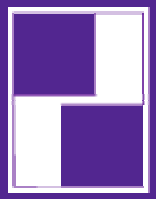

Changes in
HEALTH CARE
FINANCING &
ORGANIZATION

When Public Payment Declines, Does Cost-Shifting Occur? Hospital and Physician Responses

November 13, 2002
Washington, DC

AcademyHealth

These materials were commissioned by the Robert Wood Johnson Foundation for use at the invitational meeting *When Public Payment Declines Does Cost-Shifting Occur? Hospital and Physician Responses* and to stimulate discussion and understanding of the hospital and physician responses to reductions in public payment. In the event that the Foundation and the authors intend to submit these commissioned materials or revisions thereto for publication, we request that the materials not be cited or circulated without the permission of AcademyHealth.

Maryland Medicaid Program

Cost Shifting Among Payers

November 13, 2002

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Deputy Secretary for Health Care Financing
Maryland Department of Health and Mental Hygiene

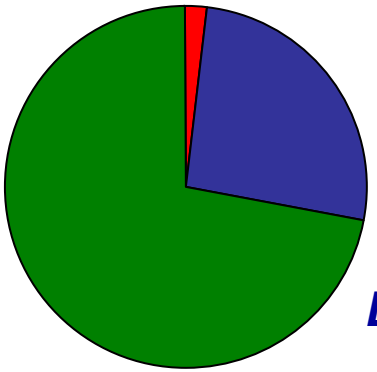
Overview

- Background on Maryland's Medicaid Program
- Impact of Medicare Cuts – Pressure On Medicaid To Either Increase or Maintain Current Rates
- Medicaid's Ability To Pay Low Rates Is Getting More Limited Due To Concerns About Loss Of Access To Certain Providers

Maryland Provides Services To Over 630,000 Citizens

- Maryland Medical Assistance Programs provide services to 634,659 citizens (679,418 including pharmacy assistance program)

Enrollment As of July 2002



Nursing Home 2% ***16,000 Beneficiaries***

Fee-For-Service 26% ***163,995 Beneficiaries***

Managed Care 72% ***454,664 Beneficiaries***

Total Beneficiaries = 634,659

FY 03 Budget = $3.3 Billion (Total Funds)
- **25% Nursing Homes**
- **36% Managed Care**
- **39% Fee-for-Service**

HealthChoice Enrollment

June 1998 = 304,473

July 2002 = 454,664

49% Growth Rate

Medicaid Rates Vary Among States

- Medicaid programs vary across states in the numbers of people they cover and the amounts they spend on services. Generally, Medicaid rates tend to be lower than Medicare and commercial payers
- Some states have built protections into the health care system to minimize cost shifting
- Maryland has established an “all-payer inpatient rate system”, preventing hospitals from cost shifting between payers and requiring hospitals to equally share in the cost of providing uncompensated care

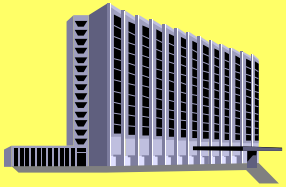
All-Payer Inpatient Rate System Provides Benefits To Payers

- Wellpoint's bid to purchase CareFirst ignited concerns that Wellpoint would change Maryland's "all-payer inpatient rate" system
- It is not in Wellpoint's interest to change the system. Based on their own analysis, a change that would allow inpatient providers to cost shift among payers would cause Wellpoint to incur an additional $100 million in expenditures annually
- Other commercial insurers would see increases as well, which may translate into higher premiums for employers

Providers Pressure Medicaid To Either Increase Or Maintain Its Rates When Other Payers' Rates Change

Commercial | Medicare | Medicaid

Physician Rates



Hospital Rates

Nursing Home Rates

Medicare Cuts Resulted In Increases In Medicaid's Rates For Outpatient Psychiatric Services

- Nationally, about 6 million elderly and disabled are covered by both Medicare and Medicaid (dually-eligibles) making up about 15% of the Medicaid population but over 30% of all Medicaid expenditures (approximately 26% of Maryland's expenditures are for dually-eligibles)
- Outpatient psychiatric services -- Medicare payment reductions resulted in cost shifting to the State
  - Medicare used to pay **80% of the visit cost for the first 12 visits**; subsequent visits were reimbursed at 50%. Medicare now only pays **80% of 62.5% of the visit cost for all visits**.
  - State grants covered the lost revenue for clinics, and they received 100% of their costs through FY 2000 when the State changed its reimbursement system
  - In the last two legislative sessions, bills have been introduced that mandate Medicaid to resume paying 100% of the visit cost

