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To: Representative Robert VerHeulen, Chairman
House Appropriations Subcommittee on Community Health
Members, House Appropriations Subcommittee on Community Health

From: Ginger Williams, MD, FACEP, FACHE
Oaklawn Hospital President and CEO |

Date: March 2, 2015

Re: Fiscal Year 2016 Community Health Budget – Small and Rural Hospital Access Pool and Obstetrical Stabilization Pool

Thank you for the opportunity to speak to you today on the critical issue of funding healthcare for the underinsured. Specifically I want to address the Small and Rural Hospital Medicaid pool and the OB Access pool.

Let me tell you a little about Oaklawn Hospital.

We are a 94-bed independent community hospital located about 40 miles south of here. We were recognized by Consumer Reports in their February edition this year as being the safest hospital *in the country*. In 2014 we were redesignated by the Magnet program (one of only a few hundred hospitals in the country to receive this prestigious quality designation). We are one of the very few US hospitals that is ISO 9001 certified.

Also during calendar year 2014 we made massive changes to our operations in order to try to survive under the constantly growing governmental mandates for reporting and infrastructure, and the constantly declining reimbursement from the government and private payors.

About 50 Oaklawn employees had their jobs eliminated last year; we reduced by about 70 full time equivalents.

And the Healthy Michigan Plan resulted in a \$3 million **reduction** to our revenue (which I'll get to in a minute) from what is currently an operating margin of **only 1%** in the first place ... a margin that is not considered high enough for a business to be sustainable in the long run.

I tell you about some of our successes and our quality because I want you to understand that we are not simply whiners looking for a handout. We are very good at what we do. We, as Oaklawn and as community hospitals in general, are a critical access point for hundreds of thousands of Michigan's citizens. Community hospitals provide a structural cost advantage over larger hospitals by a significant percent.

We are a good bargain and often the largest employer in our community. We are a resource that you don't want to lose. And we are at increasing danger of being lost because of actions like the elimination of the Small and Rural Hospital funding pool and the OB Access pool.

There is also a misconception that Medicaid is a reasonably good payer and that the funding pools make us whole, or better. That is also incorrect.

Including the money we get from the Medicaid pools Medicaid reimburses us on average about 97% of what it actually costs to provide care. Without those pools we are reimbursed, on average, about 56% of the actual cost of providing care.

Representative Robert VerHeulen

March 2, 2015

Page 2

Funding this Medicaid payment hole from increasing the provider tax or the HICA tax is NOT the answer for at least 2 reasons.

First, a third of Michigan hospitals get back less than they pay in the provider tax already ... and most of us are struggling to get to a sustainable operating margin. Taking from one set of providers to give to another set of providers, rather than the State taking care of its most vulnerable citizens by supporting those who provide their care, is an abdication of responsibility.

Second, regarding the HICA tax, since the State has accepted responsibility for ensuring healthcare availability for its citizens the State should not foist the payment of that obligation on just a select group of individuals or businesses; this is a societal responsibility and should be funded accordingly. Also, the increase in the HICA tax is far from a given, and will likely face stiff opposition.

Let me touch for a minute on the misconception that the Healthy Michigan Plan has resulted in a windfall for hospitals.

Unfortunately, the Healthy Michigan Plan appears to have cost Oaklawn Hospital \$3 million of lost bottom line revenue so far in our current fiscal year, which ends March 31.

I know that isn't what you've been told, but it IS what we have experienced. I'd like to explain why this is true for us and for a number of other hospitals.

We ended our last fiscal year with 3.4% self-pay patients and 13.4% Medicaid. We are currently running 1.8% self-pay (a decrease of 1.6% points) and 17.3% Medicaid (an increase of 3.9% points).

Less than half of our increase in Medicaid came from the self-pay group; **more than half came from those who used to have commercial insurance.**

Here's what that means to a hospital.

- Each percentage point moving from self-pay to Medicaid benefits us financially by about \$300,000.
- Each percentage point moving from commercial insurance to Medicaid hurts us by about \$1.1 million.

The loss from commercial insurance far exceeds the gain from improvement in bad debt. The more Medicaid patients we see, the faster we lose money. Healthy Michigan appears to have made that worse because we now have fewer commercially-insured patients to cross-subsidize the losses we sustain from Medicaid, **so we need the Small and Rural Hospital pool and the OB Access pool now more than ever.**

I urge you to **reject** the misinformation that Healthy Michigan has been a windfall for hospitals. I urge you to **reject** a budget that eliminates the Small and Rural Hospital pool and the OB Access pool. I strongly urge you to **reinstate** these pools at, at least, the same amount of general fund dollars that were allocated to them before they were gutted mid-year this year by Executive Order.

Thank you for your time and consideration. Please don't hesitate to contact me if you have any questions.

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