

Estimating the Impacts of a DRG Hospital Tax

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Overview

- Provider tax offers opportunity to leverage federal funds
- Every \$1.00 collected can be matched with \$1.66 in federal funds
- E.g., \$250M in taxes collected from DRG hospitals will produce the equivalent of \$658M (in total) available for an Oregon Health Plan (OHP) expansion

Some terminology

- Charges: undiscounted, gross charges
 - Rarely paid
- Revenues: actual amount received by hospital, also called “net revenues”
 - Revenues = charges – “contractuals”
- Cost: estimated cost of caring for patients
 - Based on “cost-to-charge” ratio and assumptions about variable vs. fixed cost
- Net Income: Revenues – Cost
 - Analogous to “profit”
 - We only examine “operating” revenues and cost
 - Exclude non-operating revenue (e.g., foundations and investments)

Modeling

- There are many ways to model a hospital tax
- At the request of the Health Fund Board, I have developed one model
- My estimates do not reflect the views or opinions of OHSU
- At the request of the Hospital Association, Health Management Associates (HMA) have developed another
- I have met twice with HMA
- In the interest of transparency and cooperation, I have provided HMA with my model
- Today's estimates should be considered preliminary

Some key differences between HMA model vs. McConnell model

- Data
 - I use Databank data, submitted monthly to the state
 - HMA uses a combination of audited and survey data
- Different approaches to utilization, cost, and revenues
 - I generally estimate larger changes in revenues and cost
 - Change in net income may be similar
- Some initial differences on what we are comparing...

Today:

Small tax
25K OHP Std.
Higher reimbursement rates

Tomorrow (with tax):

Many possibilities
4% tax
100K OHP Std. Adults
60K OHP Kids
20K Commercial Kids
Reimbursement rates higher or lower

Tomorrow (do nothing):

0% tax
0K OHP Std.
Lower (GRB) reimbursement rates



Assumptions: OHP expansion

- 80,000 uninsured children
 - 60K in OHP
 - 20K in commercial insurance
- 100,000 uninsured adults
 - 100K in OHP Standard

Exclusions & Limitations

- I exclude Kaiser from detailed analysis since they do not report charges and contractuals in the Databank data
- Analysis focuses on 24 DRG hospitals and 32 non-DRG (small and rural) hospitals
 - For this presentation, just estimate changes in uncompensated care
- I do not consider changes in Disproportionate Share Hospital (DSH) or related payments

Estimates

1. First I will show you the impact of doing nothing (compared to today)
2. Then I will show you the impact of imposing a 4% tax (compared to today)
3. Then we will compare 1 & 2
 - (Economists would call this the estimated effect of the tax, conditional on the policy choice)
4. Then we will examine the effect of several tax policy scenarios
 - In each case, I compare the policy to doing nothing
 - I.e., 0 adults on OHP Standard, GRB reimbursement rates

What happens if we do nothing? (compared to today)

- Estimated loss to DRG hospitals:
 - \$66M
- Estimated increase in uncompensated care to A& B hospitals:
 - \$1.6M
- Compares “current world”
 - 25K OHP Standard
 - Higher reimbursement rates
- To “world without any tax or expanded coverage”
 - 0 OHP Standard
 - GRB reimbursement rates

What happens if we tax at 4%, expand coverage, and pay GRB reimbursement rates? (compared to today)

- Estimated loss to DRG hospitals:
 - \$236M
 - \$224 in tax
 - \$12 in decreased net income
- Estimated decrease in uncompensated care to A& B hospitals:
 - \$6.4M
 - Compares “current world”
 - 25K OHP Standard
 - Higher reimbursement rates
 - To “world without 4% tax and expanded coverage”
 - 100K OHP Standard Adults
 - 60K OHP Kids
 - 20K Commercial Kids
 - GRB reimbursement rates

Estimating the effect of the tax policy

- Compare 4% tax to “do nothing”
- Impact:
 - Reduces DRG hospitals’ net income by \$170M
 - \$236M with tax, \$66M without tax
 - Decreases A&B hospitals uncompensated care by \$8M
- In other words, compared to doing nothing, DRG hospitals are worse off by \$170M

Now let's compare 6 “scenarios”

1. 4% tax, GRB reimbursement rate
2. 4% tax, reimbursement rate + 18%
 - (close to today's reimbursement)
3. 4% tax, reimbursement rate + 35%
 - (close to 92% of Medicare)
- 3,4, 5 same as 1,2,3, but now assume that some passthrough to commercial payers
 - About 2% increase in commercial rate

Modeling 6 scenarios

Scenario	Loss to DRG hospitals
4% tax, GRB	-\$170M
4% tax, GRB + 18%	-\$96M
4% tax, GRB + 35%	-\$26M
4% tax, GRB, passthrough	-\$127M
4% tax, GRB + 18%, passthrough	-\$53M
4% tax, GRB + 35%, passthrough	+17M

Note: each case is compared to world without tax, GRB rates, and 0 OHP Standard

There are many other models to run

- Changes in reimbursement
- Changes in tax rates
- Effects of pass through to commercial payers
- Etc.
- Most of these can be estimated by my model

Thank you...

...and questions?

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