SENATE FISCAL AGENCY
MEMORANDUM

DATE: February 10, 2015

TO: Senator Jim Marleau

FROM: Ellyn Ackerman, Fiscal Analyst

RE: Graduate Medical Education

Introduction

The concept of graduate medical education (GME) through the use of residencies and internships has existed, in some form, since 1840. It wasn't until the administration of President Lyndon B. Johnson, however, that the Federal government became involved in financing medical programs at teaching universities across the United States. This paper provides an overview of the history of graduate medical education, as well as a breakdown of how the State distributes General Purpose/General Fund money along with Federal matching funds to hospitals in Michigan. The final portion of the paper discusses funding for GME in recent years. This portion is broken down into four subsections: fiscal year (FY) 2011-12, FY 2012-13, FY 2013-14, and FY 2014-15.

Background

With the enactment of Titles XVIII and XIX of the Social Security Act in 1965, creating Medicare and Medicaid, the mechanisms for funding graduate medical education on a Federal level were established. Originally, GME funding was included to help augment the supply of consistently well-trained physicians in order to respond to the increased pressure on existing health care resources caused by the creation of these two programs[1]. Medicare and Medicaid fund GME programs slightly differently. Medicaid funding is the focus of the next section of this paper, as the State has more discretion in the distribution of funds to in-State hospitals than it does with money that comes from Medicare and other non-Medicaid GME funding.

Between 1965 and 1984, Medicare funding for GME was paid strictly on a cost basis. As hospitals added residents and teaching staff, they automatically received an increase in GME funding from the Centers for Medicare & Medicaid Services. This resulted in a retrospective program that allowed the creation and growth of medical education training programs that were not constrained by Federal policy[2]. Beginning in 1985, Medicare payments for GME were broken down into payments for direct graduate medical education and indirect graduate medical education. Direct GME payments are used to reimburse costs directly resulting from the teaching program, such as the benefits and stipends of both residents and faculty, as well as some overhead costs. Indirect GME is the more controversial of the two funding streams as it attempts to quantify the costs that a teaching hospital incurs, but cannot be directly attributed to the presence of residents. Some examples of indirect GME costs are additional diagnostic tests that

[1] Cymet, T., Chow, R.D. (2011), "The funding of graduate medical education in the American healthcare system". *Medical Science Educator*, 21(4): 367-374.
[2] Rich, C., Liebow, M., Srinivasan, M., Parish, D., Wolliscroft, J., Fein, O., Blaser, R. (2002), "Medicare financing of graduate medical education: Intractable problems, elusive solutions". *General Internal Medicine*, 17(4): 283-292. doi: 10.1046/j.1525-1497.2002.10804.x

are ordered either because a resident needs training in that area, or because residents lack experience to correctly diagnose patients without additional confirmation[3].

In response to fears that the Medicare Trust Fund would be depleted within the near future, the Clinton administration and Congress passed the Balanced Budget Act of 1997. Among other impacts of this Act, it resulted in a reduction to the Indirect Medical Education (IME) adjustment[4] and capped the number of residency slots available at the unweighted number of residents on a hospital's most recent cost report before December 31, 1996. Section 407 of the Balanced Budget Refinement Act of 1999 increased the resident cap for rural hospitals to 130% of a hospital's resident count as of December 31, 1996.[5]

There are three smaller payers of GME funds in addition to Medicare and Medicaid. As of 2011, the U.S. Department of Defense funded approximately 3,000 residency positions while the U.S. Department of Veterans Affairs supported 10% of all residency positions. All of these slots are located at either Department of Defense or Veteran Administration facilities. Additionally, the Children's Hospital Teaching Fund was authorized by the Health Research and Quality Act of 1999 to fund residency programs at pediatric hospitals. In FY 2012-13, the Children's Hospital of Michigan was the only pediatric hospital in Michigan receiving support from the Children's Hospital Teaching Fund, with a total of $11,027,475[6].

Medicaid

Under Federal law, states are allowed to appropriate funds to support GME programs, which are then eligible for Medicaid matching funds. Michigan does not differentiate between direct and indirect GME payments, but rather created two different pools from which money is allocated. In order for a hospital to receive funds from either of these pools, the Department of Community Health (DCH) requires the hospital to have a national Medicare accredited medical education program. The first of these pools is the Primary Care Pool, which allocates funds only for residents training to become primary care physicians[7]. In FY 2013-14, this pool accounted for 13.1% of all Medicaid GME funds appropriated. The second pool is the GME Funds Pool, which reimburses hospitals for costs stemming from both primary care residencies and residents pursuing specialties. This pool includes a small fund for dental and podiatry residencies. In FY 2013-14, this pool accounted for 86.9% of appropriated GME funds. The appendix at the end of the paper shows the breakdown of how funds from both pools were distributed as well as the total GME payments for each hospital and each hospital system.

