

State Expansion of Medicaid Managed Care Slows

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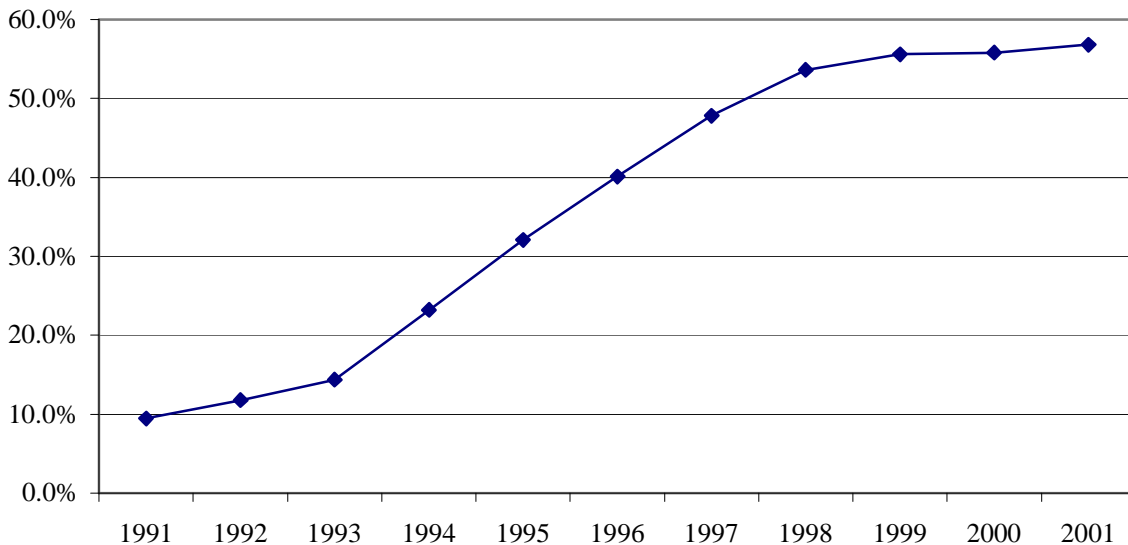
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The current state fiscal crisis has put pressure on most states to try to find ways to reduce spending. While much of the pressure on state finances has come from a huge decline in revenue collections, states have also seen their expenditures for Medicaid increase significantly, by over 13 percent in fiscal 2002 alone. Some states have been looking to make reductions in Medicaid spending in response to these conditions. This brief will focus on cost cutting through expansion of managed care – which helped states in the 1990s, but has perhaps reached its limits.

Originally, Medicaid provided coverage on a “fee-for-service” basis, where health care providers submitted claims after treating qualified Medicaid recipients. States have been shifting to a managed care approach, in which health maintenance organizations (HMOs) or other managed care organizations (MCOs) receive a fixed monthly payment for each beneficiary enrolled. Figure 1 shows the increase in the percentage of Medicaid recipients who are in managed care. As of December 31, 2001, 57.6 percent of Medicaid recipients were enrolled in managed care. After increasing rapidly through the mid-1990s, the percentage has leveled off since 1998.

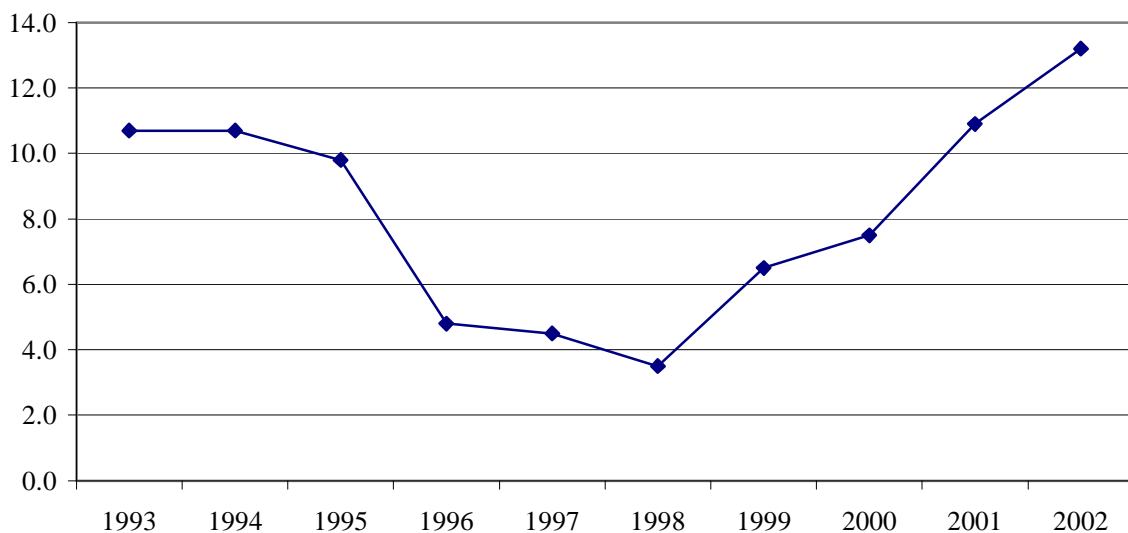
Figure 1.
Increase in Percentage of Medicaid Population in Managed Care



Source: Centers for Medicare & Medicaid Services.

