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**MEMORANDUM**

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**TO:** HON. NED CLAXTON, SENATE CHAIR  
HON. MICHELE MEYER, HOUSE CHAIR  
JOINT COMMITTEE ON HEALTH AND HUMAN SERVICES

**FROM:** MARK GRANZIER, PRINCIPAL, SCHOONER HEALTHCARE RESOURCES  
BEN HINCHEY, CONSULTANT, SCHOONER HEALTHCARE RESOURCES

**SUBJECT:** MAINECARE RATE EVALUATION; L.D. 1867, AN ACT TO CODIFY MAINECARE RATE SYSTEM REFORM

**CC:** DAVID LANDRY, CEO, SPECTRUM HEALTHCARE PARTNERS  
ANN ROBINSON, PIERCE ATWOOD

**DATE:** JANUARY 14, 2022

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Senator Claxton and Representative Meyer:

Schooner Healthcare Resources (SHR) was engaged by Spectrum Healthcare Partners (Spectrum Healthcare), Maine's largest multi-specialty, physician-owned group practice, to evaluate the potential impact to Spectrum Healthcare of the recently proposed changes to MaineCare healthcare provider payment rates and methodologies, and to review the methods and recommendations made by MaineCare's consultants, Myers and Stauffer (M&S) resulting from the MaineCare Rate Evaluation conducted by MaineCare/the Maine Department of Health and Human Services (DHHS). This memo serves to communicate to you Spectrum Healthcare's comments and concerns stemming from that review and is being provided in advance of the public hearing on L.D. 1867 in order to provide you with sufficient time to review it prior to that date. We also intend to testify orally at the hearing in opposition to the bill for the reasons stated herein.

By way of introduction, Schooner Healthcare Resources is a healthcare consultancy based in Portland, Maine that provides clients with a wide array of services related to healthcare administration. SHR's areas of focus often include provider network development; payor and provider reimbursement evaluation, strategy, and contracting execution; payor and provider relations; credentialing support; claims data analyses and revenue impact modeling. SHR has a proven track record of partnering with healthcare provider organizations in Maine and across the country that have a primary goal of maintaining practice independence with sound financial margins, including working with clients to develop cost models as a tool to target reimbursement levels to achieve adequate operating margins.

## Executive Summary

- 1) Spectrum Healthcare agrees with the recommendations made by M&S to benchmark MaineCare rates to Medicare rates, commercial rates in Maine, and/or Medicaid rates in similar states, where appropriate. However, the specific proposed benchmark (from M&S reports) to 71.4% of 2020 Medicare rate levels for most professional healthcare services is not sufficient for Maine physician practices to continue to sustainably provide these services to MaineCare patients. Further, the draft language in LD 1867 does not specify which service categories would be appropriately benchmarked to Medicare rates, versus which services would be benchmarked either to commercial rates in Maine and/or Medicaid rates in similar states, nor does it specify what percentage of “current” (i.e. Calendar Year 2022) Medicare rates is proposed as the updated benchmark.
- 2) At the current reimbursement rate levels for MaineCare services, SHR estimates that Spectrum Healthcare loses approximately \$2.8M per year, on average, by providing these services to MaineCare patients. Even if DHHS implemented all of the M&S recommended changes immediately, the proposed rate levels (71.4% of 2020 Medicare) would only reduce those losses to about \$2.2M per year. The proposed rate levels would increase reimbursement for those services provided by Spectrum Healthcare by approximately 12% overall, while the costs of providing the services have increased by approximately 38.5% in the time since most MaineCare rates were last updated.
- 3) The draft legislation in LD 1867 incorporates the recommendations from M&S related to creating a process for *updating rates* on a regular basis but does not address the *rate levels* themselves at all. As a result, Spectrum Healthcare is unable to estimate the financial impact of the legislation as written, as the draft speaks to neither a) the specific new rate levels or b) the process the Department will use to set the new rate levels. Spectrum Healthcare proposes rate levels that are at least consistent with the comparison Medicaid rates from similar states, which would equate to approximately 85% of 2022 Medicare, on average.

This memo is organized into three sections: the first section represents summary findings from SHR's review of the M&S reports commissioned by Maine DHHS; the second section provides an estimate of the financial impact to Spectrum Healthcare if the State of Maine immediately implemented all of the M&S recommendations; the third section addresses the draft language in LD 1867.

