

SOUTH DAKOTA STATE MEDICAL ASSOCIATION *Values. Ethics. Advocacy.*

Medicaid Reimbursement Study Testimony Second Hearing, 2009 Interim August 6, 2009

Hearing Time: 8:45am

Hearing Location: Room 414, State Capitol Building, Pierre, South Dakota

Introduction

Good morning, Chairman Rave and members of the committee:

My name is Barb Smith, CEO of the South Dakota State Medical Association (SDSMA). We appreciate the opportunity to provide testimony to your committee on the important topic of Medicaid reimbursement.

The SDSMA is a professional association representing South Dakota's physicians. We are committed to our mission of preserving the art and science of medicine and the betterment of public health. Our vision, which is to help doctors help patients, guides us as an organization.

Medicaid is an integral part of our state's health care program and is used by thousands of South Dakotans who need it most – the disabled, the poor, the elderly, and the young. Most physicians in South Dakota provide medical care for Medicaid beneficiaries. However, access to care is threatened by reimbursement that is less than the cost of providing care.

In a 2008 national survey of physician perspectives on medical practice, “declining reimbursement” rated highest on the list of issues physicians identify as barriers to the delivery of patient care. That perspective was also shared by South Dakota's physicians in a survey conducted last month by the SDSMA. Nationally, 65 percent of physicians say Medicaid reimbursement is less than their cost of providing care. In South Dakota, 91 percent of physicians say Medicaid reimbursement is less than their cost of providing care. Nationwide, more than 33 percent of physicians have closed their practices to new Medicaid patients. That is also true in South Dakota. Thirty-three percent of our state's physicians reported that they have stopped accepting new Medicaid patients or have stopped seeing Medicaid patients altogether.

South Dakota Medicaid reimbursement— which pays approximately 95 percent of Medicare reimbursement and roughly 70 percent of what private insurance pays – is a threat to the viability of physician practices. It’s also a threat to physicians being able to continue to provide services to Medicaid patients.

The SDSMA has worked very closely with Secretary Bowman and Mr. Iversen as they allocate funds appropriated by the state legislature for physician services through the Medicaid fee schedule. We commend them for their efforts. We believe South Dakota’s Medicaid program is currently doing as well as it is because it is more conservative and reasonable than programs in many other states.

Yet, we remain concerned about reimbursement that is less than the cost of care and the state’s failure to provide an inflationary increase for providers in 2009. Given the budget shortfall that led to this action, as well as the economic downturn that threatens to further sink state revenues and increase the number of individuals who sign up for Medicaid, it is certainly timely to consider the Medicaid reimbursement issue.

Medicare and Medicaid

With regard to physician services, it is important to remember that Medicaid reimbursement is based on Medicare’s fee schedule. In 2009, only three states have lower Medicare reimbursement rates than South Dakota. Medicare’s fee schedule disproportionately favors states that provide more higher-cost services. There is also a much greater emphasis on specialty versus primary care. As an example of the geographic disparity, there is over a 30 percent difference between areas in California and South Dakota for Medicare fees.

While physicians and health care systems in South Dakota are among the most cost-efficient in the country in caring for Medicare patients — providing high-quality, low-cost care — many physicians currently suffer great financial losses associated with treating Medicare patients. According to a national survey conducted in 2008, 36 percent of physicians said that Medicare pays less than their cost of providing care. Considering our state’s physicians are reimbursed less than physicians in 46 other states, this national percentage is going to be much higher in South Dakota.

This issue is further complicated in that South Dakota’s number of Medicare beneficiaries is 15 percent higher than the national average. And, at 14 practicing physicians per 1,000 beneficiaries, South Dakota also has a below-average ratio of physicians to Medicare beneficiaries. We have more Medicare and Medicaid patients and lower reimbursement levels, all of which result in fewer physicians willing to practice in South Dakota.

To the extent the Medicaid fee schedule is based on the Medicare fee schedule, it, too, is flawed. However the DSS has engaged the medical profession to make specific improvements. Nationwide, Medicaid physician reimbursement levels increased 15 percent from 2003 to 2008, or at an average annual rate of increase of 2.6 percent. Over the same period of time, the consumer price index increased 20.3 percent, an annual rate of 3.4 percent. In real terms, Medicaid physician reimbursement

is declining about 1 percent annually relative to general inflation and 2 percent annually relative to medical care services inflation.

Access to Care Issues

Because many physicians are already losing money on Medicaid patients, failure to update or increase payment schedules will result in more physicians limiting the number of Medicaid patients they see or from treating Medicaid patients altogether. SDSMA members have told us that if Medicaid reimbursement levels remain the same, 54 percent will decrease or stop seeing Medicaid patients. And if Medicaid reimbursement levels are further reduced, 83 percent will stop seeing or further restrict the number of Medicaid patients they see.

