THE PRIMARY CARE COALITION

FRACTURED

THE STATE OF HEALTH CARE IN TEXAS

The Primary Care Coalition

In 2002 the Primary Care Coalition released a ground-breaking report warning Texas lawmakers that a crisis was gathering in the state's health care system. Skyrocketing medical liability insurance rates, flat or declining reimbursement from private and government payers, and increasing administrative burdens threatened patients' access to primary care. The report recommended several steps to resolve the impending crisis. Heeding these and other ominous warnings, the Legislature acted swiftly to improve the practice environment of Texas' physicians by passing comprehensive medical liability reform and closing the loopholes in Texas prompt pay statutes.

The Legislature's swift action and foresight resulted in an end to the unsustainable spikes in medical liability premiums physicians had experienced for years. Today's medical liability market is more predictable, attracting more insurers to Texas, increasing competition and forcing carriers to reduce their premiums. Managed care reforms have been effective as well, reducing the slow-pay, no-pay, low-pay tactics of health insurers. All of these reforms have helped make Texas a desirable environment for America's best and brightest to study and practice medicine.

Despite past success, Texas' growing ranks of uninsured patients and swelling Medicaid rolls coupled with soaring health care costs and looming demographic changes pose a critical threat to the health of a large portion of our population and to the entire state's economy. We must work together to find bipartisan solutions that improve our health care delivery system, strengthen and streamline our safety net health care programs, and provide all Texans with a medical home where they can receive comprehensive and affordable preventative care.

©2006, Primary Care Coalition

The Primary Care Coalition has researched the causes of the health care crisis facing Texas and has developed recommendations to ensure patients will continue to have access to high quality primary health care. We trust our comments will serve to stir and awaken readers to the mutual need to confront the health care challenges facing our state and its citizens.

The Primary Care Coalition is comprised of physicians who serve their communities by providing direct patient care and who form the frontline of awareness, detection and defense in public health issues – everything from preventing viral outbreaks to recognizing potential bioterrorism. The Primary Care Coalition members are:

The Texas Academy of Family Physicians
5,500 members

Mission: To equip family physicians to improve the health of patients and their families, and to advance and represent the specialty of family medicine. The Academy has 32 local chapters and is the Texas chapter of the American Academy of Family Physicians.

The Texas Academy of Internal Medicine Services
5,880 members

Mission: To promote high-quality, cost-effective health care for all patients by preserving and strengthening the practice of internal medicine, and all its subspecialties. The Texas Academy of Internal Medicine is the Texas chapter of the American College of Physicians, the nation's largest medical specialty society.

The Texas Pediatric Society
3,400 members

Mission: To focus its talent and resources to ensure that the children in Texas are safe and healthy, that its members are well informed and supported, and that the practice of pediatrics in Texas is both fulfilling and economically viable. The Texas Pediatric Society is the Texas chapter of the American Academy of Pediatrics.

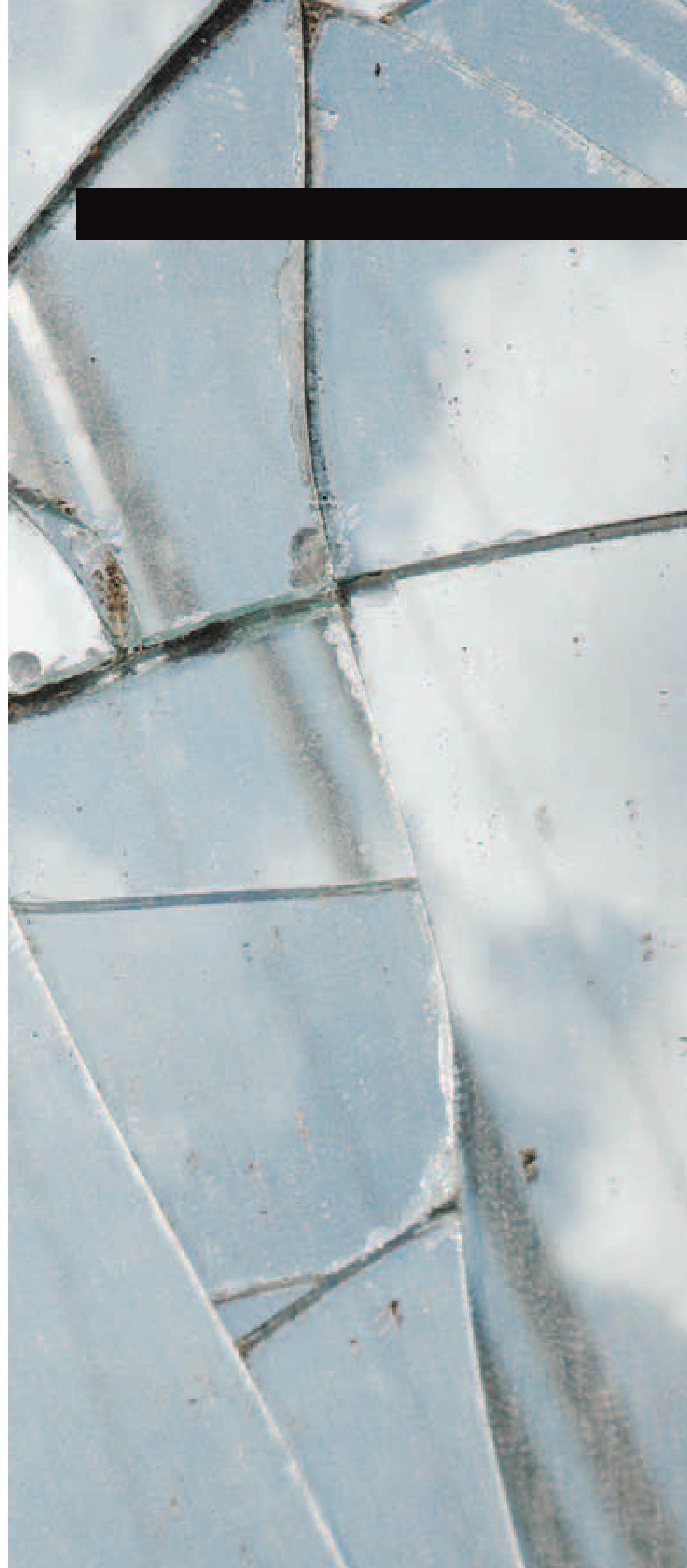
A Fractured System

The Texas health care delivery system has reached a breaking point. Several trends have converged, manifesting in an array of disturbing symptoms.