A Reduction In Medicare's Nursing Home Benefits Places Pressure On Medicaid To Pay More

- Medicaid pays the largest share of long-term care expenditures with three-fourths spent on nursing home care. Medicare pays for the first 100 days

- Maryland calculates nursing home rates based on actual costs. While a decrease in Medicare or private payer rates would have no direct impact on Medicaid rates, Maryland receives pressure to adjust its methodology, such as reducing the cost disallowances or increasing its indexing rate for future costs

- Declining Medicare revenues was cited by nursing homes as a reason not to cut the rate of growth for nursing homes rates as a FY 2003 cost containment initiative, despite double-digit rates of growth

Pressure For Medicaid To Pay More Competitive Rates Heightens As Medicaid Enrollment Increases

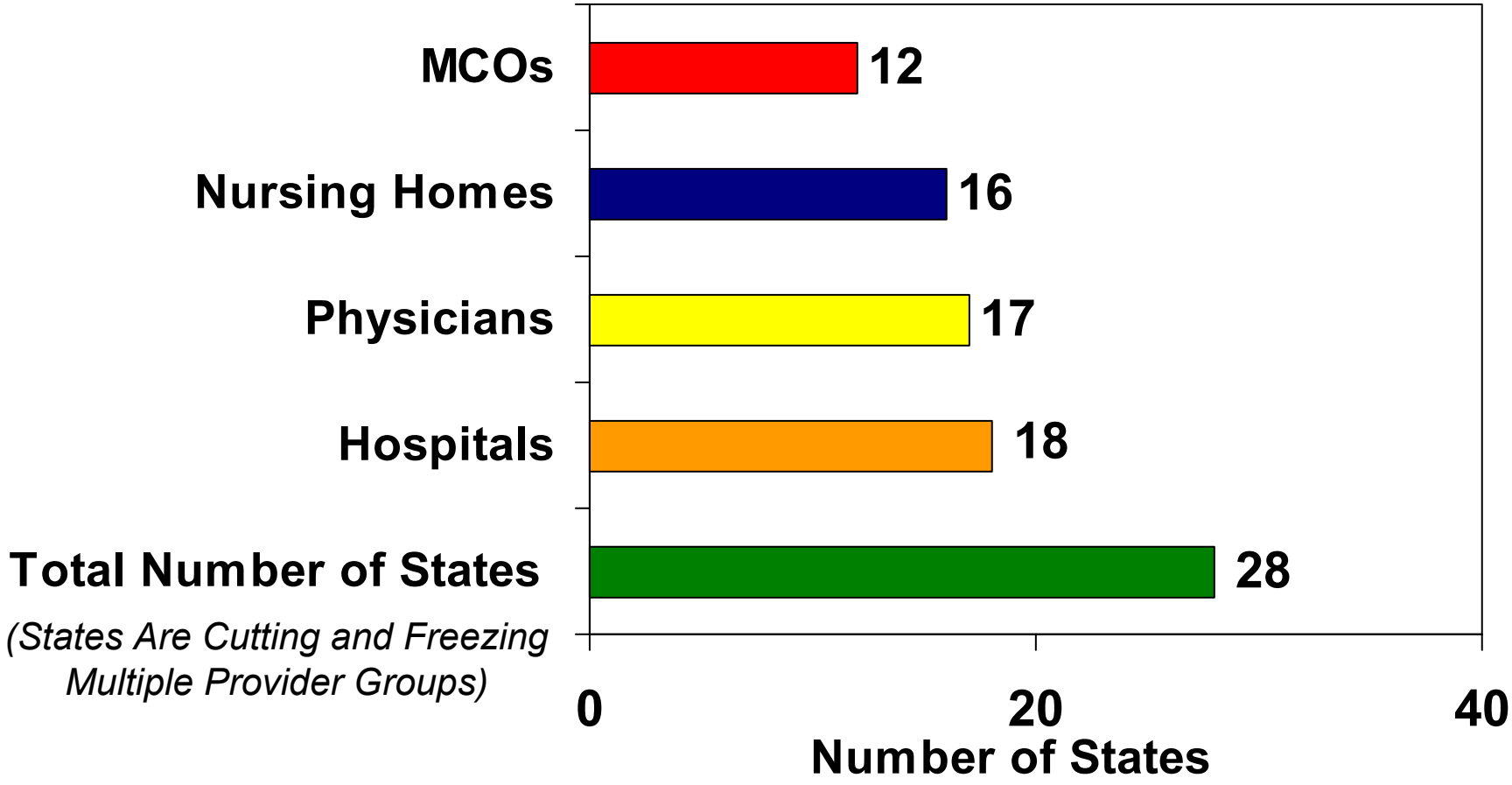
- The pressure for Medicaid to pay more competitive rates heightens as Medicaid becomes a larger payer for physicians
  - Between June 1998 and July 2002, HealthChoice enrollment grew by 49% (150,000 more enrollees)
  - Over 20% of all children in Maryland are covered under Medicaid
  - Around 30% of all births in Maryland are covered under Medicaid
- To ensure a stable provider network, the Department made a physician fee increase its number one priority during the 2002 Legislative Session, even under the current budgetary pressures
  - Before the 2002 Legislative Session, the Department conducted a comprehensive evaluation of HealthChoice
  - As part of the evaluation, 20 discussion groups were held with physicians. The majority of providers felt that Medicaid's rates were too low to maintain provider participation in the program, particularly in rural areas where there are demonstrated access issues
- While the Department was forced to make other cuts, the Governor and Legislators allocated an increase of $50 million (total funds) for physician fees
  - Focused on 140 Evaluation and Management codes, bringing Medicaid rates for those services up to 80% of the Medicare rates, more than doubling the previous fees

