

**Testimony of Kenneth E. Raske, President  
Greater New York Hospital Association  
Before the Senate Finance and  
Assembly Ways and Means Committees**

Good morning Chairman Farrell, Chairman Johnson, Chairman Gottfried, Chairman Hannon, and other distinguished members of the Assembly and Senate. My name is Kenneth E. Raske, President of the Greater New York Hospital Association (GNYHA). GNYHA represents more than 250 not-for-profit hospitals and continuing care facilities, both voluntary and public, in the metropolitan New York area and throughout the State, as well as in New Jersey, Connecticut, and Rhode Island.

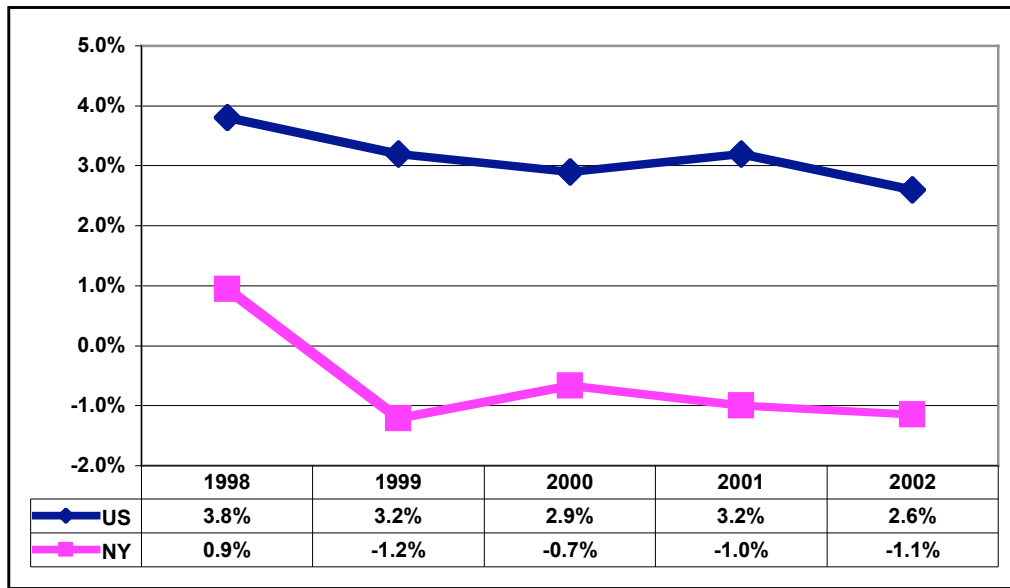
In my testimony today, I will focus on the Executive Budget proposal for 2004-2005 and its impact on hospitals and hospital patients in New York State. I will also discuss a new proposal designed to reduce the number of uninsured in New York State and provide financial relief for the vast majority of employers who provide health insurance for their employees. Later today, you will hear testimony from Scott Amrhein, President of the Continuing Care Leadership Coalition, who will present our Association's views on the impact of the Executive Budget proposal on nursing homes, home health care agencies, and the New Yorkers they serve.

**Executive Budget Proposals**

As members of the Assembly and Senate are aware, Medicaid is a vitally important health insurance program for approximately 3.4 million low-income New Yorkers, including a significant number of aged, blind, and disabled individuals.

Its importance as a health insurance program is also reflected by its significance to the hospital community. Nearly a quarter—23%—of total patient revenues for hospitals in New York State in 2001 was attributable to services provided to Medicaid patients. In New York City, Medicaid provided 31% of total patient revenue and in the rest of the State, 14% of revenue. Because hospitals have also had four straight years of bottom-line losses (see Figure 1) and face severe financial challenges, stability in this critically important insurance program is essential in order to maintain a high-quality hospital infrastructure for all New Yorkers.

**Figure 1. Total Margin Trend**



Sources: For U.S. data, the 2004 Almanac of Hospital Financial and Operating Indicators, published by Ingenix. For New York data, the 2002 New York State Institutional Cost Reports (ICRs).

**For this reason, GNYHA is extremely pleased that the Executive Budget proposal for 2004-2005 does not contain any fee-for-service reimbursement rate cuts for hospitals.** As many of you know, and as members of the Senate Medicaid Reform Task Force members heard repeatedly during the roundtable discussions that were held across the State last year, Medicaid reimbursement rates are already inadequate to cover the costs of caring for low-income New Yorkers. This is particularly true with regard to outpatient services, where emergency rates and outpatient clinic rates have been frozen for well over a decade. As GNYHA pointed out in its recommendations to the Senate Task Force—which are attached to this testimony—we strongly believe that better care management can help reform the Medicaid program, provide greater efficiencies, and provide better care outcomes. We believe that Medicaid rate cuts would have the opposite effect. Thus, we are pleased that Governor Pataki included no fee-for-service cuts to hospitals in his budget proposal.

