

# MICHIGAN PRIMARY CARE ASSOCIATION RATE REBASING FINAL REPORT EXECUTIVE SUMMARY

JULY 2023



# EXECUTIVE SUMMARY

## STUDY PURPOSE

The Michigan Primary Care Association (MPCA) requested that Health Management Associates (HMA) study the average cost per visit for Michigan federally qualified health centers (FQHCs) through calendar year (CY) 2021 and compare the cost per visit to the inflated maximum prospective payment rate (PPR).

## STUDY ELEMENTS AND LIMITATIONS

Following are details about the study's elements and limitations.

- Use of 2017–2021 Medicare FQHC cost reports to determine direct, indirect, and total costs
- Computation of per visit (encounter) cost for medical and behavioral health services only
- Limitations of Medicare FQHC cost report:
  - Inconsistent reporting of costs for dental services
    - Does not capture dental visits
  - Fringe benefits and medical supplies are considered indirect cost and, therefore, are distributed within the defined allocation methodology
  - Overallocation of indirect cost to certain areas disproportionate to the nature of the program or services provided

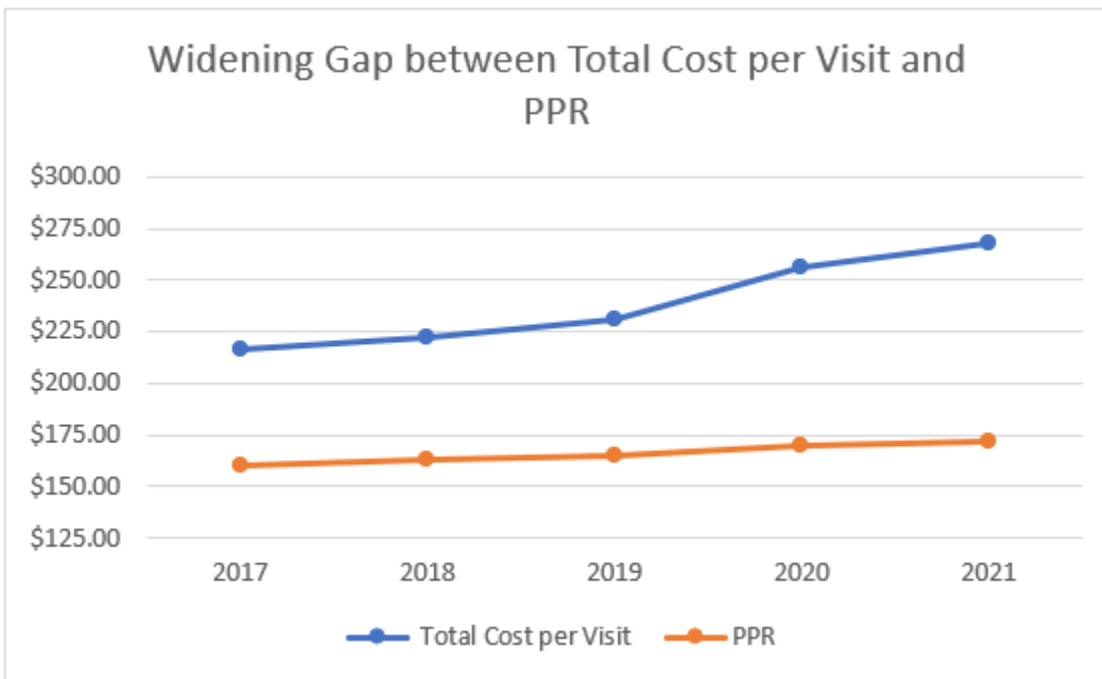
## FQHC PPR VERSUS FQHC AVERAGE TOTAL COST PER VISIT

As Tables 1 and 2 and Figure 1 indicate, during the period MPCA asked HMA to study (2017–2021), Michigan healthcare providers PPR payments were insufficient reimbursement PPR to cover the total costs of providing care. Furthermore, the data indicate that the chasm between PPR payment and total costs grew over that timeframe.

