Appendix K

Provider Taxes: A Different Perspective

Richard Johnson, Jr. and Donna Kinney

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Prepared by Richard Johnson, Jr. and Donna Kinney

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Some form of Medicaid expansion is a very attractive way to increase state funding for services to the uninsured because of the potential federal match contribution, which is currently above 60 percent. Consequently, every state dollar that is raised and used for Medicaid spending could draw down $1.54 to benefit Texas citizens. Raising the state matching funds, however, should be done carefully with a clear eye to the potential unintended consequences of any funding methodology.

Providers Who Benefit

From the viewpoint of some inpatient providers with high charity care case loads, provider taxes may appear to be a relatively harmless method for raising the state funds. For them, potential returns in new Medicaid revenues would far exceed the increased cost caused by the tax, itself. For other providers, however, that is not the case, and a guaranteed return of the tax cost is not possible, due the prohibition in current Medicaid rules.

Providers Who Do Not Benefit

Some providers may not benefit from a Medicaid expansion for several reasons. For those providers, a provider tax could become an additional cost.

One reason that providers might not benefit from a Medicaid expansion is that their primary patient base is not part of the Medicaid expansion population. This would likely be the case, for example, for long-term-care facilities because most Medicaid expansion plans designed to cover the uninsured would not target the elderly. Similarly, pediatric providers would not benefit from Medicaid expansions targeted at adult family members.

A second reason that providers might not benefit from a Medicaid expansion is that Medicaid fees are too low to cause a net revenue increase. In outpatient settings, uninsured patients generally pay for services that they receive and those payments are generally adequate to cover the cost of their services. Any Medicaid expansion is likely to "crowd out" some of this self-pay business, and possibly some commercially insured business, too, by replacing it with Medicaid coverage. For some providers, including physician practices and other outpatient or ambulatory care providers, Medicaid patients are a major source of uncompensated care cost, because Medicaid fees are inadequate to cover the actual cost of providing services. In the case of physicians, Texas Medicaid fees cover only half of the average cost of services, and limited information on ambulatory surgery fees indicate that the ASC fees may be even less adequate, paying as little as 19 percent of cost for some services and averaging less than 40 percent. Thus, a Medicaid expansion that converts some self-pay and commercially insured patients into Medicaid patients can actually increase uncompensated care cost for these providers because of inadequate reimbursement, even though it partially pays for services that

were previously categorized as charity care. In that regard the tax, itself, would add to total cost, while the Medicaid expansion could actually reduce revenues.

Who Bears the Cost?

For providers who will not receive tax-offsetting reimbursement increases, the impact seems clear. It is a known consequence of business taxes that all tax increases, like all other cost increases, are ultimately borne by the users of the business' services. In health care however, it is also clear that not all buyers of services will bear a share of the increased costs. Medicare does not prospectively factor state or local taxes into fees, or does so only indirectly and after a delay of several years as historical data are available. Furthermore, Medicare spending growth is limited by budgetary considerations, without regard to actual provider cost increases. Medicaid payment methodologies are often completely unresponsive to provider cost increases. So government payers will generally not bear the increased costs. Commercial payers are unlikely to increase fees to cover increased tax burdens, or will do so only for selected providers who have some form of negotiating leverage. If government and commercial payers do not carry a share of the tax burden, all of the increased cost will fall on uninsured, self-pay patients and others who are not protected by network pricing or negotiated discounts. Thus, a tax at 3 percent of gross receipts, which would yield a 3% increase in cost if borne equally by all payers, could become a 15 percent to 20 percent cost increase when borne only by the uninsured and self-pay patients in outpatient settings. Such a policy also could provide a financial disincentive for the uninsured and self-payers to seek needed care.

A Better Mousetrap

The fact remains that federal match dollars are an attractive way to reduce losses to charity care for some health care providers. But generating state funds by taxing providers will add to total healthcare costs that fall disproportionately on sick and vulnerable patients who pay for their own care. At a very minimum, providers should be allowed offsetting deductions or credits, so that the government-paid portion of their revenues that is unresponsive to cost increases will not be subject to the tax. It would be far more equitable to identify a broad-based tax source for the necessary funds, thus spreading smaller shares across a broader population base. Any Medicaid expansion should be funded by all taxpayers, not borne disproportionately by health care and long-term care users who are taking financial responsibility for their own care.

From a public policy standpoint a more widely distributed tax burden with appropriate credits/cost offsets makes sense in pursuing improved access to health care. That type of focus yields a more equitable and less constitutionally risky tax policy, generates needed revenues and provides important incentives for providers to deliver services to vulnerable populations and the uninsured.