As we proposed to the Senate Medicaid Task Force, the Executive Budget proposal envisions more care management, particularly for Medicare and Medicaid “dual eligibles,” Supplemental Security Income beneficiaries, and Medicaid beneficiaries in need of substance abuse and mental health services. We look forward to working with the Governor and the State Legislature on these proposals as details are added to the concepts outlined in the Executive Budget.

GNYHA would also like to express qualified, preliminary support for the concept in the Executive Budget proposal to convert a portion of the Health Care Reform Act (HCRA) professional education, or graduate medical education (GME), pool to a Medicaid rate adjustment. Under the proposal as we understand it, approximately \$100 million of the \$494 million HCRA GME pool would be converted, for non-public hospitals only, into a Medicaid

rate adjustment, paid to hospitals based on a formula that takes into account the shortfall between each hospital's Medicaid GME payments and Medicaid GME costs. Payments from the HCRA GME pool would be offset for each hospital by the amount received under the new Medicaid GME payment adjustment. The intent of the proposal is to ensure that each hospital receives the same amount it is currently receiving in GME payments, while leveraging Federal funds. In addition, we have been told that, according to the State's calculations, 24 hospitals would receive, in the aggregate, an additional \$30 million in GME funding under the formula mentioned above. GNYHA is extremely pleased that this proposal is intended to ensure that GME funding for New York teaching hospitals remains stable, particularly at a time when the State is facing financial difficulties. GNYHA would like to work with the Governor and the State Legislature on the legislative language, though, to ensure that the intent of the proposal is actually achieved in practice, particularly because the transfer amounts in some cases are significant. GNYHA would also like to ensure that local governments are not disadvantaged by this proposal.

Having said this, GNYHA is very concerned about several other proposals in the Executive Budget that will have a severe impact on hospitals and their ability to serve your constituents.

- ***The 0.7% Gross Receipts, or "Sick Tax":*** The Executive Budget proposes reinstating the 0.7 % tax on hospital gross receipts which the Legislature, in its wisdom, repealed several years ago. The Executive estimates that the tax would cost hospitals across the State over \$183 million in the next fiscal year. When you repealed this tax, you rightly recognized that hospitals in the State were ailing financially, and could not continue to pay the tax without a severe impact on patient care. Since you repealed the tax, the financial situation of New York's hospitals has gotten worse, as I pointed out earlier (see Figure 1). **For these reasons, GNYHA strongly urges the Legislature to reject the proposed hospital tax.** We are pleased that Assembly Speaker Sheldon Silver and Senate Majority Leader Joseph Bruno have already expressed significant concern about this proposal.
- ***Copayment Requirements for Family Health Plus Enrollees:*** The Executive Budget would require Family Health Plus enrollees to make copayments for a variety of services, including a \$50 copayment for inpatient hospital services, a \$25 copayment for emergency department services, a \$25 copayment for ambulance services, and a \$10 copayment for outpatient services. To achieve State savings, the State would reduce payments to Family Health Plus plans based on the assumption that the plans will reduce reimbursement rates to hospitals and other providers by the amount of the copayment that the Family Health Plus enrollee would be responsible for under the Executive's proposal. Like the Executive, GNYHA assumes that plans will reduce payments to providers due to the copayments; however, we also believe that while providers would exert good faith collection efforts, as a practical matter, these copayments will translate quickly into uncovered bad debt. As you know, to qualify for Family Health Plus a New Yorker must be poor. An individual with no children can only qualify if his or her annual income is below the Federal poverty level. In other words, they must have income below \$8,982. If an individual has children, he or she must have income below \$13,473. Clearly, individuals with incomes that low have little disposable income with which to make

copayments. Thus, we believe this proposal will translate into a reimbursement rate cut for providers. Particularly with regard to emergency services, where plans already often pay only a triage fee of \$40, the copayment would reduce payments to the unacceptable rate of \$15 for a visit to the ER. **GNYHA, therefore, strongly opposes the copayment requirements for Family Health Plus enrollees.** We are also extremely concerned about the proposal to exclude adult vision and dental services from the Family Health Plus benefits package.