Primary Care Pool

In FY 2013-14, the Primary Care Pool distributed $21,269,600 to fund primary care residencies around the State. The formula that the DCH uses to calculate individual hospital payments is

[3] See note 1.
[4] The IME adjustment is a formula that uses a hospital's ratio of residents to beds as well as a multiplier set by Congress. If the adjustment factor is equal to 3.2%, it can mean for every 10% increase in the resident-to-bed ratio, a hospital's Medicare payments will increase by 3.2%.
[5] Association of American Medical Colleges. Medicare resident limits ("caps"). https://www.aamc.org/advocacy/gme/71178/gme_gme0012.html
[6] Children's Hospital Association. Summary of CHGME payments to freestanding children's hospitals- 2013. http://www.childrenshospitals.net/AM/Template.cfm?Section=CHGME&template=/CM/ContentDisplay.cfm&ContentID=70531
[7] Primary care physicians are those practicing in the areas of general internal medicine, general pediatrics, family practice, and obstetrics/gynecology.

based on the full time equivalent (FTE) residents as shown in a hospital's filed cost reports, total hospital outpatient charges, Title V (Children's Special Health Care Services) outpatient charges, and Title XIX (Medicaid) outpatient charges. The formula for calculating the individual hospital payment is:

Pool Size x (Adjusted FTEs / sum of Adjusted FTEs) = Individual Hospital Payment

The adjusted FTEs are equal to the total number of a hospital's resident FTEs multiplied by the ratio of the Hospital's Title V and Title XIX Outpatient Charges to the Hospital Total Outpatient Charges.

GME Funds Pool

The GME Funds Pool is the larger of the two, with an appropriation of $141,618,700 in FY 2013-14. In addition to supporting primary care residencies, funds from this pool are used for individuals pursuing specialties[8]. As with the Primary Care Pool, the GME Funds Pool uses a formula that includes the total number of resident FTEs at a hospital, but also looks at the Medicaid case mix[9], the Title V and Title XIX days, and the total hospital days. The formula for calculating the distribution of individual hospital payments is:

Pool Size x (Adjusted FTEs/ sum of Adjusted FTEs) = Individual Hospital Payment

In this pool, adjusted FTEs are calculated by multiplying the total number of FTEs by the hospital's case mix and by a ratio of the hospital's Title V and Title XIX days to the hospital's total days.

The GME Funds Pool includes approximately $300,000 to $400,000 annually that is used to make payments for dental and podiatric residencies. Payments for these residencies are calculated by multiplying the hospital's updated dental and podiatric FTEs by the average dental and podiatric FTE payment. The average payment is based on hospital cost reports filed during the 1995 calendar year, while each hospital must update its dental and podiatric FTE count annually.

Funding in Recent Years

FY 2011-12

The Executive budget for FY 2011-12 included a proposed appropriation level for GME of $34,163,600 GF/GP ($100,896,500 Gross), a 40.0% decrease in funding from the FY 2010-11 level of $56,939,800 GF/GP ($168,954,800 Gross). While the House concurred with the reduction, the Senate created a placeholder for all GME funding. When the Conference Committee met, an overall funding level of $52,232,400 GF/GP ($154,259,900 Gross) was agreed upon, with $5,800,000 GF/GP ($17,129,400 Gross) designated as one-time funding. When both ongoing and one-time funding are included, the net impact on GME funding was an 8.7% reduction in payments from the previous fiscal year.

A new boilerplate section, Section 1846, was included to set up a workgroup on GME funding. The workgroup would attempt to identify shortages in specific specialties and geographic areas, research ways in which other states addressed practitioner shortages through the use of GME

[8] Specialties cover a wide array of medical areas, but are often classified along four main axes: surgical or internal medicine, age range of the patient, diagnostic or therapeutic, and organ-based or technique-based.
[9] By looking at the Medicaid case mix, the DCH is able to measure the severity of a specific hospital's Medicaid population.

payments, and recommend specific policy changes. Additionally, this section included language of intent that GME funding for FY 2012-13 potentially be based on the report.

Public Act 89 of 2012 included supplemental appropriations of $3.0 million GF/GP ($8,860,000 Gross) for graduate medical education. This brought the FY 2011-12 overall appropriation for GME to $55,232,400 GF/GP ($163,119,900 Gross).

