TESTIMONY

BEFORE THE COMMITTEE ON FINANCE

UNITED STATES SENATE

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JOHN D. FORSYTH

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

WELLMARK BLUE CROSS AND BLUE SHIELD OF IOWA

Chairman Grassley, Ranking Member Baucus, and members of the Committee:

Good morning. Thank you for holding this hearing and for all of your efforts to address the concerns of Iowans about inadequate Medicare reimbursement rates. I appreciate your invitation to participate in a continuing discussion about this most important matter.

I am John Forsyth, Chairman and Chief Executive Officer of Wellmark Blue Cross Blue Shield. Wellmark is a mutual insurance company, domiciled in Iowa, and licensed to do business in Iowa as a member of the Blue Cross and Blue Shield Association. Our company offers a full range of health insurance and related products to more than 1.5 million Iowans, including Medicare Supplemental coverage for approximately 172,000 senior Iowans. Through our subsidiary, Wellmark of South Dakota, Inc., we also provide coverage and services to 250,000 South Dakotans, of whom approximately 25,000 are senior citizens.

The mission of our company is to continuously help to improve the health of our customers and their communities by providing access to a broad array of high value health benefit products and services. We work hard to keep health insurance affordable for Iowans.

Iowans take pride in their state's health care system, which has delivered good value in terms of quality and efficiency. Recent studies reinforce these notions.

- Iowa consistently is ranked among the healthiest states in the nation as evidenced by two recent studies, third healthiest in the Morgan Quinto Press Health Care State Rankings (2002) and seventh healthiest in the November 2002 report of the United Health Foundation.

- Iowa's percentage of insured citizens is the highest in the country, at 91.3 percent, with only 8.7 percent of persons under age 65 uninsured, according to the Institute of Medicine's March 2003 report: "A Shared Destiny—Community Effects of Uninsurance".

- Health insurance rates are competitive in Iowa. According to Families, USA, the average premium for a standard plan for a 25-year-old in Iowa is $2,088, 15 percent lower than the national average of $2,459. The standard plan for a 55-year-old in Iowa is $4,152, 16 percent lower than the national average of $4,934.

However, Iowa's health care system is under threat on a number of fronts, of which increasing costs and inadequate Medicare reimbursement are the most significant. We have become increasingly concerned about the drivers of costs that threaten affordability. While Wellmark has been successful in keeping our administrative costs (on a per member basis) relatively flat over the past five years, monthly medical costs for our leading product have increased from $128 in 1998 to $142 in 1999 to $148 in 2000 to $168 in 2001 and to $186 in 2002—a 45% increase over this period. Among the major factors driving health care costs for the private sector today are the following:

- Technological advances (new treatments, medical devices, etc.) that enhance the quality of life and outcomes;

- Increased demand of services due, in part, to Iowa's relatively high elderly population, who generally utilize more care as they grow older;

- Spending for prescription drugs, which now consumes nearly 15 percent of the health premium dollar;

- Cost-shifting from government program payment shortfalls and uncompensated care; i.e., services for the uninsured.

A major government program that impacts health cost trends is Medicare. About 19 million Americans enrolled in Medicare in 1966 shortly after its inception. Today, over 40 million Americans are enrolled in the program. Medicare pays out approximately $235 billion in benefits annually, including over $1.6 billion in Iowa. Medicare's reimbursement system plays a critical role, as discussed more fully below, in the ability of the Iowa hospital and medical community to control costs while sustaining access to quality health care for seniors.

Medicare in Iowa's Health Care Landscape

The Medicare Payment Advisory Commission (MedPAC) has stated that Medicare's most important objective is to ensure that beneficiaries have access to high-quality care. Iowans share this objective, and believe that such care should be delivered as efficiently as possible. In fact, Iowa ranks sixth nationally among the states in the 2000-01 Medicare Quality Improvement Organization's study that utilized 22 indicators to measure the quality of care delivered to Medicare beneficiaries.

Medicare provides health coverage to over 475,000 eligible Iowans, or about 17 percent of our population. While Wellmark provides coverage for a greater number of Iowans, Medicare is the largest single payer for health services in terms of total dollars expended for health care.