- A dramatic increase in the number of uninsured. Today, one in every four Texans lacks health insurance, a fact that contributes to a sicker, less productive population and a higher tax burden for businesses, homeowners and individuals.
- A cost shift to private insurance that drives soaring health insurance premiums and leads to a lack of available, affordable health insurance options for employers and individuals alike.
- A rapidly increasing population destined to balloon at both ends of the age spectrum. A growing number of children born into Medicaid coupled with a swell of baby boomers will severely strain the state's health care delivery system.
- A drastic, impending shortage of primary care physicians. There are not enough primary care physicians to care for the current population, much less to cover the projected demand for services in the next few decades.

In the absence of a system that supports cost-effective, coordinated, high-quality care for patients, a fractured system has evolved that provides inefficient and expensive care to those who can afford it and allows those less fortunate to fall through the cracks.

If Texas does not take steps to reinforce its primary care networks, our health care system will crumble, drowning the state's economic health in a flood of debt and disease.



FRACTURED

The Vicious Cycle of the Uninsured

The story is all too familiar. A small business is forced to reduce or rescind health benefits because the latest increase in premiums cuts the bottom line too deeply. Employees are left to fend for themselves in a market where individual policies are too expensive and riddled with coverage gaps. An employee goes without coverage and falls prey to illness. She delays care to avoid the cost while the illness becomes more acute and complex. Her productivity declines at work as the illness worsens until she's forced to seek care in the most expensive sector of the health care system, the emergency room. When she can't afford to pay the bill, it is passed on to the local tax base, further inflating the overall cost of the health care system.

Today 54.5 percent of Texans under 65 years of age receive health benefits through their employers versus 62.8 percent nationally. Several years of double-digit increases in health insurance premiums have presented employers, particularly small employers, with a difficult set of choices.

- Hold off on wage increases, new hires and capital investments.
- Consider reducing work hours, making some positions part-time and eliminating others.
- Ask employees to share more of the burden through increased co-payments and higher premiums.
- Drop health benefits altogether.

As employers are forced to make these choices, the ranks of the uninsured swell, giving Texas the dubious distinction of having the largest uninsured population in the country.

- 24.6 percent of Texans — 5.6 million people — are uninsured, while the national average is 15.3 percent.
- 79 percent of uninsured adults in Texas are part of the workforce or have a family member in the workforce.
- 21 percent of Texas' children are uninsured.
- 40 percent of Texas' Hispanic population is uninsured.

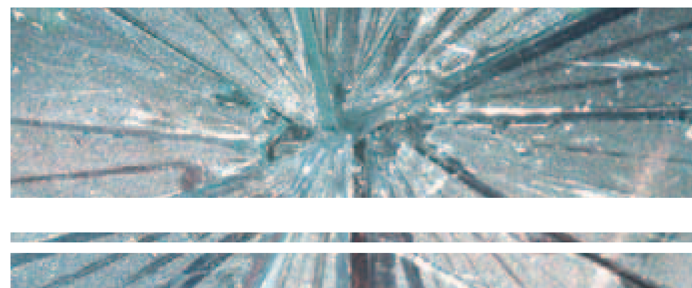
Uninsured patients rarely receive preventive, primary or ongoing care for chronic conditions. Instead they receive episodic care, often delivered in the emergency room — the most expensive place to receive care. During these episodes, they see multiple physicians and other health care providers with no continuity, and as such are likely to receive duplicate lab work, X-rays and other tests. Without access to preventive care, conditions like hypertension and diabetes worsen and progress to complex disease conditions, which are more expensive to treat and often leave patients more debilitated and dependent. All of these factors add unnecessary cost to the health system and in the end, the patient receives lower quality care.

This inferior level of care and its high cost are both the symptoms and cause of our fractured health care system.

What the patients of Texas need — both the insured and the uninsured — is a medical home, led by a primary care physician who provides preventive and acute care, manages chronic conditions and ensures that patients receive appropriate, high-quality care at the right time and at the right price.

Consider these findings on emergency room utilization from the Code Red report, recently published by the Task Force for Access to Health Care in Texas.

- ER visits in Texas jumped from 5.5 million in 1992 to 8.6 million in 2003.
- 42 percent to 56 percent of the visits to major Texas hospitals are primary-care related.
- Uninsured patients account for between 23 percent and 48 percent of those primary-care-related visits.



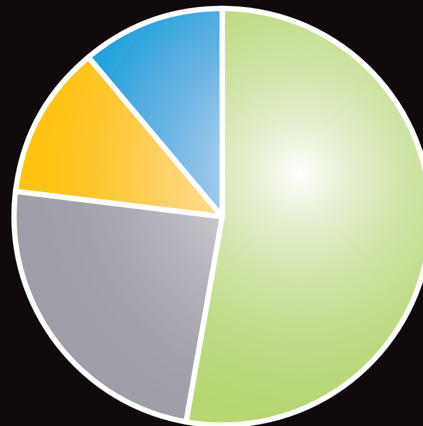
24.6%

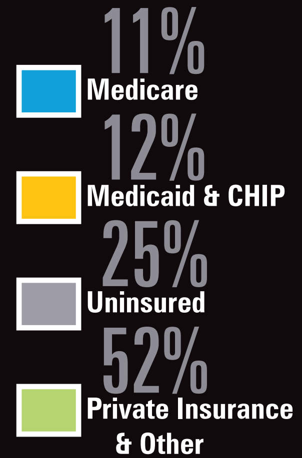
of Texans are uninsured.

79%

of uninsured adults in Texas are part of the workforce or have a family member who is part of the workforce.

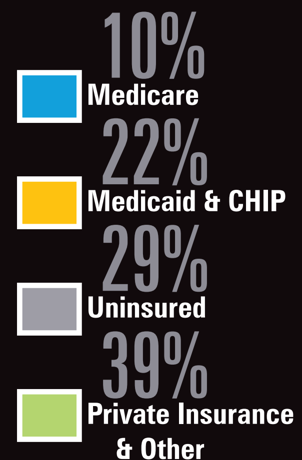
Statewide Health Coverage





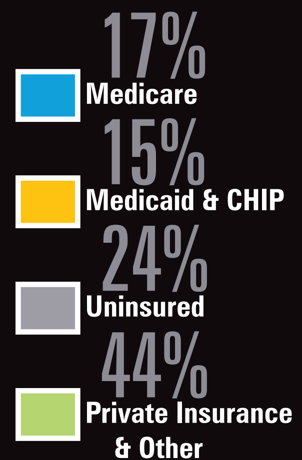
Source: U.S. Census Bureau, 2005; Texas Medical Association

Border Health Coverage (2001)



Source: Texas Medical Association

Rural Health Coverage (2000)



Source: Texas Medical Association

Several recent studies have conclusively shown the effectiveness of primary care in lowering health care costs and improving the overall quality of care.

