United States Senate
Committee on Finance
A Public Hearing On:

A Fair Deal for Iowa:
Fixing Medicare Reimbursement

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Des Moines, Iowa

Written Testimony of J. Michael Earley
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To: Senator Charles Grassley, Chairman.

My name is Mike Earley and it is my privilege to serve as president and chief executive officer of Bankers Trust Company, based in Des Moines. Bankers Trust is the largest independent bank in Iowa, with approximately $1.5 billion in assets. Bankers Trust has eight offices serving the greater Des Moines area.

I am very honored to have the opportunity to provide input to the United States Senate Committee on Finance regarding this extremely important topic of Medicare payments in Iowa and the challenges around the unfairness of the current Medicare system. I would like to begin by thanking you for bringing this field hearing to our community, and for your continued efforts in Washington, D.C. on behalf of our health care providers and all of the businesses and people of Iowa that they serve.

In addition to my role at Bankers Trust, I also am presenting to you as a volunteer member of the Board of Mercy Medical Center – Des Moines. Mercy is a 917-bed tertiary referral center based in Des Moines. It has three acute care inpatient campuses in the metro area. In addition, Mercy operates a nursing home, assisted living facility, inpatient hospice, home care, outpatient rehabilitation facilities, ambulatory surgery centers, and 26 physician clinics in the greater Des Moines area. Mercy also provides management services to more than a dozen rural hospitals and nursing facilities in Central and Southern Iowa. Lastly, I am presenting to you as a citizen of Iowa who is concerned about the future of health care services and the economic development climate in our state.

As a member of the Board at Mercy Medical Center – Des Moines, I have become increasingly aware of the unfairness of our current Medicare system, and of the challenges the inadequate reimbursement poses for our hospitals and doctors, and their patients and communities. In trying to quantify the extent of the problem, I became aware of the data from the federal Center for Medicare and Medicaid Services (CMS), showing that Iowa averages $3,414 per Medicare beneficiary per year; the United States averages $5,994 per beneficiary per year; and the highest state, Louisiana, averages $8,099 per beneficiary per year. (See the chart labeled "Medicare Program Payments Per Enrollee by State" with this document). By this measure, Iowa is the lowest reimbursed state in the nation.

As a person with a financial background, I believe there is an even better measure of the financial impact of the Medicare payment system and its fairness or lack thereof. That is the profits or losses – the margins – hospitals realize as a result of caring for Medicare patients. As a backdrop to this, it must be noted that Iowa ranks very highly in quality, as reported most recently in the January 15, 2003 issue of the Journal of the American Medical Association. In that national study, Iowa ranked sixth in quality.

Iowa also is recognized for its low costs, always ranking in lowest 10% of states, as reported by CMS and in studies such as the Dartmouth Atlas of Health Care by Dartmouth University. It is especially troubling to note that despite this track record of low cost and high quality, Iowa hospitals lose money taking care of Medicare patients. In fact, Iowa hospitals' average Medicare margins were a negative 6.5% in 1999, the most recent year for which data is available. These were the worst losses in the nation, demonstrating once again that Iowa is the lowest reimbursed state in the nation. (See the exhibit entitled "Medicare Margins Comparison" with this document.) It is simply indisputable that Iowa is being cheated by the current Medicare payment system.

In preparing this testimony, I asked Mercy Medical Center – Des Moines for assistance in identifying specifically what are the consequences of this unfair system. The Finance Department at Mercy completed an analysis showing the impact on payments to Mercy – Des Moines, if it received payment rates that currently are used for other Midwest cities or regions. This analysis shows that if Mercy – Des Moines was to receive the payment rates of almost any other place, it would receive significantly more money every year for doing exactly the same work. For example, if Mercy – Des Moines was:

- Paid at either Lincoln or Omaha, Nebraska's rates, Mercy would receive $7.3 million in additional payments from Medicare annually.
- Paid at St. Cloud, Minnesota's rates, Mercy would receive $6 million in additional payments from Medicare annually.
- Paid at the rate of the SMALLEST RURAL hospital in Minnesota, Mercy would receive $2.23 million in additional payments from Medicare annually.

(A copy of this financial analysis, entitled "Medicare Reimbursement Comparisons for Des Moines" is included with this document.) Of course it must be noted that all of these comparisons involve Iowa's rural neighbors – states that also are underpaid by Medicare as compared to other states around the U.S.

