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# Strategic Planning for Expanding Medicare and Medicaid Populations

BY DAVID ZOELLER, CPA, CMA, M.B.A.

**M**anaging a medical group has always included the dual responsibilities of solving daily problems and making long-term strategic decisions. Given the significant changes in health care that are imminent, the strategic decisions that your group makes today are of far greater importance than ever before.

The future success of your medical group will be increasingly dependent upon how well you evaluate and plan for two major shifts in health care that will impact nearly every provider in the nation:

1. Beginning on January 1, 2012, more than 10,000 individuals per day began to qualify for Medicare. This demographic cohort commonly referred to as the “Baby Boomer Generation” will swell the ranks of Medicare for at least the next two decades. The Kaiser Family Foundation notes that between 2010 and 2030 the number of Medicare eligible individuals is projected to increase from 46 million to over 78 million.<sup>1</sup>
2. The Patient Protection and Affordable Care Act (PPACA), whose constitutionality was recently upheld by the U.S. Supreme Court, will cause many changes in health care. One of the more significant transformations will be the growth in the number of Medicaid-eligible individuals. This will result from extension of eligibility to all individuals who have incomes of up to 133% of the Federal poverty level. This could add 17 million

people to the program, most of whom are low-income adults.<sup>2</sup>

These two changes, the first an unavoidable demographic shift and the second an instantaneous policy change, need to be evaluated by individual medical groups for their impact on the practice.

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## Rise in Medicare-eligible Individuals

Because the growth of Medicare enrollees is predictable and gradual, evaluating its impact is straightforward. The first step is to look at your past payer mix. If possible, calculate how this mix has changed over the past five years, focusing on the change in Medicare cases and revenue as a percentage of the total cases and revenue. Depending upon your location and the specialty of your group, you may have already seen an increase in both Medicare cases and total Medicare revenue. This trend is expected to continue and most likely accelerate.

The reason is the increasing number of Medicare-eligible patients and their associated higher utilization rates. Two thirds of individuals over 65 have at least one chronic condition and see more than 7 physicians, while at least 20 percent have five or more chronic

conditions, see 14 physicians, and have more than 40 doctor visits annually.<sup>3</sup> It is also important to recognize that as baby boomers age into Medicare eligibility, the majority of these new Medicare enrollees will be moving from standard health insurance to Medicare. This means you should evaluate how this shift in reimbursement will impact your practice revenue.

For example, anesthesia reimbursement rates under Medicare are generally 20 to 25 percent of the corresponding standard insurance reimbursement for the same procedures. The accompanying analysis shows how a projected trending increase in the Medicare population might impact a hypothetical anesthesia practice. Clearly, due to the very low Medicare reimbursement for anesthesia services, this growth will have a negative impact on the financial health of the practice. For primary care practice office visits, the Medicare reimbursement rate is often 65 to 75 percent of the related standard insurance reimbursement.<sup>4</sup> Although this comparative reimbursement rate is higher than for anesthesia services, unless changes to the practice are made, net revenue will be negatively impacted. It is important to note that this trend is predictable and completely independent of any impact of the PPACA.

## Medicaid Expansion under the PPACA

The expansion of Medicaid by the PPACA scheduled for 2014 presents a different planning problem. While the Supreme Court found the act constitutional, it also ruled that states can opt out of the Medicaid

expansion guidelines. Although some states (Florida and Texas, for example) have indicated that they may opt out, the majority will most likely choose to participate.

While this decision may be political in part, it will ultimately be a financial matter for most states. At the start of the Medicaid eligibility expansion, the Federal government will provide 100 percent of the additional cost but by 2020 will reduce this amount to 90 percent. Because many states already provide some type of health benefit to these new Medicaid-eligible individuals, accepting the new Medicaid expansion guidelines from the Federal government may actually reduce the state's healthcare funding cost. In other cases, it will be difficult politically to choose to have this group of individuals remain uninsured.

How this change in Medicaid will impact your practice is somewhat harder to predict. It likely will take a year or more to enroll the majority of the newly eligible individuals. Predicting how the expansion will impact reimbursement is also difficult since, depending on the State, these individuals may or may not have had insurance in the past. Massachusetts already provides healthcare coverage to most residents while Texas would have a significant number of new Medicaid eligible residents.<sup>5</sup> Due to these State differences, predicting revenue changes caused by Medicaid expansion under the PPCA is largely dependent on the medical practice location. In addition, the type of medical practice will also have a major impact. A primary care practice will likely see a significant increase in office visits for these individuals where in the past the person may have done without care or instead went to the local ER.

The first step in evaluating and planning for this expansion of Medicaid begins with a review of the past five years of billing and reimbursement at your practice. Because most of individuals who will be eligible for Medicaid under

the act did not have standard health insurance in the past, it is only necessary to review how Medicaid reimbursement relates to your cost of providing service. A simple estimate of this cost might be the hourly cost of a locum for your practice plus some overhead charges. For example, a locum for a certified registered nurse anesthetist (CRNA) might likely cost \$125 per hour plus travel and related expenses. Based on this hourly cost it can be a fairly simple calculation to identify if these additional Medicaid reimbursements can be self-sustaining.

## Increases in the Medicare and Medicaid populations will impact nearly all healthcare providers in the country.

In a 2009 survey of South Dakota physicians, over 90 percent of respondents indicated that the current Medicaid reimbursement did not cover the overhead costs of the care provided.<sup>6</sup> Primary care will almost undoubtedly see a significant increase in Medicaid visits, while specialty groups will likely see a much smaller increase. In the best scenario, the Medicaid expansion will mean an increase in visits and revenue but it could mean an increase in visits with limited additional revenue. Obviously, this scenario of more work with modest additional revenue will create less net income for the practice if no other changes are put in place. Possible options to lessen this negative impact might include utilizing lower-cost providers for certain procedures and visits, improving efficiencies in billing, collections and scheduling, increasing provider workloads, or perhaps focusing on increasing services that appeal to individuals who have private insurance.

These increases in the Medicare and Medicaid populations will impact nearly all healthcare provid-

ers in the country. Determining how they are likely to affect your group is the first step in dealing with these very real issues. The next step will be to inform the providers in your group of these impending changes and educate them regarding possible alternatives for dealing with the challenges these changes present. Based on the recent Supreme Court decision and the aging of our population, it is no longer possible to simply ignore them.

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