MD Graduate Medical Education

FINANCING PHYSICIAN EDUCATION AND TRAINING TO ENSURE TEXANS HAVE TIMELY ACCESS TO HEALTH CARE

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2017

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2021

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The financing of physician education and training is a complex interaction of federal and state funding and hospitals' investment of their own resources. **This document explains the importance of continued state and federal investment in that training and provides an overview of the sources and limits of their investment.**

Texas has one of the fastest growing and aging populations in the nation. Having a sufficient number of physicians to provide high quality health care to all Texans today and in the future requires significant investment in physician training and education. In 2017, Texas ranked 41st in the nation for physician-to-population ratio. For primary care, Texas ranked even lower at 47th.

In 2011, the Texas Legislature established a goal of 1.1 to 1 for the number of available residency training slots to graduating medical students. **Achieving this goal would enable all Texas medical student graduates to continue their medical training in Texas – a factor known to increase the likelihood that a physician will remain in the state to practice medicine upon completing training.**

In 2017, according to the Texas Higher Education Coordinating Board, Texas achieved the Legislature's goal. There were 1,660 medical school graduates and 1,868 filled first-year residency positions. However, sustaining this goal is challenging particularly as the number of Texas medical schools...and graduates...increases at a rate faster than the number of available GME slots. THECB projects if **new** first-year residency positions are not established by 2021, Texas will fall below the desired 1.1:1 ratio by 276 first year positions.

Texas Hospital Association

1108 Lavaca, Suite 700, Austin, TX 78701
512.465.1000
info@tha.org
www.tha.org

Cost of Physician Training

On average, the cost of training a future physician is $150,000 per resident per year. In 2017, Texas had 8,370 residents, including 1,869 first-year residents.

Because of the societal benefit, both the federal and state governments provide public funds to hospitals and medical schools to defray some of the costs of physician education and training. There are two components to these public GME payments.

1. **Direct GME payments** to defray some of the costs of the salaries and benefits, such as health insurance, of residents and supervising physicians and associated administrative and overhead costs: A resident physician receives an annual salary of $54,000, on average.
2. **Indirect GME payments** to compensate teaching hospitals for patient care costs related to teaching activities and care of low-income populations who may rely more heavily on teaching hospitals for care. These costs include those associated with resident supervision and maintenance of educational records for residents, patient complexity, service intensity and higher staff-to-patient ratios.

However, the costs of funding a residency position over 3 to 8 years exceeds available government funding, which requires medical institutions and hospitals themselves to invest their own funds at a time when reimbursement rates and margins are shrinking.

Federal Funding for Physician Training

Federal GME funding comes primarily from the Medicare program. A small percentage of federal GME support also comes from the Department of Veterans Affairs, Department of Defense and the Health Resources and Services Administration.

Medicare has made direct GME payments since its inception as a health care program for the elderly in 1965. Indirect GME payments began in 1983 and are an add-on payment through the Inpatient Prospective Payment System used by Medicare to pay hospitals for delivering care to Medicare beneficiaries.

Medicare funding in each state is limited to a capped number of residents. The caps were set in 1997 and remain limited to the number of residents each hospital reported at that time.

The cap on the number of residents does not account for population growth and shifts that have occurred in the 23 intervening years. **Most Texas hospitals train additional residents beyond what is paid for through Medicare.**

Based on the funding formula, Texas is at a major funding disadvantage compared with other states in two ways. The most recent data available show:

1. **Medicare pays for fewer Texas residencies.** The ratio of Texas' Medicare GME cap per 100,000 population is 18.19, ranking 33rd nationally. In comparison, New York's cap is 77.13 residents per 100,000.
2. **Medicare pays less per Texas resident.** Medicare pays Texas teaching hospitals, on average, $65,496 per resident – just 58 percent of the US average of $112,642 per resident. In comparison, New York's hospitals receive $139,126 per resident.

WHAT IS GRADUATE MEDICAL EDUCATION?

Graduate medical education, or GME, **is a component of physician education and training that begins with an undergraduate degree and ends with a residency or fellowship.** It is critical clinical education that follows completion of medical school. GME includes both residencies to acquire an initial specialty, such as family medicine, and fellowships to acquire a subspeciality, such as pediatric neurosurgery. Most residencies last 3 to 8 years, depending on the specialty. They take place in hospital settings, and include inpatient, outpatient and other community sites of care. Fellowship follows residency.

Teaching hospitals choose the number and specialties of the residents they train but must meet accrediting body standards to ensure they have the facilities, staffing and patient load necessary to provide adequate training. Specific training requirements vary by specialty and are determined by the accrediting bodies, such as the Accreditation Council for Graduate Medical Education.

