# When insurers and doctors haggle over Medicaid costs, patients pay the price

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When physicians and insurers haggle over reimbursement payments, health care providers lose revenue due to extra administrative burdens—an issue that is particularly acute with Medicaid, a key part of the social safety net that serves many low-income families.

According to new research, those administrative hoops dissuade many

doctors from seeing Medicaid patients, exacerbating disparities in health care access.

To document the complexity of health care billing and its resulting impacts, scholars from the University of Chicago Harris School of Public Policy and other leading economic research institutions examined data on repeated, back-and-forth interactions—including claims denials and resubmissions—between a large sample of U.S. physicians and many different insurers.

Published by the Becker Friedman Institute for Economics, the new working paper found that 25% of Medicaid claims have payment denied for at least one service upon the doctors' initial submission of a claim, a marked difference from other types of insurers. Denials are far less frequent for Medicare (7.3%) and commercial insurers (4.8%).

Following a denial, a physician has two choices. They can accept that the claim will not be paid, foregoing the potential revenue. Or they can commence a costly back-and-forth process to try to convince the insurer to pay.

"Even if insurers ultimately pay for some of the denied claims, in full or in part, this process is extremely costly for physicians—especially when submitting bills to Medicaid," said study co-author Joshua Gottlieb, a health care economist and an associate professor at Harris Public Policy.

"Doctors and insurers often have trouble determining what care a patient's insurance covers, and at what prices, until after the physician provides treatment. This ambiguity leads to costly billing and bargaining processes."

Combining the costs of incomplete payments with the revenue never collected, the researchers estimate that physicians lose 17% of Medicaid

revenue to billing problems, compared with 5% for Medicare and 3% for commercial payers.

The challenges associated with Medicaid reimbursement affect not only physicians' bottom lines, but also Medicaid patients' access to health care—an especially important finding for this population, which often has trouble finding providers.

The study also shows that physicians respond to these billing problems by refusing to accept Medicaid patients in states that have more severe billing hurdles, further contracting the already smaller pool of providers who accept their insurance.

These hurdles compound the effect of Medicaid's lower payment rates. Incomplete billing turns out to be quantitatively just as important as lower fees in explaining physicians' relative lack of willingness to treat Medicaid patients.

"Our findings illustrate the importance of well-functioning business operations in the healthcare sector," Gottlieb added. "This system, which accounts for 13% of U.S. GDP, is imposing administrative burdens with first-order impacts for doctors and patients—most notably for those who rely upon Medicaid. Anyone interested in equitable health care access should take a close look at how states manage their Medicaid programs."

**More information:** A Denial a Day Keeps the Doctor Away. bfi.uchicago.edu/wp-content/up … 7/BFI_WP_2021-80.pdf

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