



Medicaid Provider Reimbursement Rate Methodologies

**Presentation to the
Senate Finance Committee and the
Senate Health and Human Services Committee**

Albert Hawkins, Executive Commissioner
September 16, 2008

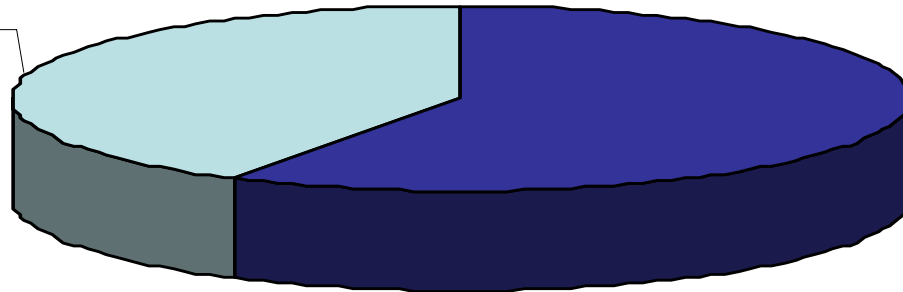
Projected Expenditures by Major Category

HHS Total: \$26,487.8 million

FY 2008

**Federal Funds
\$15,474.1
million or
58%**

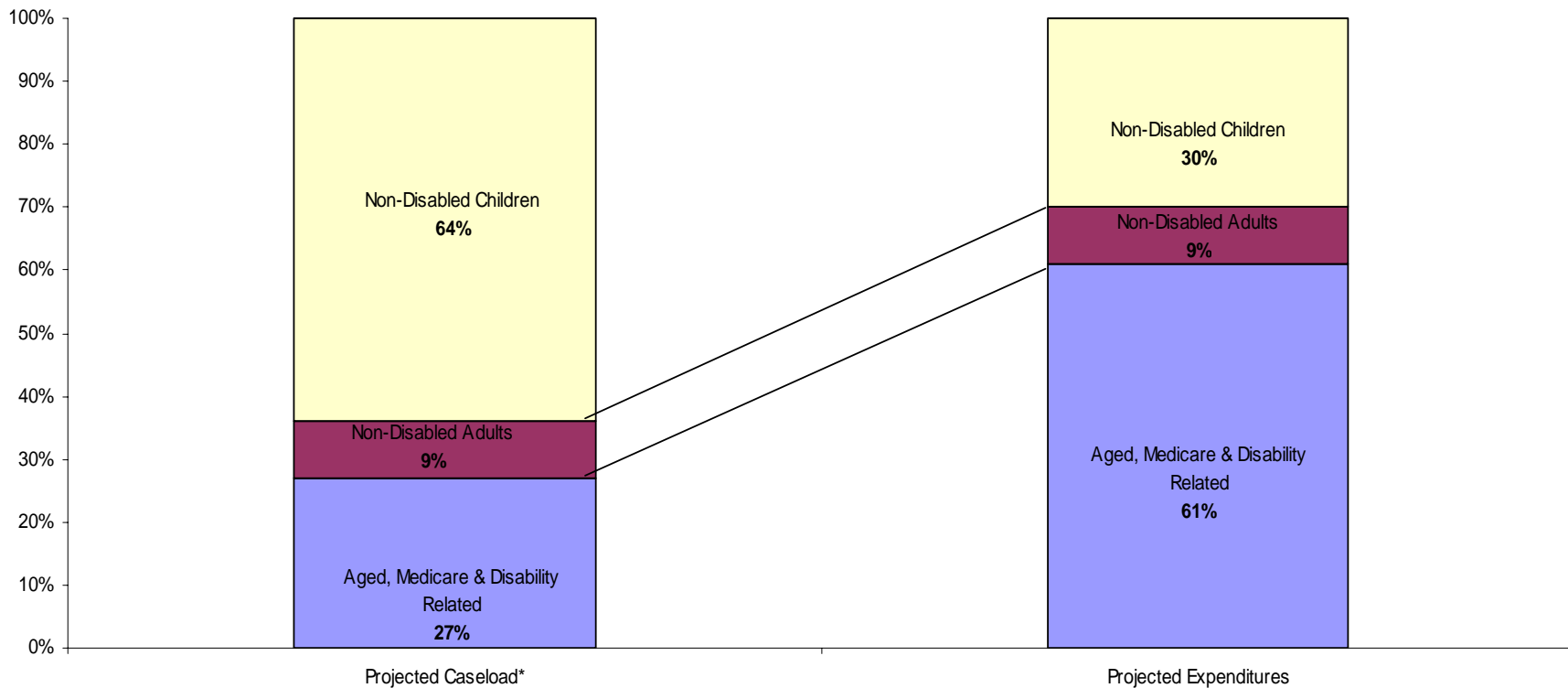
**GR & Other
\$11,013.8
million or
42%**



Distribution of Federal Funds		
<u>Program</u>	<u>Amount</u>	<u>% of FF</u>
Medicaid	\$12,069	78%
WIC	518	3%
CHIP	706	4%
TANF	424	3%
Foster Care	247	2%
Voc Rehab	238	2%
Other FF	1,272	8%
Total	\$15,474	100%

