



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #384

Non-Institutional Provider Rate Increase (DHFS -- MA -- General)

Bill Section

[LFB 2007-09 Budget Summary: Page 269, #6]

CURRENT LAW

Under current law, non-institutional health care providers that serve medical assistance (MA) and BadgerCare recipients, including physicians, dentists, and therapy providers, are paid the lesser of: (a) their usual and customary charges; or (b) maximum fees established by the Department of Health and Family Services (DHFS) for each procedure they perform. DHFS modifies the maximum fee schedule to implement MA rate changes enacted and funded by the Legislature.

GOVERNOR

Provide \$14,130,700 (\$5,814,200 GPR and \$8,316,500 FED) in 2007-08 and \$44,063,700 (\$17,240,700 GPR and \$26,823,000 FED) in 2008-09 to increase rates for certain MA and BadgerCare non-institutional services.

DHFS would increase rates for all non-institutional provider services by 1% in 2007-08 and an additional 2% (for a total of 3%, compared to current rates) in 2008-09, except that: (a) federally-qualified health care centers and rural health care centers would receive no rate increase; (b) the rate increase would not be applied to common carrier transportation allocations to counties; (c) the bill would increase reimbursement to pharmacies that dispense drugs to MA and BadgerCare recipients by eliminating DHFS' current practice of subtracting \$.50 per drug claim from the total reimbursement a pharmacy receives; and (d) rates for psychiatric services would be increase by 20%, beginning in 2007-08. As part of this item, the bill includes funding

to increase capitation rates for managed care organizations so that these providers could increase rates to non-institutional providers with which they contract.

DISCUSSION POINTS

Non-Institutional Services

1. The Governor's proposal would fund a rate increase of 1% in 2007-08 and an additional 2% in 2008-09 for the following services: (a) physicians/clinics; (b) dental; (c) home health and personal care, including private duty nursing, but excluding hospice; (d) chiropractic; (e) mental health; (f) vision care; (g) prenatal care; (h) therapies; (i) specialized medical vehicle services; (j) end-stage renal disease services; (k) lab/x-ray services; and (l) a group of "other" services that comprise a small portion of total non-institutional services costs.

2. Rates for non-institutional services were last increased in 2001 Wisconsin Act 16, which increased non-institutional rates by approximately 1.1% in 2001-02 and by an additional 1.1% in 2002-03. The attachment to this paper shows MA reimbursement rate changes for selected services from 1993-94 through 2006-07. The attachment shows that MA rates for non-institutional services have not increased significantly during the past several years.

3. It is not likely that the rate increases that would be funded in the bill would increase utilization of services that do not currently have access problems. However, the Governor's intention is to maintain MA and BadgerCare recipients' access to non-institutional services. The administration argues that providing the rate increase to non-institutional providers is important to maintain good faith between providers and the MA program.

4. Access to MA and BadgerCare dental services continues to be a significant problem. However, it is unlikely that the rate increases proposed by the Governor would improve access to dental service. Past analyses have shown that a greater increase in MA dental rates would encourage more dentists to provide services to MA and BadgerCare recipients.

5. It is frequently argued that low MA rates result in providers charging other payers more in order to make up for losses they incur in serving MA and BadgerCare recipients. This argument is often cited to justify the need for rate increases to MA providers.

6. The cost of the Governor's recommended rate increase for most non-institutional providers has been reestimated to reflect: (a) updated estimates of MA and BadgerCare expenditures for non-institutional services for 2007-08 and 2008-09; (b) corrections to the original estimates; and (c) an updated estimate of the federal MA matching rate for 2008-09.

7. In addition to the Governor's recommended rate increase, the Committee may wish to consider alternative rate increases, including: (a) a 1% increase in 2007-08 and an additional 1% increase in 2008-09; (b) a 2% rate increase, beginning in 2008-09, and a 2% rate increase in 2007-08 and an additional 2% rate increase in 2008-09.

Psychiatric Services

8. The bill would increase rates for psychiatric services by 20%, beginning in 2007-08. This recommendation is intended to address a significant problem with MA and BadgerCare recipients accessing psychiatric services. Currently, 16% of licensed psychiatrists in Wisconsin are certified to participate in the MA program. Further, not all MA certified providers submit claims for services. The state's MA program currently reimburses psychiatrists approximately 32% of the amounts psychiatrists' bill for outpatient and mental health services. The administration indicates that psychiatric and dental services are the only MA non-institutional service that many MA and BadgerCare recipients cannot access due to the lack of willing providers.

9. The Centers for Medicare and Medicaid Services has designated most areas of Wisconsin as shortage areas for psychiatric care. As such, the Medicare payment psychiatrists receive in these areas (most of the state other than Madison and Milwaukee) is higher than the payments psychiatrists receive in other areas of the state. A survey sponsored by the University of Wisconsin found that nearly 80% of all licensed psychiatrists practiced primarily in Milwaukee and Dane Counties.

