University of California

Office of Federal Governmental Relations • Health Forum 2002

Direct Graduate Medical Education (DGME)

- Raise Medicare DGME payments from 85 percent to 100 percent of the national average, which would result in an approximate $5 million annual increase to the University's teaching institutions.
- Support **S. 135, "Direct Graduate Medical Education Improvement Act of 2001,"** introduced by Senator Feinstein, which would provide 100% of the national average by 2006 through an incremental approach.
- Add legislative language to the Senate's Medicare prescription drug legislation, raising Medicare DGME payments from 85 percent to 100 percent of the national average.

Background

The Medicare Direct Graduate Medical Education (DGME) payment compensates teaching hospitals for many of the costs directly related to the graduate training of physicians. Medicare regulations permit providers to claim the net direct costs of approved education activities, including stipends and fringe benefits for residents; the salaries and fringe benefits for faculty who supervise the residents; costs of administrative personnel who work exclusively in support of GME programs; and allocated institutional overhead costs such as maintenance and electricity.

Medicare originally paid for its share of DGME costs based on each hospital's historical "Medicare-allowable" costs according to a 1965 rule that allowed open-ended reimbursement. In April 1986, Congress dramatically altered the DGME payment methodology and retroactively established fiscal year 1985 Medicare Cost Reports as the base year for all future calculations for DGME. The University of California did not claim all allowable costs that year; therefore, California's major teaching institutions receive an inequitable and significantly lower allocation of federal DGME dollars for the training of California's physician workforce than comparable teaching institutions in other states. Since 1985, the first year of this inequity, the University's teaching institutions have lost almost half a billion dollars in revenue.

Past Congressional Action

Congress has provided welcome relief in the recognition of the costs of training medical residents through several initiatives. The "Balanced Budget Refinement Act of 1999" (BBRA 1999) increased Medicare DGME payments for those institutions below the national average to 70% of the average. Beginning in FY 2001, primary care and non-primary care per resident amounts were combined and adjusted according to a "corridor" bracketing a weighted standardized national average per resident amount. That amount was modified by the same geographic adjustment factor used to adjust physician payments. In FY 2001, a "floor" and "ceiling" were calculated for each hospital with a floor set at 70% and a ceiling of 140% for the locally-adjusted national average per resident amount. If above 140%, no payment increases were made in FY 2001-02. If the per resident amount fell below 70%, it was adjusted up to the floor.

The" Medicare, Medicaid, and State Child Heath Insurance Program (SCHIP) Benefits Improvement Act of 2000" (BIPA 2000) increased payments to 85% of the national average, effective FY 2003. These initiatives, if coupled with the University's objective of increasing payments to 100%, will provide approximately $10 million annually in relief to the University's teaching institutions. However, given the inequity in the current system, even at 100% of the national average, the UC academic medical centers are far from being fully reimbursed for the costs associated with training physicians. Allowing the UC academic medical centers to claim their full costs would add over $20 million to the system.

Legislation	Policy Change	Increase
BBRA	70% of national average	+ $600,000
BIPA	85% of national average	+ $4.7 million
UC Recommendation	100% of national average	+ $5 million
Revised Medicare Cost Report	Full Costs	+ $20 million

Status of Relevant Legislation

The following legislation has been introduced to address DGME payments:

- **S. 135, "Direct Graduate Medical Education Improvement Act of 2001"** Introduced by Senator Feinstein, this legislation would provide 100 percent of the national average by 2006 through an incremental approach: 90 percent in FY 2004; 95 percent in FY 2005; and 100 percent in FY 2006. The cost for 100 percent of the national average would be $220 million per year and $1.1 billion over five years.
- **H.R. 1517**, introduced by Representative Clay Shaw (R-FL) and Spencer Bachus (R-AL) would increase the DGME floor to 100 percent this year.

The House approved "Medicare Modernization and Prescription Drug Act of 2002" (H.R. 4954) did not contain a provision that would move Medicare DGME payments from 85 percent to 100 percent of the national average.

Advocacy Message

The University of California strongly supports raising Medicare DGME payments from 85% to 100% of the national average. As such, the University of California supports S. 135.

In addition, UC supports adding language to the Senate Medicare prescription drug legislation that would create equity within the system by raising Medicare DGME payments from 85 percent to 100 percent of the national average.