

# **Questions and Answers about the Budget and Medicaid Cuts**

**May 11, 2011**

## **How are new Medicaid reimbursement cuts of 3 percent impacting hospitals in the state? Do you expect more cuts in the future and how much?**

It is still too early to tell how the 3 percent cut is impacting hospitals, but several hospitals have instituted hiring freezes and are beginning to evaluate community services that may have to be reduced to absorb future cuts. It is anticipated that hospitals will see an additional 7% to 8% cut beginning July 1, 2011. We are still unclear exactly how much the Medicaid agency is looking to take out of hospital rates, but hospital services comprise approximately one-third of the Medicaid budget and the agency is committed to reducing rates by \$125 million next fiscal year. If you assume that some providers will be held harmless from the full cut due to the "access to service" requirement, hospitals could very well feel the largest impact of the total cuts.

## **Has the move to put all Medicaid beneficiaries into managed Medicaid helped to save the state money?**

There is much dispute over this question. A study required by the legislature reported that the managed care program was costing the state significantly more than both the fee-for-service and medical home network forms of coordinated care. The Medicaid agency took exception to the report and had another one commissioned that refuted some of these findings but left significant factors out of their calculations. The new director has commissioned a third study that has not been published. But intuitively one would have to assume that, although coordinated care is effective, the managed care programs have cost the state significant dollars. The MCO's receive a 13% administrative fee for their work and according to one company's own literature their overhead rate is just over 7%. The Medicaid agency has traditionally administered the fee-for-service program at around 3%.

## **Is the cigarette tax that passed last year helping to fund Medicaid at all?**

Approximately \$150 million in cigarette tax revenue will go into the Medicaid budget for SFY 2012. This includes all of the current year's collection and around a third of next fiscal year's collections. The balance of next year's revenue will be held in reserve for the agency to use in case the proposed rate cuts impact "access to service".

## **Other than the budget and Medicaid funding, are there any other important bills or legislation that the SCHA is following this session or lobbying to pass?**

South Carolina has one of the weakest peer review protection statutes in the country. Due to recent court decisions that have opened root cause analysis to discovery, SCHA has worked diligently over the past several months to rewrite the peer review statute. Recent meetings with the trial bar have been promising and we hope to have a new medical peer review statute passed in the 2012 legislative year.