Projected Texas Medicaid Related Expenditures by Client Category

Projected Medicaid Beneficiaries and Expenditures, FY 2008

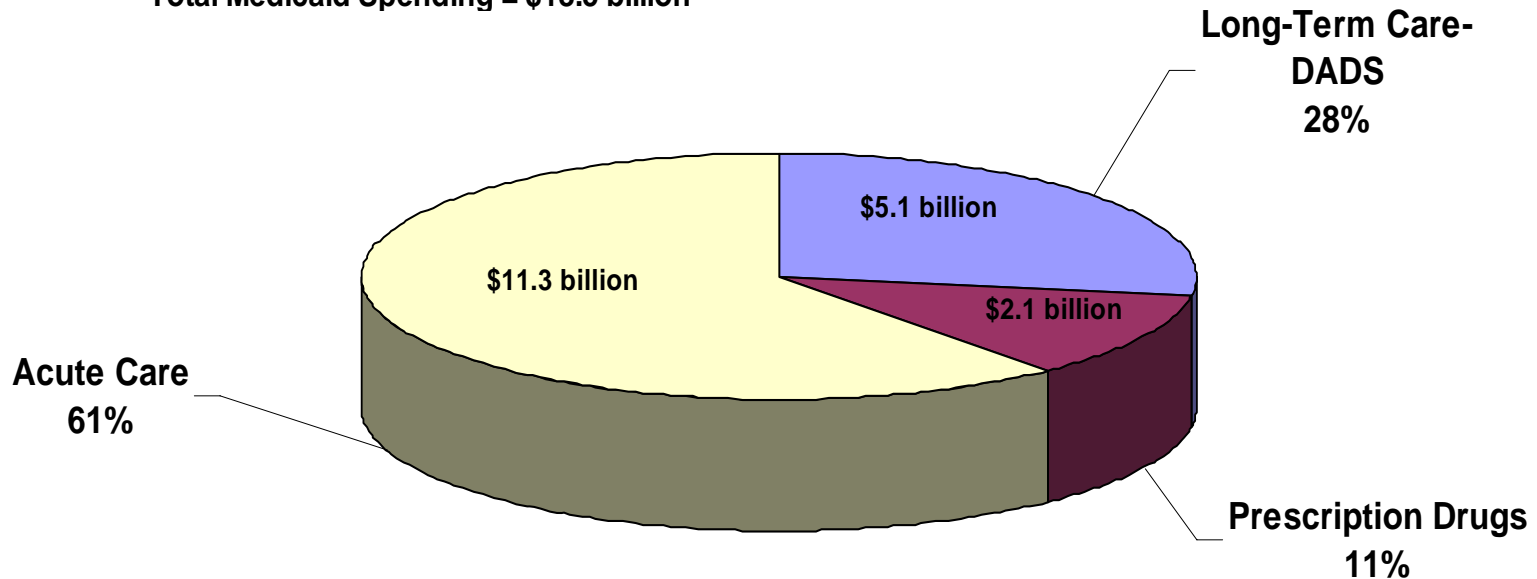


Projected caseload and expenditures include costs and caseload for all full Medicaid beneficiaries and non-full beneficiaries, such as clients whose Medicare hospital premiums are paid by Medicaid, Women's Health clients, and Emergency Services for Non-Citizens. All Long-Term and Acute Medicaid is included.

Texas Medicaid Related Spending by Major Function

Texas Medicaid Spending, Fiscal Year 2007

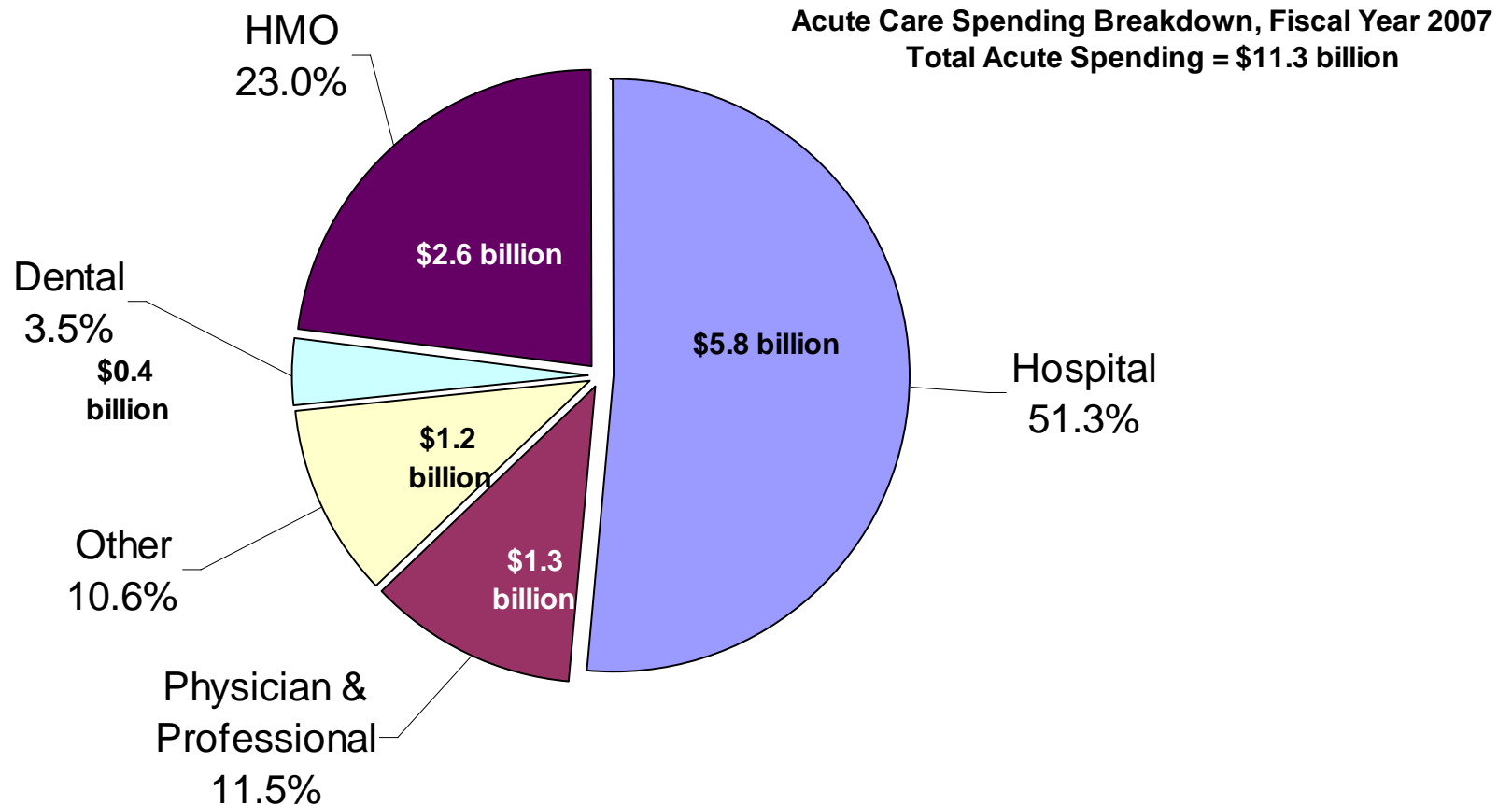
Total Medicaid Spending = \$18.5 billion



Source: FY 2007 claims payments and expenditures, HHSC Financial Services; DADS Budget

Acute Care spending includes all Fee for Service and Managed Care; Long-Term Care includes all Residential and Community Care Medicaid programs AND STAR+Plus Long-Term Care Services (HMO).

