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Medical Assistance Payments for Medicare Part A Services (DHS -- Medical Assistance -- Services)

[LFB 2011-13 Budget Summary: Page 219, #8]

CURRENT LAW

Federal law requires state medical assistance (MA) programs to provide financial assistance to certain low-income elderly and disabled individuals who are entitled to coverage under Medicare Part A but who do not qualify for full benefits under MA. One such group of individuals is referred to as qualified Medicare beneficiaries (QMBs). For individuals who meet the QMB eligibility criteria (limited resources and income not greater than 100% of the federal poverty level), the state's MA program pays their Medicare Part A premium (if any), their Medicare Part B premium, their Medicare deductibles, and their Medicare coinsurance obligations.

Under current state law, the Medicare coinsurance payments the MA program makes on behalf of QMBs vary depending upon whether the services in question are covered under Medicare Part A or Medicare Part B. For Medicare Part B (which covers a range of services, including physician services and outpatient hospital services), the MA program pays the individual's Part B coinsurance obligations, subject to the limitation that the MA payment cannot exceed the allowable charge under MA for that service less the Medicare payment. That limitation is referred to as a coinsurance "cutback" and under current state law it applies to all Medicare Part B services except outpatient hospital services. For Medicare Part A (which covers inpatient hospital services, post-hospital extended care services in a nursing home, and certain home health care services), current state law does not impose a coinsurance cutback. As a result, the MA program currently pays the entire amount of the individual's Medicare Part A coinsurance obligation.

GOVERNOR

Reduce funding for MA benefits by $15,213,200 (-$6,018,700 GPR and -$9,194,500 FED) in 2011-12 and by $21,627,100 (-$8,581,600 GPR and -$13,045,500 FED) in 2012-13 to reflect the administration's estimate of the savings that would be realized by establishing a coinsurance cutback for Medicare Part A services such that the coinsurance payments made by the MA program on behalf of QMBs for Medicare Part A services could not exceed the allowable charge for that service under MA less the Medicare payment.

DISCUSSION POINTS

1. As introduced, the bill would apply a "cutback" to the coinsurance payments the MA program makes on behalf of QMBs for all Medicare Part A covered services. As of March, 2011, approximately 7,200 individuals enrolled in the state's MA program were classified as QMBs.

2. In a memorandum to this office dated April 4, 2011, the administration identified several changes to the bill that would clarify the Governor's intentions with respect to this proposal. First, the proposed Medicare Part A coinsurance cutback should apply not just to QMBs but also to full-benefit dual eligibles in the MA program. These full-benefit dual eligibles include categorically eligible and medically needy MA recipients who are also entitled to Medicare Part A and/or Medicare Part B. As of March, 2011, there were approximately 110,000 such full-benefit duals in the MA program.

Second, the proposed Medicare Part A coinsurance cutback should only apply to coinsurance payments related to inpatient hospital services, and not to other Medicare Part A services, such as nursing home services.

Third, the current statutory provision that excludes "outpatient hospital services" from the existing Part B coinsurance cutback should be repealed. As for this third modification, the administration states that DHS already applies the current Medicare Part B coinsurance cutback to outpatient hospital services. Therefore, repealing the statutory exception for "outpatient hospital services" would conform the statutes with the Department's current practice.

3. Subsequent to the April 4, 2011 memorandum, the administration indicated that two additional modifications are required. First, the proposed Part A cutback should apply to Part A deductibles as well as to Part A coinsurance requirements relating to inpatient hospital services. Second, the Department's consultant on this matter, the Public Consulting Group (PCG), revised its estimate of the full-year savings for the modified proposal to $24,070,000 (all funds) from $21,627,100 (all funds). The effect of this revision is to increase the savings associated with the modified proposal by approximately 11%, or by $1,673,500 (-$661,700 GPR and -$1,011,800 FED) in 2011-12 and by $2,442,900 (-$969,400 GPR and -$1,473,500 FED) in 2012-13. In sum, the administration's final revised proposal is as follows: (a) institute a Medicare Part A coinsurance cutback that would apply to categorically eligible and medically needy full-benefit duals as well as to QMBs; (b) apply the proposed cutback to Part A deductibles and Part A coinsurance requirements relating to inpatient hospital services (and not to other Part A services such as nursing home services); and (c) repeal statutory provisions that exempt "outpatient hospital services" from

the current Medicare Part B cutback.

