

Issue Brief – Medicaid Inflation

SUMMARY

Federal regulations require that Medicaid services that are offered be accessible by recipients. In order to ensure that services are available and accessible, the reimbursement rates paid to Medicaid providers must be sufficiently high to make them partners in the program and to enable them to cover their increased costs. Over the past few years because of the budget constraints, reimbursement rates, for most categories of providers have not been increased, while a few others have increased through additional state appropriations. In some cases, adjustments have been made which have decreased some provider reimbursement rates.

Medicaid inflation affects Medicaid provider rates.

OBJECTIVE

The objective of this funding item is to comply with federal mandates and to assure access to medical services by Medicaid clients.

DISCUSSION AND ANALYSIS

Medicaid inflation adjustments impact provider rates. These are sometimes discussed separately, but the fiscal impact to both the provider and the client are the same. When the rates are too low, the state experiences a challenge with access issues for Medicaid clients. Many medical and dental providers do not take “Medicaid” patients because of the low reimbursement level. Increasing the General Fund also increases the matching Federal Funds.

Medical inflation is usually twice the average consumer inflation rate. The Medicaid program requires some inflation rate adjustments to maintain services at the current level. The recommended adjustments for the inflation rate are not the same for all groups. The charts included in this Issue Brief will detail both the history and the recommended inflation rate adjustments.

There are two areas of service categories included when considering inflation. The first is specific service categories which are required to be funded for inflation, including Federally Qualified Health Centers, Rural Health Services, Crossovers, and Medicare Buy-in. The second area includes those service categories which require additional funding in order to provide access to services, such as hospital services, physician services, and pharmacy.

The 2004 Legislature passed Senate Bill 128, “Long-Term Care Facilities Amendments” which imposed an assessment on nursing facility beds, which could be used as state matchable funds to draw down

additional federal funds. This assessment provides the nursing facilities with an additional \$35 million to address some of the inflation issues in that industry.

House Bill 1 (State Agency and Higher Education Base Budget Appropriations)

The Legislature has included \$12,779,700 General Fund, \$23,681,700 Federal Funds and \$2,783,700 Dedicated Credit Revenue in the base budget to address Medicaid inflation or “Provider Increases.” This does not give an equal percentage increase to all medical providers. Some of the mandatory categories must be increased a specific percentage, such as pharmacy. The increased cost of the medications must be paid. (The state pays the average wholesale price minus 15 percent.) There is some flexibility with many of the categories. The Department of Health makes the adjustment in an effort to assure maximum and efficient access to medical services.

Medicaid Inflation Historical Trends

The table on the next page shows the historical trend of provider rate increases based on funding through FY 2007. Pharmacy is one of the largest expenses and has had the most significant increases each year. It is clear that Pharmacy has taken the largest share of the funding adjustments. This is a mandatory category that must be funded to purchase the required medications.

Historical Percentage Increases for Medicaid Provider Reimbursement

	Approp. FY 2000	Approp. FY 2001	Approp. FY 2002	Approp. FY 2003	Approp. FY 2004	Approp. FY 2005	Approp. FY 2006	Approp. FY 2007
Provider Increases								
NURSING HOMES	3.90%	3.80%	4.60%	12.00%	0.00%	27.30%	1.00%	2.00%
INPATIENT HOSPITAL	3.10%	3.00%	5.60%	3.20%	0.00%	1.60%	1.50%	2.00%
AMBULATORY SURGICAL	3.10%	4.30%	5.60%	6.00%	0.00%	0.00%	3.70%	2.00%
DENTAL SERVICES	0.00%	0.00%	2.00%	15.00%	0.00%	4.30%	4.80%	2.00%
Federal Qualified Health Centers	2.80%	0.00%	0.00%	0.00%	0.00%	4.70%	4.20%	4.30%
HOME HEALTH	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
OUTPATIENT HOSPITAL	3.10%	4.30%	5.60%	6.30%	0.00%	0.00%	1.50%	2.00%
PHARMACY	12.00%	12.00%	12.00%	12.00%	12.00%	11.00%	11.50%	10.50%
PHYSICAL THERAPY	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
PHYSICIAN SERVICES	0.00%	0.00%	7.00%	3.00%	0.00%	0.00%	4.80%	2.00%
RURAL HEALTH	0.00%	0.00%	0.00%	0.00%	0.00%	4.70%	4.20%	4.30%
SPEECH AND AUDIOLOGY	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
CROSSOVERS	2.50%	3.50%	3.90%	4.60%	0.00%	4.70%	4.20%	4.30%
HMOs	2.20%	3.50%	6.00%	8.00%	0.00%	0.00%	3.00%	2.00%
BUY-OUT INSURANCE	2.50%	3.50%	3.90%	4.60%	0.00%	4.70%	4.20%	4.30%
MEDICARE BUY-IN	2.50%	3.50%	3.90%	4.60%	0.00%	4.70%	10.80%	12.00%

Note: All amounts shown are after any budget reductions

Chart 1

Mandatory Categories

The 2007 Legislature has included a base increase for Medicaid inflation in House Bill 1 (State Agency and Higher Education Base Budget Appropriations). The inflation rates for the various categories are recommended to maximize the effectiveness of the funds allocated for inflation. The table to the right shows the recommended estimated percentage impact of the distribution of these funds.