FY 2012-13

In his Executive budget for FY 2012-13, the Governor removed one-time funding for GME, including the supplemental funds from the previous budget year, leaving a total appropriation of $46,432,400 GF/GP ($137,130,500 Gross). The House restored all of the one-time funding, as well as provided a small increase over the original FY 2011-12 appropriation[10]. The Senate chose to create a $100 placeholder in order to keep the issue open. The Conference Committee agreement between the two chambers restored funding to the post-supplemental FY 2011-12 level, and designated a portion of the funds as one-time. The final agreement was to fund graduate medical education at $55,130,500 GF/GP ($162,888,300 Gross), with $1,450,000 GF/GP ($4,314,200 Gross) reflected as one-time funding. Overall, this was a decrease in Gross funding levels of $231,600 from the previous fiscal year.

In the boilerplate portion of the budget bill, Section 1846 was rewritten to direct the Department to research the effectiveness of GME funding, specifically to identify physician shortages by practice and geographic area and consider ways to reduce shortages through policy changes.

FY 2013-14

The Executive budget for FY 2013-14 removed one-time funding equal to $1,450,000 GF/GP ($4,314,200 Gross) for graduate medical education. The House included a partial restoration of this funding, bringing the level of one-time GME appropriations back up to $555,000 GF/GP ($1,656,800 Gross). The Senate rejected the reduction in funding, and the Conference Committee concurred. This kept the appropriation equal to the FY 2012-13 level of $55,130,500 GF/GP ($162,888,300 Gross).

The DCH budget for FY 2013-14 included a new boilerplate section, Section 1870, which directed the Department to create a consortium with medical school affiliated faculty practice physician groups to develop a plan to create primary care GME programs. This section also directed the Department to pursue a Federal waiver to implement a program similar to the Utah Medicare GME demonstration project[11].

[10] The House appropriation was $52,521,400 GF/GP ($155,118,900 Gross).

[11] The Utah Medicare GME demonstration project applied only to Medicare GME payments and allowed the state to make its payments to the training program rather than to the teaching hospitals. These payments were to be rewards for outcomes that addressed the workforce concerns of Utah. Beginning in January 2003, the Federal government paid all funds to a statewide council for five years. These funds were then distributed through a formula that reflected actual documented costs, rather than estimates of case mix and adjusted FTE counts were then distributed through a formula that reflected actual documented costs, rather than estimates of case mix and adjusted FTE counts.

FY 2014-15

In his initial budget for FY 2014-15, Governor Snyder removed all of the one-time funding for GME, along with the Federal match, which had been included in the FY 2013-14 budget. The House included a partial restoration of the funding at the level of $54,680,500 GF/GP. This would have brought down $106,795,500 in Federal match, bringing the program to a Gross funding level of $161,476,000. The Senate proposed, and the Conference Committee concurred with, a full restoration of GME funding to equal what had been in the budgets for both FY 2012-13 and FY 2013-14.

In addition to the $162,888,300 Gross in appropriated funds, the Conference Committee also concurred with the Senate proposal to appropriate $500,000 to create a GME Consortium to be known as MiDocs. These funds are to be used to develop freestanding residency training programs, legally create the consortium, prepare a report on progress, and obtain Accreditation Council for Graduate Medical Education (ACGME) accreditation. Boilerplate Section 1870 was rewritten to specify the membership of the consortium as well as require that MiDocs be responsible for obtaining continuing accreditation from the ACGME, financial accountability, clinical quality, clinical compliance, and submission of an annual report detailing per-resident costs for medical training and clinical quality measures.

The FY 2014-15 DCH budget also contained a rewrite of boilerplate Section 1846 to reflect the goals associated with the distribution of graduate medical education funds. Specifically, GME funds are to encourage the training of physicians in a way the meets the future needs of residents of Michigan, and train physicians in ambulatory sites and rural locations, as well as other settings.

Conclusion

This memorandum has provided a basic overview of the graduate medical education program. The Senate Fiscal Agency will be following future developments related to the program, in particular the progress of any legislative or budgetary adjustments. Please don't hesitate to call if you have any questions.