A 2005 study revealed that in markets where primary care physicians provide the majority of care, patients are healthier and costs are lower. Researchers from the Johns Hopkins School of Public Health analyzed data from 3,000 counties nationwide and found that a higher ratio of primary care physicians to specialists in a population results in lower mortality rates and lower cost.

Another study by the Dartmouth Atlas Project found that the country could save as much as 30 percent on Medicare spending while providing better care by changing the way patients with severe chronic illnesses are treated. Researchers found that states relying more on primary care rather than specialty care for the treatment of patients suffering from chronic illnesses had lower health care spending and better quality outcomes. The extra spending, resources, physician visits, hospitalizations and diagnostic tests in high-spending states did not buy longer life spans for patients or improve their quality of life.

An established medical home empowers primary care physicians to use their expertise in the coordination and integration of care to ensure the kind of quality and savings these researchers and others have discovered. These trends hold true especially in the area of chronic disease management and long-term care, where the bulk of health care spending occurs. Everyone interested in health economics can recite the statistic: 20 percent of patients consume 80 percent of health care dollars.

But an established medical home depends upon the support of a health care system dedicated to nurturing its success and providing an adequate supply of primary care physicians. In Texas' fractured health care system, that support doesn't exist.

The Frayed Safety Net

As the ranks of the uninsured swell and health care costs continue to consume more of the nations wealth, more pressure is placed on Medicaid and the Children's Health Insurance Program.

- Medicaid enrollment has increased from almost 1.9 million in 2000 to 2.7 million — 12 percent of the state's population — in 2006.
- Medicaid pays for 54 percent of the births and 70 percent of nursing home services in Texas.
- Approximately 67 percent of Medicaid recipients are under 18 years of age, yet they account for only 29 percent of the program's expenditures.
- 32 percent of Medicaid recipients live along the Texas-Mexico border.
- 78 percent of adults on Medicaid are elderly or disabled, costing the state more than $8 billion.
- Medicaid is the largest source of coverage for patients with mental illness, developmental or cognitive disabilities, and HIV/AIDS.
- According to current estimates, 700,000 uninsured children in Texas are eligible for Medicaid or CHIP but are not enrolled, leaving precious federal matching funds for other states to claim.
- Medicaid pays physicians the least among all payers, according to the Texas Medical Association, covering less than half of the costs incurred by providing most health care services.

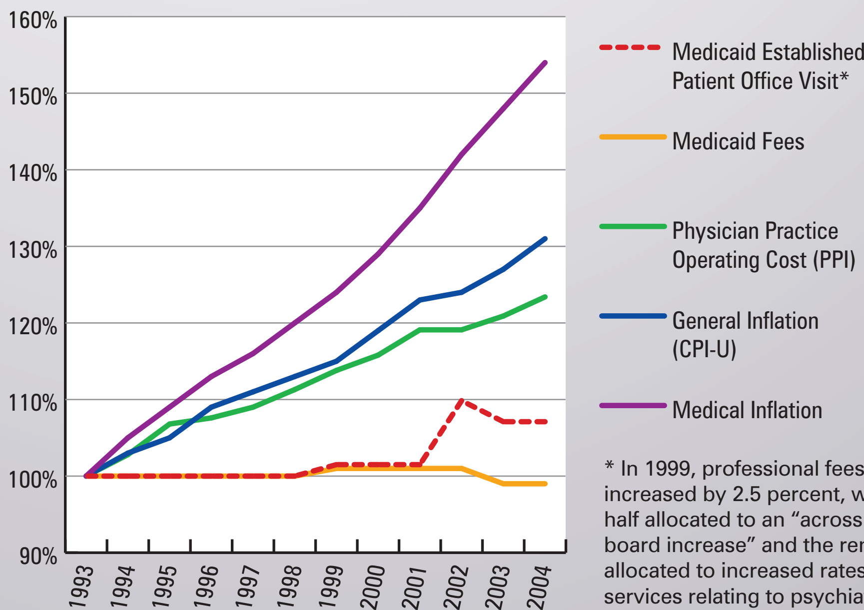
Physician Reimbursement

Description	Average Practice Cost*	Medicaid Payment**	Texas "Rest of State" Medicare Fee (lowest)***	Estimated Commercial Payment (2001)
New Patient Office Visit	$145.30	$47.01	$86.04	$107.28
Established Patient Office Visit	80.15	28.78	47.20	59.17
Circumcision	428.41	49.48	246.72	569.51
Vaginal Delivery w/ Postpartum Care	1,378.65	692.74	828.16	1,832.70
Cesarean w/ Postpartum Care	1,645.62	706.87	987.55	2,187.59
Medication Management	79.57	41.43	47.73	83.52
Femoral (Leg, Above Knee) Fracture	1,675.60	946.48	996.16	2,227.45
Upper GI Endoscopy	529.32	202.64	306.64	703.65
Colonoscopy	687.88	225.52	398.45	914.43
Nursing Home Visit	151.65	45.47	90.37	111.96
First Vaccine Administration		5.00	18.00	9.37

*Average cost calculated from MGMA data on average costs per Relative Value Unit
**Reflects 2.5-percent reduction
***"Rest of State" includes El Paso and San Antonio

Sources: Compiled by Texas Medical Association using data from the Texas Health and Human Services Commission, Centers for Medicare and Medicaid Services, Medical Group Management Association

