



## **The Chronic Underfunding of Government-Sponsored Programs – Medi-Cal and Medicare**

### **An Issue Summary**

While California's community hospitals put the needs of their patients first, our state's 430 hospitals and health systems are shouldering a great financial burden of the government's responsibility to provide care for some of our most vulnerable patients — seniors, the disabled, children and the underinsured. In fact, California hospitals provide more than \$12 billion of uncompensated care every year, primarily due to the serious underfunding of the state's Medi-Cal and the federal government's Medicare programs.

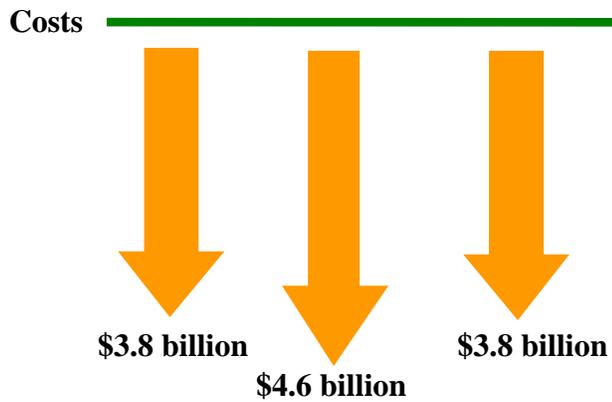
#### **The Issue**

##### *Medi-Cal*

Medi-Cal, California's Medicaid program, is the main source of health care insurance for 6.7 million people. The program serves our state's most vulnerable citizens - children, their parents, seniors and non-elderly adults with disabilities. It is the single largest source of health insurance coverage in the state, yet the Medi-Cal program currently has the lowest spending rate in the nation — \$2,740 annually per enrollee in California. This is compared to the U.S. average of \$4,575 annually per enrollee. As a result, California's community hospitals incur more than \$4.6 billion in uncompensated care to Medi-Cal patients annually.

California hospitals provide for nearly 10 million emergency and outpatient visits to Medi-Cal patients each year, and are providing 6.7 million days of inpatient care to Medi-Cal beneficiaries. Millions of the state's most vulnerable people rely on California hospitals. For every 1 percent increase in unemployment, state revenues decline and estimated 3 percent to 4 percent, making it even more difficult to pay for the Medi-Cal program. As a result, the state is shifting this cost to patients, hospitals and other providers. Underfunding and Medi-Cal payment shortfalls to hospitals will force more cutbacks in hospital services to all Californians.

**Uncompensated Costs of Providing Care**  
**Medicare Medi-Cal Charity/Other**



**Total uncompensated cost of care in 2009:  
\$12.2 billion**

*Medicare*

Medicare is a federal program that provides health insurance coverage to Americans age 65 years and older and for those with certain disabilities. Medicare payments to California hospitals and other providers have fallen far below the rising cost of care. Reimbursement rates have stripped many hospitals from their ability to operate in the black. As a result, California hospitals are experiencing a \$3.8 billion shortfall because of low Medicare payments.

Throughout the past decade, Medicare's inpatient payment rates have increased a total of 31.2 percent, while inflationary price increases for the goods and services that hospitals must purchase in order to provide care have increased almost twice as much, by 54.6 percent. Hospitals' inability to receive payments for services that meet their costs has led to negative Medicare margins.

The impact on California hospitals has been enormous. Over the past 11 years, the cumulative shortfall is in excess of \$12.8 billion, and is growing at an estimated rate of more than \$1.5 billion every year. This comes as a time when more than 40 percent of California hospitals are already operating in the red, mostly due to government underpayments.

**Policy Recommendation**

Despite the crucial roles Medi-Cal and Medicare play in California's health care system, these programs face significant challenges. Chief among these is the continuing rise of health care costs. Medi-Cal's woefully low payments to hospitals and other providers are putting hospitals at further financial risk. The California Hospital Association supports adequate inpatient and outpatient Medi-Cal payments to hospitals, disproportionate-share hospital funding and payments, Medi-Cal managed care payments, and funding levels and governmental payments for indigent health care.