

THE IMPACT OF AHCCCS REIMBURSEMENT CUTS

In order to reduce Arizona's budget shortfall, there is a proposed three percent reduction to AHCCCS reimbursement rates to providers to be implemented on April 1, 2015. Since 2009, AHCCCS physician reimbursement has already been reduced by 12.9 percent to help balance previous year budgets.

Competition Lowers AHCCCS Costs

Throughout its history one of the major strengths of the AHCCCS program has been the ability to keep costs low due to the large number of AHCCCS providers who compete to provide services. Arizona has also benefitted from being a pioneer state through its public/private partnership with managed care plans which have kept costs lower by negotiating rates with providers.

AHCCCS is the largest insurer in Arizona and more than 70 percent of physicians treat AHCCCS patients. Some providers must accept AHCCCS due to the type of medicine they practice and the location where they practice (ex. rural community with high rate of poverty). For other providers, AHCCCS may be part of their patient mix, however, it is not a line of business they must have and they cannot depend on AHCCCS exclusively to sustain their viability. These providers have the option of no longer accepting new AHCCCS patients or dropping out of the program when the financial risks outweigh the benefits.

When reimbursement rates are reduced to break even or drop below the cost of providing care, providers who can may stop accepting new AHCCCS patients or any AHCCCS patients. The increasing demand for services will put undue strain on the remaining providers and AHCCCS health plans will be forced to provide higher reimbursements to a smaller number of providers in order to maintain network adequacy.

Fewer Providers = Strain on Emergency Rooms & Higher Medical Costs

The inability to access or easily access primary care or specialty services in outpatient settings can result in greater dependency on hospital emergency rooms. Delays in care can also result in patients forgoing preventative care or minimal care at a fraction of the cost of emergency care to treat pent up demand and higher acuity patients.

More Reimbursement Problems - Medicaid Payment Parity Ends

Congress recognized that low provider participation in Medicaid can negatively affect access to health care, and took action to increase Medicaid payments for certain primary care services to be equivalent or higher than Medicare payment rates in 2013 and 2014. This helped increase AHCCCS reimbursement rates to Arizona primary care physicians by 13.8 percent.

Congress did not continue the program and it ended on January 1, 2015. This abrupt decrease in AHCCCS reimbursement to primary care physicians coupled with additional cuts could have a profound impact on the network of AHCCCS providers.

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Physician Survey Measures Impact of AHCCCS Reimbursement Cuts

A coalition of physician associations distributed a provider survey to physicians to gather feedback on the impact of previous AHCCCS cuts on their practices and their prognosis of what the impact on them would be if an additional three to five percent cut were made. The survey also queried physicians who were formerly AHCCCS providers and physicians who have never been AHCCCS providers. The survey was completed by 417 physicians, 79% were AHCCCS providers and 21% were not.

Impact of Previous Cuts	Potential Impact of Additional Cuts
<p><i>The impact of previous cuts has taken a toll on physician practices resulting in staff reductions, less time patients, seeing fewer patients, and consideration of discontinuing to see AHCCCS patients</i></p> <ul style="list-style-type: none"> • 38.7% of physicians responded that they have reduced staffing as a result of previous AHCCCS cuts • 54.1% of physicians reported they are spending less time with patients • 50.4% of physicians said they have considered seeing fewer AHCCCS patients • 35.8% of physicians said they are considering no longer seeing AHCCCS patients 	<p><i>The impact of additional cuts would result in additional staffing reductions and a significant number of physicians who would discontinue accepting new AHCCCS patients or drop out of the program altogether</i></p> <ul style="list-style-type: none"> • 45.3% of physicians responded they would reduce staffing if additional AHCCCS cuts are made • 46.3% of physicians said they would consider stopping accepting new AHCCCS patients • 41.8% of physicians said they would consider no longer seeing AHCCCS patients
Why Physicians are No Longer AHCCCS Providers	What Would Make Non-AHCCCS Physicians Consider Becoming AHCCCS Providers
<p><i>Physicians are no longer treating AHCCCS patients due to low reimbursement rates. This was the most cited reason behind job changes.</i></p> <ul style="list-style-type: none"> • 47.1% of physicians responded that insufficient reimbursement is the reason they are no longer an AHCCCS provider 	<p><i>A higher rate of reimbursement was ranked highest among attributes that would make non-AHCCCS physicians consider treating AHCCCS patients</i></p> <ul style="list-style-type: none"> • 42.5% of physicians responded that higher reimbursement would make them consider becoming an AHCCCS

