F I S C A L I M P A C T R E P O R T

SPONSOR Jennings **DATE TYPED** 2/2/04 **HB**

SHORT TITLE Medicaid Reimbursement Payment Rate Increase **SB** 112

ANALYST Weber

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY04	FY05	FY04	FY05		
			$1,257.2	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	$3,895.3		Recurring	Federal Funds

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Human Services Department (HSD)
Health Policy Commission

SUMMARY

Synopsis of Bill

Senate Bill 112 amends existing law to provide that the Human Services Department (HSD) shall set the reimbursement rates for services rendered by physicians, dentists, optometrists, podiatrists and psychologists to Medicaid patients at not less than the percentage increase provided by HSD in the previous fiscal year for managed care organizations (MCO). This increase does not apply for managed care organization contractors. The effective date of this Act is July 1, 2004.

Significant Issues

The percent rate increase established for MCOs is the sum of many variables, most which do not affect the potential cost increase faced by the individual providers listed above. The MCOs function as insurance companies and are exposed to a variety of cost factors that include but are not limited to:

- Pharmacy costs
- Inpatient hospitalization
- Out-patient hospitalization
- Medicaid client transportation costs
- Increased utilization factors
- Contractual quality control requirements
- Outreach efforts

The additional parameters involved in a MCO environment result in percentage cost increases that exceed the requirements of the individual provider.

Utilization is an obvious example of increased costs the MCOs must pay that the individual provider does not face. In the past few years, the number of times a client sees providers has increased. This utilization increase results in higher overall payments to providers, but does not increase their incremental costs. The MCOs must build utilization increases into percentage rate increases. Another obvious cost escalator MCOs must build into their rate is pharmacy cost. Double digit pharmacy cost increases must be covered by the annual MCO percent increases while the providers mentioned are not impacted at all by these increases. Recently there has been much concern regarding rising hospitalization costs due to various factors, but again the individual provider is not impacted.

The following table reports how total medical costs have increased since 1991 compared to various sectors.

Annual Change Per Capita in Health Care Spending and Gross Domestic Product, 1991-2002
Spending on Type of Health Care Service

Year	All Services	Hospital Inpatient	Hospital Outpatient	Physician	Prescription Drugs	Gross Domestic Product (GDP)
1991	6.9%	3.5%	16.8%	5.4%	12.4%	1.8%
1992	6.6	2.8	13.9	5.9	11.7	4.2
1993	5.0	4.8	8.9	3.3	7.1	3.8
1994	2.1	-2.0	8.7	1.7	5.2	4.9
1995	2.2	-3.5	7.9	1.9	10.6	3.7
1996	2.0	-4.4	7.7	1.6	11.0	4.4
1997	3.3	-5.3	9.5	3.4	11.5	5.2
1998	5.3	-0.2	7.5	4.7	14.1	4.3
1999	7.1	1.6	10.2	5.0	18.4	4.4
2000	7.8	2.5	11.5	6.3	14.5	4.8
2001	10.0	7.1	16.3	6.7	13.8	1.7
2002	9.6	6.8	14.6	6.5	13.2	2.7

Notes: GDP is in nominal dollars.
Sources: Health care spending data are the Milliman USA Health Cost Index ($0 deductible); GDP is from the U.S. Department of Commerce, Bureau of Economic Analysis

All services increases, which would be more closely aligned with an MCOs inclusive concept, has always been higher than the physician component.

FISCAL IMPLICATIONS

The amounts shown in the Appropriation and Revenue tables above correspond to fee-for-service only increases at the estimated FY05 MCO contract increase of 7 percent that does not include the 3 percent insurance premium tax.. The impact is for physician services, dental services and other practitioners listed in the Medicaid projection. It is anticipated that even though not applicable to MCO contract providers, increases of this nature would put upward pressure on the MCO contract and create additional hidden costs in the program.

MW/yr:prr