

# **Attachment F**



STATE OF HAWAII  
**DEPARTMENT OF HUMAN SERVICES**

Med-QUEST Division  
Administration  
P. O. Box 700190  
Kapolei, Hawaii 96709-0190

February 29, 2016

Mr. Eliot Fishman, Ph.D.  
Director  
State Demonstrations Group  
Centers for Medicare and Medicaid Services  
Department of Health and Human Services  
7500 Security Boulevard, Mail Stop: S2-01-16  
Baltimore, Maryland 21244-1850

Dear Director Fishman:

RE: EVALUATION AND ANALYSIS OF THE UNCOMPENSATED CARE POOL

Enclosed is the Hawaii Department of Human Services (DHS) submittal of the section 1115(a) Medicaid demonstration entitled, "Hawaii QUEST Integration" (Project Number 11-W-00001/9), Special Terms and Conditions (STCs) deliverable for item #44, "The Evaluation and Analysis of the Uncompensated Care Pool" report.

The uncompensated care pool evaluation and detailed analysis was performed by Myers & Stauffer LC, a certified public accounting firm and an independent entity qualified to assess the impact and use of the uncompensated care pool payments based on the criteria outlined in the STC item #44 deliverable.

We appreciate your partnership and continued support with the State to provide guidance and technical assistance for the completion of this reporting requirement.

Mr. Eliot Fishman, Ph.D  
February 29, 2016  
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Please contact Ms. Shanti Venkatesan, Finance Officer, at 808-692-7956 or by e-mail at [svenkatesan@dhs.hawaii.gov](mailto:svenkatesan@dhs.hawaii.gov) should there be any questions regarding the "Evaluation and Analysis of the Uncompensated Care Pool" report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Judy Mohr Peterson", with a long horizontal flourish extending to the right.

Judy Mohr Peterson, PhD  
Med-QUEST Division Administrator

Enclosure

- c: Ms. Kristin Dillon, Acting Associate Regional Administrator, Region IX
- Ms. Christy Bonstelle, Acting Technical Director
- Ms. Andrea Casart, Action Director for the Division of Medicaid Expansion Demonstrations
- Ms. Heather Ross, CMS Project Officer

QUEST Integration  
Section 1115(a) Medicaid Demonstration

Special Terms and Conditions #44  
Evaluation of the Uncompensated Care Pool



## **Introduction**

Hawaii's section 1115(a) Medicaid demonstration, Project Number 11-W-00001/0 includes a provision for direct payments to providers through uncompensated care (UCC) pool payments. The State may make payments to governmentally operated hospitals, governmentally operated freestanding and hospital-based nursing facilities, and private hospitals to cover uncompensated care costs (UCC) for hospital and long term care services.

For governmentally operated hospitals, the UCCs include cost of providing hospital inpatient and outpatient services to the uninsured, Medicaid FFS, and Medicaid managed care enrollees reduced by any payments received. UCC does not include any inpatient shortfall for critical access hospitals for which the provider has already received payment up to cost.

For governmentally operated hospital-based and governmentally operated freestanding nursing facilities, the UCCs include cost of providing routine long term care services to Medicaid managed care enrollees reduced by any payments received. UCC does not include cost of providing long term care services to the uninsured. UCC does not include any routine long term care shortfall for critical access hospitals for which the provider has already received payment up to cost.

For private hospitals, UCCs include cost of providing inpatient and outpatient services to uninsured, Medicaid Fee for Service (FFS), and Medicaid managed care (MCO) enrollees reduced by any payments received.

The UCC payments to governmentally operated hospitals will be funded with certified public expenditures. For private hospitals, direct UCC payments may cover UCCs up to the amount of funds made available by the State.

Federal Financial Participation is authorized to pay for hospital and nursing facility uncompensated care cost until June 30, 2016. At this time, Hawaii will not be requesting renewal of the UCC pool payments after June 30, 2016. Instead Hawaii is pursuing enhancement of the capitated rates paid to Medicaid managed care health plans. The rate enhancement shall be used for increasing reimbursement to hospitals to support the availability of services and to ensure access to care to Medicaid managed care health plan enrollees.

