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DOUBLING THE PUBLIC COST WHILE LOSING CONTROL

A Preliminary Analysis of the Department of Mental Health's  
contract with New England Deaconess Hospital  
to provide acute inpatient care

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for  
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Background

The Department of Mental Health (DMH) has been closing state-operated psychiatric hospitals and community mental health centers and replacing them with contracted beds at private general hospitals even though the cost for care in private general hospitals is significantly more expensive than DMH facilities. DMH's rationale is that private general hospitals can capture federal Medicaid revenue. Therefore, despite the greater overall cost of privately-provided care, DMH argues that the net cost to the state will be reduced. But this is nothing more than a shell game, Massachusetts taxpayers are federal taxpayers as well and they must still foot the total bill.

Analysis

Here are the major findings from a preliminary analysis of DMH's contract with New England Deaconess Hospital Inc. (Deaconess) to operate a 25-bed inpatient acute care unit. These patients previously would have been sent to the nationally-acclaimed Massachusetts Mental Health Center (MMHC), a state-run mental health center.

1. The cost per day at MMHC is \$335 to \$350. The cost per day at Deaconess is \$731.73.\* DMH is purchasing care that is more than twice as expensive as the current care provided at MMHC. Even with the infusion of federal Medicaid funds, there will be a net increase for Massachusetts taxpayers.
2. If DMH wanted to achieve genuine and significant cost savings, it could have found a general hospital to "wrap" its license around MMHC. As long as psychiatric beds comprise less than 50% of total facility beds, the federal government will match state Medicaid payments. To make MMHC eligible for Medicaid, DMH could have arranged with a general hospital to "lease" beds from the Center and thereby extend its license to these beds. Then MMHC could have captured the federal Medicaid revenue and provided Massachusetts taxpayers with real savings.
3. Over a six-month period, the Deaconess contract will cost \$2.2 million. Over the same period, the treatment of 25 acute care patients at MMHC would cost \$1.1 million.
4. There is good reason to question whether Deaconess and DMH will be able to collect much federal Medicaid money.\*\* Not only do many DMH patients not have Medicaid, many do not have any insurance. Since DMH has agreed to absorb the total cost, the burden on Massachusetts taxpayers is likely to be that much greater.\*\*\*
5. The "hidden costs" of contracting have yet to be calculated. DMH has agreed to provide legal technical assistance to NEDH for forensic mental health at an unspecified cost. The costs of monitoring the contract have also not yet been determined.

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\* The cost of care at MMHC comes from an analysis done by the Public Consulting Group (PCG), which was hired by DMH in 1991 to look at DMH mental health centers in Boston. The PCG determined that the cost per bed per day at MMHC was \$292. Assuming an annual inflation rate of 7%, current costs are projected to be just under \$335 per day. The DMH contract with Deaconess calls for an average payment of \$731.73 per day. For Medicaid eligible patients, the DMH contract with Deaconess anticipates a \$748.63 reimbursement rate.

\*\* In other contracts, DMH has assumed that one third of the patients admitted to private hospitals will be Medicaid eligible. In addition, it should be noted according to the calculations made by the Public Consulting Group, that 15% of MMHC's total costs were met by payments from Medicare and other insurance sources.

\*\*\* DMH has agreed to pay the full \$731.73 per day for each client at Deaconess who does not have insurance.