The consequences of these unfair and inadequate payments are dramatically negative. Because Iowa hospitals do not have the same resources as hospitals in other states, they have more difficulty recruiting and retaining well-trained health professionals. Currently the starting wages for newly-graduated nurses entering the work force are $2 to $3 higher in Minneapolis, Minn. and Kansas City, Missouri, than they are in Des Moines. As the CEO of Bankers Trust, I know I must pay salaries and benefits comparable to banks all over the Midwest. I know the cost of living is not much different in Des Moines than in larger cities such as Minneapolis and Kansas City. If I don't pay competitively, I don't succeed in recruiting the best people. It is no different in health care, and government policy should recognize this simple fact.

Of course the consequences of unfair reimbursement are felt in virtually every part of Iowa's health care organizations. Due to Medicare losses, Iowa hospitals have more difficulty replacing and keeping up-to-date medical equipment and facilities. They also find it more difficult to invest in information technology and other innovations to reduce costs and improve quality. They have fewer resources for continuing education and for community outreach services. Their financial performance suffers, which puts them at risk and increases their cost of capital when they need to borrow money or issue bonds.

Medicare's unfairly low payments to Iowa's doctors are an equally troublesome issue. As background, there is a 43% difference in average payments, from highest to lowest paid regions of the country, according to the Iowa Medical Society. Iowa again ranks near the bottom. Health care organizations, patients and communities all across our state feel the results of these systemic, ongoing underpayments. For example, Iowa ranks 47th in the nation in physicians per capita – even lower in some specialties such as obstetrics and pediatrics. The lower number of physicians per capita results in longer hours and more strained lifestyles for the physicians who do practice here, which exacerbates their frustration with unfairly low reimbursements. As a result, Des Moines has lost at least 14 specialists in the past 12 months who have relocated to other states, due to their rising costs and declining reimbursements in Iowa. This has an immediate and dramatically negative impact on patients. In one rural Iowa example, a general surgeon resigned March 1, 2003, from four community hospitals that he served, citing the same issues of rising costs and inadequate payment. One of those towns has had no surgical coverage for the past several weeks. Mercy is stepping in to assist that community hospital, beginning today. It is simply unacceptable that the federal government allows the challenges of recruiting and retaining doctors to be felt disproportionately in Iowa.

Speaking as a business person in Iowa, it is becoming better understood by more and more members of the business community, that the rates we are paying for commercial health insurance are being pushed higher due to the underpayments by Medicare. This is a very simple issue: when Iowa hospitals lose money on nearly half of their patients – the Medicare half – then they must charge everyone else more in order to remain financially viable. To put it in terms very close to home, the health care premiums paid by Bankers Trust for its employees rose 13% in just one year. Even more striking, a benefits manager from a plant in Marshalltown, that is part of a large national company, said that in the past 10 years Iowa has gone from his company's least expensive state for health care premiums to its most expensive. Again, this is due to commercial health care insurers being forced to charge higher rates, as Iowa health care providers are forced to shift more of the costs of Medicare to other payers. Yes, health care premiums are rising everywhere, but as the Marshalltown company's experience attests, they are rising faster here.

Of equal concern is the fact that the inverse is true in other states. Officials in Washington, D.C. have told us that hospitals in some states make a 20 percent or more POSITIVE margin on Medicare patients, despite having higher costs than Iowa providers. This has allowed those hospitals, in states such as New York, to offer deep discounts to their commercial insurance companies. The effect of these divergent trends is obvious – the federal government is subsidizing economic development in those states with high Medicare reimbursement by creating a more positive business environment. This is why Michael Blouin, the Economic Development Director for the State of Iowa, said just this week: "Addressing Medicare and Medicaid fairness is critically important to supporting the quality of life Iowans always have enjoyed." I am not a health care expert, but I do know this: the federal government should NOT be providing incentives for people and businesses to leave Iowa and locate in other states.

I want to note here that Bankers Trust's health care insurer is Wellmark Blue Cross/Blue Shield. That company has worked very closely with us in an attempt to address these rising cost pressures. As an example, Wellmark has developed a pilot project at our bank to help reduce health care premiums through changes in employees' utilization of services. Also, Wellmark has created the "Wellmark Report" in which it reports variations in health care utilization and medical practice. These variations are analyzed and reported regularly, in multiple areas of health care services, to assist employers and health care providers in better managing utilization and thereby lowering costs. We appreciate having Wellmark as a partner in these efforts.