Medicaid Fees Compared to Inflation



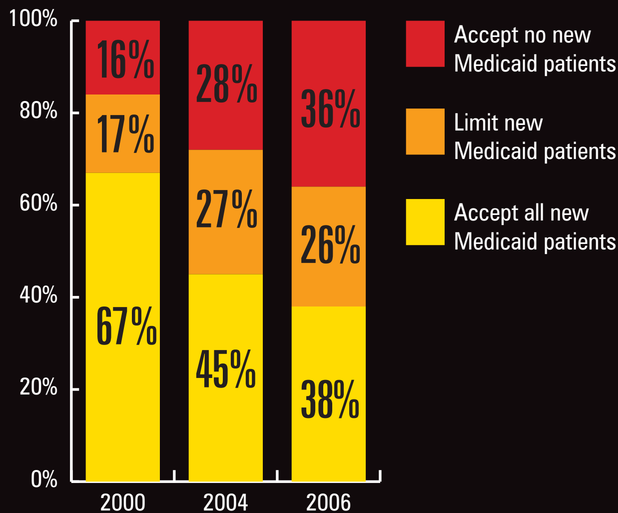
* In 1999, professional fees were increased by 2.5 percent, with half allocated to an "across the board increase" and the remaining allocated to increased rates for services relating to psychiatric care and newborn deliveries. In 2001, the Legislature allocated funds to increase by 8.2 percent the fee for a moderately complex, established patient office visit (CPT code 99213). EPSDT codes also were substantially increased. All other fees were unchanged. With some exceptions, the 2.5-percent fee cut enacted in 2003 reduced payments for professional services to at or below rates paid in 1993.

Source: Texas Medical Association, 2005

Reimbursement rates are flat or declining while expenses continue to increase.

Based on economic analysis of the cost of delivering basic, quantifiable units of medical care, Medicare fees fall woefully short of covering those costs. Medicaid pays only about 50 cents on the dollar.

A growing amount of socioeconomic data proves that the low payments from Medicaid and Medicare lead directly to downstream increases in private insurance premiums and overwhelming pressures on local tax bases.



Source: TMA Physician Survey – 2000, 2004 and 2006

The federal government is compounding the problem, making it difficult for physicians to make ends meet while participating in assistance programs. Through the Deficit Reduction Act of 2005, Congress cut $4.7 billion from Medicaid spending over the next five years and $26.3 billion over the next 10 years.

The Congressional Budget Office estimates most of these savings will come from deterring Medicaid enrollment, reducing use of services — including medically necessary care — and reducing provider payments.

Primary care physicians are leaving this frayed system.

- Preliminary TMA survey data from 2006 shows that only 38 percent of Texas physicians accept new Medicaid patients, down from 67 percent in 2000.
- In 2004, only 24 percent of pediatricians and 41 percent of family physicians accepted new Medicaid patients, a decrease from 49 percent and 51 percent, respectively, in 2000.
- The top two reasons cited for ceasing to accept new Medicaid patients are No. 1: inadequate payment for services, and No. 2: the complexity and fragmentation of the Medicaid delivery system.

Meanwhile, the Medicare population is rising while rates are being cut. According to the U.S. Census Bureau, there are 2.26 million people over the age of 65 in Texas. That number is expected to grow to more than 3.9 million by 2020, but even as the swell of "baby boomers" approaches their Medicare years, the federal government has scheduled a 5-percent rate cut effective in 2007.

- As physicians are forced to drop out of Medicare, Medicaid and other programs, patients will encounter longer waits for appointments and may have to travel farther to be seen.
- A recent survey by the American Medical Association shows that 45 percent of physicians plan to restrict the number of new Medicare patients they accept or cease accepting new Medicare patients altogether if physician payments are cut by 5 percent in 2007.

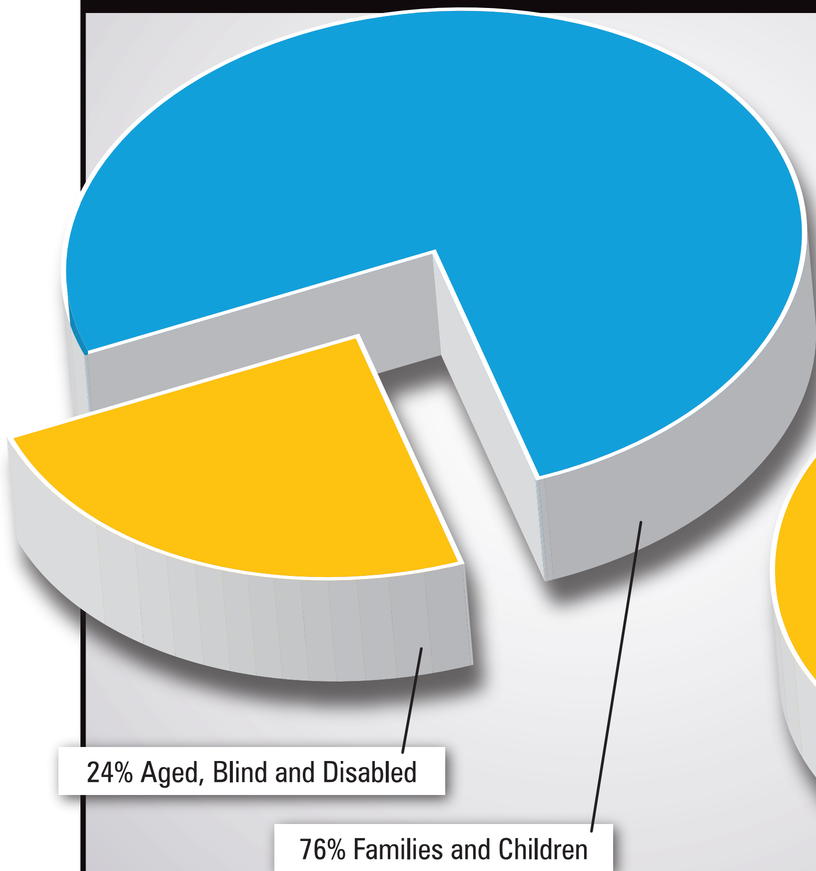
Low payments by Medicaid and Medicare shift health costs to local tax bases and private insurers, where they are ultimately paid through inflated insurance premiums by employers and individuals.

