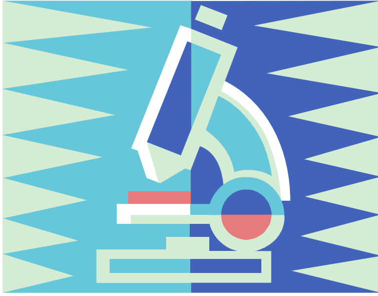


Toward Evidence-Based Health Care Reform

Vol. 2, No. 11, December 11, 2006

Cost Shift Update: Private Insurance is the Single Largest Financier of Medicaid in Vermont

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

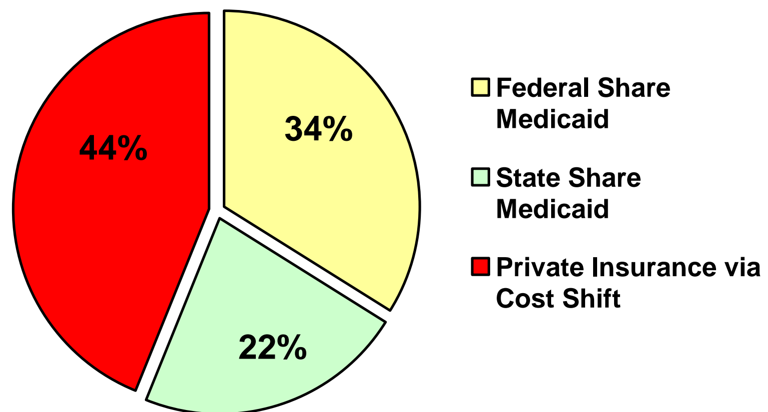
To review past issues of Toward Evidence-Based Health Care Reform, ww.vtreform.com.

To read and download the comprehensive health care reform proposal supported by BRS and several other Vermont business associations, www.vtiha.org.

This is an examination of new data on the hospital cost shift in Vermont. If you read nothing else about health care to prepare for the next legislative session, please read this.

On December 1, 2006, the Cost Shift Task Force and BISHCA issued a report on cost shifting as required by the legislature in Act 191 last session. There was little fanfare for the release, **but between the covers of this report are revelations that should finally wake up Vermont employers and employees to the burden they've been carrying for government under funding of its health care promises.**

The most important fact that can be drawn from the report is best displayed in this pie chart:



The single largest financier of Medicaid/VHAP/Dr. Dynasaur hospital costs is *private insurance*, via the cost shift.

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According to the report, for every dollar paid to a Vermont hospital for a Medicaid patient, 56 cents on the dollar comes from government sources: 22 cents from the state[1], and 34 cents from the federal government as the federal match. ***The remaining 44 cents of each dollar is paid for by private insurance in higher charges from hospitals to cover the losses on government-supported patients*.**

Private insurance pays almost half of state health plan costs --- And this means not just employers, but increasingly, employees --- through increased premiums contributions, and higher deductibles and co-payments.

State government (via the legislature's Appropriations) is paying less than ¼ of the cost of the promise made for hospital care through Medicaid, VHAP, Dr. Dynasaur, etc. The lion's share of those costs has been shifted to employers' and employees' health insurance premiums.

A second important fact the report demonstrates is that the legislature's budget does not account for how much Vermont's Medicaid, VHAP and Dr. Dynasaur programs really cost: the state appropriation reflects only 56 cents on the dollar. When the state underpays hospitals and the hospitals charge that loss to private insurance, the other 44 cents paid for Medicaid patients does not show up on the state's books.

Here's a table that displays this fact:

What Medicaid will pay hospitals and what the state budget says that Medicaid hospital benefits cost:	$116 million	At 56 cents/dollar, this is what shows up in the Medicaid budget and appropriation (both state and federal share).
What private payers will pay hospitals for Medicaid via cost shifting onto private insurance:	$89 million	This is where the other 44 cents comes from, to fill out the $1 of costs for a Medicaid patient.
What Medicaid, Dr. Dynasaur, VHAP etc hospital benefits ACTUALLY COST:	$116 million plus $89 million = **$205 million**	The Medicaid, VHAP and Dr. Dynasaur promises made by the legislature actually cost $205 million, but the legislature is appropriating only 56% of what it costs, and by collecting a federal share, is only paying 22% of the cost.

[1] Current reporting methods do not distinguish between Vermont Medicaid and the Medicaid programs from NY, NH and MA that may be paying for their residents in Vermont hospitals. However, it is very clear that Vermont Medicaid is by far the primary source of state Medicaid funds in the hospital budgets. The state/federal split for Medicaid in Vermont for hospital services is 60% federal, 40% state. The Task Force recommends that reporting standards require that hospitals differentiate the state sources of Medicaid starting in next year's budgets.

