Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 26, 2005 Joint Committee on Finance Paper #374

Rehabilitation Agency Therapy Rates (DHFS -- Medical Assistance, BadgerCare, and SeniorCare -- Eligibility, Payments, and Services)

[LFB 2005-07 Budget Summary: Page 247, #10]

CURRENT LAW

The medical assistance (MA) program provides coverage for medically necessary physical therapy (PT) and occupational therapy (OT) services with certain requirements and limitations. The therapists that provide these services work as independent providers, work as part of a group of providers, or are employed by rehabilitation agencies. In 2003-04, services provided by rehabilitation agencies accounted for approximately 53% of the total units of PT and OT services provided to MA fee-for-service recipients.

MA payment rates for procedures billed by independent providers and therapy groups are the amounts identified in a maximum fee schedule developed by the Department of Health and Family Services (DHFS). However, the amount the state's MA program pays for PT and OT procedures billed by rehabilitation agencies are agency-specific rates, which, on average, are approximately 45% higher than the rates the MA program pays to independent providers and therapy groups that provide these same services.

GOVERNOR

Reduce funding for MA benefits by $1,002,900 (-$423,100 GPR and -$579,800 FED in 2005-06 and by $2,005,700 (-$849,400 GPR and -$1,156,300 FED) in 2006-07 to reflect projected savings of restructuring reimbursement rates for PT and OT services provided by rehabilitation agencies. Under this item, the rates for PT and OT services provided by rehabilitation agencies would be five percent greater than the rates MA currently pays to independent providers for these therapy services.

DISCUSSION POINTS

1. In a letter to the Co-Chairs of the Joint Finance Committee dated April 5, 2005, DOA Secretary Marc Marotta requested the Committee to delete this item from the budget and to restore funding to the MA budget to reflect this change ($423,100 GPR and $579,800 FED in 2005-06 and $849,400 GPR and $1,156,300 FED in 2006-07).

2. In the mid-1990's DHFS began to assign new uniform maximum rates based on specific procedure codes to new rehabilitation agencies. However, DHFS did not apply these new rates to rehabilitation agencies that had been submitting claims for these services at that time. For these agencies, DHFS maintained agency-specific rates these agencies had been receiving, which were based on Medicare cost reports from previous years. These agencies' rates varied considerably.

3. The rates the MA program currently pays to rehabilitation agencies for PT and OT are, on average, 5 to 10% greater than the rates Medicare pays to rehabilitation for the same services and approximately 40% higher than the rates that MA pays to independent therapy providers. In addition, there is a significant disparity in the MA reimbursement rates the MA program pays to rehabilitation agencies for the same service. For example, the rate one rehabilitation agency currently receives for a common procedure (a physical therapy evaluation) is $12.80 per 15-minute increment, while another rehabilitation agency receives $25.85 per 15-minute increment, more than twice the amount for providing the same service. One rehabilitation agency's MA payment rates are, on average, 40% higher than overall average rates for rehabilitation agencies.

4. Under the current rate structure, the MA claims processing system is not able to generate additional savings, which are not included in the projected savings estimate, that would result by paying Medicare rates, rather than MA rates, for PT and OT services provided to individuals who are dually-eligible for Medicare and MA. If the rate structure were standardized, as proposed in AB 100, some additional savings would result, since the MA rates rehabilitation agencies would still exceed the rates that Medicare would pay for the same services. Consequently, MA would pay the (lower) Medicare rates, rather than the MA rates, for PT and OT services provided to dually-eligible recipients.

5. The rationale for paying rehabilitation agencies higher MA rates for PT and OT services than independent providers and group providers receive is that rehabilitation agencies must meet Medicare certification standards for outpatient rehabilitation agencies in order to be certified under the state's MA program. As such, rehabilitation agencies must meet requirements that do not apply to independent therapists. Each rehabilitation agency must:

- Have a governing body and full-time administrator;

- Have written personnel policies and written recipient care policies;

- Have a physician available to furnish emergency medical care;

- Provide social or vocational adjustment services to all recipients in need of such services by making available psychologists, social workers, or vocational specialists;

- Have certain safety features, such as fire extinguishers, readily negotiable stairways, and lighting and fire alarm systems, and ensure that ate least two employees are on duty at all times;

- Meet federal requirements concerning lighting, ventilation, lavatories, and general space, regardless of whether they meet state and local licensure standards;

- Have an infection control committee;

- Have a full-time employee responsible for housekeeping services or contract for such services;

- Have a pest control program;

- Provide for quarterly review and evaluation of a sample of clinical records by appropriate health professionals; and

- Conduct an annual statistical evaluation of its services.