There were various reasons that states moved toward managed care as an alternative to the “fee-for-service” payment. The private sector achieved substantial savings through managed care, leading states to believe they could do the same. Figure 2 suggests that states may have reaped some savings from moving towards managed care. However, there were many factors that could have explained the slower growth in Medicaid expenditures in the mid-1990s, and growth in private health care expenditures were also slowing in that period. In addition, managed care has done little to mitigate the recent rise in prescription drug prices, and the enrollment increase resulting from the sluggish economy, that have driven much of the recent increase in Medicaid costs.

Figure 2.
Percentage Change in State Medicaid Expenditures



Source: National Association of State Budget Officers.

Beyond the purely fiscal incentives, states believed that managed care would offer recipients the potential of enhanced access to and continuity of care. States can move toward managed care either through allowing voluntary enrollment, or through using several available techniques to require mandatory enrollment of some or all Medicaid recipients in the state.

Three states – Michigan, Tennessee, and Washington – have enrolled all of their Medicaid recipients in managed care. Meanwhile, two states – Alaska and Wyoming – have no Medicaid managed care programs. See Table 1 (on the next pages) for a breakdown of managed care enrollment for Medicaid recipients in all fifty states, as of December 2001, the most recent available data.

TABLE 1.
MEDICAID MANAGED CARE STATE ENROLLMENT

December 31, 2001

STATE	MEDICAID ENROLLMENT	MANAGED CARE ENROLLMENT	PERCENT IN MANAGED CARE
Michigan	1,186,014	1,186,014	100.00%
Tennessee	1,468,613	1,468,613	100.00%
Washington	856,497	856,497	100.00%
South Dakota	84,947	82,861	97.54%
Arizona	664,871	636,587	95.75%
Utah	146,971	137,108	93.29%
Colorado	277,947	256,800	92.39%
Kentucky	623,790	564,237	90.45%
Iowa	240,459	211,258	87.86%
Oregon	418,520	363,850	86.94%
Georgia	1,032,818	857,039	82.98%
Delaware	110,688	90,995	82.21%
Hawaii	162,735	127,345	78.25%
Pennsylvania	1,392,541	1,076,749	77.32%
Nebraska	206,396	157,262	76.19%
Connecticut	353,795	260,102	73.52%
Indiana	654,973	465,036	71.00%
Rhode Island	168,900	117,185	69.38%
Oklahoma	465,408	319,365	68.62%
North Carolina	991,451	679,837	68.57%
Maryland	637,084	434,405	68.19%
Minnesota	506,563	342,885	67.69%
Arkansas	409,433	273,328	66.76%
Montana	74,957	49,153	65.57%
New Mexico	346,429	226,523	65.39%
Massachusetts	977,832	629,218	64.35%
New Jersey	777,828	498,549	64.10%
Virginia	487,637	302,310	61.99%
Florida	1,962,479	1,197,522	61.02%
Vermont	129,679	78,452	60.50%
North Dakota	44,692	24,926	55.77%
Alabama	680,706	376,341	55.29%
Kansas	207,294	114,561	55.26%
California	5,561,652	2,993,210	53.82%
Wisconsin	549,838	294,477	53.56%
Mississippi	639,305	313,658	49.06%
West Virginia	277,086	130,844	47.22%
Missouri	868,876	396,003	45.58%
Maine	228,382	100,275	43.91%

Texas	1,907,987	818,178	42.88%
Nevada	141,029	56,056	39.75%
Idaho	141,461	44,816	31.68%
Ohio	1,246,751	334,400	26.82%
New York	3,114,509	831,430	26.70%
Louisiana	803,922	128,129	15.94%
Illinois	1,539,276	147,191	9.56%
New Hampshire	85,320	7,361	8.63%
South Carolina	684,654	52,275	7.64%
Alaska	85,575	0	0.00%
Wyoming	45,501	0	0.00%
United States Total	36,672,071	21,111,216	57.6%

Source: Centers for Medicare & Medicaid Services, *Medicaid Managed Care Penetration Rates by State*, <http://www.hcfa.gov/medicaid/omcpr01.pdf>.

There are several different types of managed care. Some are what might be termed “Standard” HMOs, which provide comprehensive services for a set price per recipient. Others may provide services in only certain areas, such as medical, dental, mental health, etc. Lastly, there are Primary Care Case Management Providers, which have a coordinating primary physician, but still essentially work on a fee-for-service basis.

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