

## History of LIP and IGT Funding

- Initiated in 2006 as part of the Medicaid reform pilot launched by Governor Jeb Bush;
  - LIP modified and expanded a previous supplemental hospital payment system known as UPL (upper payment limit); UPL accounted for approximately \$631 m in annual hospital payments prior to Medicaid reform.
  - UPL refers to the maximum amount Medicaid can pay a provider, which is the Medicare payment level; since Medicaid pays less than Medicare, the federal government allows supplemental payments to providers up to the UPL.
  - Supplemental payments are only allowed in fee-for-service systems;
  - Florida's expansion of managed care means that special permission (waiver) is needed to continue supplemental payments.
- CMS initially authorized up to **\$1 B in annual supplemental payments** to providers:
  - Supplemental payments are made in quarterly lump sum distributions to qualified providers;
  - LIP supplemental payments are not linked to specific services or specific patients like claims-based reimbursement; providers qualify for LIP based on special criteria or policies.
  - Florida's LIP program uses several policy criteria used to allocate payments in various silos;
- IGT funding is used not only for LIP, but also to increase hospital rates for 130 of the state's 225 hospitals
  - IGTs are repaid through LIP, but some are used to fund automatic (or policy-based) rate enhancements
  - Between 2008-2014, Florida allowed self-funded rate enhancements
    - During this period, these payments grew from about \$30 m in payments for less than a dozen hospitals to almost \$1b for 80 hospitals
    - Self-funded rate enhancements are not compatible with managed care because the donor cannot be certain of earning back the donation and the price differential discourages use of hospitals with higher rates.
- In 2014-15, CMS gave Florida 1 year for an increase in LIP to give transitional support to hospitals
  - The 1-year authority allowed LIP to increase from \$1 billion to \$2.1 billion;
  - Approximately \$967 m of this increase replaced previously "self-funded" rate increases.
  - Funding for physicians affiliated with medical schools (\$204 M) constituted the remaining amount of the one-year increase
- Though primarily used as a way to fund hospitals, LIP payments are also made to other providers
  - LIP funds FQHCs and health departments, primary care initiatives, premium assistance programs in two counties, emergency room diversion, and poison control centers;
  - LIP payments to non-hospital providers totaled \$321 m in FY 2014-15