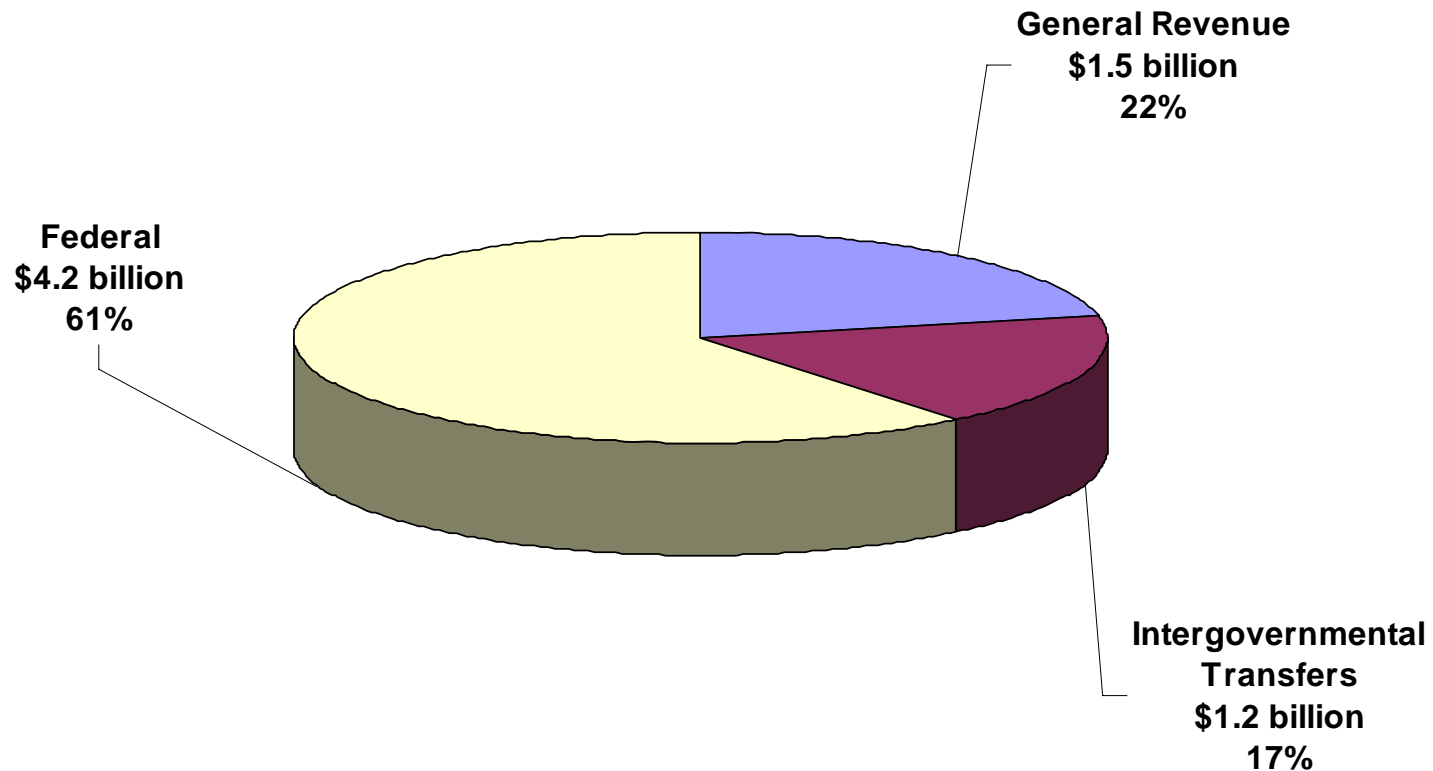
Texas' Medicaid Related Spending for Acute Care



Acute care spending includes all Fee for Service, PCCM, and HMO Payments. Hospital payments include FFS, and PCCM with HMO payments not included in the Hospital category. Disproportionate Share and Upper Payment Limit Payments are included. *Source: HHSC Financial Services, SDS*

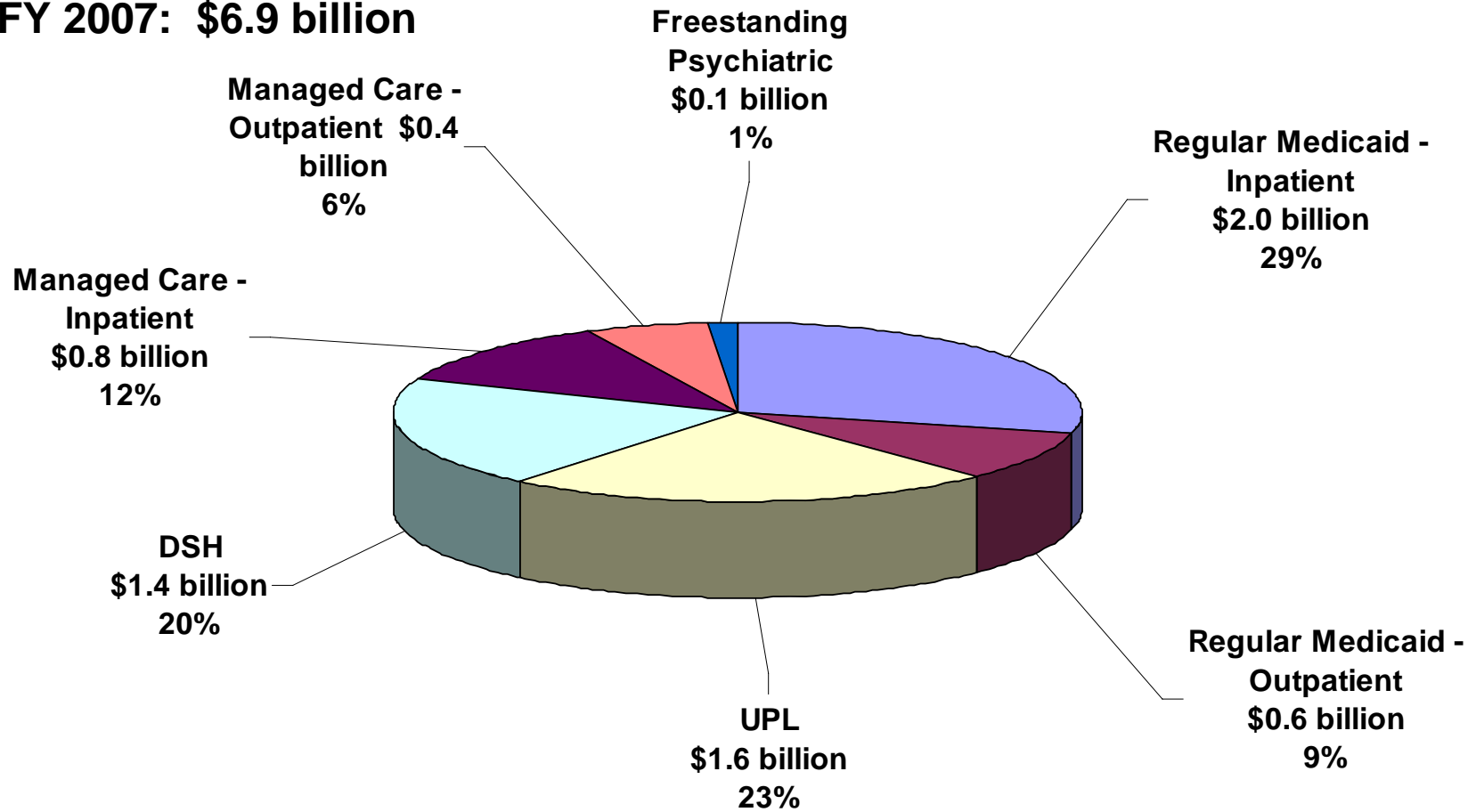
Texas' Medicaid Related Hospital Payments by Funding Source