From the perspective of an Iowa citizen, the issue with Medicare fairness is very simple. Everyone in America pays into the Medicare system at exactly the same payroll tax rate of 1.45%. However, when the time comes for the government to pay out those benefits, they are not distributed equally or fairly.

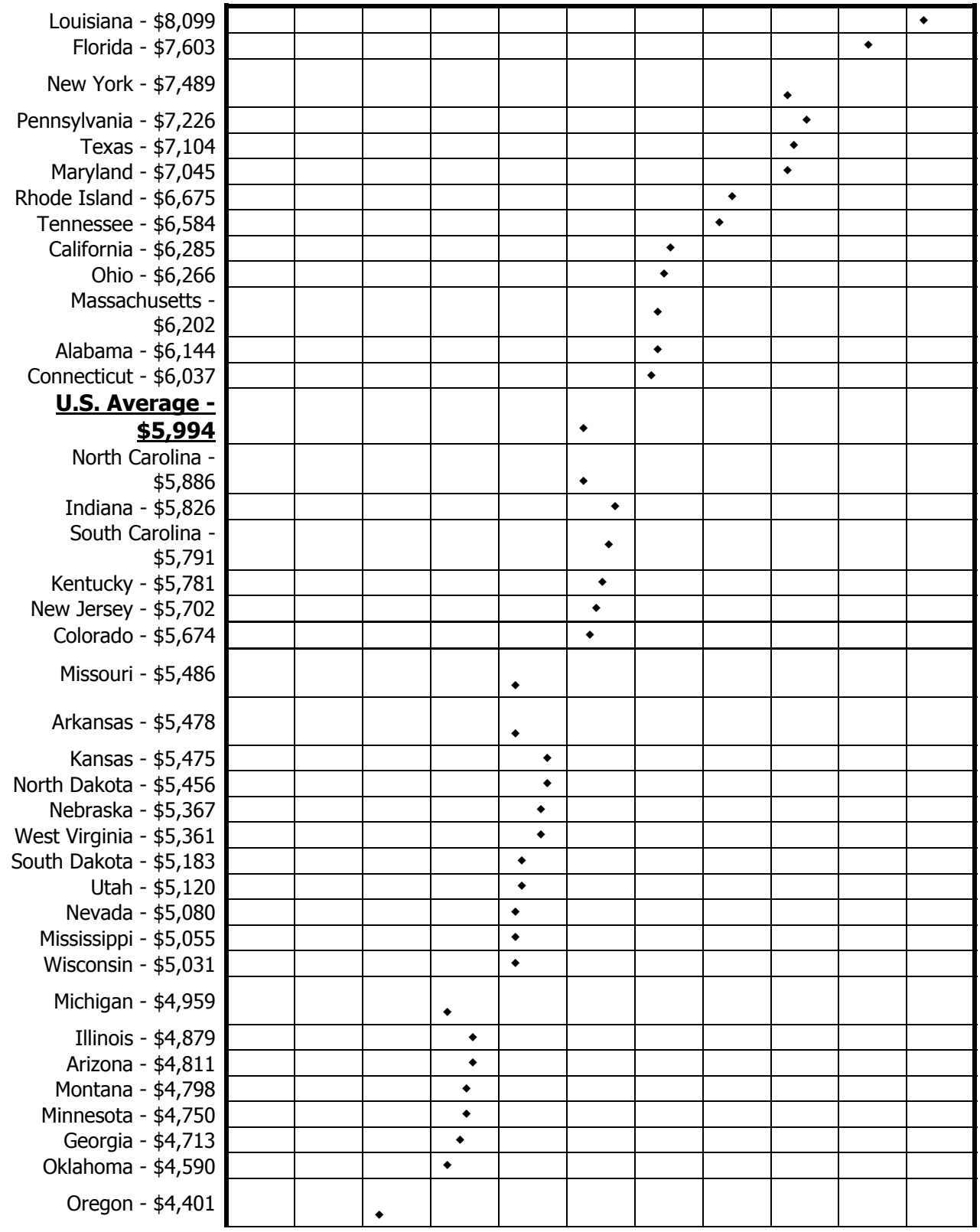
Another simple way to view this is to simply do the math. There are 475,000 Medicare recipients in Iowa, and Iowa receives about $580 less than the national average every year for every recipient. This totals $265 million in additional payments that would flow to Iowa annually, if its payment rate simply were raised to the national average. If you increase Iowa's reimbursement only to the point where providers break even taking care of Medicare patients, you add about $80 million per year to the payments to the state. These types of corrections obviously would have a tremendously positive impact on the quality, accessibility and cost of health care in Iowa.

