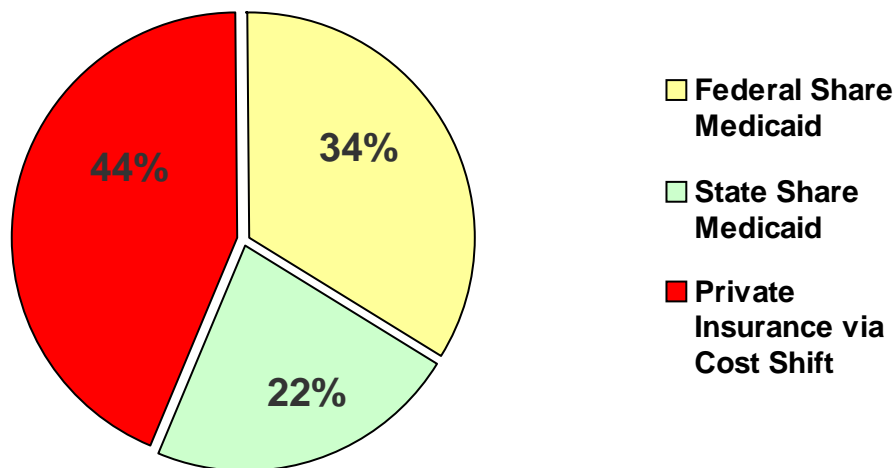

THE MEDICAID COST SHIFT – IMPACT ON PRIVATE INSURANCE COSTS

The BISHCA Cost Shift Task Force reported to the legislature in January 2007. The findings are astounding: Private insurance cost shift is the major source of payment for Medicaid hospital benefits.

Who Is Paying for Medicaid/VHAP Hospital Benefits?



- For every dollar of hospital costs incurred by someone on Medicaid or VHAP, private insurance is charged 44 cents to make up for what the state is not reimbursing (FY 2007).
- Private insurance, through cost shifting, is the biggest revenue source for funding hospital benefits for the state's Medicaid program. Private insurance through cost shifting (44%) pays two times as much as the state (22%) for Medicaid hospital benefits.
- The state budget reports that Medicaid hospital benefits cost \$114 million (2007). But that's only the state appropriation and federal share (the green and yellow slices). The ACTUAL cost of the hospital benefit is \$114 plus the \$90 million cost shift (the red slice), or \$204 million. When valued accurately, the Medicaid hospital benefit is revealed to be the most costly non-long-term-care part of Medicaid, even more costly than the pharmacy benefit.
- The true Medicaid deficit (what the program costs minus what the state is paying for it) also is being understated – the actual deficit equals any budget shortfall PLUS the cost shift.

Hospital System Payers Shifting Costs

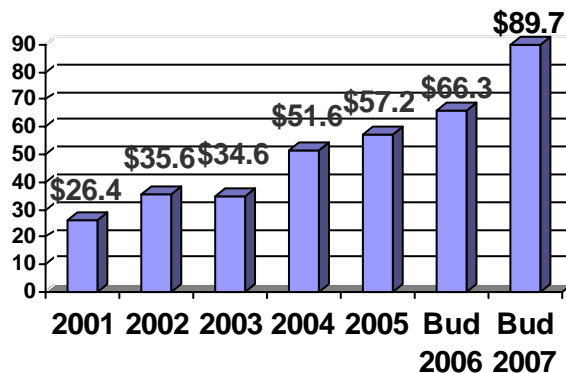
	<u>Medicare</u>	<u>Medicaid</u>	<u>Bad Debt & Free Care</u>		<u>Commercial & Other</u>
ACT 01	(\$32,227,588)	(\$26,448,350)	(\$32,706,461)	----->	\$91,382,400
ACT 02	(\$42,451,009)	(\$35,667,487)	(\$33,486,077)	----->	\$111,604,574
ACT 03	(\$52,076,640)	(\$34,684,870)	(\$34,909,000)	----->	\$121,670,510
ACT 04	(\$55,670,350)	(\$51,655,330)	(\$40,878,353)	----->	\$148,204,033
ACT 05	(\$54,189,891)	(\$57,226,339)	(\$40,646,741)	----->	\$152,062,971
BUD 06	(\$69,505,109)	(\$66,350,145)	(\$43,068,440)	----->	\$178,923,693
BUD 07	(\$66,590,077)	(\$89,722,282)	(\$38,853,365)	----->	\$195,165,723
B07-B06 Diff.	\$2,915,032	(\$23,372,137)	\$4,215,075	----->	\$16,242,030

Numbers are system totals.

Includes revenues from physicians employed by hospitals.

- This table shows the annual dollar amount of cost shifting onto private insurance, broken down by the underpaying payer: Medicare, Medicaid and the Free Care and Bad Debt incurred by the hospitals in Vermont.
- The Medicaid Cost Shift has more than tripled in 7 years --- \$26.4 million to \$89.7 million.
- The Medicaid Cost Shift increased by \$23 million this year alone (FY 2006 to FY 2007).
- BISHCA estimates that 14% of this year's insurance premium increase is just to cover this increased in the cost shift from Medicaid.

Annual Medicaid Cost Shift Paid By Private Insurance
(in MILLIONS of \$s)



- The cumulative cost shift from 2001 to 2007 is \$361 million. This means that private insurance premiums were \$361 million higher than was needed to cover the claims of the people covered by the insurance. This means that \$361 million of Medicaid funding was "charged" to private insurance.
- What could make it worse? (1) Budgeting Medicaid increases at less than medical inflation; (2) adding more eligibles; (3) adding more benefits; (4) paying providers less; (5) anything less than full funding for Catamount Health.