10. While the MA program permits some other providers, such as master's level psychotherapists, to provide psychotherapy services, these providers may not prescribe mental health medications. By increasing access to psychiatrists and necessary medications, it is possible that other costs such as hospitalizations could be avoided.

11. The Governor's bill would provide \$435,200 (\$184,900 GPR and \$250,300 FED) annually to support the proposed 20% rate increase, beginning in 2007-08. The division between GPR and FED costs of this increase changes slightly by applying revised estimates of MA federal matching rates to the projected (all funds) cost of this rate increase.

Pharmacy Reimbursement

12. Federal law requires states' MA programs to reimburse pharmacies for drugs they provide to MA recipients at a rate equal to the estimated acquisition cost (EAC) of the drug, plus a reasonable fee for the pharmacist's cost to dispense the drug. In Wisconsin, the EAC for brand name drugs is based on the average wholesale price, as reported in the First Databank Blue Book, less a 13% discount. Readily available generic drugs are priced according to the maximum allowable cost list (MAC) list. The net dispensing fee for most prescriptions is \$4.38, which includes: (a) a dispensing fee of \$4.88, less a \$0.50. Consequently, the total reimbursement a pharmacy receives for providing drugs to MA recipients is the combination of the dispensing fee and the product reimbursement.

13. In each of the past several biennial budgets, the administration has proposed reducing MA reimbursement rates for pharmacies based on arguments that the MA program reimburses pharmacies for drugs they dispense at greater rates than other payers. Under some

proposals, the administration has proposed reducing reimbursement for the product component of the reimbursement (by increasing the percentage discount from the average wholesale price), rather than by reducing the dispensing fee.

In his 2005-07 biennial budget recommendations, the Governor proposed reducing the MA dispensing fee from \$4.38 to \$3.88 per prescription, increasing, from 13% to 16% the discount from the average wholesale price for the product component of the reimbursement, and eliminating the current 5% enhancement the state pays to pharmacies for drugs dispensed under SeniorCare.

14. By comparison, the state health insurance plans currently contract with Navitus Health Solutions to administer the pharmacy benefit for state employees. The Navitus network reimburses pharmacies for brand name drugs at average wholesale price (AWP) minus 15%, plus a \$2.00 dispensing fee.

15. On March 2, 2007, the Department of Administration indicated to this office that the Governor's proposal to no longer reduce payments to pharmacies by \$0.50 per pharmacy claim is not intended to apply to prescriptions purchased by SeniorCare recipients, since SeniorCare already has an enhanced reimbursement rate of 5%. The administration requested that the bill be modified to amend the current statutes relating to the SeniorCare reimbursement rate to indicate that the \$0.50 reduction per prescription would still apply to prescriptions purchased by SeniorCare recipients. Consequently, if the Committee adopts the Governor's proposal regarding pharmacy reimbursement, it may wish to incorporate the change requested by the administration.

16. Three sets of alternatives are offered for the Committee's consideration -- the Governor's proposal to provide a 20% rate increase for psychiatric services, the proposal to effectively increase the pharmacy dispensing fee, and the proposal to provide general rate increases for most non-institutional services.

ALTERNATIVES TO BILL

A. Psychiatric Services

1. Adopt the Governor's recommendation to provide a 20% rate increase for psychiatric services, beginning in 2007-08. Reduce funding by \$20,400 GPR and increase funding by \$20,400 FED in 2007-08 and reduce funding by \$24,600 GPR and increase funding by \$24,600 FED in 2008-09 to reflect a reestimate of the federal matching rate.

ALT A1	Change to Bill Funding	Change to Base Funding
GPR	-\$45,000	\$324,800
FED	<u>45,000</u>	<u>545,600</u>
Total	\$0	\$870,400

2. Delete provision. Reduce funding in the bill by \$184,900 GPR and \$250,300 FED annually.

ALT A2	Change to Bill Funding	Change to Base Funding
GPR	-\$369,800	\$0
FED	<u>-500,600</u>	<u>0</u>
Total	-\$870,400	\$0

B. Pharmacy Dispensing Fee -- \$0.50 Reduction per Prescription

1. Adopt the Governor's recommendation to remove the current \$0.50 reduction for all pharmacy claims submitted under MA and BadgerCare. However, increase funding in the bill by \$630,000 GPR and \$949,800 FED in 2007-08 and reduce funding in the bill by \$1,054,600 GPR and by \$1,389,100 FED in 2008-09 to reflect reestimates of the cost of the Governor's proposal. . In addition, approve the administration's requested change to the bill with respect to reimbursement for drugs purchased by SeniorCare recipients.

