

Toward Evidence-Based Health Care Reform

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The Other Elephant in the Room...

We have written recently about the looming \$212 million Medicaid deficit Vermont will face in 2010. In this issue, we discuss a closely related issue, the cost shift.

Welcome to "Toward Evidence-Based Health Care Reform," a periodic e-memo providing facts, figures, examples and analysis of current issues in health care reform in Vermont. The memo is written by Jeanne Keller, Keller & Fuller, Inc., and sponsored by BRS, Inc., a member organization providing a range of services and support to Vermont's small businesses. For more about BRS, please visit our website: www.brsvt.com

To review past issues of Toward Evidence-Based Health Care Reform, www.vtreform.com.

For the comprehensive health care reform proposal supported by BRS and several other Vermont business associations, [click here](#).

Though it didn't appear on the news, Vermont recently made history when for the first time the cost shift from the state's Medicaid program exceeded the federal Medicare program's cost shift. By deliberately underpaying hospitals, these two government programs shifted \$94 million onto private health insurance plans in FY2006. Put another way, private health insurance premiums will be inflated by \$94 million to cover the costs that Medicare and Medicaid are not paying hospitals for people covered by those plans. Vermont's Medicaid program accounted for 56% (\$53 million) of this cost shift.

This cost shift is a major driver of premium increases each year for employers and employees. And this is key: the Medicaid cost shift is something the state could control. In fact, by drawing down federal matching funds, our elected officials could eliminate this \$53 million cost shift for just \$21 million, and immediately reduce costs for the hundreds of thousands of Vermonters who were expecting some relief from increasing health insurance premiums.

So what's stopping them? Well, if you were a politician and your choices were: (1) paying for their health care promises by raising taxes and/or reducing benefits or (2) passing the expense covertly through cost shifting onto someone else, which option would you choose?

The House health care reform bill, H.861, raises the rates paid by Medicaid to physicians, but they have never been a significant source of cost shifting. As if to underscore their lack of concern, the House rejected a request to give hospitals a 3.5% cost of living increase, in effect, adding another \$3 million to the annual cost shift.

Senate leadership told us they don't have the money to eliminate the cost shift. However, they had to agree when we pointed out that the money is there, they've just decided to spend it on something else.

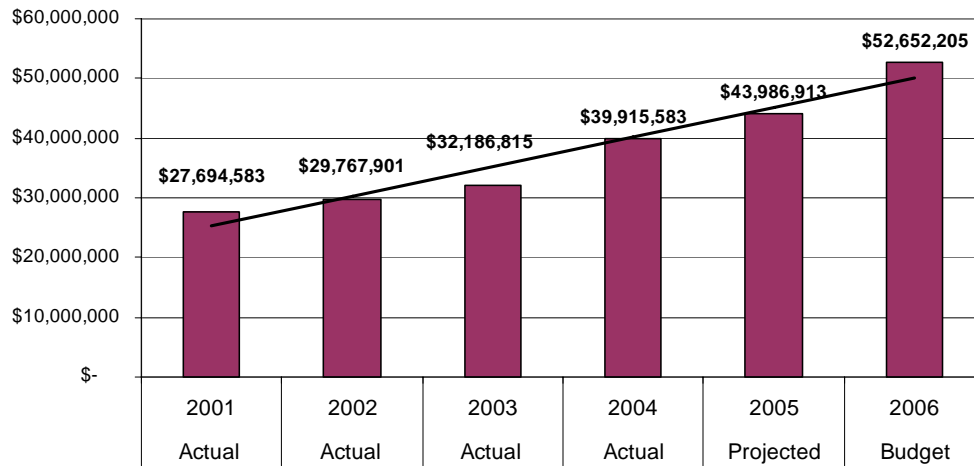
Legislative leaders frequently tell us that the private market has failed. Yet our government health programs continually operate in deficit - a deficit which would be even larger without their ability to cost shift tens of millions in Medicaid costs onto the private market.

H. 861, now winding its way through the Senate, includes as principle #4 in a long list of reform guidelines that "the financing of health care in Vermont must be sufficient, equitable, fair, and sustainable." However, until they quit paying for government programs by deliberately cost shifting onto insured Vermonters, their method of health care financing will continue to violate each and every element of that principle.

And, until privately insuring Vermonters – employers and their employees – tell elected officials "We're mad as hell, and we're not going to take it any more," they will continue to face growing feed bills for the other elephant in the room.

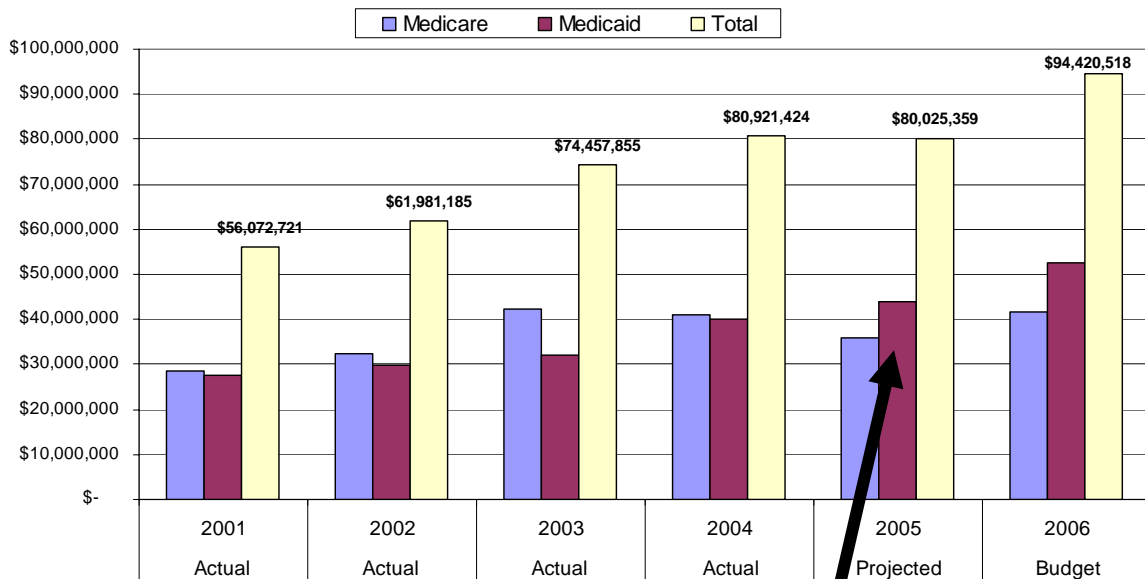
(See charts on next page.)

Medicaid Cost Shift Impact on Hospitals



The Medicaid cost shift has increased by 90% from 2001 to Budget 2006, payment covers approximately 64% of cost.

Medicare and Medicaid Cost Shift Impact on Hospitals



Medicaid (state program) cost shift exceeds Medicare (federal program) cost shift for first time in our history.