The Relationship between Medicaid Financing and Provider Payment Policies

Medicaid and CHIP Payment and Access Commission
Moira Forbes and Chris Park
Financing Medicaid

- States and the federal government share responsibility for financing Medicaid
- Concerns about the level and rate of growth in Medicaid spending have led policymakers to consider alternatives to the existing financing structure
- Purpose of today’s session is to discuss current approaches to financing the non-federal share, how this relates to payment policies, and the implications for future policy
Federal Financing

- Federal funding is available to match state contributions
- June 2016 Report to Congress examined alternative financing structures that would limit federal contributions
  - Block grants
  - Capped allotments
  - Per capita caps
  - Shared savings arrangements
State Financing

- States have historically raised non-federal share to support the program through many statutorily allowed mechanisms
  - State general revenue
  - Local sources including certified public expenditures (CPEs) and intergovernmental transfers (IGTs)
  - Health care-related taxes
- Use of these mechanisms is subject to several limitations and federal oversight
- States vary in their use of these mechanisms
Majority of Non-Federal Share is State General Funds

$180 Billion

Notes: Data are for state fiscal year 2012. State funds includes state general funds and intra-agency funds. Local governments include intergovernmental transfers (IGTs) and certified public expenditures (CPEs). Health care providers includes provider taxes and provider donations.

September 15, 2016
States' increased reliance on funds from health care providers and local governments warrants improved CMS data collection. Report no. GAO-14-627.

Notes: Data are for state fiscal year 2012.
Source: Reprint from GAO 2016. States’ increased reliance on funds from health care providers and local governments warrants improved CMS data collection. Report no. GAO-14-627.

September 15, 2016
State Use of Provider and Local Contributions is Increasing

- GAO survey of all states found that, from 2008 through 2012, funds from providers and local governments increased as a percentage of the non-federal share, while state funds decreased.
- At the same time, percentage of the non-federal share of supplemental payments financed with funds from providers and local governments increased from 57 percent to 70 percent.
Two Different Views

• States are making effective use of all legally permissible funding mechanisms to generate revenue to support their Medicaid programs

• States are using funds from providers and local governments to inflate federal contributions and the overall Medicaid budget without additional state contributions
Federal Policy Responses

• Policymakers concerned about state use of funds from providers and local governments have proposed various alternatives
  – Eliminate IGTs and CPEs as sources of state share
  – Phase down the Medicaid provider tax threshold
• Effects of these policies on states that rely on these sources are unknown
MACPAC Estimates

• Used GAO survey data on the extent to which each state uses various sources of non-federal financing
• Made assumptions about how much of the non-federal share contributed by providers and local governments was returned to those providers through provider payments
• Applied these assumptions to the CMS-64 financial management report data to estimate the amount of federal spending associated with this portion of the non-federal share
MACPAC Findings: Modest Increase in Federal Share

- Average federal matching rate (ratio of total federal spending to total Medicaid spending) is 57 percent
- We removed non-federal share contributed by and returned to providers and recalculated the ratio
- Determined that the recalculated federal portion of spending was about 61.7 percent or about 4.7 percentage points above the average federal matching rate
MACPAC Findings: Substantial Variation across States

Number of States by Percentage Point Increase in Federal Portion of Total Spending after Excluding Provider Contributions

Source: MACPAC analysis of GAO 2016, States’ increased reliance on funds from health care providers and local governments warrants improved CMS data collection. Report no. GAO-14-627.

September 15, 2016
Summary of Key Facts

• Contributions from providers and local governments are an important component of Medicaid financing

• Supplemental payments account for a large proportion of total hospital payments and are increasingly financed through provider contributions

• Net Medicaid hospital payments are not excessive relative to cost or Medicare payments
Implications for Future Policy: Financing

- Changes to federal financing structure (e.g., block grants, per capita caps) must address whether existing differences in underlying state financing approaches would be preserved or phased out.
- States exercise flexibility to generate revenue to support programs.
- Financing mechanisms raise questions about accountability and transparency, particularly when there is little data at the provider level.
Implications for Future Policy: Payment

- Use of supplemental payments complicates efforts to tie payments to value
- Federal rules prohibiting supplemental payments to providers outside of capitation requires states and CMS to use demonstration waiver authority to keep money in system
The Relationship between Medicaid Financing and Provider Payment Policies

Medicaid and CHIP Payment and Access Commission
Moira Forbes and Chris Park

September 15, 2016