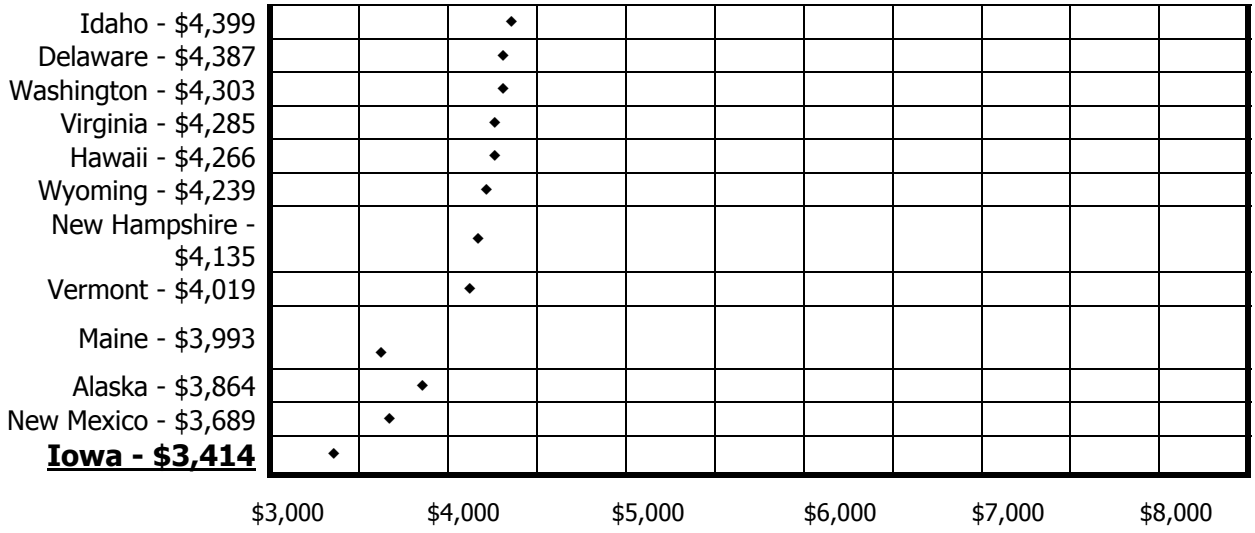
Equally important, a fair and equitable Medicare payment system would result in a tremendous economic boost to the state. These additional dollars would turn over in the economy as investments, taxes, purchases of goods and services, and in many other ways. Also, as mentioned, the economic development climate in Iowa would improve, as the disproportionate pressure on private health insurance rates diminished.

In conclusion, I want to be clear that I am very proud to live and work in Iowa. We have a wonderful health care system, with documented high quality of care, and wonderful health care organizations and providers. We also have a state economy that has weathered these and many other challenges. However, my fear is that all of this is at risk and perhaps already eroding, as doctors leave our state, hospitals and clinics close in small town, and services are discontinued even in our larger cities.

As noted, I am not a health care expert, so I cannot discern what the appropriate level of payment is, or provide specific recommendations for changes in the complex Medicare payment formulas or systems. Others providing you with input can do that far better than I. However, I CAN state my belief that whatever you do, Iowa must have fairness and equity from Medicare. We cannot tolerate federal policies that make Iowa a second-class state. Senator Grassley, I respectfully urge you and your colleagues in Congress to aggressively seek changes in the Medicare payment system that ensure Iowa has the opportunity to operate on a level playing field with other states. As we move into ever more challenging times in health care, fairness and equity from Medicare is essential to sustaining the health care system and business environment that Iowans deserve. Thank you again for the opportunity to testify. It was an honor to participate in this process.

Medicare Program Payments Per Enrollee by State





Source: *Centers for Medicare and Medicaid Services, FY 2001*