



**TESTIMONY OF
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BEFORE THE
LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE
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Funding Hospital Care in Connecticut

My name is Stephen Frayne and I am the Senior Vice President, Health Policy of the Connecticut Hospital Association (CHA). I appreciate the opportunity to testify on behalf of CHA and its members on the Committee's study, *Funding Hospital Care in Connecticut*.

First, let me applaud you on all the work done to date. The focus of the Committee's study—examining the mix of revenue sources hospitals rely on to fund services, and how government payments impact the financial viability of Connecticut hospitals—comes at a critical juncture in the evolution of Connecticut's hospitals. Now is the time to not only better understand the financial fragility of this State's hospitals, but to do something about it—before it is too late.

As we talk about hospital financing, I'd like us all to first remember that hospitals are more than facts and figures and dollars and cents—hospitals, at their core, are really people taking care of people. Each year, the 45,000 people employed in Connecticut's hospitals care for more than 400,000 people admitted to their facilities, treat nearly 1.4 million people in their emergency rooms, and welcome more than 43,000 babies into the world. We provide care to all people regardless of their ability to pay—we serve more than 381,000 people in the State who don't have health insurance and nearly one million people enrolled in under-funded state and federal programs. And, we do this 24 hours a day, seven days a week, 365 days a year.

Often when we talk about hospitals, we picture in our minds a building. But, Connecticut hospitals are not merely buildings—they are an integral part of the fabric of Connecticut communities and key contributors to our overall quality of life—just like strong schools, safe streets, and job growth. Our hospitals not only care for their patients, they are committed to the community beyond their four walls—dedicated caregivers are out in the community helping to keep our families, friends, and neighbors healthy where they live, work, and play. Whether it's bringing mobile mammography to uninsured women, offering parenting classes for young, new families, or providing dental care to our most vulnerable citizens, hospitals are working to keep community members healthy and well.

Hospitals also play a significant role in the economy of both local communities and the State as a whole. In fact, hospitals and health systems generate nearly **\$10 billion** per year for the state and local economies—about 5.3% of the Gross State Product.

While hospitals contribute greatly to the quality of life and health of residents of the Nutmeg State, there are troubling signs that our hospitals themselves are facing deteriorating health. As noted in the Committee's report,

- There are fewer hospital beds in Connecticut than would be expected;
- Hospitals in Connecticut are not as financially healthy as hospitals in the rest of the country;
- Hospitals in Connecticut have older physical plants and do not have adequate cash resources and are not able to borrow the capital necessary to upgrade those facilities.
- Connecticut's Medicaid payments to hospitals are substantially below those paid by both non-government payors and Medicare.
- Medicaid underpayments account for a high percentage of the total cost for uncompensated care.

Today's problems can easily become tomorrow's crisis, particularly when you consider the needs of an expanding elderly population in Connecticut. According to the U.S. Census Bureau, Connecticut is one of the top 10 oldest states in the country. By the year 2030, it is projected that there will be a 69% increase in those over 65 in Connecticut and a 7% decrease in the population aged 18 to 50. This shift in demographics has serious implications for hospitals and the residents of Connecticut:

- As people age they require more hospital care—this will challenge a system that can't absorb the need.
- The need for essential hospital caregivers will rise; it is projected that by 2020 Connecticut will have the second worst nurse vacancy rate in the country—second only to Alaska.
- Connecticut's older physical plants—and the lack of necessary capital and cash reserves to upgrade these aged structures—will impede both the implementation of new and life-saving technologies and the safety and quality of care for Connecticut residents.

Changing demographics and an inability to invest in the future are a recipe for disaster.

I'm going to address the remainder of my remarks around four basic questions:

- Big picture, how are hospitals doing?
- Who pays for the cost of care?
- Who pays for Medicaid, SAGA, and the uninsured today?
- What should be done about funding?

Big picture, how are hospitals doing?

Currently, it costs \$6.3 billion annually to provide all the hospital care that is needed in Connecticut. As can be seen, the total sum of payments for care received—about \$6 billion—is not enough to cover the care given; even after \$94 million in DSH funds, it falls short by \$141 million annually. It's disquieting that hospitals' reason for being—caring for patients—does not generate enough funds to pay for the care for those who need it. Hospitals end up covering that loss through other operating revenue and investment returns.

