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STATEMENT OF CONGRESSMAN BILL LUTHER (MN-06)
WAYS AND MEANS SUBCOMMITTEE ON HEALTH
5/24/95

Mr. Chairman:

I seek to testify today on an issue that affects many Americans, especially the citizens of states like Minnesota -- the issue of regional disparity in reimbursement for Medicare risk contracts.

I come from Minnesota, a state which is working hard to implement health care reform. For a number of reasons including efficiencies we have achieved along with bi-partisan efforts such as our MinnesotaCare health reform initiative, the people of our state enjoy among the lowest health care costs in the country while receiving excellent care. But ironically, we have been penalized by our efforts to become more efficient. Our health plans offering managed care to Medicare enrollees get reimbursements well below the average and, as a consequence, our Medicare beneficiaries are required to pay more out of pocket for less benefits than those in many other states.

The problem stems from the capitation rates under the TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) risk contracting programs, which serve approximately three million Medicare beneficiaries. Every year, HCFA calculates the capitation rate, called the Adjusted Average Per Capita Cost (AAPCC), which is the amount a health plan receives to provide Medicare coverage. This figure, however, varies widely from county to county, and herein lies the problem. This rate is calculated by first estimating a national average Medicare expenditure per beneficiary. HCFA then adjusts the rate to take into account the local trends in expenditures as well as the demographics of each particular area.

In Minnesota's case, our capitation rates are 70-80% of the average in urban areas. The 1995 Medicare payment rate per person in Anoka County, Minnesota is approximately \$338. Since the rate is based on fee-for-service costs in each geographic region, and because our health care is delivered cost-effectively, our rate is lower. In states which have less effective health care systems, more money is spent per beneficiary. In calculating rates for these areas, HCFA figures a higher projected Medicare spending rate per beneficiary and capitation rates are higher. For example, the 1995 Medicare payment rate per person in Kings, New York is approximately \$646.

The unfairness in this disparity is obvious. States that are keeping costs down are punished with low reimbursement rates, while those that have not controlled health care costs are rewarded with high per-person allowances. This inequity becomes even more glaring for beneficiaries of managed care plans. Because TEFRA requires that additional savings from managed care be passed to beneficiaries only as benefits, plans in areas such as Kings are able to offer more benefits yet cut out-of-pocket expenses such as premiums, deductibles and co-payments and still maintain a profit, while plans in states like Minnesota cannot afford to offer such benefits. Therefore, while people pay the same amount into Medicare during their working careers regardless of their state, some Medicare beneficiaries pay less and get more of their expenses covered than others depending simply on where they live.

Mr. Chairman, this is unfair and it is creating exactly the wrong incentive in the delivery of health care. We must adopt a new formula for setting Medicare reimbursement rates. If we are to achieve Medicare savings and yet serve the real needs of the senior population, the federal government must send a clear message. Rather than penalize reform, we must reward the efficiencies realized in a health care system like those in Minnesota. While the issue of reimbursement disparity is but one piece in the larger puzzle of Medicare, it is one that affects citizens all around the country and it has the potential to affect them dramatically in the future. It is time that the Medicare debate include discussions of efforts to achieve an improved Medicare system with a sound financial future. I look forward to working with you and other Members of the Subcommittee to address this issue.

Thank you.