


Medicare and Medicaid Cost Shifting



Energy and Commerce Sub-Committee on Health
September 18, 2008

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About Milliman

- Milliman is the largest actuarial employer in the country
- We have offices in approximately 30 US cities
- We are independent, non-advocate, professional consultants who work for a wide variety of employers, providers and payers
- Milliman has completed cost shift studies in AZ, CA, NY and WA. We are currently working on OR and a nationwide study.

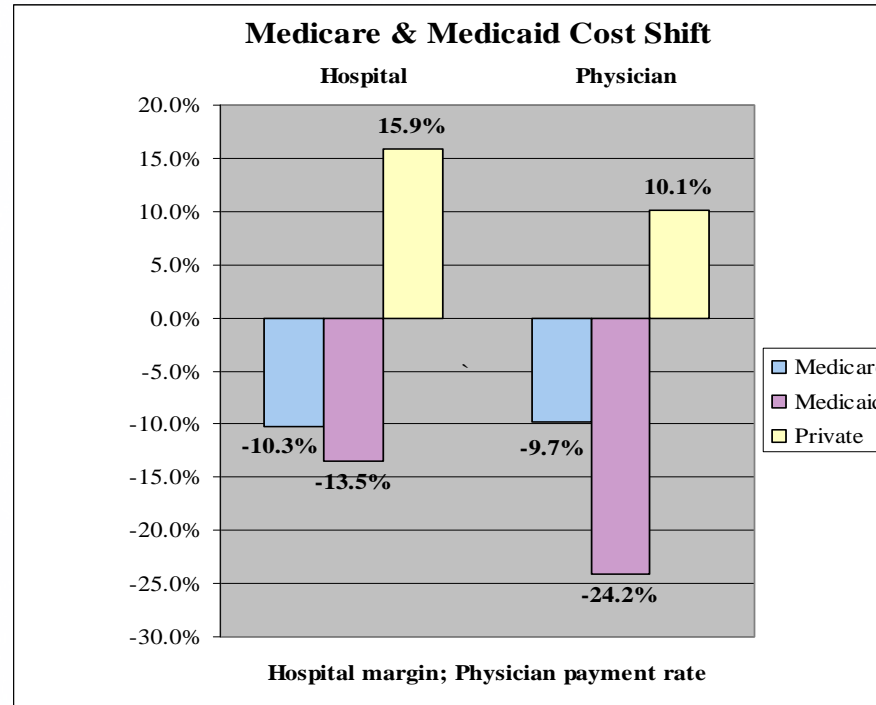
Overview

1. What is cost shifting?
2. How large is the cost shift?
3. What is the impact on private insurance premiums?
4. What are the trends?

What is Cost Shifting?

- In most areas of the country, for the same service, private health insurers pay more than Medicare, which pays more than Medicaid
- The payment rate differential can be thought of as a cost shift from Medicare and Medicaid to private payers
- In other words, if Medicare and Medicaid paid higher rates, private payer rates (and private insurance premiums) could be lowered with providers still receiving the same overall reimbursement
- Some consider this cost shift to be a hidden tax since employer groups and other privately insured people are subsidizing Medicare and Medicaid

How Large is the Cost Shift?