4. Under federal law, individuals who are entitled to services under Medicare Part A have deductible and coinsurance obligations. For example, in 2011 Medicare Part A pays all covered costs for the enrollee's inpatient hospital stays during each benefit period except a Part A deductible of $1,132 and the following coinsurance amounts: (a) $283 per day for days 61-90 of a hospital stay; (a) $566 per day for days 91-150 of a hospital stay and (c) all costs for each day beyond 150 days of a hospital stay. For skilled nursing facility services covered by Part A, the coinsurance amount is $141.50 per day for days 21-100 during each benefit period. For Medicare Part B services, there is a $162 deductible and coinsurance requirements equal to 20% of the Medicare-approved amount for Part B services after that deductible is met.

5. The bill, if modified as requested by the administration, would apply a cutback to the deductibles and coinsurance payments the MA program pays on behalf of full benefit dual eligibles and QMBs for Medicare Part A-covered inpatient hospital services. That cutback would limit those payments to an amount no greater than the allowable charge under MA for the service less the Medicare payment. In this context, the term "Medicare payment" means the Medicare reimbursement rate for the service less the enrollee's deductible or coinsurance obligation. The proposed Part A cutback can be illustrated with a simplified example where the allowable charge under MA is $85, the Medicare reimbursement rate is $100, and the Medicare coinsurance amount is $20. Under current law, the MA program would pay the provider $20, which is the entire amount of the enrollee's Medicare Part A coinsurance obligation. Under the bill, the coinsurance amount paid by MA could not exceed $5, which is the difference between the allowable charge under MA ($85) and the Medicare payment ($80).

6. The savings estimates in the bill are premised on the assumption (confirmed by the Wisconsin Hospital Association) that MA reimbursement rates for inpatient hospital services are generally lower than the reimbursement rates paid by the federal Medicare program. The bill's original savings estimates were based on PCG's experience with comparable changes in other states. DHS subsequently asked PCG to perform a more detailed analysis using Wisconsin-specific claims data. The results of that Wisconsin-specific analysis are the somewhat higher savings estimates described in discussion point #3.

7. Other information supplied by the Department helps provide a sense of the relative magnitude of these projected savings. Table 1, for instance, compares the projected savings from the proposed Part A cutback to the total amount of MA payments for fee-for-service inpatient hospital services projected for state fiscal years 2011-12 and 2012-13. The total fee-for-service MA payments for inpatient hospital services in Table 1 include access payments to hospitals for fee-for-service MA recipients as a result of the 2009 Act 2 hospital assessment, but do not include several comparatively small supplemental payments made to hospitals under the MA program.

TABLE 1

Projected (All Funds) Savings from Proposed Medicare Part A Cutback As Percentage of Total Projected MA Payments for Fee-For-Service Inpatient Hospital Services

	2011-12	2012-13
Projected (All Funds) Savings from Part A Cutback (as modified)	-$16,886,700	-$24,070,000
Total Projected Fee-for-Service MA Inpatient Hospital Payments	498,090,800	479,111,500
Projected Savings as Percent of Total	-3.4%	-5.0%

8. This proposal would reduce the MA reimbursement paid to hospitals for some of the Medicare Part A-covered inpatient hospital services they provide to QMBs and full benefit dual eligibles. Specifically, those services would be the inpatient hospital services provided to QMBs and to full benefit dual eligibles in instances where those individuals have a Medicare Part A deductible or coinsurance obligation.

9. When deciding whether to approve this proposal, the Committee may weigh the estimated savings to the MA program against the potential impact to hospitals in the form of lower MA reimbursement. With respect to the latter, members could consider several factors, including the magnitude of the reimbursement reduction hospitals might realize, as shown in Table 1. The figures in that table are program-wide totals. They do not indicate how the cutback might potentially affect individual hospitals. That information is not currently available. Presumably, hospitals that serve a relatively higher percentage of full benefit dual eligibles and QMBs would be more affected by the cutback.