Even With The Physician Fee Increase, Medicaid Still Is The Lowest Payer For Physician Services

- The Department compared Maryland's Medicaid payment rates with the Medicare program's 2002 average payments in Maryland
- The analysis indicates that Maryland's Medicaid reimbursement rates before the July 2002 fee increase were, on average, **about 41 percent of 2002 Medicare rates for procedures that matched**
- After the increase in fees, Maryland's Medicaid rates are, on average, **about 62 percent of 2002 Medicare rates**
- Reports suggest that most commercial plans pay above Medicare rates. Many could argue that physicians have shifted costs to commercial payers to compensate for Medicaid's low rates

Given Budgetary Pressures, Some States Are Trying To Cut or Freeze Provider Rates

Medicaid Programs Plan To Cut or Freeze Provider Rates In 28 States in FY 2003



Source: Kaiser Commission On Medicaid and The Uninsured. Survey of Medicaid Officials In 50 States and DC Conducted By Health Management Associates, June 2002

Maryland's Cost-Containment Initiatives Focused On Nursing Home and Pharmacy

- FY 2003 Provider savings from cost-containment initiatives are estimated at $34.9 million (general funds)
  - Nursing Homes ($5.3 million general funds)
    - Initiatives include:
      - Increasing the occupancy standard
      - Modifying the method used to index nursing rates
  - Pharmacy ($10.1 million general funds)
    - Initiatives already implemented:
      - Increase the Maryland Pharmacy Assistance Program drug manufacturer rebate amount ($1.65 million)
      - Profile patients for physicians to change prescribing patterns ($100,000)
      - Implement tiered copays and dispensing fees to encourage the use of generics - ($1.3 million -- effective Nov 18, 2002)
    - Proposed Regulations – Submitted and Pending Approval
      - Implement a preferred drug list and prior-authorization - $1 - $1.3 million (two month effective date) $6 - $8 million annual savings
      - Require prior-authorization for any prescription above 10 per month to reduce fraud and abuse (six month effective date - $600,000)
    - Department is evaluating other cost containment suggestions from stakeholders
  - Other ($19.5 million general funds)
    - Initiatives include: reducing vendor contracts, implementing concurrent review of hospitals services,disallow legal and accounting fees regarding appeals, recovering unspent funds earlier from providers, and money set aside for pharmacy discount program if federal waiver not approved

Cost-Containment Efforts To Lower Payments Have Been Difficult

- Even when Medicaid is the highest payer, Medicaid receives pressure to maintain or increase its rates
- While commercial insurers have negotiated lower reimbursement rates for pharmacists, Maryland has received strong opposition to make the same reductions
  - State employee health plan reimburses pharmacists 13% below average wholesale price (AWP)
  - Medicaid reimburses pharmacists 10% below AWP
- During the 2002 Legislative Session, both independent and chain drug store pharmacists expressed concern that any reduction in reimbursement will have a negative impact on their ability to provide services in Maryland
- The Department is now working with a stakeholder group to identify alternative proposals

Medicaid's ability to lower payments is limited due to tradeoff in reduced access to providers