THE IMPACT OF AHCCCS REIMBURSEMENT CUTS

Comments from AHCCCS Providers

Impact of Previous Cuts	Potential Impact of Additional Cuts
<p>“We have already had to lay off employees in order to decrease operating costs related to cuts in payments. Decreased staffing will mean decreased ability to see new AHCCCS patients and meet their needs.”</p> <p>“Majority of our patients are AHCCCS. We have to continue seeing them, as we are rural/underserved, so we are taking a huge pay cut.”</p> <p>“Patients also travel huge distances from counties where no AHCCCS providers are contracted at public expense. Cab ride costs more than the visit.”</p> <p>“I work in the ER so I have no choice but to see AHCCCS patients; however, I would not see non-emergent patients if I were allowed not to.”</p> <p>“Our health network has essentially folded.”</p> <p>“I am currently one of the only AHCCCS orthopedists in Yuma County.”</p> <p>“It is hard to make it on AHCCCS financially, unless one can see the patients for simple, brief problems. If the patients are complex with multiple health problems, we even lose money for the time required and the low reimbursement.”</p>	<p>A 3% cut off of the already perversely low welfare rates to physicians is sufficient to make me consider opting out of the welfare program. As the only urologist in Cochise Co, this means that all such patients will have to be transported to Tucson. I will have more free time to ramp up my other business interest, as I predict that this profession will not sustain me for the remainder of my career time frame.</p> <p>“Complex patients can take 30-45 or even 60 min. We are losing money if we do this as we cannot cover our costs, much less have enough for the physician to make enough money for their family. It is hard for an honest solo physician to survive.”</p> <p>“Add on additional cuts and we cannot keep our staff at its current capacity, requiring less time with patients, and seeing fewer patients.”</p> <p>“We were already culling AHCCCS patients and this will seal the deal.”</p> <p>“I will be the only peds (pediatrician) on the mountain and there will be limited access to care.”</p> <p>“We will have to increase our schedule by the percentage decrease. Our overhead is reduced as far as possible. My salary is far below the County average salary for pediatricians.”</p>

Comments from Non-AHCCCS Physicians

Why Physicians Are No Longer AHCCCS Providers	What would make Non-AHCCCS Providers Want to Become an AHCCCS Provider
<p>“More work for less pay. Doesn't make sense to see these patients.”</p> <p>“Work is hard enough w/o having huge chunks of reimbursement reduced.”</p>	<p>“Private solo provider have to make enough to pay my staff and the ever fluxing AHCCCS promises to only reimburse less for the same amount of work. No thanks...”</p> <p>“When reimbursement exceeds the cost of doing business (overhead) I will consider it. Until then I cannot risk my business or employees on a program that costs me to participate.”</p> <p>“Reimbursement far too low.”</p>

Practical Impact of Medicaid Reimbursement Cuts

As the Arizona state budget discussions get underway, there have been a number of inquiries regarding the impact of the proposed provider rate cuts. The purpose of this document, pulled together with the facts from a variety of industry experts, is to provide you with information about the impact of the reimbursement cuts in the context of a complicated health care delivery system.

Arizona boasts an active and engaged health care workforce that provides quality care to Arizonans across the state. The innovative state Medicaid program, managed through a public-private partnership, is regarded as one of the most successful and efficient health care delivery systems in the Nation.

The scope, timing, and economics of the suggested cuts to a Medicaid provider's reimbursement rates will have an impact on the state's health care workforce far beyond what the state will realize in savings.

The Rate Cut Proposal

The provider rate cuts in the proposed budget will result in a net savings to the state of \$33.2 million in FY 2016.

These cuts will cost health care providers a total of \$185.0 million in lost Medicaid payment revenues from both state and federal funds.