10. Regarding the potential impact on hospitals, it must also be noted that a significant portion of the reduced MA payments resulting from the cutback will qualify for reimbursement from the federal Medicare program under provisions relating to the reimbursement of certain bad debts. To that point, the Wisconsin Hospital Association and DHS have confirmed that 70% of the reduced deductible and coinsurance payments stemming from the proposed Part A cutback would qualify for Medicare reimbursement. This Medicare reimbursement would significantly mitigate the proposal's financial impact on hospitals. The Association expressed concerns, however, about timing delays in claiming that federal reimbursement and the associated cash flow issues that might arise for impacted hospitals.

11. For additional context, members may also consider how the proposed Part A cutback compares to the increased MA reimbursement rates hospitals (in the aggregate) received under the hospital assessment created in 2009 Wisconsin Act 2. Under that legislation, DHS collects an assessment from most hospitals in the state, and then uses a portion of that assessment revenue (along with federal MA matching funds) to pay higher MA reimbursement rates to those hospitals. As Table 2 shows, the increased MA reimbursement paid to hospitals for both inpatient and outpatient hospital services under the Act 2 assessment mechanism exceeded the total assessments collected by $247,527,997 in 2008-09 and by $235,271,943 in fiscal year 2009-10, based on figures contained in the Department's annual report to the Joint Committee on Finance.

TABLE 2

Aggregate Results for the Act 2 Hospital Assessment
State Fiscal Years 2008-09 and 2009-10

	Total Assessments Paid by Hospitals	Total Additional MA Reimbursement Paid to Hospitals	Aggregate Net Benefit to Hospitals
2008-09	$335,945,073	$583,473,070	$247,527,997
2009-10	378,694,497	613,966,440	235,271,943

12. In light of the increased MA reimbursement rates provided to hospitals under the Act 2 hospital assessment, and the potential for hospitals to claim reimbursement under the federal Medicare program for 70% of the reduced MA payments for Part A deductibles and coinsurance, the Committee could decide that the proposed cutback is an acceptable means to achieve savings in the MA program. In that case, members could adopt the Governor's modified proposal, as described in discussion point 3, including the increased savings estimates recently developed by PCG (Alternative 1).

13. Alternatively, the Committee could decide that while MA reimbursement rates for hospitals have increased as a result of the Act 2 assessment, those rates still do not fully reimburse hospitals for the costs they incur to serve the increased MA caseloads experienced during the past several years (an exception is the 100% cost-based reimbursement paid to the state's 59 critical access hospitals). Based on these concerns about the adequacy of current hospital reimbursement rates, members could delete this item from the bill (Alternative 2), but make the statutory change requested by the administration to repeal the statutory exemption for outpatient hospital services from the existing Part B coinsurance cutback to conform the statutes to the agency's current practice.

ALTERNATIVES

1. Adopt the Governor's modified proposal to institute a Medicare Part A cutback as follows: (a) create a Medicare Part A cutback that would apply to categorically eligible and medically needy full-benefit duals as well as to QMBs; (b) apply the proposed cutback to Part A deductibles and Part A coinsurance requirements relating to inpatient hospital services (and not to other Part A services such as nursing home services); and (c) repeal statutory provisions that exempt "outpatient hospital services" from the current Medicare Part B cutback. Reduce the funding in the bill by $1,673,500 (-$661,700 GPR and -$1,011,800 FED) in 2011-12 and by $2,442,900 (-$969,400 GPR and -$1,473,500 FED) in 2012-13 to reflect updated estimates of the savings associated with this modified proposal.

ALT 1	Change to Bill Funding
GPR	- $1,631,100
FED	- 2,485,300
Total	- $4,116,400

2. Delete the Governor's proposal. Provide $15,213,200 ($6,018,700 GPR and $9,194,500 FED) in 2011-12 and $21,627,100 ($8,581,600 GPR and $13,045,500 FED) in 2012-13 to restore base funding that would be deleted in the bill. In addition, repeal the current statutory provision that excludes outpatient hospital services from the current Medicare Part B coinsurance cutback.

ALT 2	Change to Bill Funding
GPR	$14,600,300
FED	22,240,000
Total	$36,840,300

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