- ***Shift From Medicaid to Child Health Plus:*** The Executive Budget proposal would shift approximately 80,000 children who are enrolled in Medicaid to Child Health Plus (CHP). Specifically, the Executive proposes shifting children aged 6-19 in families with incomes between 100% and 133% of the Federal poverty level from Medicaid to CHP. GNYHA is concerned about this for several reasons. First, we would want to be sure that the shift was seamless, so that children do not lose coverage due to a change in insurance status. Second, teaching hospitals would lose the direct payment of graduate medical education (GME) funds on behalf of the children who are shifted under the proposal, which hospitals currently receive under Medicaid but do not receive under CHP. Thus, teaching hospitals serving these children would receive a payment cut under this proposal. To remedy this, GNYHA proposes either adding a provision to the law that provides for direct payment of GME funds under CHP or rejecting this proposal altogether. In addition, GNYHA would oppose any attempt by the payer community to add a default rate for non-contracted providers to the CHP program, which we believe would provide a disincentive for CHP plans to contract with hospitals in the best interest of their enrollees.
- ***Elimination of Certain Optional Services from the Adult Medicaid Benefits Package:*** The Executive Budget would eliminate certain optional services, e.g., clinical psychology, audiology, and nursing, from the benefits package for Medicaid adults. This provision is intended to affect services provided by private practitioners, not institutional providers. However, we do note our concern that some hospitals have faculty practice plans through which fully salaried physicians provide services in private office settings and whose billing revenue is part of the hospital's overall economy. Because "private practitioner" services would be identified by site-of-service billing codes, these practice plans would be affected. Hospitals with these arrangements would therefore feel the full impact of this cut, which could also affect access to needed services by the adult Medicaid population.
- ***Health Plan Conversions:*** The Executive Budget proposes allowing not-for-profit insurers to convert to publicly traded status, as Empire Blue Cross and Blue Shield did in 2002. As you may know, GNYHA steadfastly opposed the conversion of Empire until Empire agreed to a variety of changes in the way it did business with not-for-profit and public health care providers. In this way, GNYHA was assured that Empire's change from a not-for-profit to a for-profit entity did not unduly harm New York State's long and proud tradition of favoring not-for-profit and public health care over for-profit health care. Before agreeing to support any future conversions, particularly the conversion of the Health Insurance Plan of New York, GNYHA would strongly insist upon similar agreements to ensure the future viability of not-for-profit and public hospitals in a market

place increasingly dominated by for-profit health insurers. GNYHA also strongly believes that any revenue from future conversions should be dedicated to critically important health care programs, including programs that provide health insurance for uninsured New Yorkers.

- **Other Proposals/Concerns:** Other proposals in the Executive Budget that we need to understand better before taking a formal position include the proposal to rebase outpatient mental health payments for facilities that are dually licensed by the Office of Mental Health and the Department of Health. While the proposal would cost providers, according to the Executive Budget calculations, \$400,000 in the next fiscal year, we are very interested in seeing the impact the proposal would have on each mental health provider. We are concerned that there may be large funding shifts from provider to provider.

Below, I will discuss a new proposal by GNYHA and 1199 SEIU, New York's Health and Human Service Union, to dramatically reduce the number of uninsured New Yorkers and make health care more affordable for businesses big and small. In so doing, I will also discuss GNYHA's concerns about the Executive Budget's proposals on Family Health Plus eligibility.

### **The Healthcare Equity and Access Law for New Yorkers**

**New York's health care system is in a state of crisis.** Three million New Yorkers have no health insurance. Millions more are inadequately insured. Over *two million* of uninsured New Yorkers work or are family members of workers in companies that choose to provide no health insurance for their workers and their families. The choice by these companies to deny health insurance leads millions of our State's residents to postpone or forego necessary health care services, often with tragic consequences. But businesses that do not provide coverage impact all of us: the cost of treating uninsured workers destabilizes the financial condition of our health care providers, and dramatically raises costs for socially responsible businesses that do provide coverage, as well as State and local taxpayers who ultimately foot most of the bill.

In addition to the negative impact that the lack of health insurance has on the lives of uninsured New Yorkers and their families, a failure to provide employee health benefits places an **unacceptable financial burden on New York State's entire health care community**. Uninsured New Yorkers are forced to turn to New York's hospital system to obtain their care. Hospital personnel struggle on a daily basis to provide costly health care services for New Yorkers who cannot afford to pay their bills. They do so because the institutions they work for have public and charitable missions, and, in most cases, hospitals go much further than the minimum effort required by law. Study after study has shown that New York's hospitals are in worse financial condition than their counterparts in other states, largely due to inadequate reimbursement. This dire situation has forced many hospitals across the State to downsize and a number have actually closed.