The state general fund in FY 2016 will save \$33.2 million by implementing a \$185 million reimbursement reduction impacting Arizona's health care providers—doctors, nurses, dentists, hospitals, community health centers, nursing homes, and home health care workers—all on the front lines treating and caring for Arizona's most vulnerable citizens.

Rate Cut Mechanics

The budget request directs the Arizona Health Care Cost Containment System (AHCCCS) to implement a 3% reimbursement rate reduction to all AHCCCS providers, except those who care for people with developmental disabilities.

Today, AHCCCS provides health care to 1.64 million low-income Arizona citizens, covering 50% of all births in the state and two-thirds of nursing home days. It is the largest insurer in the state.

AHCCCS is a \$12 billion program, with 74% funding by the federal government. The AHCCCS program has grown by 46% from 2008-2014, yet the state general fund appropriation only grew by \$5 million. Program growth has been supported by increased federal funding and a hospital assessment.

Hundreds of thousands of people are employed by Arizona’s health care providers—from mom and pop small businesses who offer home health care for somebody’s grandmother who might otherwise end up in a nursing home, to major hospital and health care systems like Banner, now the State of Arizona’s largest employer.

The reimbursement reduction is slated to begin April 1, 2015.

History of Rate Cuts

This is not the first time the State of Arizona has looked to health care providers to balance the books and make up the deficits. Since the Great Recession of 2009, many health care providers have seen their reimbursement rates reduced:

Provider	Change	Provider	Change
Hospital (inpatient)	-9.8%	Emergency Transport	29.5%
Hospital (outpatient)	-8.7%	Non-Emergency Medical Transportation	-14.3%
Nursing Facility (elderly physically disabled)	-1.6%	Ambulatory Surgery Centers	5.6%
Behavioral Health (outpatient)	-8.1%	Dental	-12.5%
Physician	-12.9%	Federally Qualified Health Centers	35.8%
Hospice	12.3%		

Hospital Impacts

In response to budget shortfalls associated with the Great Recession, lawmakers have approved a series of AHCCCS rate freezes and payment cuts to hospitals. As of 2014, the impact of these cuts was over \$800 million—a revenue loss of 35% for Arizona hospitals compared to 2010 payments. According to a 2013 report by Milliman, Inc., AHCCCS pays hospitals approximately 70% of cost as a result of these cuts.

Hospitals Lose Money Despite Improvement in Uncompensated Care

Hospitals across Arizona supported the restoration of Proposition 204 and the expansion of Medicaid. It was the right thing to do for patients, and it stopped the spiraling cost of uncompensated care (UC) that resulted from the Proposition 204 freeze. As of November 2014, statewide UC has decreased 33% relative to 2013. However, hospital operating margins have not improved. They have actually declined

over the same period—from 2.9% in 2013 to 2% in 2014. Moreover, 47% of reporting hospitals state they incurred a loss from operations in November. The major factor for these losses is underpayment by government payers, particularly AHCCCS.

Significantly, over the last two years, eight Arizona hospitals have filed for bankruptcy protection. Many of these same hospitals and others have merged with larger health care systems. While such mergers bring financial stability to organizations, the downside is local communities often lose control over a once valuable “local resource.”

Hospitals have faced other budget challenges: back-to-back 5% rate cuts in 2011, limiting inpatient benefit to 25 days for three years, freezing the Proposition 204 population for 2½ years, reductions in DHS payments, eliminating state support to graduate medical education, and eliminating the Medical Expense Deduction program.

The Impact of Additional Rate Cuts

Additional AHCCCS rate cuts will affect hospitals and the patients they serve differently, depending on the hospital’s payer mix, the services they deliver, and whether the hospital is a sole community provider.

- Hospitals with a diverse payer mix will attempt to shift additional losses to commercial insurers and businesses—a “hidden health care tax.”
- Hospitals with high Medicaid utilization or a high concentration of Medicaid, Medicare, and self-pay patients will not be able to cost-shift. They will absorb the losses by reducing services and ultimately staff, further exacerbating Arizona’s slow economic recovery.
- Sole community hospitals, many of which are not able to cost-shift, will evaluate high-cost services such as obstetrics and pediatrics and whether they can continue to offer these services at a loss. If these services are discontinued at a sole community hospital, all patients lose access to these services, not just AHCCCS members.
- All hospitals will have fewer resources to invest in innovative practices that are improving quality and driving down the long-term cost of care.

