



Illinois Hospital Association

LETTER TO GUBERNATORIAL CANDIDATES

January 25, 2010

Dear

The hospital community recognizes that there are no easy answers or quick fixes to alleviate Illinois' state budget crisis. While we agree that the state needs to be as fiscally responsible and as efficient as possible, we are deeply concerned about notions, which on the surface seem to be a possible approach, but actually would result in great harm to the health care delivery system.

Specifically, moving large portions of the Medicaid population into HMOs is not a responsible, realistic solution, because it would not result in savings and instead could jeopardize the Hospital Assessment Program and the billions of dollars in funding it provides to the state.

We respectfully urge you to keep several important points in mind when examining the Medicaid program.

Hospitals are major contributors in supporting the state's Medicaid program. During the past fiscal year:

- Only 25% of Medicaid payments to hospitals came from the state general revenue funds;
- 75% came from federal funds and the Hospital Assessment Program;
- To generate billions of dollars in the assessment program for the state, Illinois hospitals pay a tax of \$900 million a year;
- In the past fiscal year, that tax generated \$735 million in federal and other non-state funds for non-hospital Medicaid needs, i.e., nursing homes and developmental disability services (and will generate a total of \$2.5 billion for non-hospital needs and more than \$3.2 billion for hospitals over the course of the five years of the program – for a total of nearly \$6 billion in additional support for the Medicaid program).
- Imposing increased HMO managed care could invalidate the Hospital Assessment Program, potentially resulting in the loss of **billions of dollars** in federal matching Medicaid funds for hospitals and federal and non-state funds for other non-hospital Medicaid needs such as nursing homes and developmental disability services.

Moving Medicaid beneficiaries into HMOs will not save money:

- Hospitals receive, on average, only 75% of their costs for providing Medicaid services, without the assessment program. Hospital inpatient base rates have been frozen since 1995 – with absolutely no increases, not even for inflation.
- More than 70% of the state's Medicaid beneficiaries are already enrolled in managed care programs such as primary care case management (medical homes so patients receive

timely primary and preventive care) and disease management for those with chronic conditions like diabetes and asthma.

- The hospital community supports greater use of cost effective and efficient approaches like those that the state has implemented in recent years, which have saved Illinois more than \$100 million in Medicaid costs last year alone and prevent unnecessary ER visits and hospitalizations, saving untold millions more.

HMOs in Illinois have a poor track record in “managing” Medicaid patients:

- In 2008, an HMO in Illinois paid \$225 million – the largest jury verdict in a false claims case in U.S. history – to settle charges that it deliberately excluded pregnant women and sick people from its program;
- In 2004, a federal court ruled that HMOs provided less preventive and primary care and poorer quality care to children in the Medicaid program in Cook County than non-HMO programs.

Hospitals are vital economic engines for the local and state economies:

- They are among the top three employers in nearly half of the state’s counties, together employing nearly a quarter of a million people;
- As major employers and major purchasers of goods and services, they have an economic impact on the state of \$72 billion a year;
- Medicaid payments to hospitals generate immediate economic stimulus – generating new rounds of spending (and tax revenues) as well as job creation and retention throughout the local and state economies. Each \$1 in Illinois Medicaid spending generates another \$2.50 in further economic activity.

What’s good for hospitals is good for the state’s economy and for Illinois. We urge you to more carefully consider, and as a result, steer clear of drastic, unworkable measures such as increased HMO managed care for Medicaid that would not save money but only hurt Illinois’ vulnerable citizens, their communities and the health care delivery system.

We would welcome the opportunity to discuss this issue with you in more depth or to provide further information.

Sincerely,

Maryjane A. Wurth
President

Howard A. Peters III
Senior Vice President