

Executive Summary: Medicaid Cost Shift Background and Considerations

1. Vermont's regulatory environment may lead to a different outcome; but nationwide, economic studies do not support the idea that increasing Medicaid payments necessarily will reduce the rate of growth in commercial insurance premiums.

- Increasing Medicaid payments might lead to slower growth in private insurance premiums in Vermont if the funds are targeted carefully to areas where the Green Mountain Care Board (GMCB) has regulatory authority
- Some leakage will likely occur because of the nature of Vermont's health care system and the limitations of GMCB regulation

2. There are reasons to increase payments to Medicaid providers other than to slow growth in private insurance premiums. Those other reasons include:

- Improving access to health care services for Medicaid patients; the Vermont Household Health Insurance Survey suggests areas of concern
- Possibly facilitating a move toward an all-payer waiver and payment reform

3. The "cost shift" can be measured in different ways. The key differences are related to different prices paid by Medicaid, Medicare, and commercial insurers relative to "actual cost" that includes fixed costs (see Chart on back).

- The Medicaid cost shift: raise Medicaid prices to "actual cost"
 - One piece would raise Medicaid prices to the Medicare levels (see Figure 1)
- The Medicare cost shift: raise Medicare prices to "actual cost"
- The total cost shift (sum of Medicaid, Medicare, and free care/bad debt cost shifts; estimated by GMCB as directed in VT law)

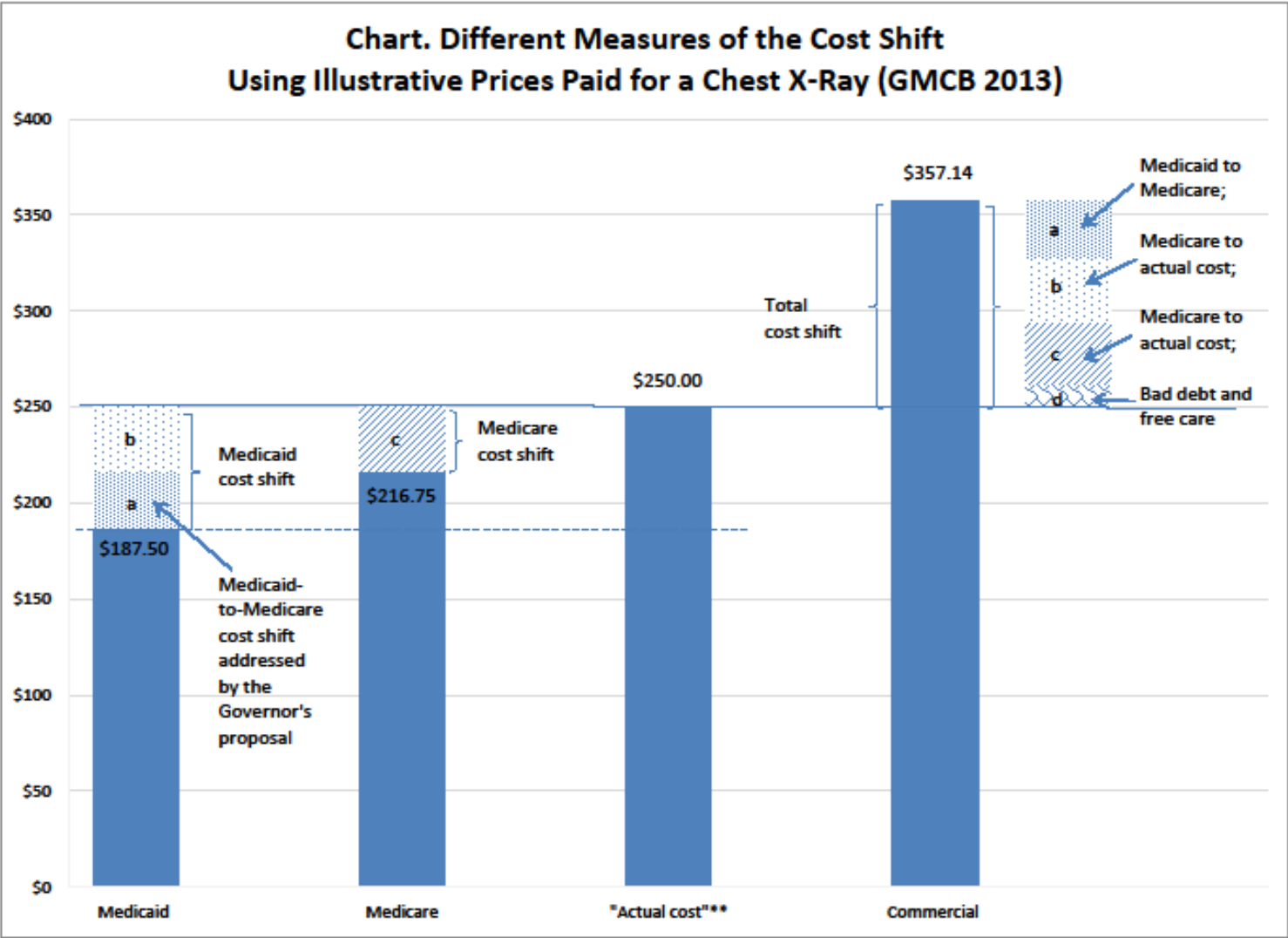
4. Not all price variation is bad. As is the case in other sectors, firms often charge different prices to different types of consumers for the same good/service based on ability to pay, intensity of demand, regional price differences, and availability of the good/service.