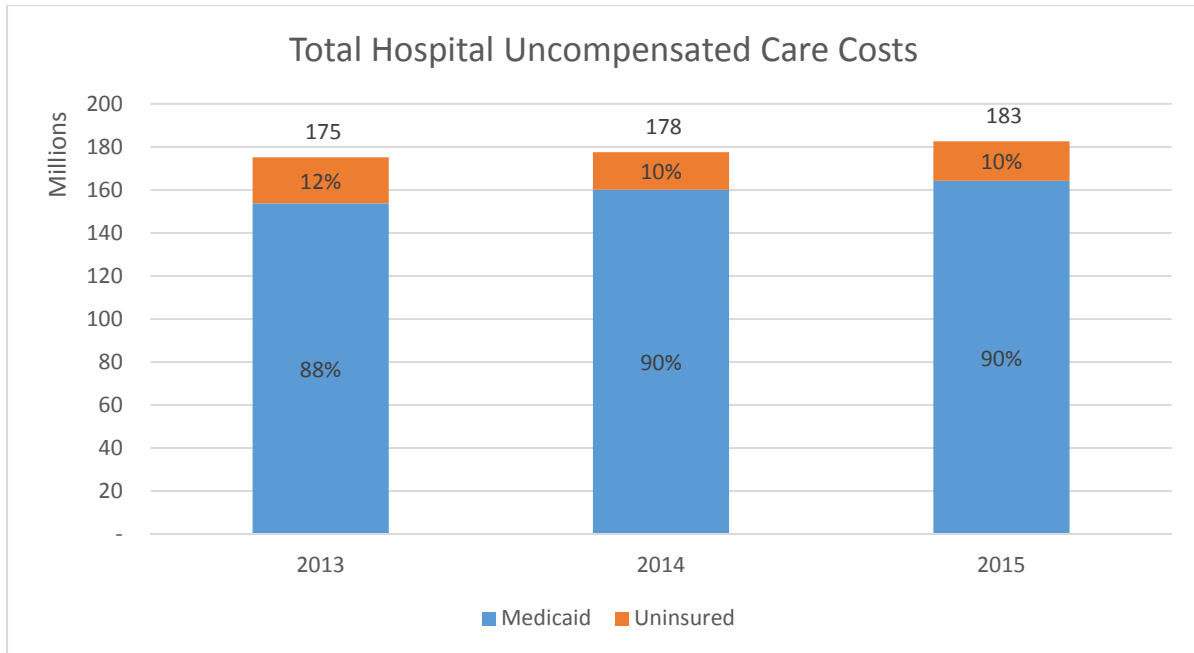
## Overview of Uncompensated Care Cost and UCC Pool Payments for Hospitals

### Hospital Medicaid and Uninsured Uncompensated Care Cost

	2013	2014	2015
<b>Uncompensated Care Cost*</b>			
Uninsured	21,380,450	17,379,237	18,386,261
Medicaid (MCO and FFS)	153,771,485	160,146,021	164,247,835
<b>Total</b>	<b>\$ 175,151,935</b>	<b>\$ 177,525,258</b>	<b>\$ 182,634,096</b>
<b>UCC Pool Payments</b>			
Uninsured	(18,384,581)	(15,583,307)	(15,668,272)
Medicaid (MCO and FFS)	(72,138,800)	(79,306,177)	(79,310,183)
<b>Total</b>	<b>\$ (90,523,381)</b>	<b>\$ (94,889,484)</b>	<b>\$ (94,978,455)</b>
<b>Net Uncompensated Care Cost</b>			
Uninsured	2,995,869	1,795,930	2,717,989
Medicaid (MCO and FFS)	81,632,685	80,839,844	84,937,652
<b>Total</b>	<b>\$ 84,628,554</b>	<b>\$ 82,635,774</b>	<b>\$ 87,655,641</b>

\* Includes estimated data for the period 7/1/2015 - 12/31/2015

Hospital uncompensated care costs continues to rise in Hawaii. Since 2013 there has been a 4% increase in uncompensated care cost for hospitals. Total UCC cost has increased to 183 million in 2015 from 175 million in 2013. Correspondingly there has been a 5% increase in UCC pool payments. Total UCC pool payments have increased to 95 million in 2015 from 91 million in 2013. The majority of the shortfall is attributable to Medicaid underpayments resulting from rates set below the costs of providing care. The graph below shows that in 2015, 90% of the uncompensated care cost is attributable to the Medicaid shortfall. Hawaii has improved coverage to assure beneficiary access to health care and as a result only 10% of uncompensated care costs are attributable to uninsured losses.



