

From the CEO

The Incredible Shrinking Medi-Cal Dollar

By Barbara Baldwin, M.P.H.



California's battered Medi-Cal program is about to take another hit. In late February, the California Legislature approved, effective July 1, a 10 percent reduction in Medi-Cal payments to several types of providers, including hospitals and physicians. The reduction will result in about \$544 million in savings to the state, along with a reduction of federal matching funds of over \$500 million. One wonders just how low payments can go before the Medi-Cal provider community shrinks to the point where access to care reaches a crisis level.

On the heels of that news, CMS announced it will implement a package of regulations, most of which will go into effect in May 2008, that limit federal Medicaid spending and shift some substantial costs to states. CMS' proposed changes implement provisions of a 2006 budget reconciliation bill (PL 109-171) and a 2006 package to extend tax provisions (PL 109-432). The rules were scheduled to go into effect in 2007 but were delayed one year by a Congressional moratorium.

With a stated intent of curbing future growth, President Bush proposed changes that are mostly administrative in nature but result in squeezing a projected \$13 billion out of the program over the next five years. Many of the changes were in last year's Deficit Reduction Act but were eliminated by Congress before passage. Some of the changes, however, are not under the jurisdiction of Congress and can be implemented through the regulatory process.

One of the most damaging rules would prohibit states from using federal Medicaid funds to help pay for physician training, a use that has been allowed since the program began in 1965. Although Medicaid programs are not obligated to pay for GME, most states historically have made these payments under their fee-for-service (FFS) program. In fact, Medicaid is the largest GME payer in the U.S.

The Bush administration's rationale is that "paying for graduate medical education is outside the scope of Medicaid's role, which is to provide care to low-income people," and "There is no explicit authorization under the

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Medicaid statute to subsidize the training of physicians.” This ignores the fact that a tremendous amount of care to Medicaid patients is provided by interns and residents, and for over 40 years, federal Medicaid funds have helped support physicians in training. This new rule dismisses CMS’ prior actions and interpretations and instead threatens teaching hospitals with less funding for graduate medical education. Dennis Smith, director of CMS’ Center for Medicaid and State Operations, recently said the rules are needed to “protect the fiscal integrity of the Medicaid program.”

Attempts to Stop Changes Failed

In June 2007, the American Hospital Association sent comments to Leslie Norwalk, then-Acting Administrator of CMS, noting the inconsistencies with past practice and the CMS’ previously acknowledged role that Medicaid payments play in supporting graduate medical education.

Although CMS claims this rule clarifies existing GME policy, it completely reverses over 40 years of agency policy recognizing GME as a covered medical assistance cost. The agency’s recent decision will result in a cut of nearly \$2 billion in federal funds out of the program. If these cuts to state Medicaid programs are finalized, many safety-net hospitals will face financial jeopardy, ultimately harming some of our most vulnerable citizens, who are covered by the Medicaid program and served by these hospitals.

In September 2007, the California Association of Public Hospitals sent an alert to its member hospitals urging their activism in bringing about an extension of the Congressional moratorium on the GME rule and another regulation, the cost-limit rule. The cost-limit rule imposes restrictions in Medicaid payments to providers operated by units of government, which could lead to a reduction in services and could cost the U.C system and public hospitals \$500 million per year.

Speaking at the Insure the Uninsured Project¹ conference on February 6, 2008, Sandra Shewry, Director of the Department of Health Care Services, presented the department’s estimate of the impact the rules will have on California. She noted that the cost-limit rule will cost hospitals hundreds of millions of dollars over five years, and over \$166 million in L.A. County alone. This rule change undermines the state’s current policy goal of building on the safety net

¹ ITUP is a non-partisan organization created in 1996 that is funded by generous grants from The California Wellness Foundation, The California Endowment, Blue Shield of California Foundation and L.A. Care Health Plan. ITUP also receives project specific grants from California HealthCare Foundation.

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infrastructure as a cornerstone of health care reform. The estimated annual loss to California's hospitals in implementing the GME rules is \$86 million.

Another Postponement Possible

At a recent meeting of the National Governors Association, the effect of the Medicaid rules on individual states was a primary topic of discussion. Governor Schwarzenegger said the rule changes "would effectively end the federal government's participation in many crucial components of the Medicaid program" by shifting billions of dollars in costs to the states and could lead to a reduction in services. Since then, several governors testified before Congress in late February, urging quick intervention to stop the rules from taking effect as scheduled.

Some members of Congress are calling for the rules to be suspended until the next presidential administration, according to Senate Budget Committee Chair Kent Conrad (D-N.D.). Conrad said that a moratorium on four of the Medicaid regulations could be extended into the next Congress for a cost to the federal government of \$1 billion. A longer suspension of the rule changes would be difficult to enact because it would cost \$15 billion.

With health care reform and universal coverage being major topics in the presidential race, plans to withdraw significant funding of the Medicaid program is akin to taking two steps back and no step forward.

Link to Sandra Shewry's PowerPoint presentation

<http://www.dhcs.ca.gov/Documents/ITUP%20Conference%202-6-08.pdf>

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