5. Empirical studies using nationwide data show that commercial insurance rates often rise when Medicaid payments increase

- Not-for-profit hospitals seek to improve the health of their patients as they also seek to improve their financial viability
- Increased payments from one payer can lead to more spending overall and higher payments for everyone

6. Vermont has a strong regulatory structure that has the tools to put downward pressure on commercial insurance rates

- The GMCB must approve hospital budgets and review insurance rates for a sizable share of the commercial insurance market; together, that authority covers a large share of health care spending outside of government programs
- Additional Medicaid payments targeted at health care spending that is regulated by the GMCB makes slower growth in private insurance premiums more likely



***"Actual cost" is a hypothetical number that is intended to represent a portion of provider fixed costs as well as the cost of the x-ray itself.

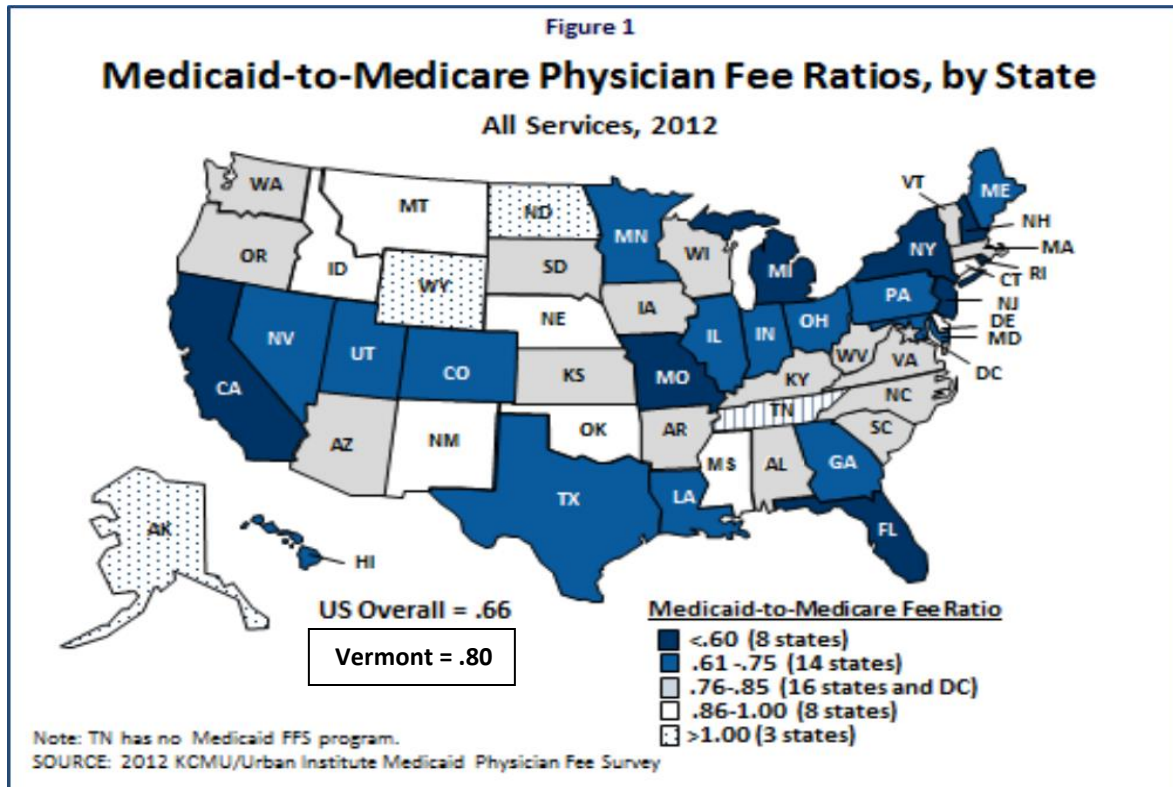


Figure 1: Key points

- Payments to physicians are based only on fee-for-service Medicaid and Medicare
- Medicare fees are adjusted for geographic and other location-specific factors

On average in the U.S. in 2012, Medicaid physician fees were **66 percent** of Medicare fees

- Considerable variation across states underlies that national statistic
 - 37 percent in Rhode Island
 - 134 percent in North Dakota
 - < 60 percent in CA, FL, Mich, Missouri, NH, NJ, NY, and RI, where almost 40 percent of Medicaid beneficiaries live
 - Almost half the states are at no more than 75 percent of Medicare fee levels

Vermont's ratio was **80 percent** in 2012, placing it at #17 ranked from highest to lowest

- For primary care physicians, the ratio was 81 percent at #12
- For physicians in obstetric care, 82 percent at #27
- For physicians in all other services, 77 percent at #24

Sources:

Stephen Zuckerman and Dana Goin. "How Much Will Medicaid Physician Fees for Primary Care Rise in 2013? Evidence from a 2012 Survey of Medicaid Physician Fees." Urban Institute and Kaiser Commission on Medicaid and the Uninsured, December 2012.

<https://kaiserfamilyfoundation.files.wordpress.com/2013/01/8398.pdf>

Kaiser Family Foundation. "Medicaid-to-Medicare Fee Index." <http://kff.org/medicaid/state-indicator/medicaid-to-medicare-fee-index/>