In governmentally operated hospitals 87% of UCC pool payments were made to cover cost of providing care to the uninsured. 13% was paid to cover Medicaid shortfalls. For private hospitals, 8% of UCC pool payments covered uninsured losses and 91% covered the Medicaid shortfall. However, both provider types still incurred uncompensated care losses even after UCC pool payments.

UCC Pool Payments Governmentally Operated Hospitals			
Year	Medicaid	Uninsured	Total
2013	921,199	10,213,296	11,134,495
2014	2,753,596	9,137,378	11,890,974
2015	509,793	8,952,922	9,462,715

UCC Pool Payments Privately Operated Hospitals			
Year	Medicaid	Uninsured	Total
2013	71,217,601	8,171,285	79,388,886
2014	76,552,581	6,445,929	82,998,510
2015	78,800,390	6,715,350	85,515,740

## **Overview of Uncompensated Care Cost and UCC Pool Payments for Nursing Facilities**

For the period January 1, 2013 through December 31, 2015, no UCC pool payments were made for uncompensated care losses to governmentally operated nursing facilities.

## **Comparison of UCC Pool Payments beginning January 1, 2013 through December 31, 2015**

Attachment A: UCC Pool Payments by Provider Type

- Governmentally Operated Hospitals
- Governmentally Operated Nursing Facilities
- Privately Operated Hospitals

Attachment B: UCC Pool Payments Attributable to Uninsured and Medicaid

Attachment C: UCC Pool Payments Attributable to FFS and Managed Care by Age Band



## Necessity of UCC Payments for the Uninsured

At 5.3%, Hawaii currently has the third lowest rate of uninsured individuals in the nation. According to the U.S. Census Bureau, the estimated number of uninsured individuals in the state of Hawaii is 72,000 in 2014. This is a decrease from the 2013 estimate of 91,000 uninsured individuals.<sup>1</sup>

Most people in Hawaii have health care coverage through their employment or through Medicare or Medicaid. The state of Hawaii implemented the Affordable Care Act and expanded Medicaid eligibility to more individuals. Hawaii expanded coverage in October 2013 by determining eligibility for Medicaid individuals using new Modified Adjusted Gross Income (MAGI) criteria. Due to Medicaid expansion, Hawaii has seen a decrease in the number of uninsured individuals. As a result, UCC pool payments for uninsured have also decreased.

### **Hospital Uninsured Uncompensated Care Cost**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Uninsured Uncompensated Care Cost*</b>			
Governmentally Operated	10,213,296	9,137,378	9,153,632
Privately Operated	11,167,154	8,241,859	9,232,629
<b>Total</b>	<b>\$ 21,380,450</b>	<b>\$ 17,379,237</b>	<b>\$ 18,386,261</b>
<b>Uninsured UCC Pool Payments</b>			
Governmentally Operated	(10,213,296)	(9,137,378)	(8,952,922)
Privately Operated	(8,171,285)	(6,445,929)	(6,715,350)
<b>Total</b>	<b>\$ (18,384,581)</b>	<b>\$ (15,583,307)</b>	<b>\$ (15,668,272)</b>
<b>Net Uncompensated Care Cost</b>			
Governmentally Operated	-	-	200,710
Privately Operated	2,995,869	1,795,930	2,517,279
<b>Total</b>	<b>\$ 2,995,869</b>	<b>\$ 1,795,930</b>	<b>\$ 2,717,989</b>

\* Includes estimated data for the period 7/1/2015 - 12/31/2015

<sup>1</sup> Smith, Jessica C., and Carla Medalia. "Health Insurance Coverage in the United States: 2014." *Census.gov*. United States Census Bureau, 16 Sept. 2015. Web. 26 Feb. 2016.