Breaking Beneath the Strain

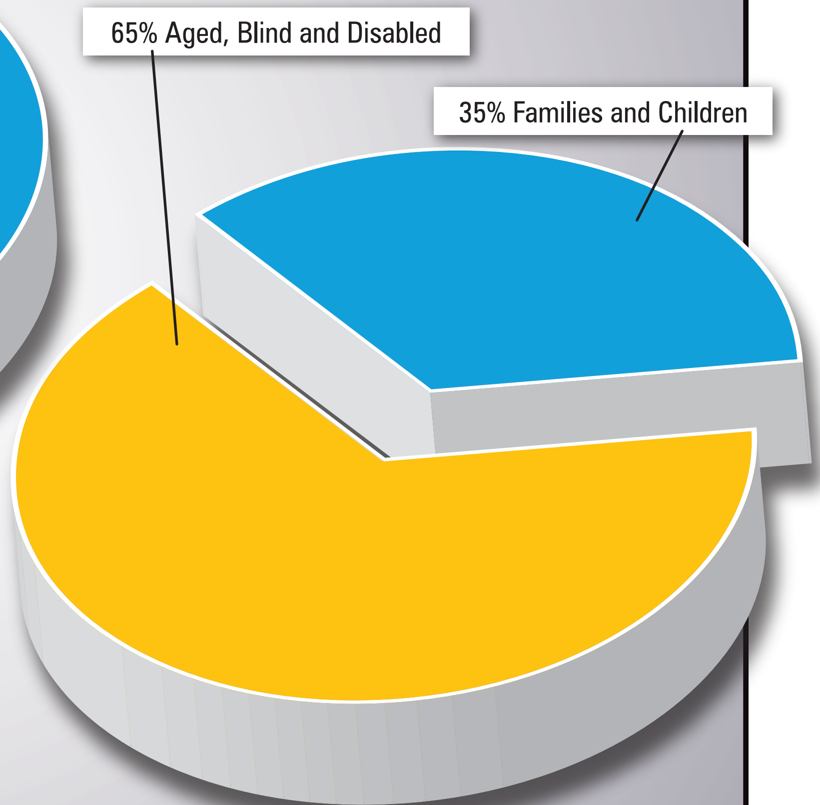
Under the weight of this burden, primary care physicians face additional economic pressures that make it difficult to keep their doors open for business. Many primary care physicians struggle every month just to meet overhead expenses.

- Health plans do not provide coverage information at the point of service so physicians often have to provide medically necessary services without knowing whether those services will be covered, leading to confusion and anger among patients.
- Most primary care physicians have 30 or more different contracts with commercial insurance carriers, each with a different fee schedule, accounts payable timetable, medication formulary, pre-certification procedure, filing requirements, etc. These are take-it-or-leave-it contracts in which physicians have virtually no negotiating power and little economic ability to walk away.

Medicaid Enrollment by Category



Medicaid Spending by Category



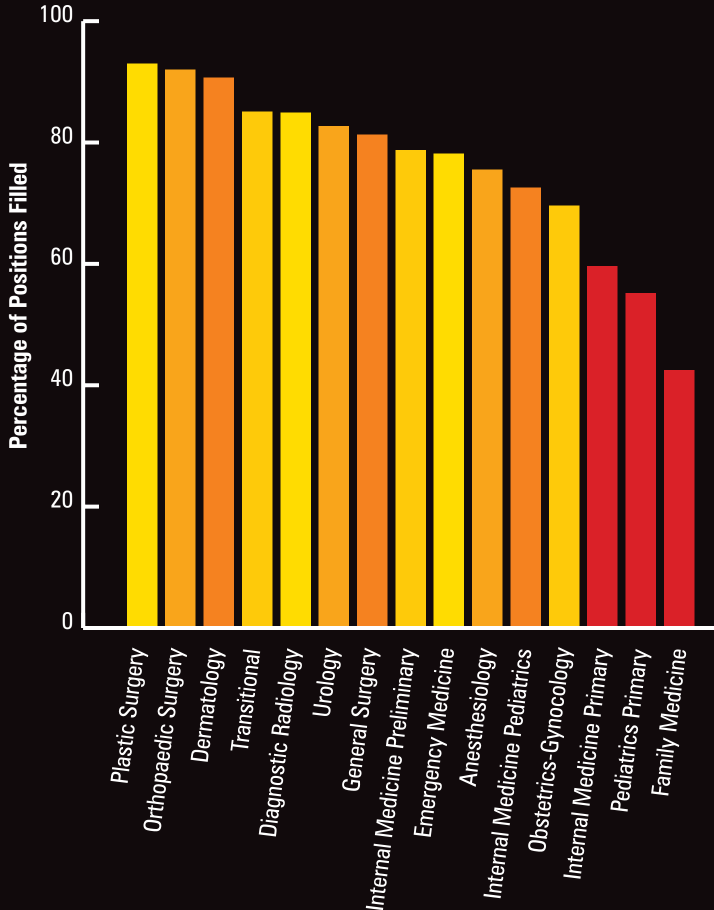
Source: Texas Medical Association

- The federal government and third-party payers are pressuring physicians to adopt health information technology like electronic health records. While EHRs could increase efficiency, reduce administrative personnel needs and improve health care quality, the price tags on most systems put them out of reach for the vast majority of primary care physicians. Average initial costs for an EHR are about $33,000 for each physician in a practice, with ongoing maintenance costs accruing at around $1,500 per physician per month.
- Despite legislative efforts to inject fair market practices into managed care, physicians still must chase after payment from third-party payers, requiring costly administrative staff to handle billing problems, secure prior authorizations and untangle bundled and down-coded payments from health plans.
- Medicaid and CHIP continue to be unnecessarily complicated for physicians who are rewarded with fees that fall woefully short of the costs of delivering care.
- Medicare rolls continue to grow but the program's fees don't cover the costs of delivering the care now and another round of federal cuts is scheduled for 2007.

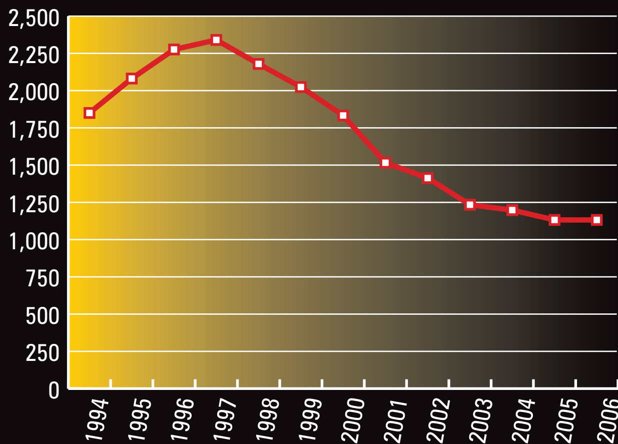
What does all of this mean?

It's simple. Physicians must support growing administrative staffs to deal with the complexity of this fractured system. The number of patients needing care continues to increase within a market that does not adequately pay the costs of delivering that care. Something has to give.