In addition, rehabilitation agencies are licensed by the DHFS Bureau of Quality Assurance and are, therefore, subject to inspection and evaluation by DHFS. However, the qualifications for therapists that provide services independently or as employees of rehabilitation agencies are identical.

6. Many county birth-to-three (B-3) programs contract with rehabilitation agencies to provide PT, OT, speech and language pathology, and educational services to B-3 clients. There has been concern expressed that the rehabilitation agencies providing services under these B-3 contracts may discontinue their B-3 contracts if the proposed rate reductions were approved. In some counties, rehabilitation agencies are frequently able to bill insurance for the therapy services that they provide to B-3 clients. If this was no longer possible, some B-3 program budgets may be adversely affected. If rehabilitation agencies were unwilling to contract with counties, the B-3 programs would need to establish a network of independent providers and work to set up third-party billing mechanisms when applicable. Some counties currently have many independent providers, while others have very few, so it is difficult to determine how each county would be affected and how long it might take to establish networks and set up third party billing in all the affected counties.

7. Before 2001-02, the MA program paid rehabilitation agencies for speech and language pathology (SLP) services they provided to MA recipients using the same methodology the

program had previously used to pay for OT/PT services, resulting in different rates for different agencies. Beginning in 2001-02, DHFS increased rates for independent providers and decreased the rates paid to some rehabilitation agencies, so that now, rehabilitation agencies receive rates that are 5% greater than the rates independent providers receive for these services. The rate change for SLP providers did not have as much of an overall effect on the revenue of rehabilitation agencies as the current proposal.

8. Because of the current disparity in the current MA rate structure for OT and PT services, the MA revenue loss to some agencies would be greater than for other agencies. In 2003-04, 13 rehabilitation agencies accounted for approximately 93% of MA payments to rehabilitation agencies for OT and PT services. It is estimated that proposal would reduce annual MA payments to these providers, ranging from 4% to 50%, compared to the revenue these agencies would receive under the current rate structure. As a group, the average reduction in MA payments would be approximately 29%.

9. The estimated savings to the MA program are based on 2002-03 claims data, which is the most recent data available. The estimated savings assumes that the new rates would take effect on January, 2006. This would provide DHFS time to make changes to billing systems to reflect the proposed rate changes.

10. The alternatives presented in this paper would: (a) adopt the Governor's original budget recommendations, as reestimated to reflect current projections regarding estimated federal participation rates (Alternative 1); (b) modify the Governor's proposal so that rehabilitation agencies would receive rates for OT and PT services that are 15% greater than the rates received by independent providers (Alternative 2); and (c) delete the provision, thereby restoring funding for MA benefits that would be deleted in the bill, to reflect the administration's current position on the issue (Alternative 3).

ALTERNATIVES

1. Approve the Governor's initial recommendation, as modified to reflect reestimates of federal financial participation rates for MA benefits in the 2005-07 biennium, ($100 GPR in and -$100 FED in 2005-06 and $21,800 GPR and -$21,800 FED in 2006-07) 2005-06 and to reflect the projected savings of paying rehabilitation agencies OT and PT therapy rates equal to 5% above the rates the MA program pays to independent providers for these services.

Alternative 1	GPR	FED	TOTAL
2005-07 FUNDING (Change to Bill)	$21,900	-$21,900	$0

2. Increase funding in the bill by $257,800 ($108,800 GPR and $149,000 FED) FED) in 2005-06 and by $560,600 ($260,300 GPR and $300,300 FED) in 2006-07 (-$634,100 GPR and -$856,000 FED) to reflect the projected savings of paying rehabilitation agencies OT and PT

therapy rates equal to 15% above the rates the MA program pays to independent providers for these services.

Alternative 2	**GPR**	**FED**	**TOTAL**
2005-07 FUNDING (Change to Bill)	$369,100	$449,300	$818,400

3. Delete provision.

Alternative 3	**GPR**	**FED**	**TOTAL**
2005-07 FUNDING (Change to Bill)	$1,272,500	$1,736,100	$3,008,600

Prepared by: Marlia Moore