FY 2007: \$6.9 billion



Texas' Medicaid Related Hospital Payments (All Funds)

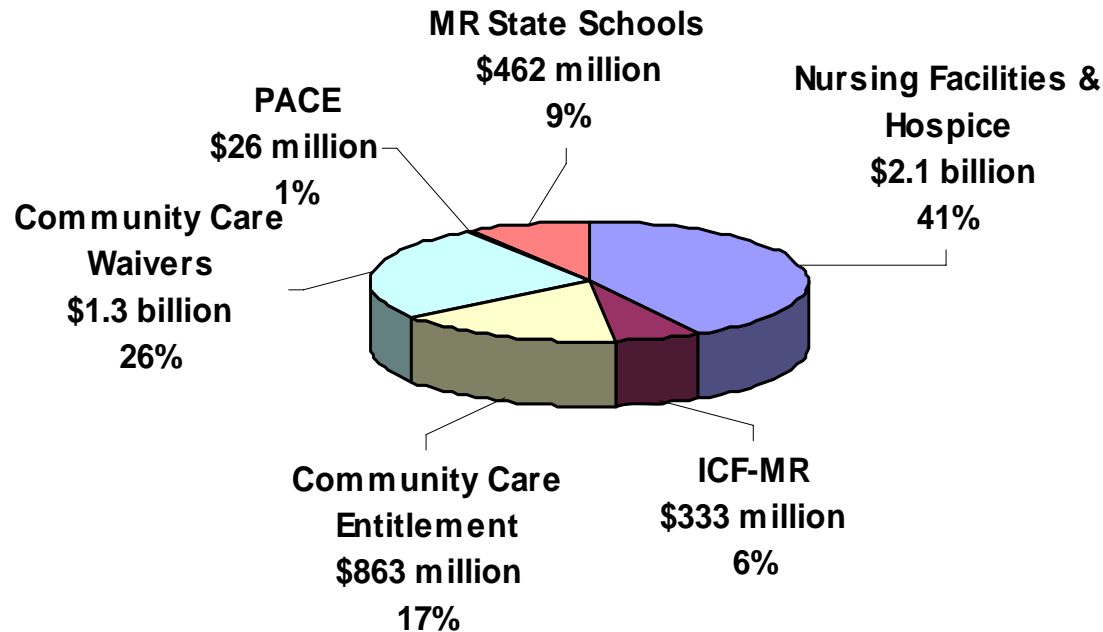
FY 2007: \$6.9 billion





Texas' Medicaid Related Spending by Major Function: Long-Term Care

FY 2007: \$5.1 billion



Community Care Waivers		Community Care Entitlement Programs	
Community Based Alternatives (CBA)	\$413.1 million	Primary Home Care	\$449.9 million
Home and Community Based Services (HCS)	\$456.7 million	Community Attendant Services	\$313.0 million
CLASS	\$102.5 million	DAHS	\$100.3 million
STAR+PLUS	\$304.5 million		
Medically Dependent Children Program (MDCP)	\$21.2 million		
Others (e.g., TxHmL; DBMD; Consolidated Waiver)	\$18.2 million		



Major Rate Methodologies for Reimbursing Service Providers

Actuarial Based (Managed Care)

- STAR
- STAR+PLUS
- STAR Health
- NorthSTAR
- PACE
- CHIP
- CHIP Dental
- CHIP Perinatal

Prospective (Cost Report Based)

- Nursing Facilities
- Community Care
- Psychiatric Hospitals
- Rehabilitative Services
- Foster Care
- Private ICF-MR

Prospective (Other)

- Dentists

Non-Patient Specific Funding

- Disproportionate Share Hospitals (DSH)
- Upper Payment Limit (UPL)

Cost Based Reimbursed

- Children's Hospitals
- Children's Nursing Facilities
- State Operated Programs (e.g., State School, State Lab)
- Outpatient Hospitals
- School Health and Related Services (SHARS)

Medicare Linked

- Hospital Diagnosis Related Groups (DRGs)
- Ambulance Providers
- Durable Medical Equipment (DME)
- Relative Value Units (RVU) Based Rates for Physicians/Other Practitioners

Centers for Medicare and Medicaid Services (CMS) Mandated Methodology

- Hospice (Nursing Facilities and In-home)
- Federally Qualified Health Center (FQHC)
- Rural Health Clinic (RHC)