Competition Lowers AHCCCS Costs

One of the major strengths of the AHCCCS program throughout its history has been the ability to keep its costs low due to a large number of AHCCCS providers who compete to provide services. For example, today, more than 70% of physicians treat AHCCCS patients. Some providers must accept AHCCCS due to the type of medicine they practice and the location where they practice (i.e., emergency physicians, rural community with high rate of poverty). For other providers, AHCCCS may be part of their patient mix; however, it is not a line of business they must have, and they cannot

depend on AHCCCS exclusively to be profitable. These providers have the option of no longer accepting new AHCCCS patients or dropping out of program when the financial risks outweigh the benefits.

When reimbursement rates are reduced to break even or drop below the cost of providing care, providers who need to maintain their financial sustainability may not accept new AHCCCS patients or any AHCCCS patients at all. The increasing demand for services will put undue strain on the remaining providers, and AHCCCS health plans will be forced to provide higher reimbursements to a smaller number of providers in order to maintain network adequacy.

Fewer Providers—Strain on Emergency Rooms & Higher Medical Costs

The inability to access or easily access primary care or specialty services in outpatient settings can result in greater dependency on hospital emergency rooms for care that could otherwise be provided at a much lower cost. Delays in care can also result in patients forgoing preventative care or minimal care at a fraction of the cost of emergency care to treat pent-up demand and higher acuity patients.

More Problems for Primary Care Providers—Medicaid Payment Parity Ends

Congress recognized that low provider participation in Medicaid can negatively affect access to health care and took action to increase Medicaid payments for certain primary care services to be equivalent or higher than Medicare payment rates in 2013 and 2014. This helped increase AHCCCS reimbursement rates to Arizona primary care physicians by 13.8%.

Congress did not continue the program, and it ended on January 1, 2015. As a result, states have been forced to decide whether to backfill payments to continue the policy. An abrupt decrease in AHCCCS reimbursement to primary care physicians, coupled with additional cuts, could have a profound impact on the network of AHCCCS providers.

Nursing Homes in Fragile Shape

A 3% cut in the Arizona Long Term Care System (ALTCS) would have a dramatic impact at skilled nursing facilities:

Total Impact of 3% Rate Cut in a Year	\$ (13,806,490.18)
Average Annual Effect on a Facility	\$ (238,042.93)

Nursing home experts estimate that 83% of the expenses in nursing homes relate to direct nursing services: the actual nursing and labor associated with direct patient care. A 3% provider rate cut would impact the quality of patient care in 144 nursing homes statewide.

There are currently 43 Arizona skilled nursing facilities operating in the red and which have an actual operating deficit according to the Medicaid Uniform Accounting Report. This proposed cut would potentially affect access to care by impacting the fragile infrastructure of skilled nursing facilities already struggling to serve Arizona's most vulnerable citizens.

Impact on Dental Services

Approximately one-third of the practicing dentists in Arizona are registered providers under the AHCCCS program. Most of these practice in community settings and in private practices that are small businesses in communities across the state. In both urban locations and rural areas, services provided to the pediatric community through AHCCCS make up a large proportion of the practice income. Dentistry has taken cuts of 12.9% over the last several years, at a time when income has also diminished from patients who have deferred dental treatment due to economic reasons. In the Phoenix area alone, over 100 dental practices closed their doors during the recession. For AHCCCS dental providers, they have also experienced the added strain of the loss of coverage for adult patients in 2009.

Dentistry is the health care discipline focused on the prevention of dental decay, a disease that is more common than asthma among children and a leading cause for school absences. It can even be fatal, as the State of Maryland learned when young Diamonte Driver lost his life in 2007 after low reimbursement rates drove dental providers from their Medicaid program. The availability of an adequate network of dental providers assures that more children receive routine dental care and prevents the larger, expensive, and more extensive treatment required when oral health problems are not addressed.