Demographic trends clearly show that Medicare will become an even more important source of payment for essential health care services to Iowans in the future. Iowa has one of the highest elderly populations in the country, ranking second in the nation in the percentage of persons age 85 and older; third in the nation in the percentage of persons aged 75 and older; fourth in the nation in the percentage of persons aged 65 years old and older; and, fourth in the nation in the percentage of persons aged 60 years and older. Our state lags other states in population growth, due largely to this aging population combined with low birth rates and an out-migration of young adults. The "baby boomer" population (people born between 1946 and 1964) will soon move into retirement years and will add substantially to the number of Iowans dependent on Medicare.

All Americans pay the same payroll tax (1.45 percent) for Medicare benefits. As we know, however, Medicare does not pay the same amount for the same services across the country. The well-publicized, comparative rankings show wide variations among the states for Medicare reimbursement. Based on 1999 reports, Iowa providers received $3,053 per beneficiary, well below the national average of $5,490. Medicare spending per beneficiary for Iowans is $4,248 compared to a national average of $5,379. Certainly there are policy reasons supporting the present reimbursement system. Nonetheless,

payment inequities that have developed in the system over time now threaten the efficient delivery of quality health care in Iowa, and must be addressed. This is why Wellmark joined with the Iowa Hospital Association and other business interests in the state to form the Iowa Cares About Medicare coalition last year. This experience, in turn, reinforced our belief that the reimbursement problems extend well beyond the borders of Iowa. Accordingly, we have come together with leaders of seven other midwestern states' Blue Cross Blue Shield Plans and Hospital Associations to develop a better understanding of the issues concerning Medicare's reimbursement system.

The Medicare reimbursement inequity is one of several factors that discourages development of alternative health plans for Medicare beneficiaries, such as Medicare+Choice, in a rural state like Iowa. Medicare+Choice was designed to encourage private competition and managed care in the delivery of services under Medicare. Wellmark has not participated in Medicare+Choice, though we have spent significant resources on several occasions to carefully consider participation and ultimately, we would like to be in the position to provide this option to Iowa seniors. Iowa, like other rural areas, faces several challenges in implementing a Medicare+Choice plan. These include the absence of organized provider networks or group practices able to share in financial risk, small populations spread over large geographic areas resulting in too small an enrollment base to recover fixed costs, and lower than average utilization, which means less opportunity to achieve incremental efficiency gains than in areas of high utilization.

Providers in rural areas have little incentive to join a Medicare+Choice network that pays them at or near the Medicare Fee-For-Service payment. Many rural areas in the state are served by a single provider, who is already providing services to the entire Medicare population in that area. When one considers the added burden to providers of dealing with a new Medicare+Choice health plan, the emphasis on medical management, and possible acceptance of financial risk, it is understandable why many would decide not to participate. Thus, Iowa seniors have effectively been denied the opportunity to participate in alternate plans that have provided a more generous benefit package than traditional Medicare and which are available in other parts of the country.

Economic Impact: The Negative Effects of Cost-shifting

Hospitals and physicians in Iowa, as in many states, experience negative margins between their costs of caring for Medicare patients and the reimbursement received from Medicare for that care. The losses providers incur on their Medicare patients must be recovered from other sources; thus, cost-shifting results. "Cost-shifting," or the movement of payment for unreimbursed costs to those with insurance or other private payment, is now estimated to cost Iowa businesses and other privately insured persons more than $80 million annually. These costs are thought to be a significant factor in Iowa's private health insurance premiums.

According to MedPAC's analysis of data from American Hospital Association's Annual Survey of Hospitals, Iowa hospitals' Medicare payment margin in 1999 was a negative 6.5 percent compared to a national average of a positive 0.4 percent while their comparable private payer margins were 12.3 percent and 5.2 percent, respectively. In late 2002, Wellmark participated in a national survey of private health plans concerning their physician fees and payment methodologies in comparison to Medicare's practices. The survey confirmed that private health plans' fees are generally 15-20 percent higher than Medicare's physician fees for comparable services, with higher differentials for health plans operating in the Midwest and in rural and small urban markets such as Iowa.

This demonstrates clearly that substantially higher margins are being sought from private payers such as Wellmark Blue Cross and Blue Shield by providers in order to meet their financial needs. Wellmark estimates at least 10-15 percent of the dollars Wellmark pays to Iowa hospitals and physicians is to compensate for government programs' shortfall, most notably Medicare. Thus, inadequate Medicare payments not only result in financial challenges for providers but also have the insidious effect of "surreptitiously" increasing private insurance premiums. In effect, the cost shift means that private insurance purchasers (both businesses and individuals) are taxed twice to subsidize the program, directly by payroll taxes as well as indirectly by the cost shifts.