Summary of Major Rates by Service Provider Type

Type	Number of Rates	Number of Providers	
		Directly Impacted	Indirectly Impacted
Actuarial (HMOs)	360	22	40,000+
Prospective (Cost Report Based)			
Nursing Facilities (RUGs)	955	1,055	n/a
Community Care	2,243	2,574	n/a
Freestanding Inpatient Psychiatric Hospitals	41	41	n/a
Foster Care	14	290	n/a
Private Intermediate Care Facilities for Persons with Mental Retardation (ICF/MR)	15	207	n/a
Prospective (Other)			
Dentists	890	2,548	6,129
Cost Based Reimbursed			
Children's Hospitals	7	7	n/a
State Teaching Hospitals	3	3	n/a
Outpatient Hospital Services	483	483	n/a
Children's Nursing Facilities	1	1	n/a
State Schools / Bond Homes	35	33	n/a
DSHS Lab	19	3	n/a
Veterans Nursing Facilities	7	7	n/a
School Health and Related Services (SHARS)	28,000	700	500



Summary of Major Rates by Service Provider Type, *continued*

Type	Number of Rates	Number of Providers	
		Directly Impacted	Indirectly Impacted
Medicare Linked			
Inpatient Hospital - Standard Dollar Amounts (SDAs)	473	473	n/a
Inpatient Hospital - Diagnosis Related Groups (DRGs)	745	473	n/a
Physicians and Certain Other Practitioners	112,592	9,861	32,784
<i>Physicians (MDs and DOs)</i>	95,457	6,999	30,567
<i>Chiropractors</i>	31	455	99
<i>Independent Laboratories</i>	14,063	251	102
<i>Occupational Therapists</i>	61	23	9
<i>Optometrists</i>	196	564	667
<i>Physical Therapists</i>	199	278	276
<i>Podiatrists</i>	694	355	402
<i>Portable Laboratory and X-ray Suppliers</i>	1,684	362	8
<i>Psychologists</i>	160	555	651
<i>Radiation Treatment Centers</i>	47	19	3
Ambulance Providers	27	1,613	41
Case Management and Rehabilitative Services	20	347	n/a
<i>DADS Targeted Case Management (MR) Service Coordination)</i>	1	39	n/a
<i>DSHS Targeted Case Management (MH) Case Management)</i>	3	39	n/a
<i>DARS Targeted Case Management (ECI) Case Management)</i>	1	58	n/a
<i>DARS Targeted Case Management (Blind Children's Vocational Discovery & Development Program (BCVDDP)</i>	1	1	n/a
<i>DSHS Rehabilitative Services (MH Rehabilitative Services)</i>	10	39	n/a
<i>DARS Rehabilitative Services (ECI Developmental Rehab Svcs (DRS))</i>	1	58	n/a
<i>Case Management for Children and Pregnant Women (CPW)</i>	3	113	89



Summary of Major Rates by Service Provider Type, *continued*

Type	Number of Rates	Number of Providers	
		Directly Impacted	Indirectly Impacted
Medicare Linked (<i>continued</i>)			
Comprehensive Outpatient Rehabilitation Facilities (CORFs) / Outpatient Rehabilitation Facilities (ORFs)	364	198	15
Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS)	1,991	11,165	6,884
Family Planning Clinics	2,795	185	208
Home Health Agencies	105	1,320	35
THSteps Medical Providers	2,773	2,073	297
Other Clinics	300	410	n/a
Centers for Medicare and Medicaid Services (CMS) Mandated Methodology			
Hospice (Nursing Facilities and In-Home)	1,971	283	n/a
Federally Qualified Health Centers (FQHC)	180	180	n/a
Rural Health Clinics (RHC)	378	378	n/a



Selected Rate Increases/Decreases Between Biennia

*(Including Frew-related Increases Where Applicable**)*

Providers	2002-2003	2004-2005	2006-2007	2008-2009
Hospitals - Inpatient	9/01/01 fully rebased acute care hospitals	9/1/03 rate decrease 2.5%	9/1/06 rate decrease related to SSI patients in 8 specific Managed Care Organizations Service Delivery Areas 8%	Subject to Medicaid Reform Waiver approval - \$150 million (increases offset 5% rate decrease)
Hospitals - Outpatient		9/1/04 rate decrease of 5% <i>(Implementation of UPL program begins in 2004)</i>		
Federally Qualified Health Centers (FQHC)	1/1/02 rate increase 3.8% 1/1/03 rate increase 4.5%	1/1/04 rate increase 4.4% 1/1/05 rate increase 4.6%	1/1/06 rate increase 4.3% 1/1/07 rate increase 3.6%	1/1/08 rate increase 3.3% 1/1/09 rate increase MEI + 1.5%
Rural Health Clinics (RHC)	1/1/02 rate increase 2.3% 1/1/03 rate increase 3.0%	1/1/04 rate increase 2.9% 1/1/05 rate increase 3.1%	1/1/06 rate increase 2.8% 1/1/07 rate increase 2.1%	1/1/08 rate increase 1.8% 1/1/09 rate increase MEI
Ambulance Providers	0%	9/1/03 rate decrease 2.5%	0%	9/1/07 rate increase and rate restoration of 55.5%
Physicians and Certain Other Practitioners:				
<i>Children**</i>	0%	9/1/03 rate decrease 2.5%	0%	9/1/07 rate increase and rate restoration of 27.5%
<i>Adults</i>	0%	9/1/03 rate decrease 2.5%	0%	9/1/07 rate increase and rate restoration of 12.5%
Dentists**	1/1/02 rate increase of 13.5%	9/1/03 rate decrease 2.5%	0%	9/1/07 rate increase and rate restoration of 52.5%
Vendor Drug (Dispensing Fee)	0%	9/1/03 rate decrease 2.5%	0%	9/1/07 rate increase and rate restoration of 44.8%



Selected Rate Increases/Decreases Between Biennia, *continued*

*(Including Frew-related Increases Where Applicable**)*

Providers	2002-2003	2004-2005	2006-2007	2008-2009
Nursing Facilities	9/1/01 rate increase of 8.8%	9/1/03 rate decrease of 1.75%	1/1/06 rate increase of 11.75%	9/1/07 rate increase of 3% 9/1/08 rate increase of 5%
Community Care - DADS (CBA, PHC, DAHS, CLASS, etc.)	9/1/01 rate increase varies from .04% to 2.2%	9/1/03 rate decrease of 1.1%	9/1/05 rate restoration increase of 1.10% 8/1/07 minimum wage increase - varies from 0% to 1.79%	9/1/07 rate increase - varies from 1.79% to 6.06% 8/1/08 minimum wage increase - varies from 2.45% to 14.29% 8/1/09 minimum wage increase - not yet determined
Community Care - DADS (HCS, TxHmL)	9/1/01 varies from rate decrease of 4.4% to rate increase of 3.23% depending on service	9/1/03 rate decrease of 1.1%	6/1/07 rate restoration increase of 1.1%	9/1/07 rate increase of 5%
Community Intermediate Care Facility for Persons with Mental Retardation (ICF/MR)	9/1/01 and 11/1/01 rate increase - varies from 10% to 13%	9/1/03 rate decrease of 1.75%	6/1/07 rate restoration increase of 1.75%	9/1/07 rate increase of 7.5%
Foster Care	9/1/01 rate increase of 3% 9/1/02 rate increase of 2%	9/1/03 rate decrease of 3.1%	9/1/05 rate increase of 2.78%	9/1/07 rate increase of 4.3%