Behavioral Health Providers Weigh-In

As detailed in the attached fact sheet, in January 2015, the Council of Human Services Providers surveyed their members on the impact that provider rate cuts would have on their agency. The response rate was 57% of those who provide behavioral health services. Ninety-seven percent (97%) of those who responded currently provide behavioral health services paid for through AHCCCS.

Potential Impact of Rate Cuts to BH Providers?

- 81% reported they will lose revenue
- 76% anticipated they will have to cut already lean staff
- 61% reported they will have less time to spend with clients

From the Federally Qualified Community Health Centers

The mission and purpose of Community Health Centers (CHCs) is to ensure access to high quality, comprehensive health care in medically underserved areas. A highly qualified workforce of all Medicaid clinicians in our communities is essential to the goal of providing critical services throughout Arizona.

CHCs are concerned about the impact a reduction in reimbursement rates for physicians will have on the health care system. A reduction in reimbursement rates for physicians may discourage physicians from participating in the Medicaid program and reduce the capacity to provide vital medical services to low-income Arizonans. It also hinders the ability of health care organizations in rural areas to recruit physicians.

Low-income Arizonans face great health disparities and require a higher degree of coordination of care. It is important to maintain continuity and continuum of care for patients who need primary care, specialty care, and hospital services. Without a strong Medicaid physician workforce, it is almost impossible to achieve continuity of care for low-income patients, many of whom live in rural areas.

Access to Care in Rural Arizona

The challenges of providing quality, affordable care in remote, economically disadvantaged, and rural parts of Arizona cut across all disciplines of health care and medicine. For example, more than 12,400 people in Arizona rely on dialysis to treat their kidney failure. The Arizona numbers are increasing far higher than the national average, as each year in Arizona, 2,200 people are newly diagnosed with kidney failure.

For example, one company, Fresenius Medical Care, operates 53 outpatient dialysis facilities in the state. Their facilities in San Carlos, Winslow, Show Low, and Lake Havasu are the only game in town, and each of these is already operating in a negative margin. Fresenius officials say further rate cuts would put these four facilities at risk, jeopardizing access to this critical care.

Developmental Disability Providers at the Tipping Point

In the community of developmental disability (DD) providers, the request for further rate reductions has been called a cost that cannot be absorbed. A full briefing on DD providers from the Association of Providers for People with Disabilities (AAPPD) is attached. Among the highlights: the current rates are not adequate; most provider costs pay for direct care staff, and staff cutbacks are not possible; rural services will be curtailed; and participation in the system is growing at a rate that cannot be sustained.

For More Information

Additional information is attached to this handout. Contributors to this document include the organizations that make up Arizona's health care safety net; their contacts are also attached to this document.



**ARIZONA'S SAFETY NET PROVIDERS: AN INTRODUCTION
CONTACT LIST**

<p align="center"> Kevin Earle Executive Director Arizona Dental Association 480-344-5777 kevin@azda.org </p> 	<p align="center"> Emily Jenkins President and CEO Arizona Council of Human Service Providers 602-252-9363 ejenkins@azcouncil.com </p> 
<p align="center"> Steve Barclay Barclay Legal, PLC Arizona Medical Association 602-692-8298 steve@barclaylegal.com </p> 	<p align="center"> Kathleen Collins Pagels Executive Director Arizona Health Care Association 602-265-5331 kcpagels@azhca.org </p> 
<p align="center"> Barb Fanning Director, Government Affairs Arizona Hospital and Healthcare Association 602-445-4324 bfanning@azhha.org </p> 	<p align="center"> Tara Plese Sr. Director for External Affairs Arizona Alliance for Community Health Centers 602-288-7547 tara@aahc.org </p> 
<p align="center"> Deb Gullett Gallagher & Kennedy Arizona Association of Health Plans 602-315-0706 deb.gullett@gknet.com </p> 	<p align="center"> Pete Wertheim Executive Director Arizona Osteopathic Medical Association 602-266-6699 pwertheim@az-osteo.org </p> 