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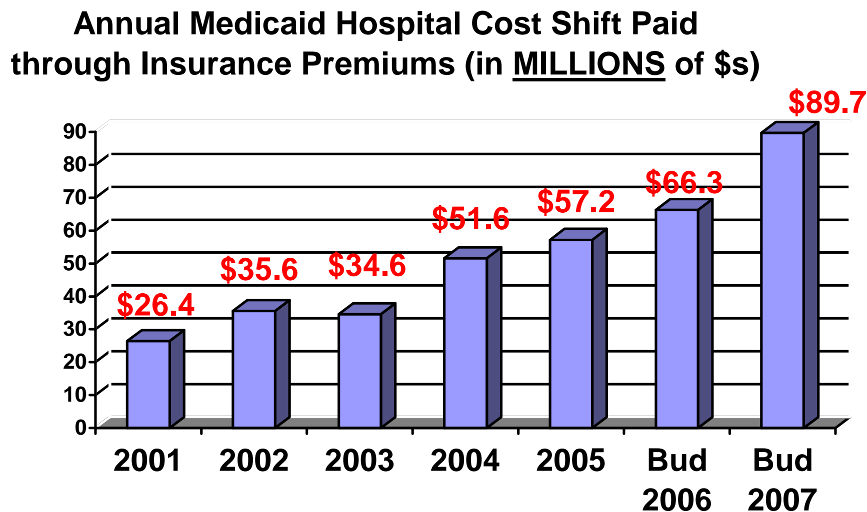
The Medicaid budget for Medicaid/VHA/Dr. Dynasaur hospital benefit is $116 million when this promised benefit actually costs the state's citizens $205 million a year.

Is there a lesson here? It is too easy to make expensive government health care promises when you only have to finance 22% of the bill? Because the legislature's Appropriations Committees know that Medicaid is only paying 56 cents/dollar and cost shifting will pay the rest, aren't they effectively imposing a ***premium tax*** on private insurance when they deliberately underfund Medicaid?

The third AND fourth most important facts revealed in the Cost Shift Task Force Report are displayed in the chart below.



The cost shift to finance Medicaid has *more than tripled* since 2001 from $26.4 million to $89.7 million.

Over this seven year period, a *cumulative $361.4 million* will have been collected in excessive private insurance premiums to cover hospital care the legislature has guaranteed under the Medicaid/VHAP/Dr. Dynasaur programs.

Employees who are now required to pay higher shares of premiums, higher deductibles and higher co-pays should be asking why the legislature is forcing them to pay more for their health insurance in order to balance the books for Medicaid and other state-promised insurance plans.

Which leads to the next important fact from the Cost Shift Task Force Report:

BISHCA estimates that as much as 14% of this year's health insurance premium increases may be due to increased cost shifting.

Isn't it time to draw a line in the sand on the cost shift? At the very least, isn't it imperative that the state

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legislature not be allowed to make it worse? Legislative leaders on health care have already declared their next group of target beneficiaries for reform as the "underinsured," those with high deductible health insurance plans. How ironic: they now want to provide public support to the very people who have borne the brunt of the exponential growth of cost shifting from public programs!

The most significant and helpful action the legislature could take to help those with high deductible plans is to stop cost shifting government health care costs onto them. If employees and employers had not been forced to come up with $361.4 million for premiums just to pay the cost shift, many employers may not have been forced to have employees to pay a higher share. It's that simple.

However, ***the cost shift could get worse***, if employers and employees are not closely monitoring the next state budget. **Here are some warning signs to watch for:**

- **Adding more people to VHAP and Medicaid without significantly increasing the rates paid to providers.** More people generate more losses for providers, more cost shifting and higher private insurance premiums.

- **Adding more benefits to VHAP, Medicaid, Dr. Dynasaur or Catamount Health without paying the full cost of those benefits.** If government programs cover new services and still pay only 56 cents/dollar, every new service will shift an additional 44 cents/dollar onto private insurance.

- **Reducing the promised provider reimbursement for Catamount Health.** Act 191 set hospital reimbursement levels at "Medicare plus 10%," which, in most cases at least covers costs. If the legislature reduces the reimbursement to below costs (in order to reduce the "cost" of Catamount Health), then Catamount Health just become another cost shifter, instead of a cost shift reducer.

The legislature needs to understand that every time someone on VHAP or Medicaid goes into a hospital, the hospital loses money on that patient. When law makers make more people eligible, or increase what is "covered," but don't increase the reimbursement, they only add to the cost shift. Law makers are "paying" for these newly insured people and their new benefits with a premium tax. ***And probably creating even more uninsured as a result.***

Cost Shift Facts at a Glance

- **The single largest financier of Medicaid/VHAP/Dr. Dynasaur hospital costs is private insurance, via the cost shift.**

- **State government (i.e. via the legislature's Appropriations) is paying less than ¼ of the cost of the promise made for hospital care through Medicaid, VHAP, Dr. Dynasaur, etc. The lion's share of the Medicaid/VHAP promise has been shifted to employers' and employees' insurance premiums.**

- **The Medicaid budget for Medicaid/VHA/Dr. Dynasaur hospital benefit is $116 million when this promised benefit actually costs the state's citizens $205 million a year.**

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- **The cost shift to finance Medicaid has more than tripled since 2001 from $26.4 million to $89.7 million.**

- **Over this seven year period, a cumulative $361.4 million will have been collecting in excessive private insurance premiums to cover hospital care the legislature has guaranteed under the Medicaid/VHAP/Dr. Dynasaur programs, NOT to pay for care provided to those privately insured.**

- **BISHCA estimates that as much as 14% of this year's health insurance premium increases may be due to increased cost shifting.**

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