ARIZONA STATE SENATE
Forty-ninth Legislature, First Regular Session

PROGRAM PRESENTATION
Graduate Medical Education

Background

Introduction

After completing medical school, physicians enter a postgraduate phase of training known as graduate medical education (GME). GME programs prepare physicians for independent practice in a medical specialty and focus on the development of clinical skills and professional competencies and on the acquisition of detailed factual knowledge within the chosen specialty.

GME programs are based in hospitals or other health care institutions and, in most specialties, utilize both inpatient and ambulatory settings. GME programs are usually called residency programs, and the physicians being educated by them, residents.

Federal law requires a program to meet certain criteria, including accreditation by certain specified entities, in order to receive GME funds from the Medicare or Medicaid programs. Programs may be accredited by the Accreditation Council for Graduate Medical Education (ACGME, for allopathic medical residencies), the American Osteopathic Association (AOA, for osteopathic medical residencies), the American Dental Association (for dental residencies) or the American Podiatric Medical Association (for podiatry residencies). In addition, programs that may be used by participants to gain certification in a specialty as determined by the American Medical Association or American Board of Medical Specialties are also approved to receive funding. The policy discussion about GME typically centers upon allopathic and osteopathic residencies.

The various accreditation bodies establish educational standards for, and monitor compliance of, residency programs and institutional sponsors of GME in the United States. Accrediting bodies typically consider numerous factors when deciding whether to approve a residency program or an increase in a program, including the number of available programs, the number of patients available for the residents to treat and the number of faculty available to supervise and train the residents. Because federal funding is provided only to accredited programs, the size of most residency programs is limited by whether they receive accreditation.

Another factor that limits the number of residencies is the availability of funding. According to the Association of American Medical Colleges, GME is funded from both the Medicare and Medicaid programs, hospitals that conduct the residencies, public and private third party payers' payments for patient care services, the Department of Veterans' Affairs, the Department of Defense, faculty revenues and philanthropic gifts.

Types of GME Payments

There are two main types of GME payments paid by public sources: Direct Graduate Medical Education (DGME) and Indirect Medical Education (IME). DGME payments reimburse for the tangible direct costs of operating a GME program, including compensation and benefits for residents and supervising faculty, as well as the proportion of the hospital's administrative and related costs for facility management that is attributable to the GME program.

The IME payment mechanism is based on the premise that, through the teaching process, hospitals with residents incur additional costs beyond resident salaries and related expenditures. Teaching hospitals typically attempt to have up-to-date technology and often serve the sickest patients. In addition, teaching increases the time it takes for patient care, which increases costs. To account for these higher costs, entities may make payments to teaching hospitals that include an IME adjustment, which is a percentage increase in the hospital inpatient rates based upon the ratio of interns and residents to hospital beds.

Medicare Funding and Position Caps

Federal law caps the number of residents Medicare supports at 1996 levels. Rural teaching hospitals are capped at 130 percent of 1996 levels. However, there are several exceptions to these caps. According to the Centers for Medicare and Medicaid Services (CMS), urban hospitals, under limited circumstances, can apply for an increase in their cap for new residency programs, and hospitals in rural areas may receive an increase to their FTE caps for any newly approved programs. Hospitals may train more residents than the caps, but they will not receive additional Medicare payments for the residents. Therefore, without CMS approval, funding to increase residencies must come from sources other than Medicare.

Fiscal Information

GME Funding

Arizona currently funds allopathic and osteopathic GME programs through the Arizona Health Care Cost Containment System (AHCCCS). Historically, AHCCCS used Medicaid funding to make DGME payments to residency programs established and approved by AHCCCS on or before October 1, 1999.

In FY 2006-2007 and FY 2007-2008, state appropriations for GME were increased and modified as part of an effort to increase the number of physicians practicing in Arizona (Laws 2006, Chapter 331, and Laws 2007, Chapter 263).

Monies available for residency programs that were established and approved by AHCCCS by October 1, 1999, are limited to the FY 2005-2006 appropriation, adjusted annually by a hospital inflation figure. The $12 million added in FY 2006-2007 is allocated for: 1) the expansion of programs established before July 1, 2006, at hospitals that do not receive existing GME funding, and 2) the expansion of programs established on or before October 1, 1999.

The $8.9 million added in FY 2007-2008 is allocated for: 1) programs established or expanded on or after July 1, 2006, and 2) a portion of IME costs for programs located in a rural county or a program that includes a rotation in a rural county.

Finally, FY 2006-2007 and FY 2007-2008 budgets included $1 million in non-Medicaid state monies to fund the Hospital Loan Residency Program, which provides loans for start-up and ongoing costs for allopathic and osteopathic residency programs in accredited hospitals. However, revisions to the FY 2007-2008 budget reverted this appropriation made for the Hospital Loan Residency Program. The FY 2008-2009 budget continues the $1,000,000 decrease.

The table below details current GME spending.

Graduate Medical Education Appropriations

	State Funding	Federal Medicaid Funding	Total Funding
FY 2007-2008	$13,272,600	$29,384,000	$42,656,600
FY 2008-2009[1]	$ 8,323,100	$16,066,100	$24,389,200

Committee Activity

The Healthcare and Medical Liability Reform Committee met February 25, 2009, to consider information and testimony about GME. Hand-outs explaining GME were provided by AHCCCS (Attachment 1) and Barclay Legal, PLC (Attachment 2).

FY 2008-2009 Budget Action

According to the Joint Legislative Budget Committee, the FY 2008-2009 budget adjustment enacted on January 31, 2009, rolls back $7,000,000 of GME funding.

Attachments

1) *Total Fund AHCCCS GME Payments*. Presented by Tom Betlach, Deputy Director of AHCCCS, to the Healthcare and Medical Liability Reform Committee on February 25, 2009.
2) Barclay Legal, PLC. Memorandum *re*: Graduate Medical Education in Arizona – Summary of State Funding and Hospital Participation Levels. To Sen. Barbara Leff. February 24, 2009.

Prepared by Senate Research
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ER/jas

[1] These amounts reflect the FY 2008-2009 budget adjustment rollback of $(7) million in GF appropriations and $(13,517,000) reduction of Federal Title XIX matching funds (Laws 2009, 1st S.S., Chapter 1).