Illinois State Medical Society

MEMORANDUM

TO: **Honorable Members, Senate Committee on Deficit Reduction**

FROM: **James E. Tierney, Vice President**
Erin O'Brien, Director
Alison Burnett, Director
Robert John Kane, Legal Counsel

RE: **Medicaid Physician Reimbursement**

DATE: March 10, 2009

In recent years DHFS has targeted Medicaid physician fee schedule increases to specific procedures. In 2006, as a result of a lawsuit settlement, DHFS increased rates for Maternal and Child Health Providers for 12 primary care services. Earlier this year, the state increased the payment rates for neonatal critical care, pediatric specialty consultations, adult preventive care, and adult office visit services. These were much needed increases, however there now exist discrepancies between rates paid for treating children vs. providing care to adults. Also, there has not been an across the board payment increase since 1999 when payment rates increased on average 5%. This piecemeal approach has resulted in Medicaid rates continuing to fall below Medicare rates and failing to keep up with inflation. For example, in the last 10 years practice costs have risen 30%, far exceeding Medicaid payment increases. This effectively means that physicians who treat Medicaid patients are subsidizing Medicaid services since reimbursements have significantly lagged inflation.

Estimates of overall Medicaid rates in comparison to Medicare rates vary from 56% to 63%. This puts Illinois near the bottom of the rankings in terms of Medicaid fee for service payments. In fact, Illinois ranks 42nd among the states in terms of Medicaid rates as a percentage of Medicare according to a 2003 study by the Kaiser Family Foundation. More recently, in 2006 the consulting team for the Adequate Health Care Task Force reported that according to estimates provided by DHFS, physician services are paid at approximately 56% of Medicare physician rates. Incorporating Medicaid's more restrictive payment policies would result in an even lower percentage.

Medicaid rates since 2000

Since 2000, groups of codes have experienced increases such as the pediatric preventive codes discussed above, and there have been payment rate decreases as well. Below are several examples comparing rates in 2000 with current rates.

Twenty North Michigan Avenue, Suite 700 Chicago, IL 60602 Web site: www.isms.org
Telephone: 312-782-1654 Toll Free: 800-782-4767 Fax: 312-782-2023

Medicaid Rates 2000 Compared to 2009

HCPCS Code	Description	Medicaid 2000	Medicaid 2009	% increase or decrease
42820	Remove tonsils and adenoids	$205.55	$194.20	- 6%
99213	Office visit	$30.00	$46.56	+55%
99243	Office consult (adult)	$49.15	$51.30	+4%
99243	Office consult (child)	$49.15	$99.86	+ 51%
99253	Initial inpatient consult	$49.15	$46.45	- 5%
99232	Hospital Visit	$23.17	$24.90	+ 7%
99283	Emergency department visit	$34.16	$32.20	- 6%
92012	Eye exam	$24.58	$23.30	- 5%
90806	Psychiatric Exam	$50.25	$47.50	- 5%
71020	Chest X-Ray	$22.80	$21.50	- 6%
54160	Circumcision	$75.00	$99.80	+ 33%
76805	OB ultrasound	$76.15	$71.90	- 6%

Medicaid Compared to Medicare

Like Medicaid, Medicare has some of the lowest payment rates for physicians. This year a proposed payment reduction was replaced with an increase of one percent. Without Congressional action, physicians face a 20% cut in 2010. Clearly the situation is not sustainable and this cut threatens the financial viability of physician practices.

Adding to the pressures that physicians face is the link that some private payers establish with Medicare rates. A number of physician contracts are tied to a percentage of Medicare rates, so there is a potential that as Medicare rates decline, so will private rates. Historically, physicians have been able to treat Medicaid patients by covering some of their losses through private payment rates. However, severely low Medicaid rates and the scheduled drop in Medicare rates coupled with the drop in private payer reimbursements provide physicians limited, if any, ability to cost shift.

Comparing the Medicaid payment rates for some services and procedures to the Medicare rates can be illustrative of the problem. The following chart shows the reimbursement discrepancies.

Medicaid Compared to Medicare Rates

HCPCS Code	Description	Medicaid 2009	Medicare (Chicago) 2009	% of Medicare
42820	Remove tonsils and adenoids	$194.20	$293.09	66%
99213	Office Visit	$46.56	$65.32	71%
99243	Office consult (adult)	$51.30	$135.08	38%
99243	Office consult (child)	$99.86	$135.08	74%
99253	Initial inpatient consult	$46.45	$122.78	38%
99232	Hospital Visit	$24.90	$70.54	35%

99471	Pediatric critical care	$510.67	$843.23	61%
99283	Emergency department visit	$32.20	$66.35	49%
92012	Eye exam	$23.30	$75.14	31%
90806	Psychiatric Exam	$47.50	$98.45	48%
71020	Chest X-Ray	$21.50	$35.39	61%
93307	Echo exam of heart	$91.00	$197.49	46%
54160	Circumcision	$99.80	$259.19	39%
76805	OB ultrasound	$71.90	$159.98	45%

Decline in Physicians' Real Income Continues

According to the Center for Studying Health System Change, between 1995 and 2003, average physician net income from the practice of medicine declined about 7% after adjusting for inflation. Medical specialists' real income remained unchanged during this time period while primary care physicians experienced a 10.2% decline in real income and surgeons' real income declined by 8.2%. These changes are in contrast to the wage trends for other professionals who saw a 7% increase. During this time period, Medicare payment increases were 13%, but this increase lagged inflation, which was 21%. More recently, from 2004 to 2009 Medicare rates on average increased a total of less than 5% while inflation increased over 10%. Compounding the low Medicaid and Medicare payments is the decline in private payer payments. According to the Medicare Payment Advisory Commission, in 1995 commercial payments were 1.43 times Medicare payments on average and by 2003 this fee ratio had fallen to 1.23. This downward trend in real incomes will have an impact on physician ability to provide charity care and to treat Medicaid patients.

Physicians have a long history of providing free or charitable care to those in need and physicians comprise an important part of the safety net. In the past, physicians were better able to provide charity care because they knew they could rely on payments received from insured patients to help absorb the losses of providing free care. However, Medicare and Medicaid payments that don't even keep pace with inflation, and the high cost of medical liability insurance may affect Illinois physicians' future ability to provide charity care. According to the Center for Studying Health System Change, while the physician commitment to charity care remains strong, financial and time pressures may be contributing to decreases in the percentage of physicians providing charity care.

Increasing Medicaid Rates is a Step Towards a Solution

- At a minimum, Medicaid rates need to be increased to equal current Medicare rates with annual updates linked to inflation. While Medicare is experiencing its own problems in terms of keeping up with practice cost increases, using Medicare as a benchmark at least initially would help Illinois physicians.

- Without increased rates, access to needed medical care, especially specialty care for Medicaid/AllKids patients will suffer. Physician reimbursement must be adequate and fair in order for physicians to continue to serve Medicaid/AllKids patients. While physicians have a strong commitment to serving those in need, they can not continue

to do so when their practice expenses continue to increase much more rapidly than increases in Medicaid reimbursement.

- Physician Medicaid payments in Illinois are just 5% of total Medicaid program costs.

- As the state strives to expand access to public programs, physicians will not be able to bear the brunt of this expansion by subsidizing care that has been promised by the state.

- Both the Adequate Health Care Task Force and the Legislative Joint Task Force on Rural Health & Medically Underserved Areas have recommended significant increases in physician reimbursement as a means to increase access to care and attract more physicians to Illinois.