City’s Public Hospitals Continue to Face Fiscal Struggles

The Mayor’s Preliminary Budget projects that the Health and Hospitals Corporation’s (HHC) expenses will continue to outstrip revenues in fiscal years 2014 through 2018, leading to growing operating deficits and dwindling cash reserves. The reasons for this ongoing trend have been well-documented in previous IBO publications and include repeated state and federal reimbursement cuts, decreased use of HHC facilities, a patient base weighted heavily towards Medicaid enrollees and the uninsured, and stubbornly high labor costs. In addition, two other issues are expected to factor into HHC’s fiscal outlook in 2015 and beyond: new Medicaid waiver funding and a significant expansion in MetroPlus enrollment. The impact of the former is somewhat uncertain at this stage and is discussed in more depth in Medicaid Waiver Funds May Not Be a Great Deal for the City. The latter, however, is an unambiguously positive development for HHC and its bottom line.

A Growing Operating Deficit. HHC expects operating revenues to decrease by about 3 percent by 2018, while operating expenses are on pace to increase by 11 percent. Adding in interest income and expense, which the corporation does not include when reporting operating revenue and costs, HHC projects an operating loss of $640 million in 2014 increasing to $1.8 billion in 2018. The corporation is only able to end each year with a positive cash balance by drawing down cash reserves from prior years and counting on a growing number of uncertain and unspecified “corrective actions” to provide relief.

MetroPlus. A wholly owned subsidiary corporation of HHC, MetroPlus is a managed care organization that was created in the 1980s, in part to increase the number of insured patients using HHC facilities. Until recently, MetroPlus only offered health insurance plans for HHC employees and for enrollees in government-sponsored insurance such as Medicaid and Medicare. This fall, however, MetroPlus entered the commercial market for the first time, rolling out a number of Qualified Health Plans (QHPs) and one Small Business Health Options Program (SHOP) plan available through NY State of Health, the Affordable Care Act health insurance marketplace for New York. MetroPlus also began listing their Medicaid and Child Health Plus plans on this site. NY State of Health launched in October 2013 with the first enrollees gaining coverage on January 1, 2014.

The results for MetroPlus and HHC have been very positive thus far. As of March 3, MetroPlus had enrolled just over 39,800 people into its various marketplace plans, including 27,700 applicants into QHPs (more than 70 percent of whom have already paid their premiums), 11,700 into Medicaid and Child Health Plus plans, and 400 into its SHOP plan. The 39,800 enrollees represent approximately 25 percent of total marketplace enrollment in New York.
City and 8 percent of enrollment statewide. This level of success is likely due in large part to the fact that MetroPlus is offering the lowest cost premium option of any insurer at 3 out of the 5 coverage levels available in the individual market. MetroPlus also seems to be doing a good job attracting young people, generally the healthiest—and thus from the insurer’s perspective, most desirable—group of enrollees. Specifically, about 49 percent of MetroPlus’s total enrollment through NY State of Health is under age 35. In comparison, young adults age 18 to 34 made up only 27 percent of total state and federal marketplace enrollment between October 1, 2013 and March 1, 2014.

On the other hand, enrollment in existing MetroPlus plans has fallen over the course of the past year, partly due to the phase out of Family Health Plus and a large number of MetroPlus members losing their Medicaid eligibility due to family income changes. Still, its net enrollment increase between December and February—reflecting the roll-out of the Affordable Care Act—was about 10,700 individuals, or 3 percent over 2013 actual revenue. If MetroPlus enrollment growth surpasses HHC projections, it could help fill in some of the corporation’s sizable budget gaps. If enrollment growth falls short, however, it will increase the size of these gaps.

Second, more MetroPlus members should translate into more HHC patients, especially as the MetroPlus plans’ network only includes a few private hospitals in addition to HHC’s 11 acute care hospitals. This is especially important to HHC as use of its inpatient facilities has been declining for several years. Excluding Bellevue and Coney Island hospitals, which were closed for a significant portion of 2013 as they recovered from damage inflicted by Sandy, acute inpatient discharges for the first half of 2014 are down by almost 6 percent over discharges for the first half of 2013. Compared with the equivalent period in 2010, 2014 discharges have declined by 11 percent systemwide.

Lastly, more patients with insurance—particularly commercial insurance—visiting HHC facilities should result in a more favorable payer mix for the corporation. Within the health care sector, reimbursement rates tend to be the highest for commercial insurance, followed by Medicare, and then Medicaid. HHC currently serves very few commercially insured patients. Individuals with commercial insurance represented just under 9 percent of HHC’s total inpatient discharges in the first half of 2014, compared with over 59 percent for those with Medicaid, 21 percent for those with Medicare, and 9 percent for the uninsured.

If MetroPlus enrollment growth can shift significant numbers of HHC’s patients from the uninsured category into the commercial category, or even into Medicaid, that would do much to improve the corporation’s fiscal outlook. However, HHC believes that the majority of its uninsured patients may not be eligible for health care coverage through the exchanges, which do not cover undocumented immigrants. HHC pegs the undocumented at 60 percent to 70 percent of its uninsured patients. If these estimates are accurate, it seems unlikely that this uninsured patient base will shrink dramatically anytime soon.

Endnotes

1As is the case with the city budget as a whole, HHC’s financial plan does not include the cost of any retroactive pay to unions with expired contracts.
2Enrollees who signed up through the marketplace in fall 2013 did not actually receive coverage until January 1, 2014 and are not counted in December enrollment totals.
3This is the measure HHC most commonly uses to track hospital utilization. It excludes discharges from psychiatric and rehab inpatient units.