With limited access to physicians, the fact is that too many Medicaid patients do not get the care they need. According to the American Medical Association's Physician Consortium for Performance Improvement, adults in the United States already do not receive almost half of the clinical services from which they would likely benefit.

In addition, many Medicaid beneficiaries find that their access to doctors is limited so they have to get care in the most expensive place – the hospital emergency room. That ultimately drives up the cost of care. In 2006, more than 30 percent of all ambulatory visits for people on Medicaid were to a hospital emergency room or outpatient department, compared to just 14 percent of visits by people with private insurance. Failure to adjust fees for inflation will increase this number and add to the total cost of care.

Turning away Medicaid patients is the last thing that physicians in South Dakota want to do. Physicians are ethically bound to support access to medical care for all people, and the SDSMA has been very involved in efforts to ensure the long-term sustainability of the Medicaid program in South Dakota. Medicaid physician reimbursement levels undoubtedly have a dramatic impact on a physician's bottom line, but what is often lost is how the business side of medicine can contradict a physician's ethical obligation to provide care. How a physician is able to juxtapose operating an efficient business with accepting all comers often leads to difficult questions and undesirable consequences.

As mentioned earlier, when asked to rate the most critical challenges facing the medical profession in South Dakota, SDSMA physicians gave Medicaid and Medicare reimbursement levels the highest rating (4.33 out of 5), indicating they view it as the most important issue facing their practices. Reimbursement was closely followed by rising health care costs (4.25) and the increased cost of doing business (4.20). These ratings clearly illustrate how rising costs factor into the practice of medicine and how reimbursement levels threaten access to care.

Provider Tax Issues

Although some states have initiated provider taxes in various forms as a means of generating extra revenues for their Medicaid programs, the SDSMA remains opposed to the implementation of a tax on physicians and other health care providers — either to fund health care programs or to accomplish health system reform.

Physician taxes are highly inefficient and have only complicated matters in states in which they exist. For example, in Minnesota, where a provider tax has been in effect for over 10 years, reports indicate that health care premiums have skyrocketed due to the 2 percent tax. The unintended consequence of increased premiums has been an increase in the number of uninsured, the very people the tax was purportedly created to help.

In West Virginia, the state legislature decided to generate additional funding for the state's Medicaid program by taxing health care providers' services. As a result, health care providers found themselves being taxed at a rate of 1.75 percent on their gross revenues. While the intent of the legislation was to bring Medicaid provider fees as closely as possible to usual and customary charges, reimbursement rates continued to decline during the 10 years that followed. Meanwhile, inflation and numbers of Medicaid patients continued to rise. Ultimately, West Virginia repealed their tax through a 10-year graduated repeal, as the state had become dependent upon those revenues to fund various health care and other programs.

When asked if they believed a provider tax was necessary to boost Medicaid funding in South Dakota, 95 percent of SDSMA physicians surveyed indicated "No." In comments that followed this survey question, the overwhelming response was that physicians believe a provider tax would be a penalty, especially given the disproportionate number of Medicare and Medicaid patients seen in South Dakota and the fact that many South Dakota physicians already provide significant amounts of charity care, sometimes called uncompensated care.

Adequate funding of Medicaid and other government-run health care programs is critical and should be generated by broad-based taxes.

Summary

While Medicaid funding has slowly increased over the years, it is significantly less than the inflationary rate at which the cost of providing care has grown. Physicians in South Dakota and across the United States have already begun to reduce their Medicaid patient load, and the failure to update Medicaid physician reimbursement will ultimately lead to a disparity in access to care for those on Medicaid compared to the privately insured. Currently, 30 percent of the state's physicians are not accepting any additional or new Medicaid patients, and 54 percent have stated they will be forced to decrease the amount of Medicaid patients they see in the future if reimbursement levels fail to improve.

More concerning is the fact that any reduction of current levels will result in 83 percent of South Dakota's physicians being forced to limit or refuse to see Medicaid patients entirely.

Reimbursement levels and access to care are inextricably linked, causing an ethical dilemma for many physicians who took a sacred oath to provide care to those who need it most. Seeing more patients who rely on underfunded government programs to grant them access to care will ultimately lead to a reduction in care, whether it's due to a pediatric office closing its doors to new patients or because a rural physician can no longer afford to stay in business.

Medicaid is undeniably an integral part of South Dakota's health care program, and a solution to the reimbursement issue must be found to ensure adequate coverage for those who need it most. The SDSMA looks forward to continuing to work with the administration and state legislature in addressing the need for equitable payment for Medicaid medical services.

Thank you very much for the opportunity to speak in front of you today. I will gladly remain to accept questions.