FY 2005 All Payor Income Statement

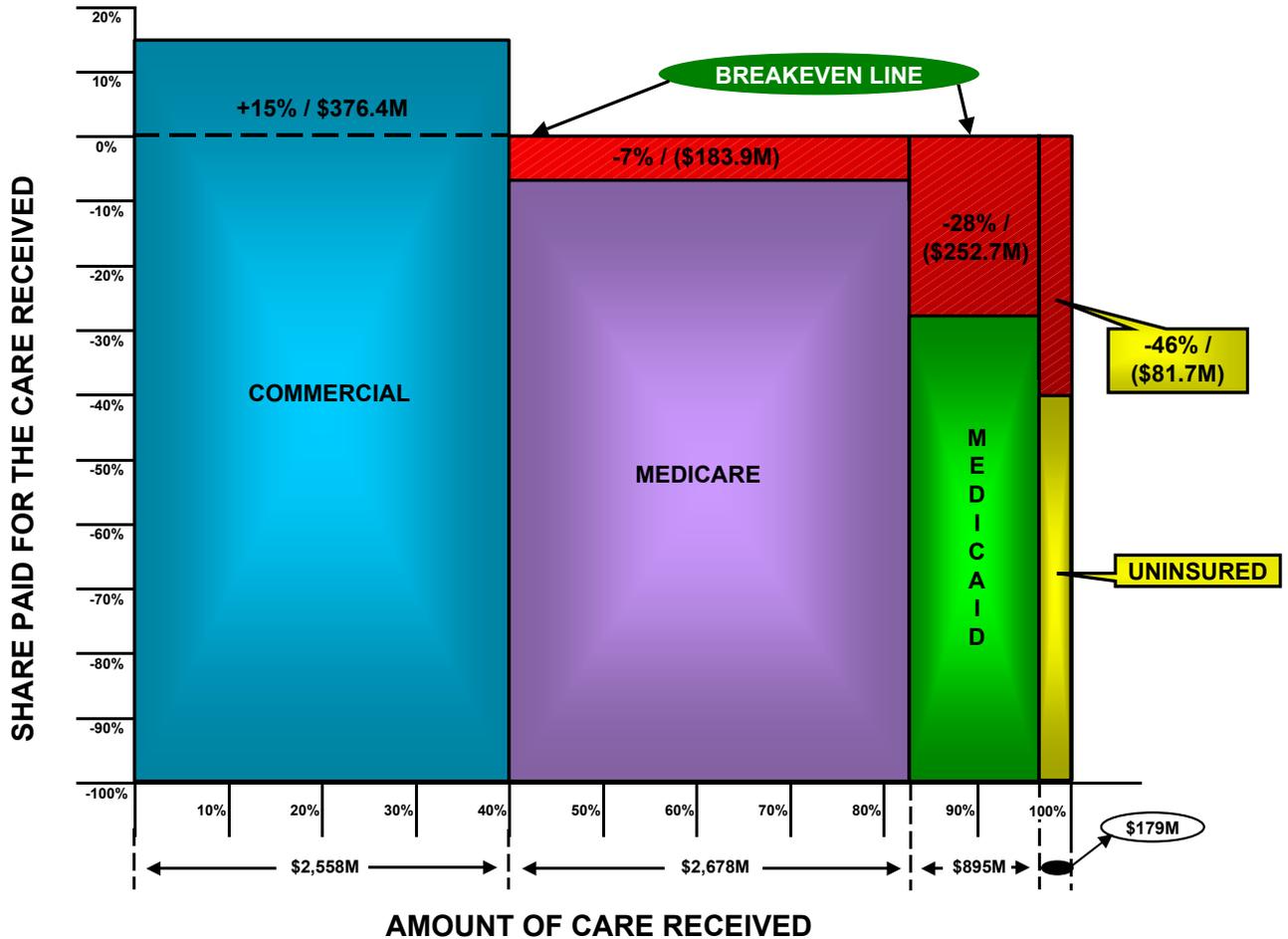
Operating Cost for Patient Care		6,309,801,502
Payments by Payor:		
	Medicare	2,494,747,093
	Commercial	2,934,085,086
	Medicaid	573,704,005
	Uninsured	71,353,086
Total Payor Payments		6,073,889,270
DSH Funding		94,025,002
Gain/(Loss) from Patient Care		(141,887,230)

So, you may ask, “What’s the problem – if you are able to cover the loss?” The basic problem is that the constant gap between current cost and payment is impairing the ability of Connecticut hospitals to meet today’s obligations **and** prepare for tomorrow. In essence, hospitals are borrowing from the future to cover today’s expenses.

Who pays for the cost of care?

The way hospital financing system currently works, hospitals use gains they earn on the privately insured to help pay for the losses incurred by serving the uninsured and those enrolled in government sponsored programs. In fact, the commercial/private funding for hospital care pays 15% more than what it costs to provide care, while Medicare pays 7% LESS and Medicaid pays 28% LESS than what it costs. Even with the 15% more that those with private insurance pay, it’s not enough for hospitals to make ends meet—hospitals have to contribute an additional \$141 million each year to cover the cost of care.

