



Principles for Medicaid Payments to Washington Hospitals

1. On average, Medicaid payments to hospitals should reflect the cost of treating Medicaid patients. In Washington State, hospitals are not currently recovering their Medicaid costs. **Implication:** *Additional funding is needed.*
2. Medicaid hospital payments should promote efficiency and reward clinical excellence. The system should not simply pay whatever costs a hospital incurs, without regard to costs unrelated to the efficient delivery of quality care. Efficient hospitals should be rewarded as well as those with improved patient outcomes. **Implication:** *Medicaid payments should be determined based on average costs for similar cases in similar hospitals. Medicaid payments should provide positive incentives for improved outcomes.*
3. Medicaid payments should recognize differential costs that are beyond the control of individual hospitals (for example, case mix, acuity, and area wage differences). **Implication:** *Several adjustment factors are required.*
4. Medicaid payments should recognize the additional costs, both direct and indirect, incurred by teaching hospitals. **Implication:** *Teaching costs should be paid separately from operations on a facility specific basis.*
5. The Medicaid payment system should recognize the cost of uncompensated care. **Implication:** *Medicaid should pay higher payments to those hospitals with large charity care costs.*
6. The Medicaid payment system needs to recognize the special needs of small and critical access hospitals. **Implication:** *Small and critical access hospitals need to be paid based on their costs for providing care.*
7. Hospitals cannot withstand sudden, large reductions in revenue. **Implication:** *If a new system produces large shifts in payments, it should be phased in over time.*
8. The payment system needs to be simple to administer and needs to be updated frequently. **Implication:** *The system needs to be rebased as soon as possible. The contracting system, which makes rate setting more complex for hospitals and the state, should be eliminated.*
9. The system should use federal dollars to support Medicaid and low income patients. **Implication:** *Whenever possible and appropriate, the state should use federal dollars and develop programs such as disproportionate share hospital and upper payment programs, as long as individual hospitals are not harmed financially.*
10. Washington State should concentrate its funds on in-state hospitals and not overpay hospitals outside the state. **Implication:** *Out-of-state border hospitals should be paid at lower rates (either based on a method that pays the lower of the Washington rate or their own state's rate, or on some other reduced payment method).*