Average Percent of Residency Program Positions Filled by U.S. Medical Graduates in Selected Specialties, 2002–2006



Number of Family Medicine Residency Positions Filled by U.S. Medical Graduates, 1994–2006



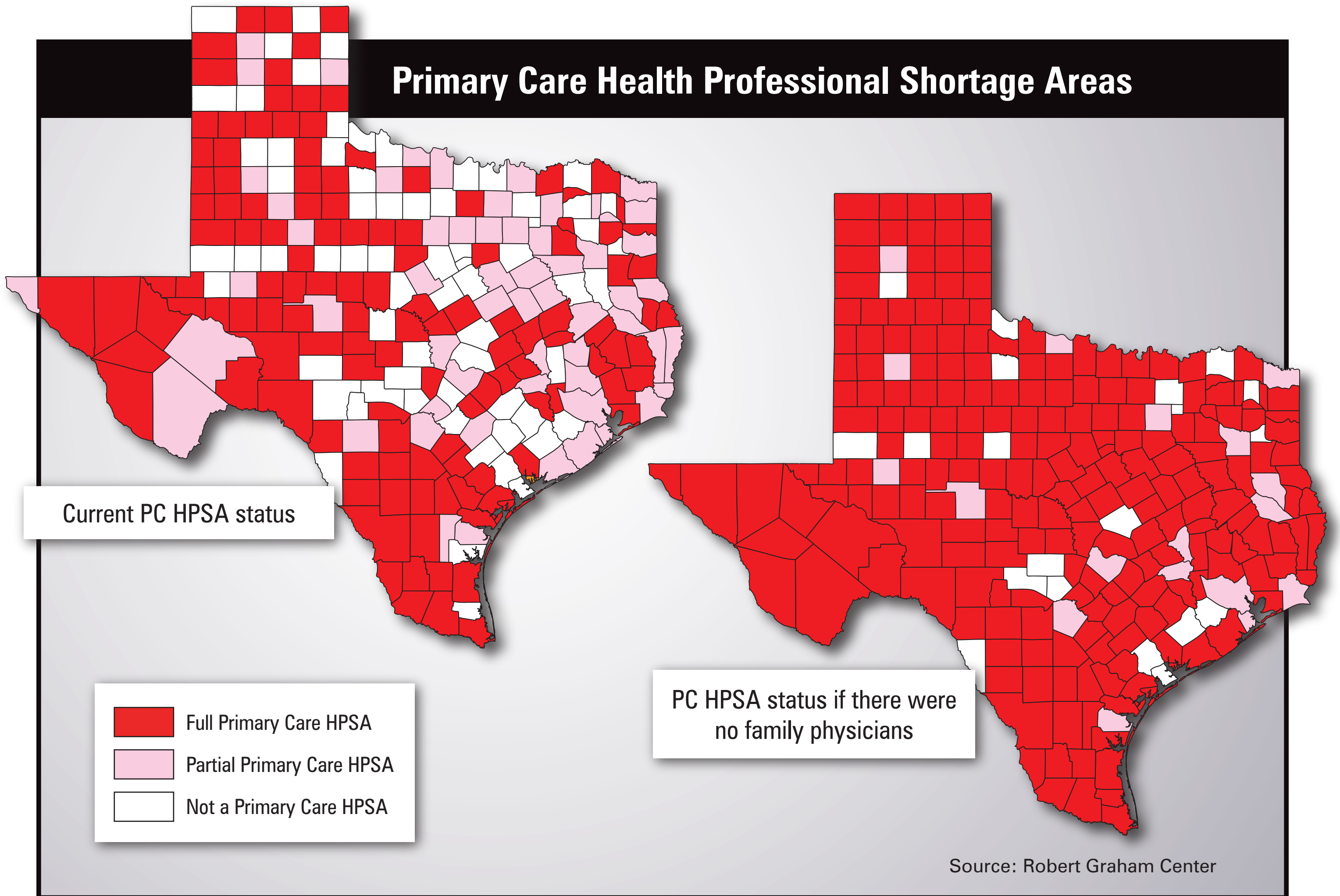
Source: National Resident Matching Program

A Dwindling Supply of Physicians

Texas needs more primary care physicians to care for its growing population, but the maldistribution of physicians in the state serves only to worsen our access dilemma.

- The national average for direct care physicians to every 100,000 people is 220. Texas averages 152 for every 100,000 people.
- 116 counties are considered full primary care health professional shortage areas, or HPSAs. Sixty counties are considered partial HPSAs.
  - — 27 counties have no physician
  - — 16 counties have one physician
  - — 24 counties have two physicians
- 177 counties qualify as federally designated medically underserved areas and 47 counties qualify as partial MUAs.
- 64 counties have no hospital.
- Nearly every county along the Texas-Mexico border is designated as having a shortage of primary care physicians.
- Medicaid, CHIP and Medicare are the primary insurers in most border and rural counties. Low reimbursement rates of these programs work against efforts to attract new physicians to these regions. The resulting situation undermines not only patient access, but also the communities' overall ability to attract and retain other employers.

Graduates leaving medical school carry more than $100,000 of debt on average. One factor dissuading medical school graduates from choosing primary care in favor of more lucrative specialties is that the average income for primary care has dropped by more than 10 percent since 1995, when adjusted for inflation. Since 1997, the number of U.S. medical school graduates choosing to enter family medicine and general internal medicine residencies has fallen by almost 50 percent.



The Price We All Pay

When hospitals and physicians provide uncompensated care or do not receive enough payment to cover the cost of providing care, the economy suffers and we all pay a hidden tax.

