
Issue Brief – Medicaid Inflation

DEPARTMENT OF HEALTH / MEDICAL ASSISTANCE

NUMBER DOH IB 07-21

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 some others have increased through additional state appropriations. In some cases, adjustments have been made which have decreased some provider reimbursement rates.

OBJECTIVE

The objectives of this funding item are to meet federal requirements 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.

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

The Legislature has included \$10,252,700 General Fund, \$22,926,600 Federal Funds and \$2,597,400 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.

Mandatory Categories

The 2006 Legislature has included a base increase for Medicaid inflation in Senate Bill 1. The table on the next page shows the estimated impact of the distribution of these funds.

Percentage Increases for Medicaid Provider Reimbursement for FY 2007	
Senate Bill 1	
Funding	\$10,252,700
Provider Increases	
COMMUNITY IMR	2.00%
ICF-1 (NF-2)	2.00%
ICF-2 (NF-3)	2.00%
SNF-1 (SUPER SNF)	2.00%
SNF-2 (NF-1)	2.00%
FLEX CARE	2.00%
INPATIENT HOSPITAL	2.00%
INPATIENT HOSPITAL - MENTAL HEALTH	2.00%
AMBULATORY SURGICAL	2.00%
DENTAL SERVICES	2.00%
FQHCs	4.30%
OUTPATIENT HOSPITAL	2.00%
PHARMACY	10.50%
PHYSICIAN SERVICES	2.00%
RURAL HEALTH	4.30%
CROSSOVERS	4.30%
HMOs	2.00%
BUY-OUT INSURANCE	4.30%
MEDICARE BUY-IN	12.00%

Medicaid Inflation Historical Trends

The Table below shows the provider rate increases based on funding through FY 2006. It is clear that Pharmacy has taken the largest share of the funding. This is a mandatory category that must be funded to purchase the required medications.

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

Note: All amounts shown are after any budget reductions

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. Some of those categories are listed on the bottom portion of the table to the right. Medical costs continue to escalate and utilization continues to climb.

Other Providers

As mentioned previously, groups of providers are not impacted evenly by inflation, caseload growth or utilization. The recommendations attempt to address some of the most pressing needs in those services most utilized. Other providers have made specific requests of the Department and of the Governor. These requests are for funding to increase rates from 2.5 to 10 percent in addition to the base increase included in Senate Bill 1. (2006 General Session)

In addition to the base Medicaid Inflation adjustment listed in Senate Bill 1 (2006 General Session) the Governor has requested \$459,100 for "Other Provider" increases. Funding is recommended in the bottom of the second column of the table to the right.

Recommendation

The Analyst recommends additional funding for Medical Inflation / Provider Increases of \$3,000,000 ongoing General Fund. This will be matched by \$10,097,600 Federal Funds. The following table is one suggestion of how these funds can be distributed to address access issues for Medicaid clients. (Note: The table lists the distribution of General Fund.)

Recommended Percentage Increases for Medicaid Provider Reimbursement for FY 2007		
General Fund Base Budget Adjustment (SB 1 2005)	\$10,252,700	\$2,540,900
Provider Increases		
COMMUNITY IMR	2.00%	0.00%
ICF-1 (NF-2)	2.00%	0.00%
ICF-2 (NF-3)	2.00%	0.00%
SNF-1 (SUPER SNF)	2.00%	0.00%
SNF-2 (NF-1)	2.00%	0.00%
FLEX CARE	2.00%	0.00%
INPATIENT HOSPITAL	2.00%	0.00%
INPATIENT HOSPITAL - MENTAL HEALTH	2.00%	0.00%
AMBULATORY SURGICAL	2.00%	2.20%
DENTAL SERVICES	2.00%	2.20%
FQHCs	4.30%	0.00%
OUTPATIENT HOSPITAL	2.00%	2.20%
PHARMACY	10.50%	0.00%
PHYSICIAN SERVICES	2.00%	2.20%
RURAL HEALTH	4.30%	0.00%
CROSSOVERS	4.30%	0.00%
HMOs	2.00%	2.20%
BUY-OUT INSURANCE	4.30%	0.00%
MEDICARE BUY-IN	12.00%	0.00%
General Fund Base Budget Adjustment		\$459,100
Other Provider Increases		
CHILDS SPECIAL NEEDS CLINIC	0.00%	2.50%
CHIROPRACTIC SERVICES	0.00%	2.50%
HOME HEALTH	0.00%	2.50%
HOSPICE	0.00%	2.50%
INTERPRETIVE SERVICES	0.00%	2.50%
KIDNEY DIALYSIS	0.00%	2.50%
LAB AND RADIOLOGY	0.00%	2.50%
MEDICAL SUPPLIES	0.00%	2.50%
MEDICAL TRANSPORTATION	0.00%	2.50%
NUTRITIONAL ASSESSMENT	0.00%	2.50%
OCCUPATIONAL THERAPY	0.00%	2.50%
PCN COVERED AT WORK	0.00%	2.50%
PERINATAL CARE	0.00%	2.50%
PERSONAL CARE	0.00%	2.50%
PHYSICAL THERAPY	0.00%	2.50%
PODIATRIST	0.00%	2.50%
PRE/POSTNATAL HOME VISITS	0.00%	2.50%
PRE/POSTNATAL PSYCHOLOGICAL	0.00%	2.50%
PSYCHOLOGY SERVICES	0.00%	2.50%
QMB SERVICES	0.00%	2.50%
SPECIALIZED NURSING	0.00%	2.50%
SPECIALIZED WHEELCHAIRS	0.00%	2.50%
SPEECH AND HEARING	0.00%	2.50%
TARGETED CASE MAN. FOR AIDS	0.00%	2.50%
VISION CARE	0.00%	2.50%
WELL CHILD CARE (EPSDT)	0.00%	4.70%
CASE MANAGEMENT	0.00%	2.50%

LEGISLATIVE ACTION***Recommendation***

The Analyst recommends that the Health and Human Services Appropriations Subcommittee approve funding for Senate Bill 1 (2006 General Session) that includes the Medicaid Inflation increase of \$36,624,000. Of this amount, \$10,252,700 is from General Fund and the remainder is from other funds to address the estimated inflationary increases. This will enable the Medicaid program to remain at its current service level. (Because of medical inflation, not funding this could reduce access and care given to Medicaid patients.)

The Analyst further recommends that Subcommittee approve a building block of \$3,000,000 General Fund, and \$10,097,600 Federal Funds to provide an additional increase to provider rates, according to the table on the preceding page.

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.