### **1) Summary of Findings from Myers and Stauffer Recommendations to Maine DHHS**

SHR reviewed the interim and final reports from M&S to Maine DHHS, including relevant methodology descriptions, workbooks, tables, and findings. The M&S study's primary goal was to make recommendations on necessary changes to current MaineCare provider reimbursement methodologies, rates, and the overall rate setting system, in order to, "ensure ongoing adequacy of rates and the provision of high value care." The general methodology employed by M&S included:

- a) Gathering feedback from relevant stakeholders
- b) Evaluating current MaineCare rates and methodologies by comparing them to other states' Medicaid and Medicare rates
- c) Making recommendations on updated rate levels and methodologies

M&S held a series of stakeholder meetings with provider representatives from October through December 2020, in order to offer providers an opportunity to express their concerns and suggestions on the current state of MaineCare reimbursement, and to offer suggestions on the overall rate update process. The provider feedback documented in the reporting falls into three general categories: 1) current administrative burden on providers, 2) issues around member access to care, and 3) rate equity across service categories. Specific to rates, the provider feedback focused on the insufficiency of current rate levels as compared to the cost of doing business, and highlighted the lack of regular, timely updates to the rates. **For some services, updates had not been made to MaineCare rates in 20 years. For most of the services that Spectrum Healthcare provides for this line of business, rates have not been updated since 2010.**

In order to compare the current MaineCare rates to other State Medicaid rate levels, M&S analyzed current Medicaid provider fees from five states: Connecticut, New Hampshire, Vermont, Montana, and North Carolina. The first three states are located in New England, and according to M&S, have similar market characteristics to Maine. The last two (Montana and North Carolina) were used as comparisons because they are among the few states remaining that employ fee-for-service methodologies that could be compared to Maine's rates.

For the service categories that impact Spectrum Healthcare's business, M&S created an average of the five-state regime to compare current MaineCare rates to. The applicable comparisons for Spectrum Healthcare include:

Service Type	Current MaineCare Payments as % of Comparison States	% Increase Needed to Match Comparison States	% Increase Resulting From Proposed Rates
Radiology/Imaging Services	76.8%	30.2%	8.4%
Anesthesia Services	70.0%	42.9%	17.6%
Misc. Physician Services	79.2%	26.3%	0.2%
Evaluation and Management	71.0%	40.8%	29.4%
Lab Services	93.3%	7.2%	11.4%
Durable Medical Equipment	84.5%	18.3%	21.4%

For all service categories studied by M&S that overlap with Spectrum Healthcare's lines of business, the current MaineCare rates compared negatively to the comparison states, anywhere from 7.2% – 42.9% lower reimbursement than the average of the other states' rates.

For nearly all services applicable to Spectrum Healthcare, M&S recommends updating MaineCare's fee schedules based on rates equivalent to 71.4% of 2020 Medicare. With the exception of Lab Services and DME, *none of the proposed rates would lead to MaineCare reimbursement levels that are in line with the average of the comparison states.* For example, MaineCare rates for physician Evaluation and Management services are currently equivalent to about 80% of the average of comparison states. In order to match the average of the comparison states, MaineCare rates would need to be increased by more than 40%. The M&S proposed rates would increase rates for those services by only 29%, leaving MaineCare well below the rate levels of comparable states. The same dynamic exists with other physician services, radiology/imaging services, and anesthesia services.

M&S recommends that MaineCare rates be updated at least every three years, although they point out that one advantage of using Medicare fees as the underlying source is that Maine DHHS could take advantage of the annual rate-setting process that Medicare undertakes each year to maintain balance in the relative values of each service. Specifically, M&S indicates that Maine DHHS could opt to employ "current Medicare," meaning the Medicare fees in place as of the date of service. That would mean that rates for these services would be updated annually, more than the recommended frequency of every three years. The only exception to the proposed 71.4% of 2020 Medicare was for Durable Medical Equipment (DME) services, for which M&S recommended paying 100% of the 2020 Medicare fee schedule. SHR agrees with the recommendation to use Medicare as the basis for MaineCare fees. That system is the industry-standard that most payers, including commercial insurers, use to set relative prices for healthcare services, and is grounded in a methodology that takes the costs of providing services into account. **The reasoning for using 71.4% of 2020 Medicare as the baseline is less solid. M&S set that multiplier by applying the highest multiplier relative**

to Medicare prices by service category based on current MaineCare rates. According to their analysis, MaineCare's current reimbursement for Medical Imaging services is equivalent to 71.4% of 2019 Medicare, and that is the highest relativity to Medicare of all the other service categories for which M&S recommended using Medicare as the basis. In an attempt to ensure that no service category had an overall *reduction* to rate levels, M&S proposes bringing all service categories up to that level. *This reasoning appears to be completely disconnected from the comparison of current MaineCare rates to the comparison states.*

Also of note, Medicare's rebalance of relative values in CY2021 was significant, and any potential changes or updates to the M&S recommendations will need to be monitored closely for updating to 2021 or 2022 Medicare rates, which will not compare favorably to 2020 Medicare for Spectrum Healthcare's service categories.