State Funding for Physician Training

Medicaid's Role

Nationwide, the state-federal Medicaid program for those with low incomes is the second-largest source of GME support. Texas Medicaid currently is not a significant provider of GME support for Texas hospitals. However, that soon may change as the **state's Medicaid agency has requested federal approval for a new GME payment program for teaching hospitals not owned and operated by the state.**

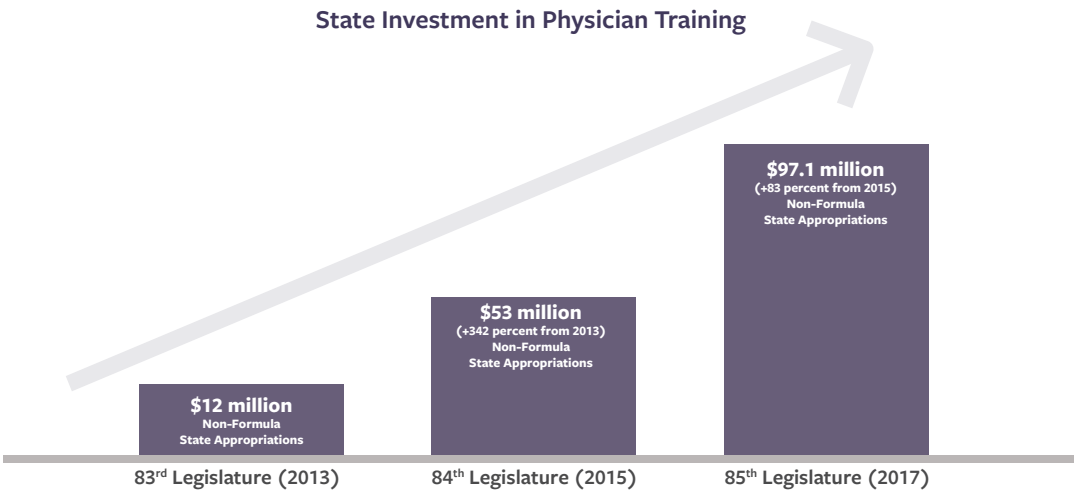
Texas Medicaid, prior to FY 2004, made GME payments to teaching hospitals using state-appropriated general revenue matched with federal Medicaid dollars. Beginning in FY 2004, general revenue was no longer appropriated, and Medicaid GME funding was available only if unclaimed state lottery proceeds were generated in excess of what the Comptroller estimated for 2004-2005 biennial revenue. In 2004-2005, approximately $51 million in Medicaid GME payments ($20 million in unclaimed lottery proceeds and $31 million in matching federal funds) were made to 62 public and private teaching hospitals. However, for the 2006-2007 biennium, the Texas Legislature did not make any unclaimed lottery proceeds available for GME but authorized the Medicaid agency to use IGT from public teaching hospitals for the non-federal share of Medicaid GME payments. Ultimately, no IGT was provided for this purpose.

Today, just five state-owned hospitals (University of Texas Medical Branch at Galveston, University of Texas Health Science Center at Tyler, University of Texas at MD Anderson, University of Texas Southwestern - Zale Lipshy and University of Texas Southwestern – Clements) receive supplemental Medicaid GME payments. The non-federal share of the payment comes from IGT from the hospitals' own state appropriations or patient revenue. These five hospitals receive quarterly payments based on resident FTEs and inpatient days reported by the hospitals. Medicaid GME payments to these five state-owned hospitals equal approximately $30.5 million (combined state and federal funds per year).

State-owned and non-state owned Texas teaching hospitals also receive Medicaid GME support in the form of an add-on to their Medicaid hospital inpatient reimbursement. This add-on, called Indirect Medical Education or IME, is an adjustment to the base "standard dollar amount" assigned to each hospital to reflect higher patient care costs for teaching hospitals compared with those at non-teaching hospitals. Currently 57 public and private hospitals receive this add-on payment for Medicaid-covered services, estimated at $109.3 million in state and federal funds for 2018.

Beginning Oct. 1, 2018, Texas Medicaid direct GME payments for non-state-owned, public hospitals are available for existing residency slots. **The non-federal share of the payments will come from local public funds, not state general revenue.** Once the federal government approves the plan, the state Medicaid agency intends to expand the direct GME payments to private teaching hospitals as well.

State Funding for Physician Training



Non-Medicaid State GME Funding

The Texas Legislature in recent years has appropriated funds for physician education and training independent of the Medicaid program through a variety of channels.

Most of the state's public medical schools and one private school receive "formula funding" to support residency programs. State general revenue for GME formula funding in 2018-2019 equals $90.1 million, an increase of $4.5 million from 2016-2017. Funding is distributed based on the number of residents at each institution and is used to increase the total number of residency slots in Texas and to support faculty costs related to supervising residents.

To address the shortage of first-year residency positions specifically, **the 83rd Texas Legislature created several new funding programs with an initial $12 million:** the Planning Grant Program, Unfilled Residency Position Grant Program, New and Expanded Residency Position Grant Program, and the Resident Physician Expansion Program. This funding supported the creation of nine new primary care and two non-primary care residency programs and funded 100 new first-year residency positions. These are grant programs administered by the Texas Higher Education Coordinating Board.

Following this investment, **the 84th Texas Legislature streamlined THECB's programs into one GME Expansion Program and appropriated $53 million for 2016-17 to support the continuation of and additionally increase the number of first-year residency positions.** This funding allowed institutions to maintain the new positions created in 2014-15 and supported the addition of approximately 130 new residency positions during 2016-17. Demonstrating its commitment to physician training, the 84th Legislature also created a Permanent Fund Supporting Graduate Medical Education.

Total funding for 2018-2019 for the GME expansion programs is $97.1 million. While most of this funding is dedicated to maintaining the previously created new residency slots, $500,000 is applied to the Planning and Partnership Program to allow existing hospitals that do not have residency programs to investigate the feasibility of establishing a new training program.

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