TESTIMONY OF
CONNECTICUT HOSPITAL ASSOCIATION
SUBMITTED TO THE
HUMAN SERVICES COMMITTEE
Tuesday, March 12, 2024

HB 5459, An Act Increasing Rates Of Medicaid Reimbursement For Certain Providers

The Connecticut Hospital Association (CHA) appreciates this opportunity to submit testimony concerning **HB 5459, An Act Increasing Rates Of Medicaid Reimbursement For Certain Providers**. CHA supports this bill with proposed amendments.

Connecticut hospitals are critical to their communities. They are confronting the challenges posed by a post-pandemic healthcare system with an exemplary healthcare workforce that continues to provide outstanding care. But challenges remain. Hospitals are treating sicker patients, it continues to be challenging to hire and retain staff, and the financial headwinds are grave. Through it all, hospitals are steadfast, providing high-quality 24-hour care for everyone who walks through their doors, focusing on making Connecticut's healthcare system more equitable, and driving world-class innovation right here in Connecticut.

For decades, Connecticut has underinvested in its Medicaid program. Although it has broad coverage policies relative to the nation, low rates paid to service providers are starving the care delivery system of essential resources. CHA strongly supports provisions in HB 5459, which would increase Medicaid rates to a broad range of providers. In particular, CHA supports:

1. Section 1, which increases the rates of physician specialists and behavioral health providers

2. Sections 2 and 3, which increase Diagnosis Related Group (DRG) based rates paid to acute care hospitals and per diem rates for inpatient services provided by chronic disease hospitals; but CHA suggests the language of Section 3 be amended to also increase per diem rates for inpatient behavioral health services provided by acute care and psychiatric hospitals

3. An amendment to increase above rates sufficient to cover the cost of care with future increases indexed to Medicare or other appropriate index of price inflation to help ensure rates keep pace with the cost of providing care

Medicaid Underpayment

HB 5459 is responsive to the findings of the Connecticut Department of Social Services' *Phase 1 Report: Studies of Medicaid Rates of Reimbursement* (February 2024), which reviewed Connecticut Medicaid fee-for-service rates for behavioral health services (BHS), dental services, physicians, and other professional services providers and benchmarked Connecticut Medicaid rates to Medicare and peer states. Phase 1 of the rate study revealed a substantial gap between current fee schedule rates and the benchmark comparisons. In addition to documenting a pervasive pattern of underpayment for essential services, the study documented the state's decades-long failure to assess the adequacy of these rates and the failure of state policy to provide for increases in rates over time. This study came as no surprise to all categories of Medicaid providers who for years have struggled mightily to cover their costs in the face of steadily increasing demand for their services.

There are three important consequences of Connecticut's chronic underinvestment in Medicaid rates:

- Medicaid beneficiaries have poorer access relative to their commercially insured counterparts, they have poorer health and healthcare outcomes, and they experience preventable health disparities related to income, race and ethnicity, disability, sexual orientation, and gender identity
- Medicaid providers lack the resources to recruit and retain staff, finance advancements in technology and data analytics, and invest in systems, staff, and processes to drive continuous improvements in quality
- Commercial health insurers pay higher rates to make up for Medicaid underpayment; this amounts to a *hidden tax* on employers and their employees who ultimately bear the cost of these higher rates

In a presentation to the Medical Assistance Oversight Council (MAPOC) in February 2023, the Department of Social Services (DSS) highlighted the extent of this underinvestment (see presentation, slide 20). In 2022, as a percent of total state expenditures, Connecticut spent 22.6% on Medicaid versus an average of 28.8% among its northeastern peers. In other words, **peer states spent 27% more than Connecticut on Medicaid** — this is a long-standing disparity extending back at least six years.

If Connecticut committed to a comparable level of investment, it would need to increase its Medicaid spend by more than $2.5 billion annually. By consistently underspending on Medicaid relative to its northeastern peer states from 2017 to 2022, **Connecticut left more than $7.5 billion in federal revenue on the table**. Combined with the state share, that's revenue that could have strengthened the care delivery system, driven better health outcomes for Medicaid beneficiaries, reduced pressure on commercial prices, and contributed to the broader economy.

As further evidence of this underspend, Connecticut Medicaid's annual rate of growth on a per member per month basis has been among the lowest in the nation. According to DSS, "comparing SFY 2022 to SFY 2016, the PMPM increased by only 2.4% over that six-year period, an **annual rate of only 0.4%**" (see presentation, slide 10). What DSS has for too long touted as an accomplishment has meant severely restricted access to care for Connecticut Medicaid beneficiaries.

Physician Specialty and Behavioral Health Services

HB 5459 would increase rates to a broad range of providers, including physician specialists and behavioral health providers. The state last set rates for physician specialists and many non-physician practitioners in 2007. The policy was to pay practitioners at 57.5% of Medicare. Although some adjustments were made in the transition to managed fee-for-service in 2012, medical specialty rates for typical office visits remain below 60% of Medicare and for the most common established patient office visits below 50% of Medicare. The *Phase 1 Report: Studies of Medicaid Rates of Reimbursement* documents the magnitude of this underpayment as of 2023.

HB 5459 should be amended to specify that rates should be increased to cover the cost of care, or in any case, no less than 100% of Medicare and pegged to an appropriate price index to maintain the adequacy of such rates overtime. Payment at cost or on par with Medicare would be an extraordinarily effective means to strengthen and sustain payment adequacy for physician specialists and behavioral health providers, and it would do a great deal to *ensure equity of access* for Medicaid beneficiaries and advance efforts to improve healthcare outcomes.

Acute Care Hospital Services

HB 5459 should be amended to require Medicaid payment at 100% of cost for the services rendered by Connecticut's hospitals, whether DRG-based or per diem, including inpatient behavioral health services. Connecticut's reimbursement for hospital services is among the lowest in the nation. Connecticut hospitals also pay a significant provider tax, which generates funds that help support the state share of the Medicaid program. In 2022, *Connecticut hospitals paid $850 million in taxes, which, when combined with federal matching dollars, was nearly sufficient to fund Medicaid hospital coverage in its entirety*.

Every year, DSS must submit to the Center for Medicare and Medicaid Services (CMS) a demonstration that it is paying no more than Medicare for hospital services. The analysis in 2022 showed that, after accounting for the net effect of taxes and supplemental payments, Connecticut hospitals received approximately 58% of what Medicare would have paid for hospital services rendered to Medicaid beneficiaries. That resulted in a Medicaid underpayment of more than $1 billion in 2022 — an underpayment that was passed on to commercial payers, employers, and the commercially insured.

Connecticut's chronic underfunding of its Medicaid program in general, and for hospital services in particular, drives higher commercial prices. If the state is serious about ensuring access to high-quality Medicaid services and reducing pressure on commercial prices, the state must increase the state's investment in Medicaid and in the hospitals on which our residents depend.

Thank you for your consideration of our position. For additional information, contact CHA Government Relations at (203) 294-7310.