Medicaid
State Savers for Constrained Budgets

States facing constrained budgets often look to Medicaid to help meet balanced budget requirements. Drawing on insights from Medicaid and state policy experts nationwide, Arnold Ventures has compiled a list of strategies to reduce spending without compromising eligibility or access to critical benefits. The opportunity and the magnitude of the savings available in each state will vary depending on the state-specific dynamics.

Provider Reimbursement

As an alternative to across-the-board reimbursement reductions, state Medicaid programs could reexamine past funding arrangements to assess potential overpayments or misaligned incentives. Institutional providers are often paid through multiple payment streams. These payments — and the rates underneath them — can be based on legacy formulas and political negotiations rather than the actual cost of delivering care or achieving a specific outcome. These fragmented payment structures can result in inefficiencies and overpayments.

SAVINGS OPPORTUNITIES:

- Assess payments for institutional providers across all Medicaid payment mechanisms (e.g., supplemental payments, state-directed payments, managed care, and fee schedule) and compare those payments to current costs to identify overpayments
- Ensure Disproportionate Share Hospital (DSH) payments to relevant hospitals are well targeted and do not exceed a hospital's uncompensated care costs
- Establish site-neutral payments for outpatient services, regardless of ownership or setting
- Evaluate hospital and other provider quality improvement programs for return on investment

Managed Care Rate Setting and Oversight

Most states leverage Medicaid managed care organizations (MCOs) to deliver benefits to enrollees. States pay these entities a capitated amount for delivering these benefits. It is incumbent on states to ensure these payments translate into meaningful access and quality care and ensure they are not overpaying for the benefits provided.

SAVINGS OPPORTUNITIES:

- Examine managed care rates for potential overpayments, especially related to risk adjustment
- Set a minimum Medical Loss Ratio (MLR) above the federal minimum of 85%
- Require MCOs to remit any spending above the MLR threshold
- Evaluate managed care quality improvement programs for return on investment and exclude unnecessary quality improvement expenses from MLR calculations
- Assess managed care contracts for other nonessential requirements or functions, remove them, and reduce rates accordingly

Prescription Drug Costs

While Medicaid often pays the lowest prices for prescription drugs in the country, drug costs still pose a challenge to states' Medicaid budgets. States can leverage several opportunities to further reduce net prices on prescription drugs and achieve greater administrative efficiencies.

SAVINGS OPPORTUNITIES:

- Prohibit MCOs' pharmacy benefit managers from leveraging spread pricing and reduce rates accordingly
- Ensure rebates are collected on physician-administered drugs
- Participate in multi-agency or multi-state purchasing agreements to improve states' ability to negotiate supplemental rebates

Administrative Efficiencies

States commonly have a range of programs aimed at specific populations, challenges a state is experiencing, or functions that they need assistance with delivering (e.g., eligibility systems). Over time, these programs and supports can overlap in ways that lead to inefficiencies.

SAVINGS OPPORTUNITIES:

- Assess outcomes associated with programs aimed at people enrolled in Medicaid (e.g., care management programs), including assessing whether there is unnecessary duplication with other programs the state makes available
- Analyze vendor and administrative contracts and functions to minimize inefficiencies (e.g., contracts for services such as call centers, eligibility and enrollment systems, and data warehouses)
- Enforce stronger provider enrollment and screening controls (e.g., prevent high-dollar improper payments before they occur and ensure payments are not made to providers who are barred from participation due to fraud or abuse)