**Uncompensated Care Provided to Compact of Free Association (COFA)**

The UCC protocol in Attachment D of the Special Terms and Conditions specifies that government owned hospital uncompensated care cost is adjusted by 1% to remove the cost of providing inpatient and outpatient services to undocumented aliens.

Based on review of current COFA Medicaid Enrollees for 2015, the 1% adjustment is adequate to remove the cost of care provided to COFA.

**Estimate of Uncompensated Care Provided to Compact of Free Association (COFA)**

**COFA Medicaid Enrollees**

COFA Residents served	3,567
Total Medicaid Enrollees	<u>339,302</u>
Estimated Percent of COFA Medicaid Enrollees for 2015	1%

**Estimated Uncompensated Care Cost Attributable to COFA**

Governmentally Operated Hospital	549,409
Privately Operated Hospital	<u>998,078</u>
Total Hospital Uncompensated Care Cost for 2015	\$ 1,547,487

**Conclusion**

In Hawaii, hospital uncompensated care costs are mostly attributable to Medicaid underpayments. Hawaii’s Quest Integration demonstration arranges for health care through capitated managed care plans. To improve payments to hospitals, Hawaii will pursue enhancement of the capitated rates paid to Medicaid managed care health plans. The rate enhancement shall be used for increasing reimbursement to hospitals to support the availability of services and to ensure access to care to Medicaid managed care health plan enrollees.

Contact:

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**Attachment A**  
**Uncompensated Care Costs and Pool Payments by Provider Type**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Total Uncompensated Care Costs *</b>			
Governmentally Operated Hospitals	66,656,405	71,402,149	65,062,404
Governmentally Operated Nursing Facilities	19,683,388	20,683,709	21,860,494
Privately Operated Hospitals	108,495,530	106,123,108	117,571,691
<b>Total</b>	<b>\$ 194,835,323</b>	<b>\$ 198,208,966</b>	<b>\$ 204,494,589</b>
<b>Total Uncompensated Care Pool Payments</b>			
Governmentally Operated Hospitals	(11,134,495)	(11,890,974)	(9,462,715)
Governmentally Operated Nursing Facilities	-	-	-
Privately Operated Hospitals	(79,388,886)	(82,998,510)	(85,515,740)
<b>Total</b>	<b>\$ (90,523,381)</b>	<b>\$ (94,889,484)</b>	<b>\$ (94,978,455)</b>
<b>Net Uncompensated Care Costs</b>			
Governmentally Operated Hospitals	55,521,910	59,511,175	55,599,689
Governmentally Operated Nursing Facilities	19,683,388	20,683,709	21,860,494
Privately Operated Hospitals	29,106,644	23,124,598	32,055,951
<b>Total</b>	<b>\$ 104,311,942</b>	<b>\$ 103,319,482</b>	<b>\$ 109,516,134</b>

\* Includes estimated data for the period 7/1/2015 - 12/31/2015

## Attachment B

### Uncompensated Care Cost and Pool Payments Attributable to Uninsured and Medicaid

#### Governmentally Operated Hospitals

	2013	2014	2015
<b>Uncompensated Care Cost *</b>			
Uninsured Uncompensated Care Cost	10,213,296	9,137,378	9,153,632
Medicaid Uncompensated Care Cost	56,443,109	62,264,771	55,908,772
<b>Total</b>	<u>\$ 66,656,405</u>	<u>\$ 71,402,149</u>	<u>\$ 65,062,404</u>
<b>UCC Pool Payments</b>			
Uninsured Pool Payments	(10,213,296)	(9,137,378)	(8,952,922)
Medicaid Pool Payments	(921,199)	(2,753,596)	(509,793)
<b>Total</b>	<u>\$ (11,134,495)</u>	<u>\$ (11,890,974)</u>	<u>\$ (9,462,715)</u>
<b>Net Uncompensated Care Cost</b>			
Net Uninsured Uncompensated Care Cost	-	-	200,710
Net Medicaid Uncompensated Care Cost	55,521,910	59,511,175	55,398,979
<b>Total</b>	<u>\$ 55,521,910</u>	<u>\$ 59,511,175</u>	<u>\$ 55,599,689</u>