Furthermore, businesses that choose *not* to provide their employees with health care coverage are simply **shifting the cost of that health care onto taxpayers and employers who *do* provide health insurance for their employees**. As you know, hospitals receive partial reimbursement

for the cost of providing health services for the uninsured through a combination of taxes on health care services that are paid by hospitals and other health care providers, the Medicaid system, and private health insurers. Increased Medicaid costs have forced counties and local governments to enact some of the largest property tax increases that we have seen in decades. The opportunity for a small group of businesses to avoid paying for health insurance places an unfair burden on the State budget, distorts the health care market, and inflicts a competitive disadvantage on business owners who do the right thing and provide coverage for their employees.

The Governor and State Legislature have an opportunity to solve many of these problems by enacting the Healthcare Equity & Access Law for New Yorkers, or HEAL New York.

HEAL New York will provide health insurance for thousands of uninsured, working New Yorkers and their families; level the playing field between employers that provide health insurance for their employees and those that do not by cutting taxes for the vast majority of businesses in New York State; lower the cost of health insurance for businesses that currently provide health insurance (including the 70% of small businesses that currently provide such coverage); relieve county governments of the cost of covering low-income uninsured New Yorkers; expand insurance options for low-income adults; stabilize and right-size the State's financially fragile health care system; and improve health care quality.

Here's how.

**Under HEAL New York, all employers would have a choice: either provide health insurance for their employees or pay an annual per employee assessment.** In order to avoid unfairly burdening New York's small businesses, many of which employ predominantly low-wage workers, those businesses with fewer than 25 employees would pay no assessment for employees with incomes below the Federal poverty level (FPL), currently approximately \$9,000 per year. Small businesses would pay the assessment on a sliding scale for employees with incomes between 100% and 300% of the FPL. For all other employees, employers would pay a \$3,000 per employee assessment. Self-employed and solo practitioners would be exempt from the assessment. For ease of administration, the assessment would be paid through the unemployment insurance system. A similar employer contribution concept is contained in legislation introduced by Assemblyman Pete Grannis (A. 9221).

**The HEAL New York assessment would create a powerful incentive for employers to provide health insurance for their employees, dramatically reducing the number of workers and their family members without health insurance.** Our hope is that all employers would choose to provide health insurance *rather* than pay the assessment. However, we do assume that some employers would pay the assessment. While we cannot be certain exactly how much revenue would be raised, we strongly believe that any revenue raised by the assessment should be used to further decrease the number of uninsured New Yorkers and reduce costs for businesses and taxpayers in a variety of ways.

1. HEAL New York would provide a State **tax credit** equal to 20% of employer health insurance premiums for businesses with fewer than 25 employees to help reduce the cost of health

insurance and to encourage employers to continue to provide health insurance coverage. This would help to stem the tide of employers that are discontinuing health insurance for their employees. In New York State, the percentage of non-elderly residents covered by employer-sponsored plans has decreased from 65% to 62% just over the last two years. Similar tax credit legislation has been introduced by Senator James Seward and Assemblyman Joseph Morelle (S.1443/A.1478).

2. HEAL New York would directly **reduce costs for employers** who provide health insurance for their employees. This would be achieved by dedicating a portion of the payments made by employers that do not provide health insurance—revenue from the HEAL NEW YORK assessment—to reducing costs for employers who do provide coverage. Savings for employers would be achieved by **reducing employer taxes** imposed by the State’s Health Care Reform Act (HCRA). Reductions in these taxes would also benefit counties, which contribute to Medicaid’s share of the HCRA taxes.

3. HEAL New York would **relieve financially strapped counties** from the cost of providing health insurance for low-income New Yorkers by requiring the State to assume the local share of the Family Health Plus program. This would save the counties \$195 million next year. The Senate Medicaid Task Force made a similar recommendation in its December 2003 report.

4. HEAL New York would **increase health insurance coverage** by reforming the Family Health Plus program in a number of ways, including expanding income eligibility for childless adults from 100% of the FPL to 150% (approximately \$13,000 per year), so these individuals have the same access to the program that adults with dependents have; allowing employers to buy in to Family Health Plus on behalf of their employees at a reasonable rate; and making Family Health Plus eligibility retroactive to three months prior to the date of application, as is the practice under the State’s Medicaid program. We would hope that revenue from HEAL New York would make the Executive Budget’s Family Health Plus and Medicaid benefits proposals unnecessary.

