February 1, 2019

W. Charles Smithson
Secretary of Senate
State Capitol Building
LOCAL

Carmine Boal
Chief Clerk of the House
State Capitol Building
LOCAL

Dear Mr. Smithson and Ms. Boal:

Enclosed please find a copy of the report to the General Assembly relative to the Medicaid Fee Schedules in comparison to the equivalent Medicare fee schedules.

This report was prepared pursuant to the directive contained in 2018 Iowa Acts, Chapter 1165, sec 20, new subsection 26.

Please feel free to contact me if you need additional information.

Sincerely,

Mikki Stier
Deputy Director

MS:jm

Enclosure

cc: Kim Reynolds, Governor
Legislative Service Agency
Kris Bell, Senate Democrat Caucus
Josh Bronsink, Senate Republican Caucus
Natalie Ginty, House Republican Caucus
Kelsey Thien, House Democrat Caucus

Department of
HUMAN SERVICES

Medicaid Reimbursement Comparison Report

February 2019

Introduction

The Department of Human Services (DHS) administers the State's public health insurance programs, including Medicaid, ***hawk-i*** (Children's Health Insurance Program), and other programs for qualifying individuals. Iowa Medicaid is jointly funded by a federal-state partnership. The mission of DHS is to help achieve healthy, safe, stable, and self-sufficient lives through programs and services with the guiding principles of customer focus, excellence, accountability, and teamwork.

In 2018, The Iowa General Assembly[1] required DHS to review all current Medicaid fee schedules and submit a report to the Governor and the General Assembly by January 15, 2019, regarding how the current rates compare to the equivalent Medicare fee schedules or other appropriate reimbursement methodologies for specific services and including a plan for phased-in implementation of the changes.

The Iowa Medicaid Enterprise (IME) reviewed the current Medicaid program rates and compared them to equivalent Medicare fee schedules or other appropriate benchmarks. This report contains:

- A comparison of Iowa Medicaid reimbursement rates to Medicare or other benchmarks.
- Proposed changes to the dental services reimbursement methodology.
- Requirements for a phased-in implementation.

Reimbursement Comparison Analysis

The reimbursement review process is a method to compare Medicaid payments to other payers. However, there are situations where Medicare may not be an appropriate comparison for reimbursement:

- Medicare does not cover services covered by Iowa Medicaid or Medicare does not have a published available rate (i.e., dental services). Services with no comparable benchmark were excluded from the analysis.
- Instances where differences between Iowa Medicaid and Medicare payment methodology prohibit valid reimbursement comparisons (i.e., institutional services). Institutional services were excluded from the analysis.

The reimbursement comparison analysis provides a reference point for how Iowa Medicaid reimbursement rates compare Medicare and other benchmarks. Analysis is based on state fiscal year (SFY) 2018 Medicaid Fee-for-Service (FFS) and Medicaid managed care organization (MCO) utilization.

[1] 2018 Iowa Acts, Chapter 1165, sec 20, new subsection 26

To identify rates for comparative analysis, DHS first examined if a service had a corresponding Medicare rate. DHS relied primarily upon calendar year (CY) 2019 Medicare rates when available and appropriate, and when unavailable, upon other reimbursement benchmarks such as dental service relative value units published by Optum360° or the Average Wholesale Price (AWP) for physician-administered drugs published by RJ Health Systems.

The CY 2019 Medicare or most current benchmark rates and the current Medicaid FFS rates were applied to the SFY 2018 Medicaid utilization.

Additionally, DHS examined instances which Medicare reimburses multiple rates for the same service depending on the setting in which the service is provided. For example, certain physician services provided in a facility setting (i.e., hospital, nursing facility) are reimbursed by Medicare at a different rate when the same service is provided in a facility setting (i.e., office, clinic). This site-of-service (SoS) methodology is consistent with current payment under Iowa Medicaid.

DHS selected procedures for each of these service groupings:

- Medical Services
- Durable Medical Equipment, Prosthetics, Orthotics (DMEPOS) and Parenteral and Enteral Nutrition (PEN)
- Laboratory and Pathology
- Anesthesia
- Physician-Administered Drugs
- Vision Care
- Dental

Limitations

DHS believes that the analysis from this report can be used to develop recommendations to address findings. However, it is important to note limitations inherent to the analyses and limitations that exist generally when evaluating reimbursement rates.

The results in this report are based on claims and encounter data and are assumed to be 100 percent accurate, but the assumption has not been validated. Additionally, under Medicaid managed care the reimbursement rates for a particular provider may vary from the Medicaid FFS rate based on a contract.

DHS applied a ‘market basket’ methodology which is a representative sample of the services provided in a certain category. Therefore, additional elements such as future changes in service utilization or changes in covered services could change the results of this analysis.