**Attachment B**

**Uncompensated Care Cost and Pool Payments Attributable to Uninsured and Medicaid**

**Governmentally Operated Nursing Facilities**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Uncompensated Care Cost *</b>			
Uninsured Uncompensated Care Cost	793,356	1,024,793	1,369,724
Medicaid Uncompensated Care Cost	18,890,032	19,658,916	20,490,770
<b>Total</b>	<b>\$ 19,683,388</b>	<b>\$ 20,683,709</b>	<b>\$ 21,860,494</b>
<b>UCC Pool Payments</b>			
Uninsured Pool Payments	-	-	-
Medicaid Pool Payments	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Uncompensated Care Cost</b>			
Net Uninsured Uncompensated Care Cost	793,356	1,024,793	1,369,724
Net Medicaid Uncompensated Care Cost	18,890,032	19,658,916	20,490,770
<b>Total</b>	<b>\$ 19,683,388</b>	<b>\$ 20,683,709</b>	<b>\$ 21,860,494</b>

**Attachment B**  
**Uncompensated Care Cost and Pool Payments Attributable to Uninsured and Medicaid**

**Privately Operated Hospitals**

	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Uncompensated Care Cost *</b>			
Uninsured Uncompensated Care Cost	11,167,154	8,241,859	9,232,629
Medicaid Uncompensated Care Cost	97,328,376	97,881,250	108,339,063
<b>Total</b>	<u>\$ 108,495,530</u>	<u>\$ 106,123,109</u>	<u>\$ 117,571,692</u>
<b>UCC Pool Payments</b>			
Uninsured Pool Payments	(8,171,285)	(6,445,929)	(6,715,350)
Medicaid Pool Payments	(71,217,601)	(76,552,581)	(78,800,390)
<b>Total</b>	<u>\$ (79,388,886)</u>	<u>\$ (82,998,510)</u>	<u>\$ (85,515,740)</u>
<b>Net Uncompensated Care Cost</b>			
Net Uninsured Uncompensated Care Cost	2,995,869	1,795,930	2,517,279
Net Medicaid Uncompensated Care Cost	26,110,775	21,328,669	29,538,673
<b>Total</b>	<u>\$ 29,106,644</u>	<u>\$ 23,124,599</u>	<u>\$ 32,055,952</u>

\* Includes estimated data for the period 7/1/2015 - 12/31/2015

**Attachment C**  
**Medicaid Hospital**  
**Uncompensated Care Pool Payments by Age-Band**

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<b>Medicaid Governmentally Operated Hospital Payments by Age-Band</b>			
	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>&lt;1 Age Band</b>			
Managed Care	16,317	64,557	-
Fee-for-Service	-	49	-
<b>1-18 Age Band</b>			
Managed Care	38,543	188,359	-
Fee-for-Service	11,287	11,824	-
<b>19-64 Age Band</b>			
Managed Care	342,816	1,862,936	-
Fee-for-Service	377,818	483,880	463,235
<b>65+ Age Band</b>			
Managed Care	9,964	70,614	-
Fee-for-Service	124,453	71,377	46,558
<b>Total</b>	<b>921,199</b>	<b>2,753,596</b>	<b>509,793</b>

<b>Medicaid Privately Operated Hospital Payments by Age-Band</b>			
	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>&lt;1 Age Band</b>			
Managed Care	-	-	-
Fee-for-Service	860,422	757,141	520,427
<b>1-18 Age Band</b>			
Managed Care	7,600,467	5,467,253	7,824,047
Fee-for-Service	85,093	327,561	290,797
<b>19-64 Age Band</b>			
Managed Care	55,178,689	62,389,665	61,140,247
Fee-for-Service	4,102,770	3,182,340	4,962,027
<b>65+ Age Band</b>			
Managed Care	2,875,821	3,932,925	3,898,190
Fee-for-Service	514,339	495,696	164,655
<b>Total</b>	<b>71,217,601</b>	<b>76,552,581</b>	<b>78,800,390</b>