

The Department of Vermont Health Access Cost Shift Report

Background

The “cost shift” occurs when hospitals and other health care providers charge higher prices to patients who have private insurance or no insurance to make up for lower reimbursement from Medicare and Medicaid, charity care, or bad debt.

The GACB creates the annual cost-shift report, filing its most-recent version with the Legislature in April 2013. For 2014, Act 79 added a requirement that this annual report include *“any recommendations on mechanisms to ensure that appropriations intended to address the Medicaid cost shift will have the intended result of reducing the premiums imposed on commercial insurance premium payers below the amount they otherwise would have been charged.”* The Board included its cost shift report, including the requested recommendations, in the 2014 GACB Annual Report. Also as part of Act 79, the Department of Vermont Health Access (DVHA) was asked to report on difference between Medicaid and Medicare hospital reimbursement rates, and an examination of Medicare rates and appropriate measurement developed for other providers to quantify Medicaid cost shift, for reducing the cost shift in the commercial insurance market and to assess financial health of delivery system as a whole and within sustainable growth rate in Medicaid program. The following is in response to this request.

Medicaid Reimbursement to Hospitals

With the support of legislature, Medicaid revenue to hospitals will grow by approximately three percent in CY 2014. The rate increases started on November 1, 2013 and as such, providers experienced a pro-rata increase in CY 2013.

The total estimated annualized impact of these rate increases were as follows:

- 1) Additional \$5 million to inpatient acute hospitals
- 2) Additional \$4 million to outpatient acute hospitals
- 3) Additional \$3 million to physicians and other allied health professionals
- 4) Over \$1 million to additional health service providers and supplies (like Durable Medical Equipment).

Measuring the Cost Shift

The GACB tracks the cost shift among hospitals. In their latest report, they report the Medicaid-specific cost shift remained steady between CY11 and CY14. This finding reinforces that legislative funding used to increase rates has contributed to preventing the cost shift from rising at the same rate as system-wide expenditure growth. It also highlights that at minimum, additional increases at the rate of growth of expenditures will prevent a widening of the cost shift, but without additional funding, the cost shift will continue to exist.

Table 1 describes their findings submitted in their annual report.

Community Hospital System Vermont Hospital Payers Shifting Costs (in millions)						
Hospital Fiscal Year	Medicare	Medicaid	Free Care	Bad debt		*Commercial Insurance & Other
ACT 08	(\$69,004)	(\$103,569)	(\$23,624)	(\$30,253)	----->	\$226,450
ACT 09	(\$73,627)	(\$119,979)	(\$24,292)	(\$32,391)	----->	\$250,290
ACT 10	(\$73,516)	(\$138,017)	(\$24,806)	(\$33,077)	----->	\$269,416
ACT 11	(\$88,400)	(\$152,257)	(\$25,784)	(\$34,331)	----->	\$300,772
ACT 12	(\$68,335)	(\$151,932)	(\$24,347)	(\$39,265)	----->	\$283,879
BUD 13	(\$138,906)	(\$152,943)	(\$24,265)	(\$40,008)	----->	\$356,122
BUD 14	(\$184,443)	(\$153,210)	(\$27,016)	(\$41,398)	----->	\$406,067

Payers' values include all hospital and employed physician services.

Numbers in parentheses reflect the estimated cost of services that each payer shifted to other payers.

Medicaid values include non-Vermont Medicaid of approximately 5%.

** The amount providers shifted to commercial insurance and self pays.*

Managing the Cost Shift

DVHA supports the GMCB recommendation to continue to use the hospital budget process as the mechanism to ensure that Medicaid reimbursement increases have their intended results. For example, in the FY 2014 Hospital Budget filings the GMCB evaluated the individual rate increase for each hospital. This evaluation includes a review of the revenue estimates for each payer, including Medicaid. The review verified that the Medicaid estimate is consistent with Medicaid estimates provided by the Department of Vermont Health Access (DVHA).

DVHA also supports continued rate increases that both target areas where there continues to be disparity between Medicare and Medicaid and in addition, links rate increases to the GMCB expenditure analysis as proposed in DVHA's FY15 budget language, so that reimbursement can keep up with Vermont's overall rate of growth in health care costs. Finally, DVHA supports its continued mandate to move towards a system that links payment to value—to ensure that Medicaid dollars are spent on high quality care.