Medical Services

The medical services category is comprised of procedure codes across a broad collection of services including physician and non-physician practitioner procedures. Examples of services are surgery, radiology, therapy, and evaluation and management (E/M) codes. Of the 5,101 procedure codes analyzed for this category, 4,808 procedure codes had a comparable benchmark. The remaining 293 procedure codes had no comparable benchmark.

The comparative benchmark is the CY 2019 Medicare Resource-Based Relative Values System (RBVS) rates. On average, Iowa Medicaid rates are 79.89 percent of the benchmark. Iowa Medicaid as a percentage of the comparable benchmark results ranged from 6.88 percent to 3360.16 percent.

DMEPOS

The DMEPOS category is comprised of 1,125 procedure codes services billed for items classified as DMEPOS. DMEPOS must withstand repeated use; be reusable or removable; and are primarily and customarily used to serve a medical purpose. Of the 1,125 procedure codes analyzed for this category, 992 procedure codes had a comparable benchmark. The remaining 133 procedure codes had no comparable benchmark.

The comparative benchmark is the CY 2019 Medicare DMEPOS and PEN rates. On average, Iowa Medicaid rates are 94.30 percent of the benchmark. Iowa Medicaid as a percentage of the comparable benchmark results ranged from 2.76 percent to 2141.85 percent.

Laboratory and Pathology Services

The laboratory and pathology services category is comprised of 743 procedure codes services billed by an independent clinical laboratory or physician office for tests on specimens from the body (such as blood or urine) that are used to diagnose and treat patients. All 743 procedure codes analyzed for this category had a comparable benchmark.

The comparative benchmark is the CY 2019 Medicare Clinical Laboratory Fee Schedule rates. Iowa Medicaid rates are 95.00 percent of the benchmark. In compliance with Section 1903(i)(7) of the Social Security Act (SSA), Iowa Medicaid reimburses for clinical diagnostic laboratory services at a rate that does not exceed the current Medicare rate. The five percent variance resulted from Executive Order (EO) 19 issued by former Governor Chet Culver that reduced rates for these services by 5 percent from the standard Medicaid rate.

Anesthesia

The anesthesia category is comprised of 244 procedure codes services billed by a professional practitioner for services provided to patients undergoing surgical or nonsurgical procedures in an outpatient or inpatient setting where the administration of an anesthetic is required. All 244 procedure codes analyzed for this category had a comparable benchmark rate.

The comparative benchmark is the CY 2019 Medicare Anesthesia Base Units and Conversion Factor. On average, Iowa Medicaid rates are 99.25 percent of the benchmark. Iowa Medicaid as a percentage of the comparable benchmark results ranged from 68.22 percent to 333.11 percent.

It is important to note that The General Assembly requires DHS to update the Medicaid anesthesia conversion factor to the Medicare amount on an annual basis. The difference in this service category results from two procedure codes, 01967 (Under Anesthesia for Obstetric Procedures) and 01996 (Under Anesthesia for Other Procedures), where Iowa Medicaid reimburses on the basis of a fixed fee schedule amount but Medicare uses the anesthesia reimbursement methodology utilizing the conversion factor and base units.

Physician-Administered Drugs

The physician-administered drugs category is comprised of 421 procedure codes services billed for any covered outpatient drug provided or administered to a patient, and billed by a provider and not self-administered by a patient or caregiver. Physician-administered drugs include both injectable and non-injectable drugs. All 421 procedure codes analyzed for this category had a comparable benchmark.

The comparative benchmark is the CY 2019 Medicare Part B Drug Fee Schedule rates or the AWP, in absence of a Medicare rate. On average, Iowa Medicaid rates are 100.61 percent of the benchmark. Iowa Medicaid as a percentage of the comparable benchmark ranged 2.03 percent to 7708.13 percent.

Vision Care

The vision care category is comprised of 70 procedure codes services billed for any covered outpatient drug provided or administered to a patient, and billed by a provider and not self-administered by a patient or caregiver. Physician-administered drugs include both injectable and non-injectable drugs. All 70 procedure codes analyzed for this category had a comparable benchmark.

The comparative benchmark is the CY 2019 Medicare DMEPOS rates. On average, Iowa Medicaid rates are 34.85 percent of the benchmark. Iowa Medicaid as a percentage of the comparable benchmark ranged 4.18 percent to 117.64 percent.