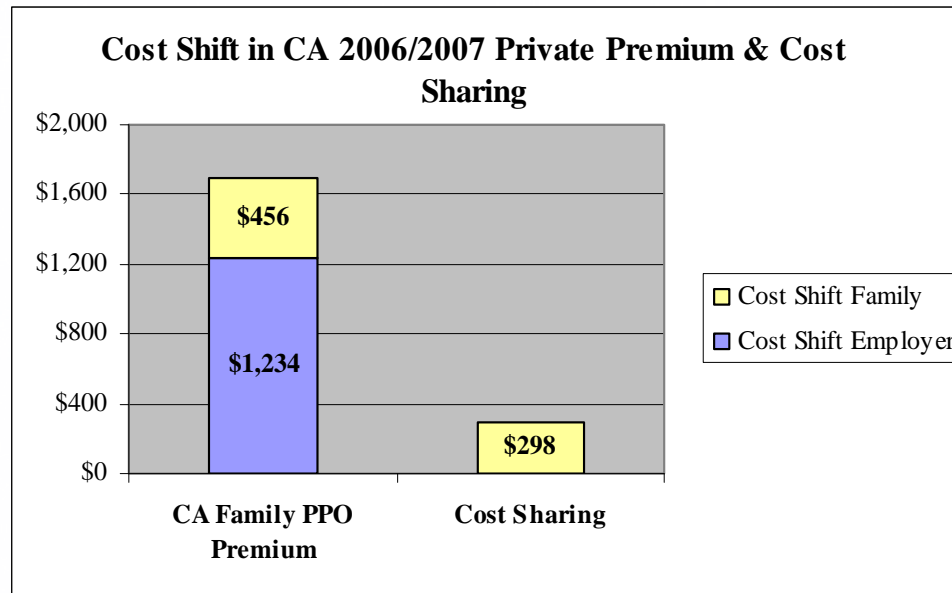


* Hospitals make 15.9% from Private Insurers to make up losses on Medicare and Medicaid

Notes:

- Varies significantly by geographic area
- These averages are based on 4 states for hospital and 3 states for physician

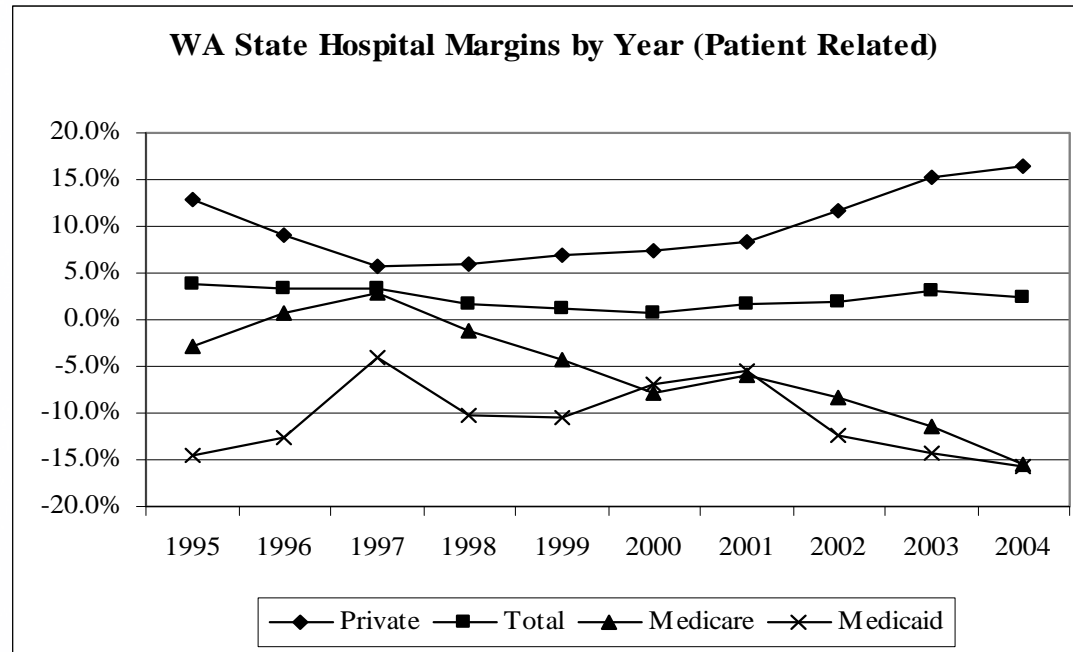
How Much does Cost Shifting Impact Private Insurance Premiums?



Notes:

- Varies significantly by geographic area
- Estimate of total annual premium is \$13,800
- Cost shift of \$1,690 equals 12.2% of total
- Based on family contract: employee, spouse, & child(ren)

How is the Cost Shift Changing over Time?



Notes:

- Results vary geographically, but we have observed similar patterns in other states

Why Does the Cost Shift Grow each Year?

	<i>Weight</i>	<i>Cost Change</i>	<i>Payment Change</i>
Medicare	35.0%	5.0%	3.0%
Medicaid	15.0%	5.0%	2.0%
Private	50.0%	5.0%	7.3%
Total	100.0%	5.0%	5.0%

Notes:

- Shortfall on public programs leveraged to private payers

Illustrative Statewide Variance

Hospital Margins by State			
	<i>2006</i>	<i>2005</i>	<i>2004</i>
	<i>CA</i>	<i>AZ</i>	<i>WA</i>
Medicare	-16.6%	-10.9%	-15.4%
Medicaid	-25.1%	-5.1%	-15.6%
Private	25.7%	15.4%	16.4%
Average	-0.7%	5.5%	2.4%

Notes:

- Approach by state varies somewhat, but results can be compared across states