FY 2005 - WHO PAYS FOR THE COST OF CARE



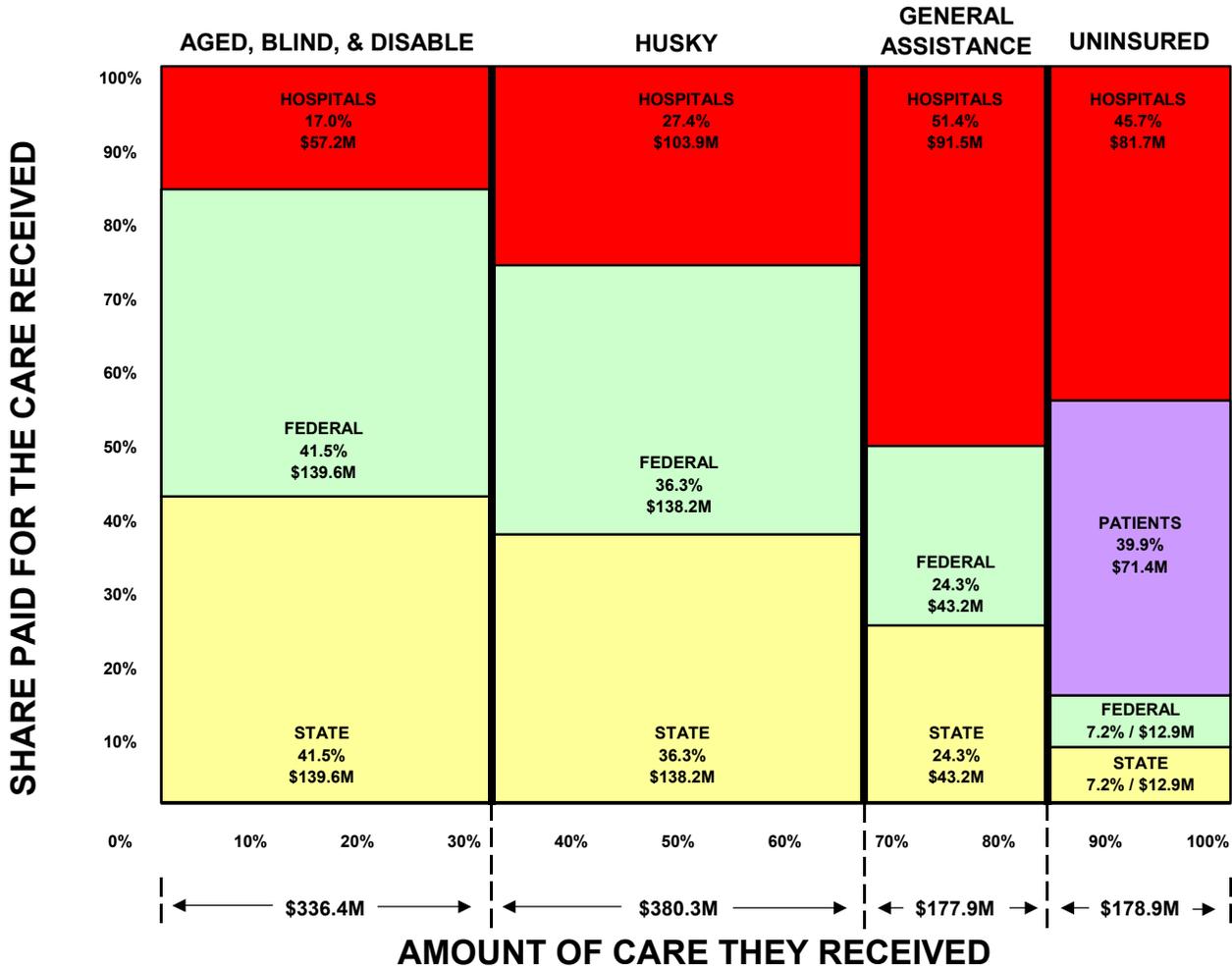
State DSH and UCP funds included.

The care provided to over 1.3 million Connecticut residents who are covered by Medicare and Medicaid or who are uninsured generates \$518 million dollars in annual hospital losses.

Medicaid and those who are uninsured—that's 23% of the state's population—account for \$334 of the \$518 million per year. Perhaps most sad about this fact is that a substantial portion of that loss is eligible to be recovered from the federal government.

If you think about it, even briefly, you would understand our apprehension about the future. Consider one factor alone: if Connecticut Medicare enrollment grows as experts predict - the losses, in current dollars, would balloon to \$327 million from \$194 million annually.

WHO PAYS FOR THE COST OF CARE FOR THE UNINSURED AND INDIVIDUALS ELIGIBLE FOR STATE ASSISTANCE



Who pays for Medicaid, SAGA, and the uninsured today?

There are those who argue that because hospitals are tax-exempt, it is fair to expect hospitals to contribute and help fund care for the uninsured and other beneficiaries of State programs. Consider the following:

Today, hospitals contribute:

- For the Aged, Blind and Disabled, 40 cents for every state dollar.
- For HUSKY, 74 cents for every state dollar.
- For SAGA, 2 dollars for every state dollar.
- For the uninsured, 11 dollars for every state dollar.

What should be done about hospital funding?

Decades of State cuts, freezes, and repeals of promised funding have put us in this mess. Leadership and commitment is required to get us out of it.

Hospitals need you to decide that investing in their ability to care for you is a priority.

Hospitals need you to decide to shoulder a greater share of the cost of the benefits promised Medicaid/SAGA beneficiaries.

While we have a way to go to get to where we should be, it is critical that we do not do anything in the biennium budget to make the hole we are trying to climb out of even deeper. At a minimum, the biennium should contain a 5% per annum increase in hospital funding. Such an amount will not eliminate the losses but will go a long way to making sure they don't get worse, that we don't just tread water, but instead make the current situation a little better.

Thank you for your consideration. I am happy to answer any of your questions.

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