

For Immediate Release

Citizens Budget Commission Report Finds New York City Health + Hospitals Recovered Only 54 Percent of Associated Patient Care Costs from Insurers— Compared to 85 Percent for Safety Net Hospitals

Majority of H+H Deficit was Due to Low Revenue for Care to Medicaid Patients, not Uncompensated Care for the Uninsured

Managing H+H to Achieve Safety Net Hospitals' Fiscal Results Could Reduce the H+H Deficit by up to \$1.8 Billion Annually, Reducing the Amount of City Subsidy Needed

New York, NY – December 16, 2019 – The Citizens Budget Commission (CBC) today released [“A New Approach to Funding New York City Health + Hospitals.”](#) The report recommends a benchmarking approach to bring costs and revenues in line with other “safety net” hospital systems in order to reduce the large annual City subsidy needed to operate New York City Health + Hospitals (H+H). The report also recommends changes to State policies to better support H+H.

H+H operates with a financial deficit that has required growing and sometimes unpredictable subsidies. The deficit is due largely to reimbursement from Medicaid, Medicare, and commercial insurance. H+H recovers a smaller share of the associated cost than both large hospital networks and “safety net” institutions. The discrepancy is largest on commercial insurance: H+H recovered an average of 42 percent from commercial insurance compared to 90 percent for safety net institutions and 167 percent for large networks between 2015 and 2017. These rates allow large hospital networks to subsidize care for patients who are uninsured and covered by Medicaid, and allow some to generate sizable surpluses.

While H+H provides care for a significant portion of the city’s uninsured individuals, 56 percent of its deficit is due to care provided to Medicaid patients. H+H recovers only 54 percent of its costs for Medicaid enrollees, compared to 81 percent for safety net hospitals and 77 percent for large networks. Furthermore, while H+H provides a significant portion of inpatient care to the City’s uninsured and Medicaid population, 61 percent of its deficit is due to outpatient services.

“H+H is on the right track; it is starting to increase revenue recovery and control spending. But it should be able to do more, like its counterparts,” said Andrew Rein, President of the Citizens Budget Commission. “Its subsidy should not be set based on whatever results happen to be achieved. Benchmarking H+H to safety net hospitals sets the right bar to improve financial performance and stabilize and reduce the need for City subsidy.”

In order to reduce the H+H deficit, CBC recommends the following:

- I. *Develop a new approach to financial planning and budgeting.* H+H leadership should set multiyear goals for increasing efficiency by setting targets for reduced unit costs (for

example, lower cost per visit and per discharge) and for added revenue based on benchmarks from safety net institutions. An alternative approach would benchmark H+H hospitals among the highest performing H+H facilities.

- II. *Progress toward the benchmarks should be publicly monitored and H+H leadership held accountable.* Central and facility managers should have compensation incentives to meet targets and, absent mitigating circumstances, be held accountable if they do not.
- III. *Redistribute more broadly the surplus from commercial insurance payments.* Current policy allows these revenues to underwrite Medicaid losses at hospitals with sufficient bargaining leverage to negotiate favorable rates and a large commercially insured population, but it does not provide substantial benefits to the safety net and H+H hospitals with little leverage and relatively few commercially insured patients. Mechanisms should be developed to extend this cross-subsidy from commercial insurance across institutions, not just within institutions.
- IV. *Better target the \$5 billion in Medicaid supplemental payments to H+H and other safety net institutions.* The State should redesign its Medicaid supplemental payment programs, which are not well targeted to the institutions doing the most for Medicaid and uninsured patients. While the bulk of the funds go to appropriate institutions, the allocation formulas used also direct significant funds to well-financed hospitals with relatively small volumes of indigent care losses. The pattern is evident in the report's data. These supplemental payments are "below the line" or non-operating revenue that helps offset operating deficits (or add to an operating surplus). In the three-year period examined, the supplemental payments on average covered 75 percent of H+H's operating deficit, exceeded the operating deficit of the safety net hospitals, and increased the large networks' operating surplus by 13 percent. More appropriate distribution of these funds could reduce the need for a City subsidy to H+H and could free some currently poorly targeted allocations to fund more reasonable Medicaid service payment rates.

"A New Approach to Funding New York City Health + Hospitals" is available at <https://cbcny.org/research/new-approach-funding-new-york-city-health-hospitalswww.cbcny.org>.

About Citizens Budget Commission

The Citizens Budget Commission (CBC) is a nonpartisan, nonprofit civic organization whose mission is to achieve constructive change in the finances and services of New York City and New York State government. CBC's mission is rooted in serving the citizenry at large, rather than narrow special interests; preserving public resources, whether financial or human; and focusing on the well-being of future New Yorkers, the most underrepresented group in city and state government.

###