## 2) Financial Impact of Proposed Rates to Spectrum Healthcare

SHR reviewed and re-priced all of Spectrum Healthcare's MaineCare claims at Medicare pricing for southern Maine for calendar years 2020 and 2021, where possible. **Using the M&S proposed rates at 71.4% of 2020 Medicare, SHR calculated a potential 12% overall increase in reimbursement for Spectrum Healthcare's services, assuming the state immediately adopted all of the proposed recommendations.** As a comparison, the U.S. city average CPI-U for Medical Care Services has increased by 38.5% over the past ten years, the amount of time that has passed since the last meaningful MaineCare rate increase for Spectrum Healthcare's services. *In other words, the potential 12% increase to reimbursement for services represents about a third of the increase in the costs of providing these services over the past ten years.* Further, applying the recommended 71.4% to 2022 Medicare rates (as opposed to the 2020 Medicare rates used when M&S completed their analyses), results in only an approximate 8% overall increase in reimbursement for Spectrum Healthcare's services.

It is also important to note that SHR estimates that Spectrum Healthcare currently loses approximately \$2.8M per year by providing services to MaineCare patients. The additional reimbursement resulting from the M&S proposed rates might mitigate those losses down to approximately \$2.2M per year. This negative impact on Spectrum Healthcare's bottom line increases the pressure on Spectrum Healthcare to make up for MaineCare losses on its commercially insured business. In other words, the insufficiency of MaineCare payment rates indirectly leads to higher costs for healthcare services for Maine's employer-sponsored health plans.

While SHR agrees with the M&S recommendation to tie rates for these services to Medicare, as is pointed out above, an overall 12% increase in reimbursement for MaineCare claims does not appear

to make Maine's Medicaid rates competitive to the average of the five-state comparison regime used by M&S. Further, although Medicare annually rebases the fee schedules used in their rate methodology, they are obliged by statute to ensure overall budget neutrality to those rates from year to year, meaning the newly proposed rates could potentially remain flat for several years. Given that the recommended rates are not even adequate to compare to other states' Medicaid rates, remaining flat will further erode Maine's competitiveness relative to comparable states. **As a result, it is SHR's opinion that the updated MaineCare rate levels proposed by Myers and Stauffer are not sufficient to either a) allow providers to sustainably provide services to MaineCare patients or b) remain competitive to Medicaid reimbursement in Maine's neighboring states.**

### 3) Draft Language in LD 1867

LD 1867 incorporates the M&S recommendations on a) benchmarking to either Medicare, other states' Medicaid, or commercial rates in Maine, where appropriate for MaineCare services, as a means to ensure that the rates are updated on a regular basis. Spectrum Healthcare agrees with this approach generally. However, the draft bill does not specify which benchmarks are appropriate for specific services. Nor does the bill specify what percentage of those benchmarks DHHS would use to set the new rates. Without this level of specificity, the bill essentially gives the Department sole decision-making authority over the level of payments for MaineCare services and makes it impossible for healthcare providers in Maine to determine what the impact of the draft legislation would be. *In other words, this bill as drafted could theoretically lead to a decrease in overall reimbursement to Maine healthcare providers.*

Spectrum Healthcare recommends that the Department update the M&S analysis of the five-state average Medicaid rate comparison using those states' 2022 Medicaid rates compared to 2022 Medicare rates, and that the Department use the average of the comparison states' rate levels relative to 2022 Medicare as the new percentage of 2022 Medicare rates to benchmark MaineCare rates to.

**Based on analyses of Spectrum Healthcare's historical MaineCare claims, it is SHR's opinion that the appropriate rate levels needed to at least match the average Medicaid rates in similar states would be approximately equivalent to 85% of 2022 Medicare. It is important to note that, even at 85% of 2022 Medicare, Spectrum Healthcare would expect to lose more than \$1M annually in providing these services to MaineCare patients. In an ideal situation, the MaineCare rates would be sufficient for healthcare providers to operate at cost, without a loss, thereby avoiding the burden shift to employer-sponsored health plans, and so Spectrum Healthcare believes these proposed rate levels (85% of 2022 Medicare) to be a significant compromise position.**

**We look forward to the opportunity to testify at the public hearing and to respond to any questions that you and the members of the Committee might have.**