

Wisconsin's Medicaid Shortfall – A Chronic Condition

Cut the \$960 Million Hidden Health Care Tax by Improving Hospital Payments for Primary Care and Outpatient Services



Highlights

The Medicaid program is an essential health care program in Wisconsin, providing health care coverage for nearly 1.2 million individuals throughout the state, or about 20% of the state's population. Medicaid is an important payer of health care services, but the program has been and continues to be chronically underfunded, resulting in below-cost reimbursement for medical providers and a growing Medicaid shortfall.

In 2013, Wisconsin Medicaid reimbursed hospitals just 65 percent of cost, resulting in a shortfall of about \$960 million. As with any business, unpaid costs must be recouped. In this case, unpaid Medicaid costs get shifted to private sector employers and employees – a situation known as the “Hidden Health Care Tax”. To put this in perspective, in 2014 the Hidden Health Care Tax (\$960 million) cost as much as the corporate income tax (\$967 million) and the motor vehicle fuel tax (\$999 million).

WHA recognizes the significance of the Medicaid program in the state budget. Finding long-term solutions requires infrastructure investments. Investing in primary care and outpatient care can target resources to ensure patients are getting the right care in the right setting, ultimately lowering overall health care costs.

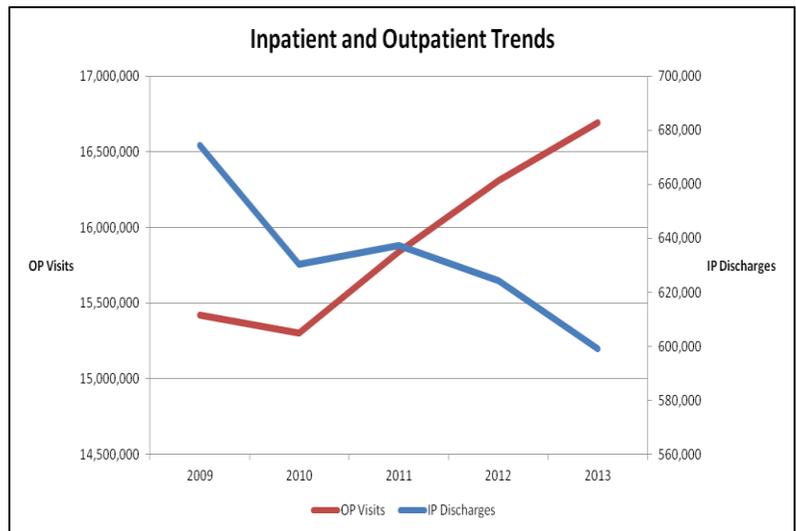
Improving Primary Care Access

- ✓ **ASK: Improve access to primary care services by authorizing targeted primary care physician reimbursement increases of \$25 million GPR over the biennium.**
 - As Medicaid enrollment has continued to increase beyond projections, hospitals are seeing an increase in emergency room usage. When patients use the emergency room, they will oftentimes need follow up care with a primary care practitioner. In addition, some services provided in the emergency room might be avoided with appropriate primary care access. Thus, connecting patients to primary care has become an imperative and a task that falls more and more on the shoulders of hospitals and health systems.
 - Recently the federal government authorized a temporary payment increase for Primary Care Providers to boost Medicaid reimbursement for certain services to Medicare rates. While Medicare still doesn't cover the cost of actually providing care, this reimbursement – often two to three times the Medicaid rate - has helped to alleviate financial pressure for health systems by incentivizing much needed access for primary care. As of October 2014, 15 states already plan to fully or partially continue this payment into 2015.
 - Health care's emphasis on primary care cannot go underfunded in the state Medicaid program. Primary care providers provide much more than billable services, they help manage all aspects of someone's care and take time to build a relationship with their patients. They are instrumental in ensuring chronic conditions don't get worse, thus avoiding more costly services.
 - WHA recommends targeting higher payments to areas of greater need to most efficiently improve service access. This can be done by targeting higher payments to specific service codes.