Funding Impact of Selected Rate Increases/Decreases Between Biennia

(Including Frew-related Increases Where Applicable**)

Providers	2002-2003		2004-2005		2006-2007		2008-2009 (Estimated)	
	AF	GR	AF	GR	AF	GR	AF	GR
Hospitals								
Inpatient & Outpatient	\$183,771,484	\$73,361,576	(\$367,000,000)	(\$143,000,000)	(\$129,277,566)	(\$51,000,000)	\$444,094,922	\$179,753,378
Upper Payment Limit (UPL)			\$1,737,945,052	IGT	\$2,735,358,546	IGT	\$3,900,000,000	IGT
Federally Qualified Health Center (FQHC)	\$3,967,122	\$1,584,042	\$4,674,721	\$1,843,747	\$4,468,291	\$1,755,326	\$4,021,445	\$1,608,943
Rural Health Clinic (RHC)	\$1,365,809	\$545,407	\$1,632,373	\$643,800	\$1,410,133	\$554,010	\$1,084,166	\$433,721
Ambulance Providers	\$0	\$0	(\$3,158,997)	(\$1,247,488)	\$0	\$0	\$86,479,054	\$34,325,338
Physicians and Certain Other Practitioners:								
<i>Children**</i>	\$0	\$0	(\$27,090,476)	(\$10,698,029)	\$0	\$0	\$674,426,702	\$266,729,372
<i>Adults</i>	\$0	\$0	(\$34,725,782)	(\$13,713,211)	\$0	\$0	\$315,902,702	\$124,191,892
Dentists**	\$79,536,951	\$31,409,142	(\$17,984,719)	(\$7,102,166)	\$0	\$0	\$732,300,000	\$286,800,000
Vendor Drug (Dispensing Fee)	\$0	\$0	(\$19,047,910)	(\$7,522,020)	\$0	\$0	\$142,500,000	\$56,500,000
Nursing Facilities	\$561,367,277	\$223,973,827	(\$45,943,771)	(\$18,276,432)	\$416,632,666	\$163,602,895	\$248,591,245	\$99,000,000
Community Care - DADS (Legacy TDHS)					\$16,356,739 (9/1/05)	\$6,920,134 (9/1/05)	\$142,626,389 (9/1/07)	\$56,708,668 (9/1/07)
Community Care - DADS (Legacy TDMHMR)	\$191,069,213	\$80,874,036	(\$16,356,739)	(\$6,920,134)	\$1,800,000 (8/1/07)	\$700,000 (8/1/07)	\$86,760,198 (8/1/08)	\$37,342,600 (8/1/08)
Community Intermediate Care Facility for Persons with Mental Retardation (ICF/MR)	\$6,300,000	\$2,500,000	(\$13,300,000)	(\$5,300,000)	\$4,180,950	\$1,662,600	\$34,820,194	\$13,825,710
Foster Care	\$78,095,592	\$31,155,929	(\$13,900,000)	(\$5,500,000)	\$4,369,050	\$1,737,400	\$50,844,316	\$20,187,735
Foster Care	(\$20,059,773)	(\$7,879,005)	(\$10,973,853)	(\$4,989,845)	\$21,401,258	\$13,656,852	\$42,379,442	\$15,620,391
TOTAL	\$901,642,191	\$364,163,378	\$1,174,769,899	(\$221,781,778)	\$3,076,700,067	\$139,589,217	\$6,906,830,775	\$1,193,027,748



Rate Increases Approved by the 80th Legislative Session

- Provider Rate Restorations
 - Funding provided to restore reductions made in 2003 to Medicaid and CHIP provider rates totaled \$108.9 million general revenue (\$279.8 million all funds).
 - Rates that are tied to Medicaid rates at the Department of State Health Services (DSHS) were also restored – Women and Children’s Health Services, Family Planning Services, and Children with Special Health Care Needs.
- Hospital Rate Rebasing
 - H.B. 1 includes approximately \$150 million general revenue (\$370.6 million all funds) to rebase hospital rates assuming the Medicaid Reform waiver is approved.

Rate Increases Approved by the 80th Legislative Session, *continued*

- Medicaid and CHIP Provider Rate Increases, H.B. 1 includes approximately \$234.5 million general revenue (\$593.9 million all funds) to increase rates.
 - For the biennium, rates were increased as follows:
 - Physician and other practitioners rates at 12.5% for adults (2.5% restoration and 10.0% increase),
 - Dental rates at 15% in 2008 and 10% in 2009,
 - Prescription drug dispensing expenses increased to \$7.50 per prescription (a 44.8% increase above 2006-07 levels),
 - Ambulance rates by \$31.2 million general revenue (a 55.5% increase above 2006-07 levels),
 - Therapies delivered to clients under age 21 by home health agencies by \$39.7 million general revenue-related, and;
 - Primary care case management (PCCM) by \$2.8 million general revenue.
 - Rates implemented during the 2008-2009 biennium and the full impact for the 2010-2011 biennium will need to be determined.

- *Frew Agreement* Provider Rate Increases, H.B. 15 includes approximately \$511.7 million general revenue (\$1.3 billion all funds) to increase rates for recipients under age 21.
 - Physician and other practitioners rates by 25%, and
 - Dental rates by 50%.