c: Ellen Jeffries, Director
Steve Angelotti, Associate Director

Appendix

FY 2013-14 Medicaid GME Funding By Hospital			
Hospital	**GME Funds Pool**	**Primary Care Pool**	**Total GME**
Barbara Ann Karmanos Cancer Hospital	$1,531,820	$147,022	$1,678,842
Beaumont Hospital Grosse Pointe	93,785	76,611	170,396
Borgess Hospital	1,390,185	212,149	1,602,334
Botsford Hospital	1,399,937	368,938	1,768,875
Bronson Methodist Hospital	3,004,884	386,814	3,391,698
Carson City Osteopathic Hospital	2,663	0	2,663
Children's Hospital of Michigan	20,672,396	3,268,782	23,941,178
Community Health Center of Branch County	53,744	37,890	91,634
Covenant Medical Center, Inc.	1,216,314	179,300	1,395,614
Crittenton Hospital	77,677	128,369	206,046
Detroit Receiving Hospital	8,664,255	1,003,332	9,667,587
Doctor's Hospital of Michigan	52,769	235,773	288,542
Edward W. Sparrow Hospital	3,692,137	796,242	4,488,379
Garden City Hospital	632,002	269,527	901,529
Genesys Regional Medical Center	1,388,669	436,449	1,825,118
Harper University Hospital	10,957,583	1,313,660	12,271,243
Henry Ford Hospital	13,197,304	816,133	14,013,437
Henry Ford Macomb Hospital	1,025,644	292,308	1,317,952
Henry Ford West Bloomfield Hospital	22,474	2,534	25,008
Henry Ford Wyandotte Hospital	309,265	71,733	380,998
Hillsdale Community Health Center	53,057	0	53,057
Hurley Medical Center	3,894,670	1,617,012	5,511,682
Huron Valley- Sinai Hospital	171,629	32,126	203,755
Kingswood Psychiatric Hospital	114,667	0	114,667
Lakeland Hospital - St. Joseph	124,126	45,430	169,556
Marquette General Hospital	366,324	84,679	451,003
McLaren Bay Region	101,180	86,300	187,480
McLaren Flint	712,536	411,755	1,124,291
McLaren - Greater Lansing	870,336	214,005	1,084,341
McLaren Oakland	1,147,302	338,309	1,485,611
Mercy Health Partners - Hackley Campus	111,156	139,142	250,298
Mercy Health Partners - Mercy Campus	117,141	70,303	187,444
Metro Health Hospital	790,586	210,872	1,001,458
MidMichigan Medical Center - Midland	186,164	118,033	304,197
Mount Clemens Regional Medical Center	924,518	315,904	1,240,422
Munson Medical Center	161,648	75,135	236,783
Oakwood Annapolis Hospital	260,210	254,825	515,035
Oakwood Heritage Hospital	150,031	11,000	161,031

FY 2013-14 Medicaid GME Funding By Hospital			
Hospital	**GME Funds Pool**	**Primary Care Pool**	**Total GME**
Oakwood Hospital and Medical Center	$1,491,257	$574,122	$2,065,379
Oakwood Southshore Medical Center	280,765	76,236	357,001
Providence Hospital	1,455,480	342,630	1,798,110
Rehabilitation Institute	108,852	2,596	111,448
Sinai - Grace Hospital	6,144,924	939,619	7,084,543
Southeast Michigan Surgical Hospital	22,535	0	22,535
Spectrum Health	6,607,944	759,737	7,367,681
St. John Hospital and Medical Center	5,401,197	1,025,769	6,426,966
St. John Macomb - Oakland Hospital-Macomb	1,517,146	407,702	1,924,848
St. John River District Hospital	2,838	6,743	9,581
St. Joseph Mercy Hospital - Ann Arbor	930,493	183,854	1,114,347
St. Joseph Mercy Livingston Hospital	100,567	115,315	215,882
St. Joseph Mercy Oakland	1,015,650	438,376	1,454,026
St. Mary Mercy Hospital	296,691	127,679	424,370
St. Mary's Health Care (Grand Rapids)	1,145,930	360,404	1,506,334
St. Mary's of Michigan Medical Center	384,914	136,604	521,518
University of Michigan Health System	31,739,257	1,132,276	32,871,533
William Beaumont Hospital - Royal Oak	3,235,966	500,660	3,736,626
William Beaumont Hospital - Troy	93,506	70,882	164,388
Statewide Total	**$141,618,700**	**$21,269,600**	**$162,888,300**
Source: Michigan Department of Community Health			

FY 2013-14 Medicaid GME Funding By System			
System	**GME Funds Pool**	**Primary Care Pool**	**Total GME**
Ascension	$11,540,429	$2,568,046	$14,108,475
Beaumont	7,005,457	1,933,274	8,938,731
Bronson	3,004,884	386,814	3,391,698
Detroit Medical Center	46,719,639	6,560,115	53,279,754
Henry Ford	14,669,354	1,182,708	15,852,062
LifePoint	366,324	84,679	451,003
McLaren	3,755,872	1,366,273	5,122,145
MidMichigan	186,164	118,033	304,197
Munson	161,648	75,135	236,783
Sparrow	3,694,800	796,242	4,491,042
Spectrum	6,607,944	759,737	7,367,681
Trinity	3,717,628	1,435,073	5,152,701
Unaffiliated	40,188,557	4,003,471	44,192,028
Statewide Total	**$141,618,700**	**$21,269,600**	**$162,888,300**
Source: Michigan Department of Community Health			