California Senate Office of Research

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Federal Update

Medicare 'Doc Fix' and Continued Funding for the Children's Health Insurance Program

In late March, the House overwhelmingly passed the Medicare Access and Children's Health Insurance Program (CHIP) Reauthorization Act of 2015, which would effectively replace the Medicare Sustainable Growth Rate formula (SGR) and extend funding for two years for the CHIP program and Community Health Centers. The current SGR "doc fix," the flawed Medicare payment physician formula, expired on March 31, 2015.[1]

The Centers for Medicare & Medicaid Services (CMS) has said the Senate has until at least April 14 to approve the SGR repeal bill before CMS begins applying the 21 percent rate reduction to Medicare claims for services rendered April 1 and beyond. The Senate is expected to take up the legislation as its first order of business when it returns from recess on April 13. Most expect the Senate to approve the bill.

Why is This Issue Important?

Medicare is completely funded by the federal government and enrollees, so actions on the doc fix do not affect the state's General Fund directly. However, since Medicare constitutes a significant portion of physicians' business, it does impact California's physicians and their ability to participate in the Medi-Cal program, which has some of

[1] Medicare's payments for physician services are based on a fee schedule that is updated annually based on a formula called a Sustainable Growth Rate (SGR). The SGR is supposed to keep future Medicare spending in line by reducing physician fees if spending is estimated to go above target amounts. Since 2001, spending has been above target amounts, and in 2002, Congress reduced payment rates. However, since 2003, Congress has taken action each year to override the reductions by identifying alternative savings, commonly referred to as the "doc fix." CMS has calculated that if the SGR repeal bill is not passed, it will reduce Medicare rates by 21 percent for services provided back to April 1, 2015.

the lowest rates in the country. Almost one-third of Californians now receive their health care through the Medi-Cal program.

CHIP provides federal funds to states to expand health insurance to pregnant women and children beyond what is provided in states' Medicaid programs. Specifically, CHIP provides a higher federal match rate than the state's Medicaid rate and allows funds to be used in areas sometimes otherwise prohibited, including for newly qualified immigrants. California has used CHIP funds to expand health coverage for children up to 266 percent of the federal poverty level (FPL) and for pregnant women and infants up to 322 percent FPL. If funding for CHIP is not renewed, California will lose $533 million annually, as CHIP funding sunsets on September 30, 2015. In addition, the Affordable Care Act (ACA) increased the federal match to states by 23 percent, referred to as the "CHIP bump," for the federal fiscal year 2016–19 period. If CHIP funding is renewed and the CHIP bump maintained, California will see additional federal funds resulting in General Fund savings. The Medicare Access and CHIP Reauthorization Act of 2015 includes the "CHIP bump."

CHIP also is important because it helps mitigate the effect of the "family glitch," an impact of the ACA that left many children ineligible for exchange subsidies. CHIP needs to be maintained to keep funding for health insurance for low-income children.

Community Health Centers serve low-income residents, including Medi-Cal recipients, and many are located in rural and inner-city areas. As of June, 2014, 151 California clinics received grant funds through the federal health center grant program.

Written by Kim Flores. The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. The office was established by the Senate Rules Committee in 1969. For more information, please visit http://sor.senate.ca.gov or call **(916) 651-1500.**