Recap of *Frew* Agreement Decisions

- **Rate Increases for Children**
 - H.B. 15 included approximately \$511.7 million general revenue (\$1.3 billion all funds) to be used to increase payment rates for dentists, physicians, and specialists.
- **Corrective Action Plans**
 - H.B. 15 included \$45.0 million general revenue (\$91.6 million all funds) to be used for compliance with the Frew Settlement Agreement corrective actions plans, e.g., independent studies to improve access to care; provider training.
- **Strategic Initiatives**
 - H.B. 15 included \$150.0 million general revenue for Frew-related improvements. Initiatives approved by the LBB and Governor to date include:

Approved Strategic Initiatives	Implementation	General Revenue	All Funds
<i>First Round</i>			
First Dental Home	March 2008 (<i>Pediatric</i>) May 2008 (<i>General</i>)	\$ 24,100,000	\$ 60,300,000
Fluoride Varnish	September 2008	\$ 864,553	\$ 2,146,178
Mobile Dental Unit in the Valley	Fall 2008	\$ 608,133	\$ 608,133
<i>GR Variance for Revised Costs</i>		\$ 3,827,314	\$ 9,445,689
<i>Sub-total</i>		\$ 29,400,000	\$ 72,500,000
<i>Second Round</i>			
Integrated MH Program	Fall 2008	\$ 5,873,089	\$ 5,873,089
Subspecialty Access Improvement	Fall 2008	\$ 934,957	\$ 1,940,108
<i>GR Variance for Revised Costs</i>		\$ 991,954	\$ 1,086,803
<i>Sub-total</i>		\$ 7,800,000	\$ 8,900,000
TOTAL		\$ 37,200,000	\$ 81,400,000



Frew Agreement – Other Strategic Initiatives Under Consideration

- Loan Forgiveness Options
- Pediatric Subspecialty Circuit Rider Program
- Telemedicine Options
- Targeted Rate Increase for Medicaid Providers in Underserved Areas
- Healthy Lifestyle Incentive
- Migrant Health Proposal
- Mental Health Mentoring Project
- Medical Transportation Program Improvements
- Prior Authorization Improvements
- Vitamins/Minerals Medical Benefit Proposal
- Disease Management (obesity) Proposal
- Outreach for Currently Enrolled Medicaid Children Using Promotoras/Community Health Workers
- Telemedicine Proposal to Increase Pediatric Subspecialty Proposal
- Consultation and Referral Network for Pediatric Subspecialists Proposal
- Physician Directed Case Coordination Proposal
- Medicaid Eligibility and Health Information Project
- Additional Mobile Dental Units



Major Issues for Consideration by the 81st Legislature

Rate Issues

- Methodology Review – Home and Community Based Services (HCS)
- Nursing Facilities – TILES to RUGS
- Personal Care Attendant
- Nursing Facilities – Facility Costs
- Impact of *Frew* Agreement
- Parity Rates for Adults and Children

Policy Issues

- Increased Audit of Cost Reports
- Federal Audit Requirements for DSH
- Pay for Performance
- Cost of Living Adjustments
- Automatic Inflatators
- Minimum Wage and Secondary Impact (Ripple)
- Technology
- Consumer Driven System



Impact of Provider Rate Increases on Provider Participation

Research Analysis Plan

- Examine number of new providers enrolled since September 1, 2007.
- Examine enrollment trends by provider type.
- Compare percent of all licensed physicians and dentists who have enrolled in Medicaid.
- Examine provider participation (billings) of both previously and newly enrolled providers.
- Examine participation trends by provider type.
- Examine providers with multiple locations, and examine whether new locations have been established since September 1, 2007.
- Examine service utilization for children, including increases in the number of services provided, increases in the number of services per child, and increases in the number of children served.

Timeline

- Fall 2008 – Preliminary impact analysis based on first and second quarter for fiscal year 2008.
- Winter 2009 – Impact of rate increases for fiscal year 2008.



Texas' Health Care Reform Waiver Request

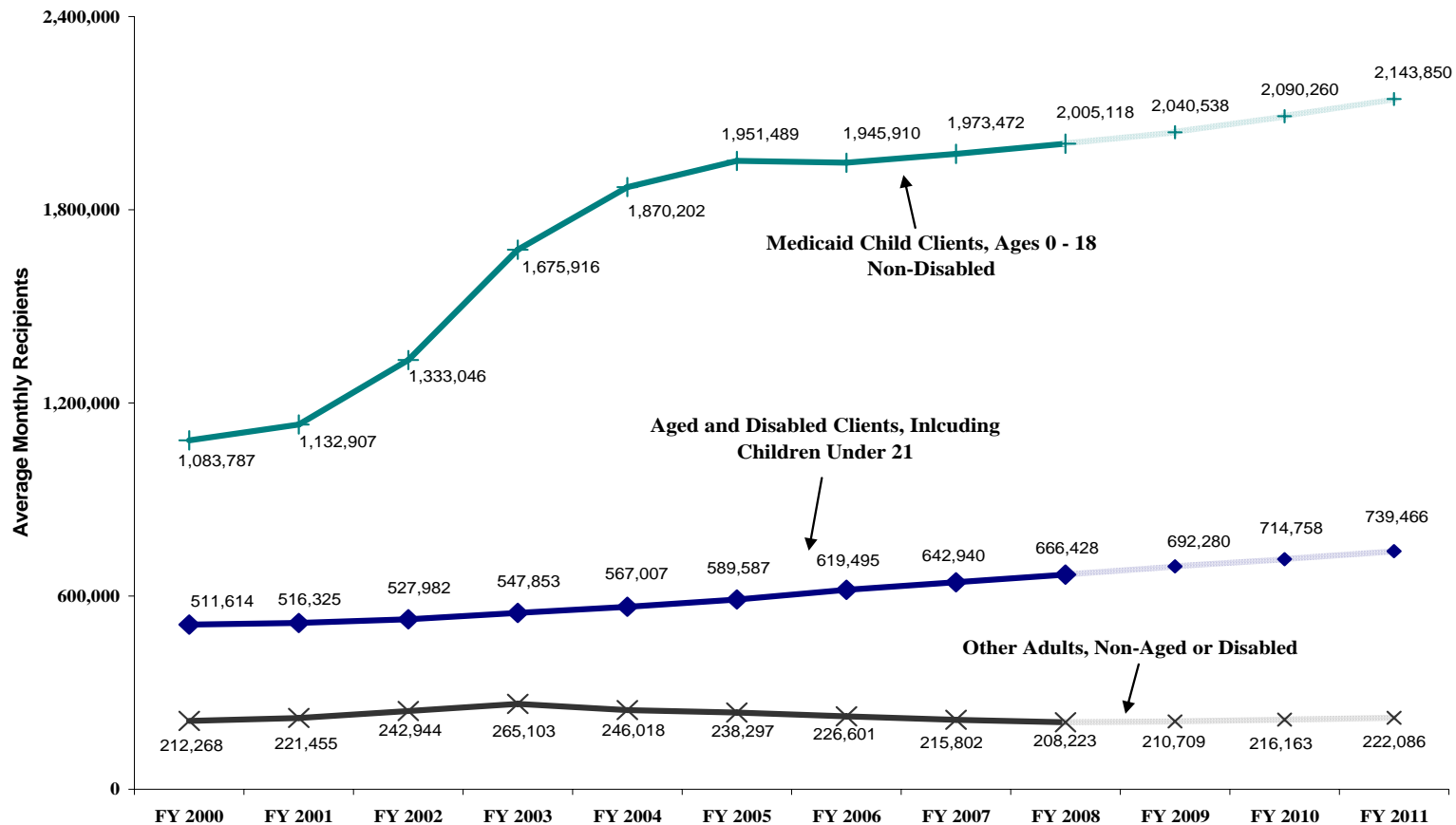
- HHSC submitted a waiver request to the U.S. Department of Health and Human Services (HHS), Centers for Medicare and Medicaid Services (CMS) on April 16, 2008.
- Request outlines the State's plan to transform the current system:
 - Expand health coverage options in the state,
 - Reduce reliance on expensive emergency room visits for basic care,
 - Support a coordinated, locally-integrated care approach with time-limited grant opportunities, and;
 - Make it easier for the working poor to buy into employer-sponsored insurance (ESI).
- The cornerstone of the Texas plan is a Health Opportunity Pool trust fund that will provide premium subsidies to low-income uninsured adults.
- HHSC and CMS held information discussions on the submitted waiver and on July 3, 2008, HHSC requested an accelerated review.
- CMS' feedback required HHSC staff to modify the waiver request.
- During the week of September 3, 2008, the Executive Commissioner traveled to Washington, D.C. to meet with HHS executive leadership.
- Formal waiver negotiations between HHSC and CMS are in process.