ALT B1	Change to Bill Funding	Change to Base Funding
GPR	-\$424,600	\$2,989,100
FED	<u>-439,300</u>	<u>4,346,000</u>
Total	-\$863,900	\$7,335,100

2. Delete provision. Reduce funding in the bill by \$834,800 GPR and \$1,165,200 FED in 2007-08 and by \$2,579,000 GPR and \$3,620,100 FED in 2008-09.

ALT B2	Change to Bill Funding	Change to Base Funding
GPR	-\$3,413,800	\$0
FED	-4,785,300	<u>0</u>
Total	-\$8,199,100	\$0

C. Other Non-institutional Services

1. Adopt the Governor's recommendations relating to non-institutional rate increases and provide a 1% increase in 2007-08 and 2% increase in 2008-09. However, reduce funding in the bill by \$694,100 (-\$268,100 GPR and -\$426,000 FED) in 2007-08 and \$1,943,300 (-\$83,300 GPR and -\$1,860,000 FED) in 2008-09 to reflect reestimates of the funding that would be needed to support all of the Governor's recommended rate increases for non-institutional providers.

ALT C1	Change to Bill Funding	Change to Base Funding
GPR	- \$351,400	\$18,920,000
FED	<u>- 2,286,000</u>	<u>27,567,600</u>
Total	- \$2,637,400	\$46,487,600

2. Modify the Governor's recommendations by providing a 1% rate increase in 2007-08 and a 1% rate increase in 2008-09, rather than a 2% rate increase in 2008-09. Decrease funding in the bill by \$694,100 (-\$268,100 GPR and -\$426,000 FED) in 2007-08 and \$13,811,200 (-\$4,904,800 GPR and -\$8,906,400 FED) in 2008-09.

ALT C2	Change to Bill Funding	Change to Base Funding
GPR	- \$5,172,900	\$14,098,500
FED	<u>- 9,332,400</u>	<u>20,521,200</u>
Total	- \$14,505,300	\$34,619,700

3. Modify the Governor's recommendation by deleting the 1% rate increase that would be provided in 2007-08, and to provide a 2% rate increase in 2008-09 only. Reduce funding in the bill by \$11,695,500 (-\$4,794,500 GPR and -\$6,901,000 FED) in 2007-08 and \$13,928,700 (-\$4,952,500 GPR and -\$8,976,200 FED) in 2008-09.

ALT C3	Change to Bill Funding	Change to Base Funding
GPR	- \$9,747,000	\$9,524,400
FED	<u>- 15,877,200</u>	<u>13,976,400</u>
Total	- \$25,624,200	\$23,500,800

4. Modify the Governor's recommendation by providing a 2% rate increase in 2007-08, and a 2% rate increase in 2008-09. Increase funding in the bill by \$10,307,300 (\$4,268,900 GPR and \$6,038,400 FED) in 2007-08 and \$10,042,000 (\$4,785,700 GPR and \$5,256,300 FED) in 2008-09 to reflect this alternative.

ALT C4	Change to Bill Funding	Change to Base Funding
GPR	\$9,054,600	\$28,326,000
FED	<u>11,294,700</u>	<u>41,148,300</u>
Total	\$20,349,300	\$69,474,300

5. Delete provision. Reduce funding in the bill by \$4,794,500 GPR and \$6,901,000 FED in 2007-08 and by \$14,476,800 GPR and \$22,952,600 FED in 2008-09.

ALT C5	Change to Bill Funding	Change to Base Funding
GPR	- \$19,271,300	\$0
FED	<u>- 29,853,600</u>	<u>0</u>
Total	- \$49,124,900	\$0

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Attachment

ATTACHMENT

**Reimbursement Rate Changes for Selected MA Providers
1993-94 through 2006-07**

<u>Fiscal Year</u>	<u>Chiropractic</u>	<u>Dental</u>	<u>Mental Health</u>	<u>Personal Care</u>	<u>Physician</u>	<u>Therapies</u>
1993-94	None	\$3.50 for certain pediatric procedures	None	None	2.0% for primary care physicians only	None
1994-95	None	None	None	None	2.0% for primary care physicians only	None
1995-96	None	Increase to 75% of charges for children's procedures, based on 1994 billings	None	None	None	None
1996-97	None	None	None	None	None	None
1997-98	2.0%	5.0%	2.0%	2.0%	2.0%	2.0%
1998-99	2.0%	5.0%	2.0%	2.0%	2.0%	2.0%
1999-00	None	Increase to 65% of charges for adult procedures and 69% of charges for children's procedures, based on 1998 billings	None	None	None	None
2000-01	1.0%	None	1.0%	\$0.25/hour	1.0%	1.0%
2001-02	1.095%	1.095%	1.095%	\$3.25/hour	1.095%	1.095%
2002-03	1.095%	1.095%	1.095%	None	1.095%	1.095%
2003-04	None	None	None	None	None	None
2004-05	None	None	None	None	None	None
2005-06	None	None	None	None	None	None
2006-07	None	None	None	None	None	None