Testimony on SB 281,
"An Act Requiring Site-Neutral Reimbursement Policies
In Contracts Between Health Carriers And Health Care Providers"
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Senator Crisco, Representative Megna, and Members of the Committee, thank you for the opportunity to testify on SB 281, which would require private insurers in Connecticut to adopt so-called "site-neutral reimbursement policies."

I am Paul Taheri, Deputy Dean for Clinical Affairs in the Yale School of Medicine and the CEO of the Yale Medical Group, which exists to support the academic mission of the School through hands-on training of medical students, residents, and clinical fellows. The Yale Medical Group is part of the School of Medicine, and all of its employees are employed by Yale University. The nearly 1,400 physicians practicing in the YMG strive to provide the highest quality care anywhere and to continually advance the state-of-the-art in medicine. In 2015, YMG provided 2.7 Million patient encounters and over 1 million outpatient visits; 22% of these patients were covered by Medicaid and 32% by Medicare.

SB 281 would impose a sweeping regulatory requirement on all private insurance in Connecticut and could have severely negative unanticipated consequences. I recommend that the Committee instead take further time to study this complex issue before taking up legislation.

The concept of site-neutral reimbursement policies arose in the context of Medicare, which has separate rate schedules for physician services delivered in physician offices, ambulatory surgical centers, and hospital outpatient departments. The differences in the rate schedules came about because the Center for Medicare and Medicaid Services recognized the differences in operating costs, such as the incremental expenses associated with staffing hospital services on a 24/7 basis. The Medicare Payment Advisory Committee (MEDPAC) concluded that the difference in Medicare fee schedules has resulted in a larger share of services being delivered in hospital outpatient departments which have a higher fee schedule. (It is important to note that MEDPAC also affirmed that the differences in fee schedules reflect real differences in operating costs.) In November, 2015, Congress enacted P.L.114-74, which stipulates that services delivered in new off-campus hospital outpatient clinics will be subject to the Medicare physician fee schedule or the Medicare ambulatory surgical center fee schedule.

SB 281 also seeks to prevent all private insurers from paying higher (total) fees for services delivered in hospital outpatient departments. While MEDPAC had compiled evidence of a shift in Medicare-financed services to hospital outpatient departments, we are not aware of systematic studies of trends in privately funded health care in Connecticut. Nor have we seen a study of how the quality and value of care may differ across treatment settings. The health care legislation enacted in 2015, PA 15-146, instructed the Department of Insurance to study site-neutral reimbursement policies.

We understand that the Department of Insurance did not conduct that study. We strongly recommend that the study be completed before enacting a sweeping mandate that would affect health care for the 65% of Connecticut residents who receive heath care coverage through their employer or the private market.

I can say that if SB 281 were enacted in its current form, it would have a devastating impact on the Yale Medical Group. SB 281 would direct payors to adopt policies that "require reimbursement that is the same for all health care providers." (p 2, line 32) This approach fails to recognize that reimbursement rates can vary not only between sites of care – a physician offices or a hospital outpatient departments – but they can also vary among providers because of differences in providers' costs, the quality of care they provide, or the severity of illness among the patient seen in a practice. The differences among providers is independent of the site of service. The authors of SB 281 are attempting to address differences across site of service, but the bill is written so broadly – it would "require reimbursement that is the same for all health care providers" – that it would compel an insurer to have one fee schedule for all providers in Connecticut, regardless of quality of care, acuity of conditions in a patient population, or the cost structure of the provider.

Academic medical groups operate in an inherently high cost environment, and the reimbursement from private insurers reflect those costs. A large, multispecialty academic practice like the Yale Medical Group bears certain costs, such as cost of teaching or the cost of maintaining highly specialized tertiary care programs that other practices do not incur. Academic practices tend to shoulder a larger responsibility for providing on-call coverage, and they are staffed to be available on a 24/7 basis. These three factors represent about 15% of the annual operating costs of the Yale Medical Group. In addition, unlike most smaller physician practices, Yale Medical Group's support staff are unionized, and receive compensation that is approximately 36% above levels that prevail in the local market. Insurers also take quality of care into account, and are willing to pay more for care of greater value.

All of the societal benefits that the Yale Medical Group provides – training the next generation of providers, developing and refining new therapies, and providing the critical safety net for Medicaid recipients and uninsured residents of Connecticut – depends on adequate reimbursement from payors, especially private insurance.

We estimate that if SB 281 were enacted, insurers would be required by law to cut reimbursements to Yale Medical Group by as much as $15 million annually. A cut of that magnitude would have serious repercussions for teaching at the School of Medicine and the conduct of research that has lead to dozens of bioscience companies that have transformed the New Haven economy. Furthermore, the Yale Medical Group would be forced to reduce the number of clinicians and support staff, possibly as many as 20 physicians and 150 support staff, including members of Local 34. In short, it would deal a body blow to the New Haven economy, which would be ill-timed considering the condition of the state's economy.

I strongly recommend that the Committee reiterate the instruction to the Department of Insurance to conduct a study, in collaboration with stakeholders, of site-neutral reimbursement before any legislation is enacted, especially a mandate as sweeping as SB 281.