Summary of Iowa Medicaid as a percentage of the comparable benchmark by service category:

Category	Average	Low	High
Medical Services	79.89%	6.88%	3360.16%
DMEPOS	94.30%	2.76%	2141.85%
Laboratory and Pathology Services	95.00%	95.00%	95.00%
Anesthesia	99.25%	68.22%	333.11%
Physician-Administered Drugs	100.61%	2.03%	7708.13%
Vision Care	34.85%	4.18%	117.64%

Dental

Dental services are not covered by Medicare and there are very few states that have a comprehensive Medicaid dental benefit since it is an optional Medicaid service. Therefore, DHS had to look for another reimbursement methodology that could be applied to dental services. It was noted that Montana used a relative value reimbursement methodology for dental services. The "*Relative Value for Dentists*" was developed by Relative Value Studies, Inc. and is published by Optum360 is a "comprehensive relative value system for use in the practice of dentistry. The relative value for each procedure is determined by dental practitioner input. The data considers six criteria:

- Time
- Skill
- Risk to the patient
- Risk to the provider
- Severity of the problem
- Unique supplies not separately billable

Relative value units are determined for each dental procedure based on the six criteria and are used to develop and update fee schedules. The formula for determining a fee is:

Relative Value Unit x Conversion Factor = Fee

The dental service category grouping is comprised of 279 procedure codes services billed for dental services provided to adults and kids. This service category is broken out into subcategories to show orthodontic services (10 procedure codes) separately. The calculated budget neutral conversion factors were calculated to be $23.32 for non-orthodontic services and $14.91 for orthodontic services. A comparison of the estimated total reimbursement of the relative value unit methodology to the current fee schedule methodology is as follows:

Dental-Non-Orthodontic Services Category		
Iowa Medicaid Allowed	Relative Value Unit Allowed	Comparison %
$97,117,086	$97,117,086	**100.00%**

Dental-Orthodontic Services Category		
Iowa Medicaid Allowed	Relative Value Unit Allowed	Comparison %
$6,103,836	$6,103,836	**100.00%**

Phased-in Implementation

DHS believes that the changes identified below are important to be able to adequately manage the Iowa Medicaid program. The changes would also correct inequities in correct Medicaid rates for services that have not been adjusted for several years. Finally, it allows for Iowa Medicaid to use a consistent benchmark to evaluate rates.

Based on the analysis above, DHS notes the following conclusions to implement a phased-in approach:

Medical Services, DMEPOS, Laboratory and Pathology, Anesthesia, Physician-Administered Drugs and Vison Care

- Annually, the reimbursement rates would be established at a percentage of comparable benchmark rates to maintain budget-neutrality
- Current language in the DHS appropriations bill would need to be amended.
    - Suggested modifications:
        - For the fiscal year beginning July 1, 2017, independent laboratories and rehabilitation agencies shall be ~~reimbursed using the same methodology in effect on July 1, 2017~~ **adjusted annually effective July 1, 2019, to reflect the Medicare resource-based relative value scale methodology in effect on January 1, of each year that is cost neutral with the total Iowa Medicaid provider payments for these services in the applicable state fiscal year.**
        - Notwithstanding section 249A.20, for the fiscal year beginning July 1, 2017, the average reimbursement rate for health care providers eligible for use of the federal Medicare resource-based relative value scale reimbursement methodology under section 249A.20 ~~shall remain at the rate in effect on June 30, 2017; however this rate shall not exceed the maximum level authorized by the federal government~~ **shall be adjusted annually effective July 1, 2019, to reflect the Medicare resource-based relative value scale methodology in effect on January 1, of each year that is cost neutral with the total Iowa Medicaid provider payments for these services in the applicable state fiscal year.**
- Changes to the Iowa Administrative Code and the Iowa Medicaid State Plan.
    - Iowa Administrative Code 441 79.1(2) would need to be amended to reflect the legislative language changes.
    - Iowa Medicaid State Plan Attachment 4.19-B would need to be amended to reflect legislative language changes.

- Identify if changes are needed in Iowa Code 249A.
- A standard time table for periodic review would need to be developed for determining budget-neutrality. DHS will also need to have the authority to make adjustments as needed to maintain budget-neutrality throughout the SFY. When there is a large difference in the Medicaid rate and comparable benchmark rate for a specific procedure code, DHS would need to review the reasonableness of the change.
- Medicaid rate changes will need to be incorporated into future capitation rate calculations for services covered under IA Health Link.

Dental Services

- The reimbursement methodology for Dental Services would be changed to Relative Value Units and a separate conversion factor for non-orthodontic and orthodontic services.
- Changes to the Iowa Administrative Code and the Iowa Medicaid State Plan.
    - Iowa Administrative Code 441 79.1(2) would need to be amended to reflect the legislative language changes.
    - Iowa Medicaid State Plan Attachment 4.19-B would need to be amended to reflect legislative language changes.
- Changes to the Medicaid claims processing system.
- A standard time table for periodic review would need to be developed for determining budget-neutrality. DHS will also need to have the authority to make adjustments as needed to maintain budget-neutrality throughout the SFY.