**Table 1. Components of Total Cost, PPR Rates, and Net Deficits in PPR versus Total Cost per Visit**

MICHIGAN PRIMARY CARE ASSOCIATION COMPONENTS OF TOTAL COST, MICHIGAN PPR RATES, & AND NET DEFICIT IN PPR VERSUS TOTAL COST PER VISIT										
	2017	% of Total Cost	2018	% of Total Cost	2019	% of Total Cost	2020	% of Total Cost	2021	% of Total Cost
Direct Cost; Practitioner	\$ 71.02	32.4%	\$ 75.11	33.2%	\$ 78.83	34.2%	\$ 84.93	33.7%	\$ 86.62	32.8%
Direct Cost; Other	56.29	24.1%	57.09	23.8%	58.10	25.2%	60.85	25.6%	64.49	26.0%
<b>Total Direct Cost</b>	<b>\$ 127.30</b>		<b>\$ 132.20</b>		<b>\$ 136.93</b>		<b>\$ 145.78</b>		<b>\$ 151.10</b>	
Indirect Cost	89.49	43.6%	99.45	43.1%	93.71	40.6%	110.32	40.6%	116.64	41.3%
Michigan PPR Rates	\$ 160.37		\$ 163.01		\$ 165.20		\$ 169.65		\$ 171.55	
Total Cost	\$ 216.79		\$ 222.65		\$ 230.64		\$ 256.11		\$ 267.74	
<b>Net Deficit in PPR versus Total Cost per Visit</b>	<b>\$ (56.42)</b>		<b>\$ (59.64)</b>		<b>\$ (65.44)</b>		<b>\$ (86.46)</b>		<b>\$ (96.19)</b>	

**Figure 1. Gap in Total Cost per Visit and PPR**



**Table 2. FQHC PPR Compared with FQHC Average Cost per Visit**

Comparison of 2021 FQHC Prospective Payment Rate (PPR) versus FQHC average Cost Per Visit	
Prospective Payment rate per visit	\$ 171.55
Total Cost (Direct Cost + Indirect Cost) per Visit	\$ 267.74
Deficit of PPR versus Total Cost	\$ (96.19)
36%; Deficit in PPR versus Total Cost	
56%; Increased in PPR needed to meet Total Cost	

## STUDY DEFINITIONS, PARAMETERS, AND TERMS

- Time period: CY 2017–2021
- FQHCs in 2021
  - Number of FQHCs studied: 40
  - Visits
    - Total 1,530,526 (83% medical and 17% behavioral health)
    - Medicaid: Forty-six percent (46%)
    - 2021 total visits were slightly higher than 2018 (pre-COVID 19 period), with behavioral visits being the major contributor to this rebound
- Annual inflationary rates (See Figure 2)
  - Medicare Economic Index (MEI) used to inflate Michigan PPR annually

- FQHC market basket used to inflate Medicare PPR
  - In 2017–2021 the FQHC market basket inflationary rates exceeded MEI by an average of 0.35 percent per year.
- Apply a uniform and consistent methodology to calculate the average cost per visit for all FQHCs
  - Use of Medicare-required annual cost report filing and cost allocation
  - Determine cost per visit consistent with Medicare methodology
- Direct costs
  - Providers of medical and behavioral healthcare, such as physicians, nurse practitioners, and clinical psychologists
  - Providers of clinical support services, including registered nurses, medical assistants, and radiology technicians
  - Pharmacy costs (both staff salaries and cost of pharmaceuticals)
- Indirect costs
  - Medical supplies
  - Staff support, such as clinic receptionists, clinic directors, and billing staff
  - Employee benefits for providers and support staff
  - Transportation
  - Facility such as rent, utilities, and janitorial

**Figure 2. Comparison Measures of Medical Inflation (MEI versus FQHC Market Basket)**

