

Vermont Legislative Joint Fiscal Office

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

ISSUE BRIEF

February 2008

Prepared by Nolan Langweil

VERMONT'S MEDICAID COST SHIFT FOR HOSPITALS

Some Facts & Impacts

How much would insurance premiums decrease if Vermont's Medicaid cost shift for hospitals were eliminated?

Generally when we talk about the cost shift, we are referring to the "Hospital" cost shift. We are concerned about the cost shift as it affects all sectors of health care but we only have information about hospitals. The Department of Banking, Insurance, Securities and Health Care Administration (BISHCA) has very detailed data concerning hospital budgets and expenditures. However, BISHCA does not have as accurate of data for other sectors of health care, such as nursing homes, home health, private physicians, etc. The following information concerns the Medicaid cost shift as it pertains to hospitals only.

The Medicaid Cost Shift for FFY 2008¹ is **\$94.3 million**. Total commercial insurance expenses (claims) are budgeted² to be \$692.6 million.

- ❖ Medicaid Cost shift = $\$94.3\text{M} \div \$692.6\text{M} = 13.6\%$
- ❖ Vermont Medicaid Costs shift = **12.3%**
 - Out-of-state Medicaid represents approximately 10% of the Hospital Medicaid Cost Shift. In other words, Vermont has no control over 10% of the total Medicaid Cost Shift.
 - $13.6\% \times 90\% = 12.3\%$
- ❖ Hospitals costs represent 42.5% of an insurance premium.
 - $12.3\% \times 42.5\% = 5\%$
- ❖ Eliminating the hospital Medicaid cost shift would reduce premiums approximately **5%**.

Upper Payment Limit

It should be noted that there are important legal constraints on the amount Medicaid can pay known as the upper payment limits (UPL), which limits the amount Medicaid can pay to no more than the amount Medicare would pay for the same service. So if Medicare pays less than cost for a service, Medicaid will be unable to pay full cost for that service. This impacts the states ability in reducing the cost shift.

¹ Hospitals in Vermont report using a federal fiscal year (FFY).

² Budgeted – Hospitals submit their budgets to BISHCA annually. They are reviewed, adjusted, and then approved by the commissioner. Actuals are not yet available for 2007 and 2008.