Percentage Increases for Medicaid Provider Reimbursement for FY 2008

House Bill 1 Funding	\$12,779,700
Provider Increases	
COMMUNITY IMR	2.50%
ICF-1 (NF-2)	2.50%
ICF-2 (NF-3)	2.50%
SNF-1 (SUPER SNF)	2.50%
SNF-2 (NF-1)	2.50%
FLEX CARE	2.50%
INPATIENT HOSPITAL	2.50%
INPATIENT HOSPITAL - MENTAL HEALTH	2.50%
AMBULATORY SURGICAL	2.50%
DENTAL SERVICES	2.50%
FQHCs	4.20%
OUTPATIENT HOSPITAL	2.50%
PHARMACY	10.40%
PHYSICIAN SERVICES	2.50%
RURAL HEALTH	4.20%
CROSSOVERS	4.20%
HMOs	2.50%
BUY-OUT INSURANCE	4.20%
MEDICARE BUY-IN	5.60%

Chart 2

Medicaid Inflation / Provider Increase

Medicaid Inflation equals Provider Increases. There are many categories of providers beyond the federally mandated categories that have not received inflationary increases for a number of years.

Medical costs continue to escalate and utilization continues to climb.

Other Providers

As mentioned previously, the various groups of providers are not impacted evenly by inflation, caseload growth or utilization. The recommendations attempt to address some of the pressing needs in those services most utilized. Many providers have not received an increase of any amount for more than a decade. Chart 1 on the previous page details the historical trend of budget increases. The color highlighted groups in Chart 3 to the right are those that have had recommended increases in House Bill 1 as listed in the previous Chart 2.

One Percent

The Analyst has outlined the list of Medicaid service providers and a one percent number for each provider. The Subcommittee can evaluate any additional combination of provider rate adjustments they feel are appropriate for any combination of service providers. Requests in recent years have been for increases ranging from two to ten percent.

Recommendation

The Analyst recommends additional funding for Medical Inflation / Provider Increases of \$261,400 ongoing General Fund. This will be matched by \$648,200 Federal Funds.

Medicaid Budget for FY 2007 and FY 2008		22-Jan-07	1% Inflation
	FY 2008		General Funds
	Total		
CATEGORY OF SERVICE			
COMMUNITY IMR	32,096,600		86,100
ICF-1 (NF-2)	39,954,500		109,700
ICF-2 (NF-3)	54,759,300		150,300
SNF-1 (SUPER SNF)	36,730,900		100,800
SNF-2 (NF-1)	5,438,800		14,900
FLEX CARE	17,546,900		48,200
TOTAL NURSING HOMES	186,527,000		510,000
INPATIENT HOSPITAL	226,167,900		588,800
INPATIENT HOSPITAL - MENTAL HEALTH	24,666,600		64,200
TOTAL INPATIENT HOSPITAL	250,834,500		653,000
AMBULATORY SURGICAL	8,949,100		23,900
CHILDS SPECIAL NEEDS CLINIC	570,900		1,500
CHIROPRACTIC SERVICES	415,400		1,100
DENTAL SERVICES	31,817,900		73,300
EXTERNAL QUALITY REVIEW ORGANIZATION	373,500		1,100
FQHCs	4,422,700		12,000
HOME HEALTH	11,981,600		32,500
HOSPICE	13,255,700		35,900
INTERPRETIVE SERVICES	244,300		700
KIDNEY DIALYSIS	1,379,200		3,700
LAB AND RADIOLOGY	1,812,000		4,900
MEDICAL SUPPLIES	12,159,300		32,900
MEDICAL TRANSPORTATION	7,898,600		21,400
NUTRITIONAL ASSESSMENT	3,700		0
OCCUPATIONAL THERAPY	68,600		200
OUTPATIENT HOSPITAL	84,887,900		226,300
PCN COVERED AT WORK	38,600		100
PERINATAL CARE	350,300		900
PERSONAL CARE	1,407,300		3,800
PHARMACY	158,219,700		404,900
PHYSICAL THERAPY	399,600		1,100
PHYSICIAN SERVICES	78,254,500		198,500
PODIATRIST	284,000		800
PRE/POSTNATAL HOME VISITS	70,600		200
PRE/POSTNATAL PSYCHOLOGICAL	12,700		0
PSYCHOLOGY SERVICES	51,500		100
QMB SERVICES	4,600		0
RURAL HEALTH	2,329,900		6,300
SPECIALIZED NURSING	2,789,600		7,600
SPEECH AND HEARING	535,100		1,400
VISION CARE	1,931,000		2,800
WELL CHILD CARE (EPSDT)	7,997,600		20,500
CASE MANAGEMENT	938,100		2,500
CROSSOVERS	21,394,100		57,900
HMOs	231,241,900		631,600
BUY-OUT INSURANCE	655,500		1,800
MEDICARE BUY-IN (FEDERAL SHARED)	24,376,200		65,200
MEDICAID SAVINGS ACCOUNT	0		0
SUBTOTAL HCF SERVICES	1,150,884,300		3,042,400

Chart 3

LEGISLATIVE ACTION***Recommendation***

The Analyst recommends that the Health and Human Services Appropriations Subcommittee approve funding for House Bill 1 (2006 General Session) that includes the Medicaid Inflation increase of \$12,779,700 ongoing General Fund to address the estimated inflationary increases. This will enable the Medicaid program to remain at its current service level. Funding the base recommendation, only keeps the program at current service levels. It does not increase program caseload or utilization. (Because of medical inflation, not funding this could reduce access and care given to Medicaid patients.)

The Analyst further recommends that the Subcommittee approve a building block of \$261,400 ongoing General Fund, and \$648,200 Federal Funds to provide an additional increase to provider rates.

If the Legislature would like to increase any additional specific rates by increasing funding, these funding recommendations will need to be put on a building block list to prioritize and forward to Executive Appropriations.