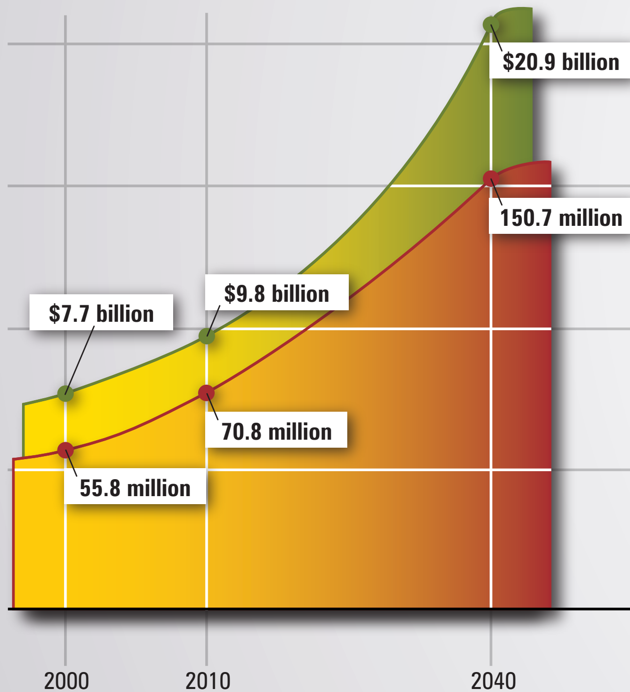
- According to the Center for Health Statistics, Texas hospitals provided more than $7.7 billion in uncompensated care in 2003.
- This uncompensated care leads to higher health care bills for everyone and higher taxes on local communities.
- The cost of uncompensated care for the uninsured adds $1,551 to the average annual premium for private insurance in Texas, according to Families USA.
- Nationally, unpaid health bills add 8.5 percent, or about $45 billion, to the cost of health insurance each year, according to Emory University health economist Kenneth Thorpe.

Low payments by Medicaid and Medicare only exacerbate the problem, shifting costs to private insurers that are eventually paid through even higher insurance premiums by employers and individuals.

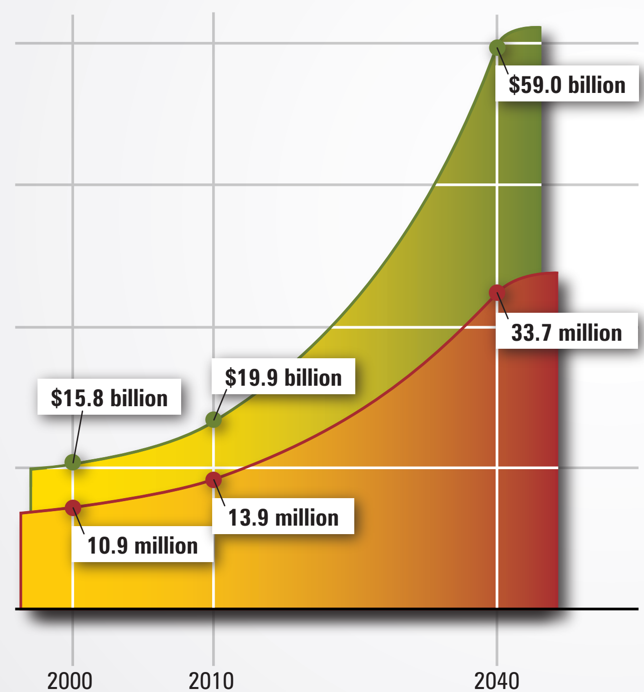
- A recent study commissioned by Premera Blue Cross Blue Shield in Washington state found that employers paid more than $1 billion in higher insurance premiums for their employees to make up for low Medicaid and Medicare payments to hospitals and physicians in 2004.

Projected Health Care Costs 2000, 2010 and 2040

Physician Office Contacts in Texas and Associated Costs



Days of Hospital Care in Texas and Associated Costs



The study found that this "hidden tax cost Washington employers an average of $902 per family health insurance contract — 13 percent of all commercial hospital and physician costs."

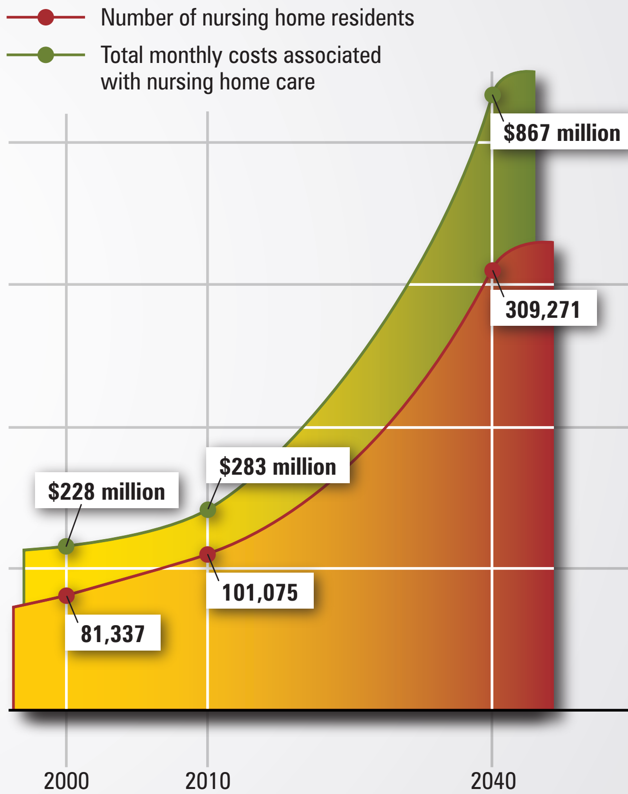
The study also estimated that Medicare and Medicaid cost-shifting, not employees' medical care, accounted for 29.9 percent of the increase in employee hospital costs paid by Washington employers in 2004.

- A similar study by the consulting firm Milliman, Inc. found that in 2004, California employers and health plans paid an extra $4.5 billion in hospital charges to cover underpayments by Medicaid and Medicare.

A Grim Prognosis for the Future

If current migration trends persist, state demographer Steve Murdock, Ph.D., projects there will be more than 50 million people in Texas by 2040, 12.5 million of whom will be over 65 years of age.

- By 2040, Murdock predicts the number of physician visits will triple.
- The Code Red report suggests that to meet the state's future need, Texas must increase the number of physicians graduating from medical school by 20 percent each year for the next 10 years.



Number of Physician Office Contacts in Texas and Associated Costs

	No. of Contacts	Total Costs
2000	55,776,918	$7,741,294,000
2010	70,764,534	$9,821,434,000
2040	150,683,512	$20,913,361,000

Days of Hospital Care in Texas and Associated Costs

	Days of Care	Total Costs
2000	10,896,963	$15,846,867,000
2010	13,931,769	$19,944,331,000
2040	33,661,909	$59,032,865,000

Number of Nursing Home Residents in Texas and Total Monthly Costs

	No. of Residents	Total Costs
2000	81,337	$228,040,560
2010	101,075	$283,379,029
2040	309,271	$867,087,952

NOTE: All projections are based on a rate of net migration equal to that of 1990 to 2000.

NOTE: All costs in constant 2000 CPI-U-RS dollars.