Major Cost Drivers

- Caseload Forecast
 - Medicaid
 - CHIP
- Changing Demographics
- Health Care Cost Trends
- Utilization
- Drug Costs
- Technology

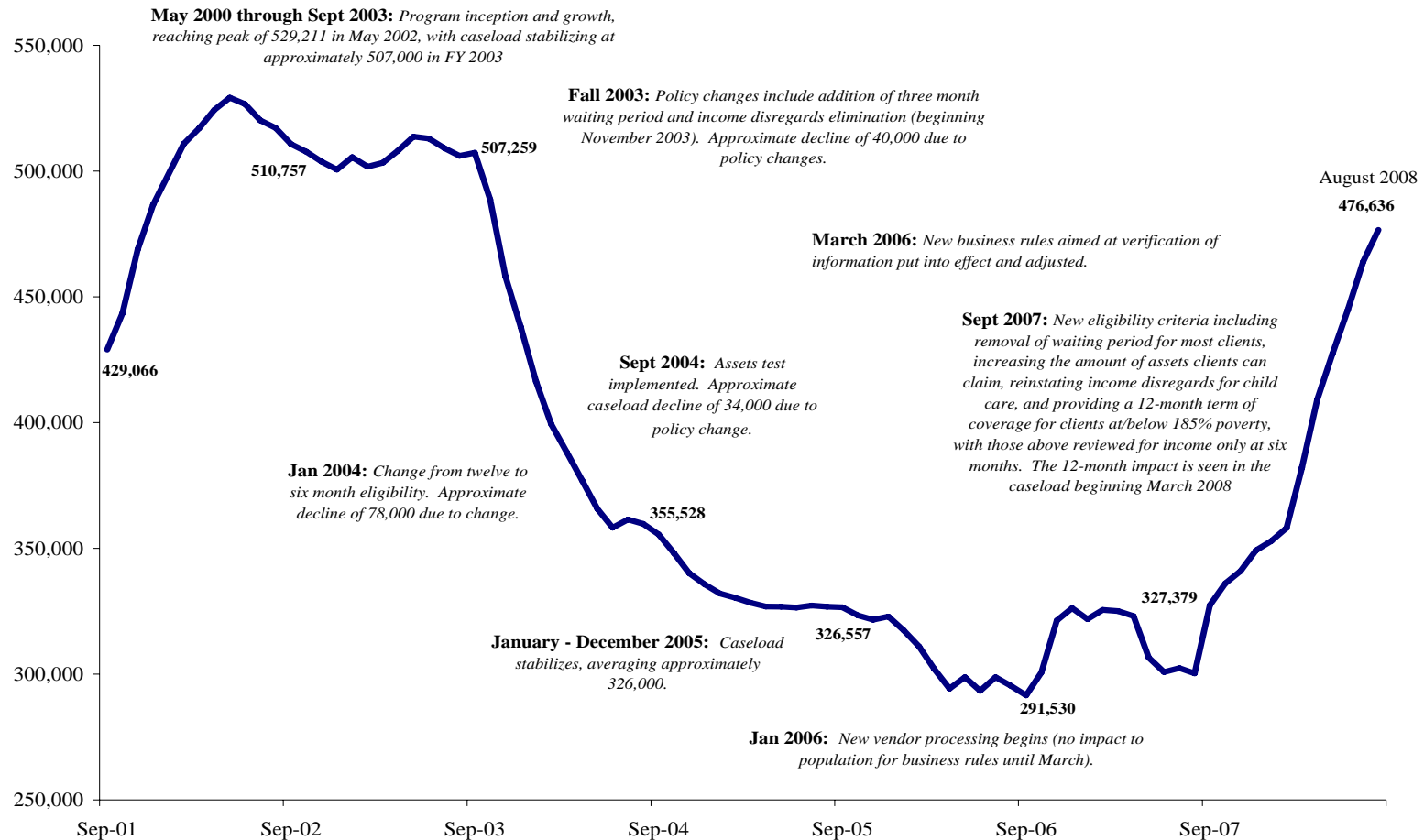
Key Budget Driver: Medicaid Caseload

Medicaid Caseload by Group: Fiscal Year 2000 to 2011 (projected)



Key Budget Driver: CHIP Caseload

CHIP Enrollment and Policy Changes, September 2001 - August 2008



Key Budget Driver: Children Served

Medicaid and CHIP Clients Under Age 21: Fiscal Years 2000 - 2011 (projected)