5. HEAL New York would **ensure that Medicaid beneficiaries do not inappropriately lose coverage or face arbitrary barriers to accessing coverage**. For instance, to reduce inappropriate, involuntary disenrollment of Medicaid managed care beneficiaries, to ensure that Medicaid managed care plans are given the opportunity to properly manage the care of their enrollees, and to cut down on costly emergency room visits, HEAL New York would allow Medicaid beneficiaries to recertify every two years instead of annually. In addition, HEAL New York would align Medicaid eligibility with Family Health Plus and Child Health Plus eligibility by eliminating the resource test for low-income families and children. HEAL New York would also repeal the requirement for a face-to-face interview at application. Medicaid eligibility requirements and administration would be reformed in other ways as well to ensure that people who are eligible for Medicaid actually enroll and stay enrolled, thus reducing the number of uninsured New Yorkers. Assemblyman Richard Gottfried has introduced legislation that incorporates many of these reforms.

We are extremely concerned that the Executive Budget takes the Family Health Plus program in the opposite direction, by placing a number of barriers in the way of families who are seeking Family Health Plus coverage. Specifically, the Executive Budget proposes a new asset test,

would exclude individuals who have had health insurance coverage at any point in the last year, would eliminate facilitated enrollment, and would exclude employees in businesses with greater than 50 employees. While we certainly agree that large employers should cover their employees rather than shifting the cost of insurance onto the State government and State taxpayers, we believe the Executive Budget proposal would result in the loss of coverage for many individuals. We believe that the enactment of HEAL New York would render the Executive Budget's Family Health Plus proposals unnecessary.

6. HEAL New York would **encourage businesses to provide health insurance coverage by reforming the Healthy New York program**. Currently, employers can pass on 50% of the cost of the Healthy New York premium to their employees, which often discourages employees from enrolling in Healthy New York. HEAL New York would reduce the maximum allowable employee share to 20%, and would repeal the option that permits employers to provide a plan that does not include prescription drugs, mental health, or substance abuse coverage. HEAL New York would also reduce employee deductibles and copayments. Revenue from HEAL New York would be used to adjust the stop-loss levels to ensure that Healthy New York would remain as affordable an option for small employers as it is today. Enrollment in this reformed Healthy New York program would qualify as employer-provided coverage for the purposes of HEAL New York.

7. HEAL New York would **stabilize, right-size, and improve New York's financially fragile health care system** by creating the Healthcare Quality Bond Act (HQBA). One of the most pressing issues for New York State's health care system is access to affordable capital. New York State is unique because, under State law, publicly traded health care companies are not able to own hospitals or nursing homes. This policy has many benefits, most notably the creation of a health care provider community that is dedicated to the provision of compassionate care and services rather than the generation of shareholder profits; however, as not-for-profit and public facilities, many financially strapped health care providers have a difficult time raising capital at a reasonable rate. The result is either very high capital costs, which are passed on to businesses and consumers through higher health insurance costs; or the complete lack of investment in physical plant improvements, information technology, and new equipment essential to improving patient care, quality, and efficiency.

If New York State is to remain a leader in providing health services for its citizens, the country, and the world, an investment in health care capital is critically needed. To provide the funds that are immediately needed, HEAL New York would call upon the Legislature to pass the Healthcare Quality Bond Act, which could either be provided through Dormitory Authority bonding or through a referendum placed on the ballot in November 2004. Projects dedicated to **improving patient safety, reducing medical errors, improving access to care, right-sizing and improving the efficiency of the State's health care system** would be funded from the Bond Act proceeds. **Funding for these purposes would come exclusively from the selling of bonds, not from the revenues raised from the HEAL New York assessment.** All of the funding from the assessment would be used for the purposes outlined above, as well as to strengthen New York's health care programs and protect them from funding cuts.

HEAL New York has the potential to provide health insurance for hundreds of thousands of New Yorkers and reduce health insurance costs for businesses, especially small businesses, and county governments. It would also improve and strengthen New York's health care delivery system. GNYHA and its partner, 1199 SEIU, look forward to working with the Governor, State Legislature, and interested groups to secure its enactment.

Thank you for your interest in my testimony. I would be glad to answer any questions you may have at this time.