Wash State Health Care Authority

2023-25 First Supplemental Budget Session

Policy Level - XW - Durable Med Equipment Rate Increase

Agency Recommendation Summary

The Washington State Health Care Authority (HCA) requests additional financial resources in the 2024 Supplemental budget to ensure that Medicaid rates for Durable Medical Equipment (DME) services do not fall below Medicare's rates.

Fiscal Summary

Fiscal Summary	Fiscal Years		Biennial	Fiscal Years		Biennial
Dollars in Thousands	2024	2025	2023-25	2026	2027	2025-27
Operating Expenditures						
Fund 001 - 1	$0	$3,179	**$3,179**	$6,359	$6,359	**$12,718**
Fund 001 - C	$0	$3,739	**$3,739**	$7,477	$7,477	**$14,954**
Total Expenditures	**$0**	**$6,918**	**$6,918**	**$13,836**	**$13,836**	**$27,672**
Revenue						
001 - 0393	$0	$3,739	**$3,739**	$7,477	$7,477	**$14,954**
Total Revenue	**$0**	**$3,739**	**$3,739**	**$7,477**	**$7,477**	**$14,954**

Decision Package Description

Problem Statement

Every year since 2015, HCA has reviewed the Centers for Medicare & Medicaid Services' (CMS) Medicare rates and compared them to the Apple Health fee-for-service (FFS) rates to ensure that Medicaid rates for Durable Medical Equipment (DME) services did not fall below Medicare rates. In January 2022, CMS increased the rates above the HCA's flat 2015 rates for the first time, with a few exceptions. Many of the current DME providers and their zssociation have now inquired about the Medicare rate increases and expect that HCA's Medicaid FFS rates to increase in-line with the new Medicare rates. Many of the current DME providers were not involved in the rate methodology change when HCA de-linked Medicaid rates from Medicare in 2015. In addition, when meeting with the provider group, HCA learned that managed care organizations (MCOs) are paying an average of 70 percent of published FFS rates on select items. This is causing hardship on providers and creates an access to supplies issue.

Proposed Solution

HCA proposes to resume the previous CMS rates related methodology effective January 1, 2025, in an effort to reduce the impact on DME providers. HCA intends to direct the MCOs, in contract, to pay no less than the FFS rates for DME following the rate update. While this will not require HCA to seek prior approval from CMS for State Directed Payment, HCA will have to provide all the assurances and evaluation that the federal State Directed Payment rules require.

Managed care rates are updated every calendar year. To align with the managed care rate development schedule, the HCA intends to implement this change effective January 1, 2025.

Background Information

Prior to 2015, HCA followed the methodology of setting FFS Medicaid DME rates at or just below the Medicare DME rates. In 2015, CMS significantly reduced the Medicare rates for DME and other supplies. In order to minimize the financial impact to DME providers, HCA decided not following the established DME rate setting methodology and not adopting the CMS driven rate decreases. HCA's decision resulted in holding the Medicaid DME rates flat. If HCA did not change the methodology, there would have been a great impact on DME providers and clients, resulting in a potential access to care issue.

HCA communicated this decision to the MCOs and asked them to disassociate their provider reimbursement rates from the Medicare rates as well. This was done informally, and no managed care contract changes (or State Directed Payments) were made at the time.

Assumptions and Calculations

Expansion, Reduction, Elimination or Alteration of a current program or service:

This proposal does not reduce, eliminate, or alter the current DME program.

Detailed Assumptions and Calculations:

HCA intends to align our FFS DME rates on an annual basis as they are updated by CMS. The estimated impact assumes the utilization will remain stable. For the purpose of this analysis, DME includes prosthetics, orthotics, and related supplies.

The fiscal impact of changing the reimbursement rates for DME from the current Apple Health Medicaid rates to the corresponding current Medicare rates, for both FFS and managed care (MC) utilization was estimated as the difference between the estimated cost at the Medicare rates and the cost at the current Medicaid rates.

Cost at current Medicaid rates: FFS and MC costs were estimated using observed calendar year 2022 utilization. FFS utilization was rerated at the current (July 1, 2023) Medicaid rates. MC costs were held at the unit cost levels observed during calendar year 2022. No adjustment was made where the MC average unit cost was less than the FFS rate.

Cost at Medicare rates: FFS and MC costs were estimated using projected calendar year 2022 utilization and Medicare rates. The utilization for both was re-rated to Medicare; even when the current Medicaid rate was higher than Medicare.

The typical methodology used in rate increase analyses considers Medicaid rates as the floor and Medicare rates as the ceiling. This analysis deviated from that approach since currently some Medicaid rates are below the corresponding Medicare rates, and some are higher. The goal of the policy change under consideration is to bring Medicaid rates to Medicare levels.

Utilization for fiscal year 2025 was calculated as the product of calendar year 2022 utilization, and the change in eligibles from calendar year 2022 to fiscal year 2025 based on the February 2023 Forecast. For fiscal year 2026 onwards, utilization was held constant at the fiscal year 2025 level.

Federal match was estimated using the forecasted federal share in the DME (740) and physician (310) forecast services in fiscal year 2025, based on the February 2023 Medical Assistance Expenditure Forecast. The rate change is expected to take effect January 1, 2025, resulting in only six months of cost in fiscal year 2025.

Workforce Assumptions:

This request does not include FTEs.

Strategic and Performance Outcomes

Strategic Framework:

This proposal helps achieve the Governor’s Results Washington goal to ensure access to quality health care.

Performance Outcomes:

With costs increasing, this proposal will help providers and suppliers who provide DME services and supplies to all Medicaid clients.

Resuming the methodology of linking the HCA rates to Medicare would significantly and positively affect HCA providers. There have been numerous complaints of the current rates not meeting the expenses for medical equipment and supplies, and providers are threatening to close doors. Additionally, ensuring that MCOs pay no less than the HCA fee schedules will benefit providers even more, as they are losing money with each transaction.

Equity Impacts

Community outreach and engagement:

Pacific Association for Medical Equipment Services and other DME providers have requested this proposal and have continued to work with the HCA quarterly on impacts to providers.

Disproportional Impact Considerations:

Not applicable.

Target Populations or Communities:

Not applicable.

Other Collateral Connections

Puget Sound Recovery:

Not applicable.

State Workforce Impacts:

Not applicable.

Intergovernmental:

Not applicable.

Stakeholder Response:

The Pacific Association for Medical Equipment Services and other DME providers have requested this proposal. There is no opposition.

State Facilities Impacts:

Not applicable.

Changes from Current Law:

Not applicable.

Legal or Administrative Mandates:

Not applicable.

HEAL Act Agencies Supplemental Questions

Not applicable.

Reference Documents

PL116 Durable Medical Equipment (DME) Rate Increase (v2).xlsb

IT Addendum

Does this Decision Package include funding for any IT-related costs, including hardware, software, (including cloud-based services), contracts or IT staff?

No

Objects of Expenditure

Objects of Expenditure *Dollars in Thousands*	Fiscal Years		Biennial	Fiscal Years		Biennial
	2024	2025	2023-25	2026	2027	2025-27
Obj. N	$0	$6,918	**$6,918**	$13,836	$13,836	**$27,672**

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