Source: Steve H. Murdock, “The Texas Challenge in the Twenty-first Century: Implications of Population Change for the Future of Texas,” The Institute for Demographic and Socioeconomic Research at The University of Texas at San Antonio.

- The Code Red report also recommends that the number of residency positions be increased by 600 every two years for the next decade.
- There is an 85 percent probability that graduates of Texas medical schools who obtain residencies in Texas will stay in Texas to practice.
- The Code Red report states that 45 percent of Texas medical school graduates go out of state for their residencies.

A new reality in health care is now shaping the future for our great state. More and more individuals are left stranded:

- **without access to health care,**
- **with limited physician choices,**
- **with more serious and costly illnesses,**
- **or in the emergency room of the closest hospital, which in some cases may be hundreds of miles away.**

Is this what we want for the citizens of Texas?

Mending the Cracks

Who will care for the patients of Texas when costs and administrative burdens drive physicians from the practice of medicine? This is the ultimate question facing Texas.

All is not lost. The Texas Legislature has within its power the means to resolve this crisis. Swift legislative action is needed to mend our fractured health care system by providing cost-effective coverage for Texas families, arresting rising overhead costs, increasing reimbursement rates within Medicaid and CHIP, and reducing administrative hassles and regulatory burdens wherever possible. Without these changes, the dangerous trends outlined in this report will continue, meaning a sicker, less productive population; a higher tax burden for businesses, homeowners and individuals; and fewer primary care physicians to provide health care for Texans in need. The Primary Care Coalition urges the following actions this legislative session:

1. **Pursue innovative, market-based approaches to reduce the ranks of the uninsured.**
   Texas should promote private-public partnerships, such as “three share” programs, that complement existing local and regional efforts to reduce the number of uninsured workers, and employ Health Insurance Flexibility and Accountability waivers to use Medicaid and CHIP dollars to leverage private monies to expand affordable health insurance to low-income workers.

2. **Protect and strengthen Medicaid and CHIP.**
   a.) Reinstate a broad outreach campaign to enroll all children who are eligible for Medicaid or CHIP. Texas should launch programs to educate families about the availability of affordable health insurance for their children as well as the importance of insurance in assuring their children get the preventive and primary care services they need. Given their generous federal matching dollars — $1.54 for Medicaid and $2.63 for CHIP — these programs are cost-effective ways for the state to help working parents provide health insurance for their children.

   b.) Revitalize the Medicaid physician network and improve patients’ access to cost-effective care by assuring that payment rates are competitive. Texas should develop a five-year strategic plan to enact competitive Medicaid physician payments comparable to those of Medicare.

   c.) Remove barriers to those in need by increasing Medicaid and CHIP eligibility to 12 months.

3. **Empower patients as health care consumers.**
   Protect patients and physicians by requiring health plans to provide information at the point of service through a “smart card” or through a Web portal. The information should include the patient’s deductibles and co-pays, what their insurance policies cover and what portion of the cost may be borne by the patient. This approach will reduce administrative hassles and paperwork, improve transparency and help prevent fraud and abuse.

4. **Adopt a standardized managed care contract.**
   Require the Texas Department of Insurance to establish a standard contract form between physicians and health plans that conforms to all state laws and regulations, and that clearly delineates any unique contract provisions. A standardized contract will reduce administrative costs for physicians and health plans and eliminate the need for extensive legal and administrative review of each and every contract.

5. **Invest in health information technology.**
   Increase the quality and efficiency of care delivered in Texas by helping physicians implement health information technology like EHRs and personal health records. Average initial costs for an EHR are about $33,000 for each physician in a practice, with ongoing maintenance cost accruing at around $1,500 per physician per month. Until price drops dramatically or until the state and federal government see the public health benefit of subsidizing EHR implementation in primary care clinics, adoption rates will remain low.

6. **Support and nurture a medical home.**
   Assure that patients receive the right care at the right time, every time by supporting and nurturing the establishment of a medical home for every Texan.

7. **Grow our primary care physician base.**
   Ensure that Texas has adequate numbers of primary care physicians by increasing support to graduate medical education programs, reinstating Medicaid GME funding, fully funding preceptorship programs in family medicine, internal medicine and pediatrics, and implementing other innovative programs that will attract the best and brightest to primary care careers.

It’s time to do the right thing. It’s time to return fairness to the health care system, and protect the health and well-being of every citizen of this state.

A Success Story

When PCC published Fading Away in 2002, one of the greatest threats to access to care was the unprecedented rate of increase in medical liability premiums. The 78th Texas Legislature took on the problem, enacting historic tort reforms that have changed the insurance marketplace in the state and has made Texas the envy of the United States.

Since then, premiums have stabilized and in most cases begun to drop, with some carriers reducing rates as much as 29 percent. Surveys show that physicians have stopped leaving the state because of liability concerns and several more carriers have entered the market, ensuring a healthy atmosphere of competition that will help control rates in the future.

Today, we face a health care crisis that has the potential to bankrupt the state and it will only grow immeasurably worse if nothing is done. The frayed safety net is on its last thread and we simply must mend it.

Texas needs a new paradigm in health care, one that is centered on the delivery of quality, timely primary care — the right care in the right place at the right time. Together, we can build this new model. We have to. The future of Texas depends on it.

ACKNOWLEDGEMENTS

FRACTURED is a product of the Primary Care Coalition, a partnership comprised of Texas Academy of Family Physicians, Texas Pediatric Society and Texas Academy of Internal Medicine Services.

AUTHORS

Jonathan Nelson
Texas Academy of Family Physicians

Tom Banning
Texas Academy of Family Physicians

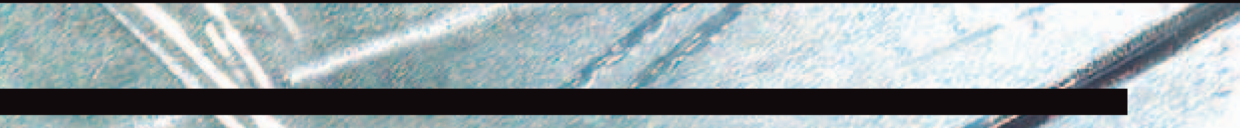
Carrie Kroll
Texas Pediatric Society

Catherine Bailey
Texas Academy of Internal Medicine Services

DESIGN, PHOTOGRAPHY AND PRODUCTION
Jonathan Nelson

©2006, Primary Care Coalition
Austin, Texas

FRACTURED



Primary
Care
Coalition