Virginia and Eastern Shore
 - Region's sole provider of the highest-level pediatric inpatient, intensive care, rehab and surgical services.
- Home to EVMS Pediatric residency program (with high VA retention)
- Highest proportion of Medicaid service of any hospital in Virginia:
 - 53% of CHKD's patients covered by Medicaid
 - Next closest provider is at 28%
- Outpatient services throughout region to aid access to CHKD's unique programs for working families often challenged by transportation issues
- 2 out of 3 patients covered by government-sponsored insurance

With this unequaled level of Medicaid care, CHKD cannot offset Medicaid losses

Impact of Medicaid payment freeze on CHKD

- 137 fewer employees than this time last year
- Cut labor and non-labor expenses by \$6.5 million
- Ended year with 1% operating margin – severely limiting CHKD's ability to reinvest in staff, equipment, programs and technology

This is not a sustainable strategy

What's at Stake for CHKD

Consequences of Cuts

Under Introduced Budget:

- Introduced budget cuts CHKD by \$3.1 million (1/2 GF)
- This reduction means:
 - Eliminating another 150 jobs
 - Reducing access to CHKD services, including closing locations
 - Eliminating programs not otherwise available in Hampton Roads

Cuts Beyond the Introduced Budget:

- Catastrophic
- Crippling
- Threaten core mission, core services, viability

VCU Medical Center

Academic Health Center Role

- **Economic impact of VCU Health System and Health Sciences Schools is \$4 billion annually, employ more than 7,200**
- **Train over 4,400 in Medicine, Nursing, Dentistry, Pharmacy, Allied Health and Public Health**
 - Train over 700 post-graduate physician residents, the largest number in the Commonwealth
- **Level 1 Trauma Center, Burn Center, ICU capability offer tertiary care to region and beyond**
- **Nearly half the patients served at VCUHS are Medicaid, FAMIS or uninsured (71% of total ER visits)**

VCU Medical Center

Reductions to Date

Indigent care reductions and broader challenges in economy have driven significant cuts already

- **\$30 million has been cut from FY09 operating budgets**
 - 160 jobs eliminated
 - Benefits trimmed
 - Non-personnel costs cut
- **Needed capital projects cancelled and delayed**
 - Pediatric ER, Labor and Delivery, Surgical Suites

VCU Medical Center

Consequences of Further Medicaid Cuts

- **A funding reduction of \$30 million, if implemented via labor alone, is equivalent to 556 jobs**
- **Reduced access to medical services**
- **Potential need to ration care and trim programs that primarily serve Medicaid/FAMIS and uninsured populations**
 - E.g., Virginia Coordinated Care program that is a model for offering community-based care and follow-up to lessen ER use
- **Limit needed training and workforce investments**
- **Will affect research and biotech economic development**

Virginia's Hospitals & Health Systems

On behalf of our 110,000 physician, nurse, allied health and other employees; our trustee and community leaders; our several thousand strong volunteers and auxiliaries; and most importantly the patients we are privileged to care for

Thank you for your service and leadership, especially during these challenging economic times; and

Thank you for doing your utmost to avoid deep Medicaid cuts