Adjust Medicaid Outpatient Base Rates to Reflect Increased Utilization, Reduce Cost Shifting

- ✓ **ASK: Increase outpatient hospital base rates by \$10 million GPR over the biennium.**
 - Wisconsin's Medicaid program reimburses hospital outpatient services even lower than inpatient services, at about 60% of cost. In fact, Wisconsin's Medicaid program sets new hospital Medicaid reimbursement for outpatient services at 9% of the hospital's outpatient charges – single digits.

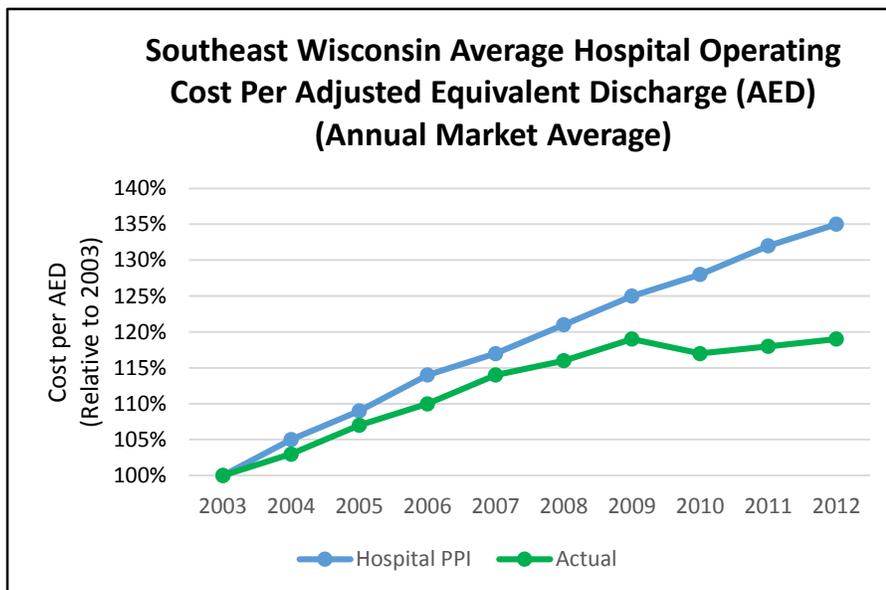
- Across the country, more and more services are being provided in an outpatient setting instead of an inpatient setting. This transformation in health care delivery has been welcomed by payers, because outpatient services are delivered at a lower cost as compared to an inpatient stay. The following chart shows the increase in outpatient visits in Wisconsin hospitals since 2009.
- While the market has driven more services to an outpatient setting, this only further exacerbates the **Hidden Health Care Tax** due to even lower reimbursement rates. The Medicaid program needs to increase reimbursement for outpatient services to cut or flatten this growing tax on Wisconsin employers.



Source: WHAIC Annual Survey

Wisconsin Hospitals Are Lowering Health Care Costs for Employers, Now It's Wisconsin's Turn

- ✓ **ASK: Increase Payments to Primary Care Physicians and Incentivize Hospital Outpatient Services in the WI Medicaid Program.**
- The Greater Milwaukee Business Foundation on Health (GMBFH) recently released a study showing that Wisconsin hospitals operating costs have increased at a substantially lower rate than national indices. The GMBFH study by Milliman found that southeast Wisconsin hospital operating costs increased less than 1 percent annually over the last four years, from 2009 to 2012.
- These efficiencies resulted in direct cost savings to commercial payers, who saw price increases only at half the rate of the national Consumer Price Index (CPI) for hospitals. As the Milwaukee Journal Sentinel said, the report showed that hospitals “have gotten serious about controlling costs.”
- While Wisconsin's hospitals are making tremendous progress in becoming more efficient and lowering costs, the Medicaid program is an anchor on that progress. The GMBFH study found that up to 27% of the price paid for hospital services by private payers resulted from government payment shortfalls.



- ❖ SE Wisconsin hospital operating costs increased 19% (less than 2% annually) from 2003 to 2012.
- ❖ During that time, the national hospital Producer Price Index increased 34%.