The long-term impact of cost-shifting on Iowa's economic climate could prove devastating, especially as Iowa seeks to reinvigorate its economy, provide incentives for

existing companies, develop new industries and attract businesses to the state. Medicare reimbursement inequities are likely to erode the high quality health care system that Iowa enjoys today, especially given the changing demographics.

Long-Term Solution

The hospital associations and Blue Cross and Blue Shield Plans of seven Midwestern states have come together to exchange ideas and consider options for addressing the reimbursement inequities in the Medicare program. These states include Iowa, Minnesota, Montana, Nebraska, North Dakota, South Dakota, and Wisconsin. Wellmark is pleased to be a part of these discussions. The group is still in the process of finalizing a proposal but it will include the following concepts.

Payment Incentive for Value—A Conceptual Framework

The Medicare program should reward quality and efficiency by developing an incentive payment program that will encourage hospitals and physicians, on a state-by-state basis, to provide high quality care in the most cost effective manner. In other words, the Medicare program should seek out and reward value, just like other purchasers in the American economy.

States could be ranked on both quality and cost measures. Hospitals and physicians in states that have the highest cumulative combined scores (i.e., top quartile) would receive a 5 percent "add-on" as a reward for outstanding performance.

Quality rankings would be based upon data used in the report published annually in the Journal of the American Medical Association (JAMA) that uses Medicare's current quality of care measures. The report evaluates each state in terms of how frequently their hospitals and physicians provide certain evidence-based, clinical procedures that have been shown by scientific evidence to be effective in enhancing outcomes of care.

Cost rankings would be based on Centers for Medicare and Medicaid Services' annual report ranking states based on average Medicare spending per recipient for each state.

States in which providers fail to meet quality or cost targets would not receive the incentive payments. This "carrot" approach should provide constructive motivation for hospitals and physicians to meet targets in order to capture additional incentive payments. Our initial review of this approach would place Iowa fourth in the nation in terms of Medicare value, i.e., combining cost and quality to determine value for purposes of payment equity.

Reduce Payment Inequities

In addition to a payment incentive for value, actions on the following items would significantly help to address current inequities in the Medicare reimbursement system.

- Adequate Inflation Increases. MedPAC has recommended a full inflationary update for hospital outpatient services and for inpatient services delivered in rural and small urban hospitals. Full Medicare inflationary updates are essential in addressing escalating health care clinician salaries, pharmaceutical costs, new technology, and soaring professional liability rates. In addition, Congress should act promptly to improve payments to states having overall negative Medicare hospital margins.

- Medicare Base Payment Rate**.** Medicare hospital inpatient payment rates (DRGs) are based on standardized national amounts adjusted to reflect differences in local area wages. However, urban hospitals in large metropolitan areas (over one million population) currently receive higher base payment than facilities in small urban and rural areas. This base rate differential, which amounts to millions of dollars in underpayments annually for Iowa hospitals, is unnecessary given the fact that the Medicare wage index already differentiates the most significant geographic cost variation.

- Medicare Wage Index Adjustment. Medicare's faulty wage index is applied to 71 percent of hospital payments. However, in Iowa, a substantially smaller percentage of hospital expenses go to wages and benefits. This system

penalizes all hospitals with a wage index below 1.00. The labor-related share of Medicare payment should be reduced.

- Funding Adjustments. A final item for your consideration would be to utilize specific dollar increases rather than percentage increases, when making funding adjustments. Actual dollar adjustments would more expeditiously address the range of disparity that has developed over time in Medicare reimbursement. Percentage increases tend to continue to accentuate disparities that have already accumulated in the base amounts being adjusted—a specific dollar mechanism for adjustments does not have this effect.

We share your deep concern about the current Medicare reimbursement system. We believe the current system fails to recognize and reward Iowa for quality and efficiency in the delivery of health care services. We understand how the system forces doctors and hospitals to shift costs to the private sector, thereby creating higher costs for employers and a disincentive for economic growth. With your continued leadership, however, we are confident that a workable and realistic solution can be implemented to address the inequities in the current Medicare payment system.

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