



The Relationship between Medicaid Financing and Provider Payment Policies

Medicaid and CHIP Payment and Access Commission

Moira Forbes and Chris Park

September 15, 2016

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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

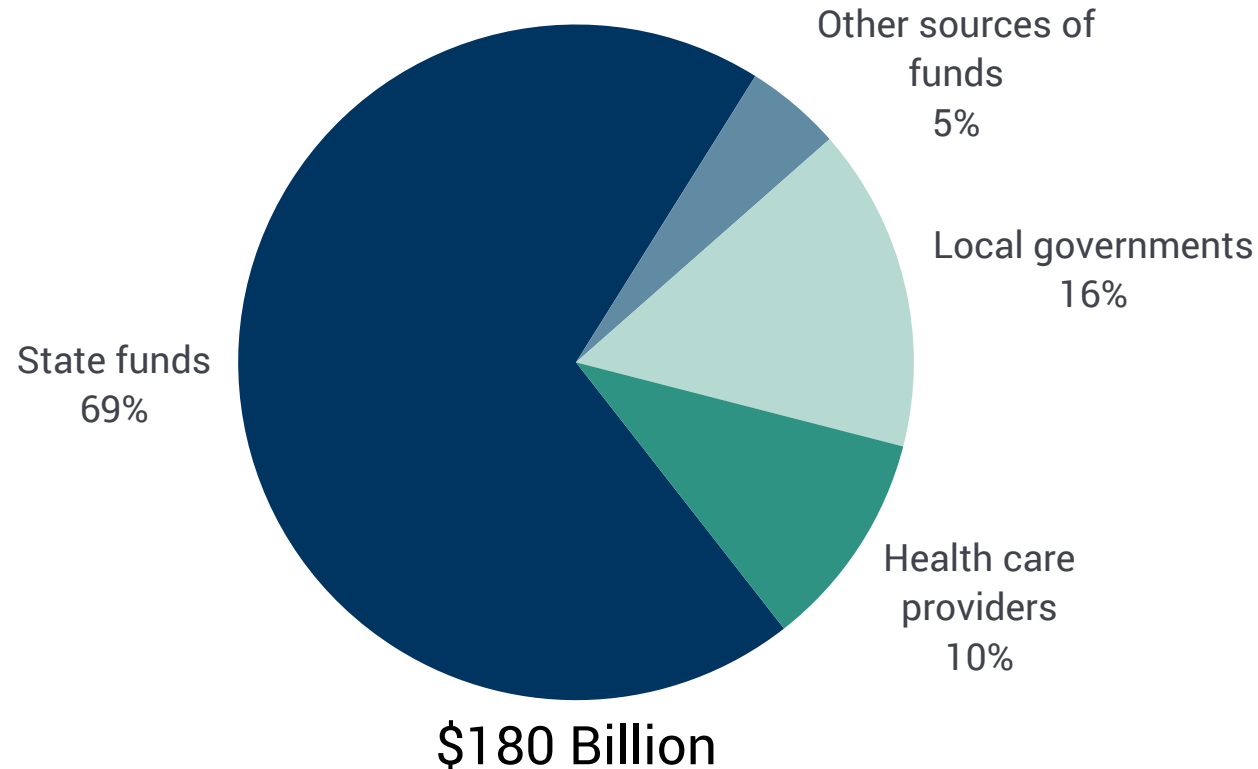
Federal Financing

- 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

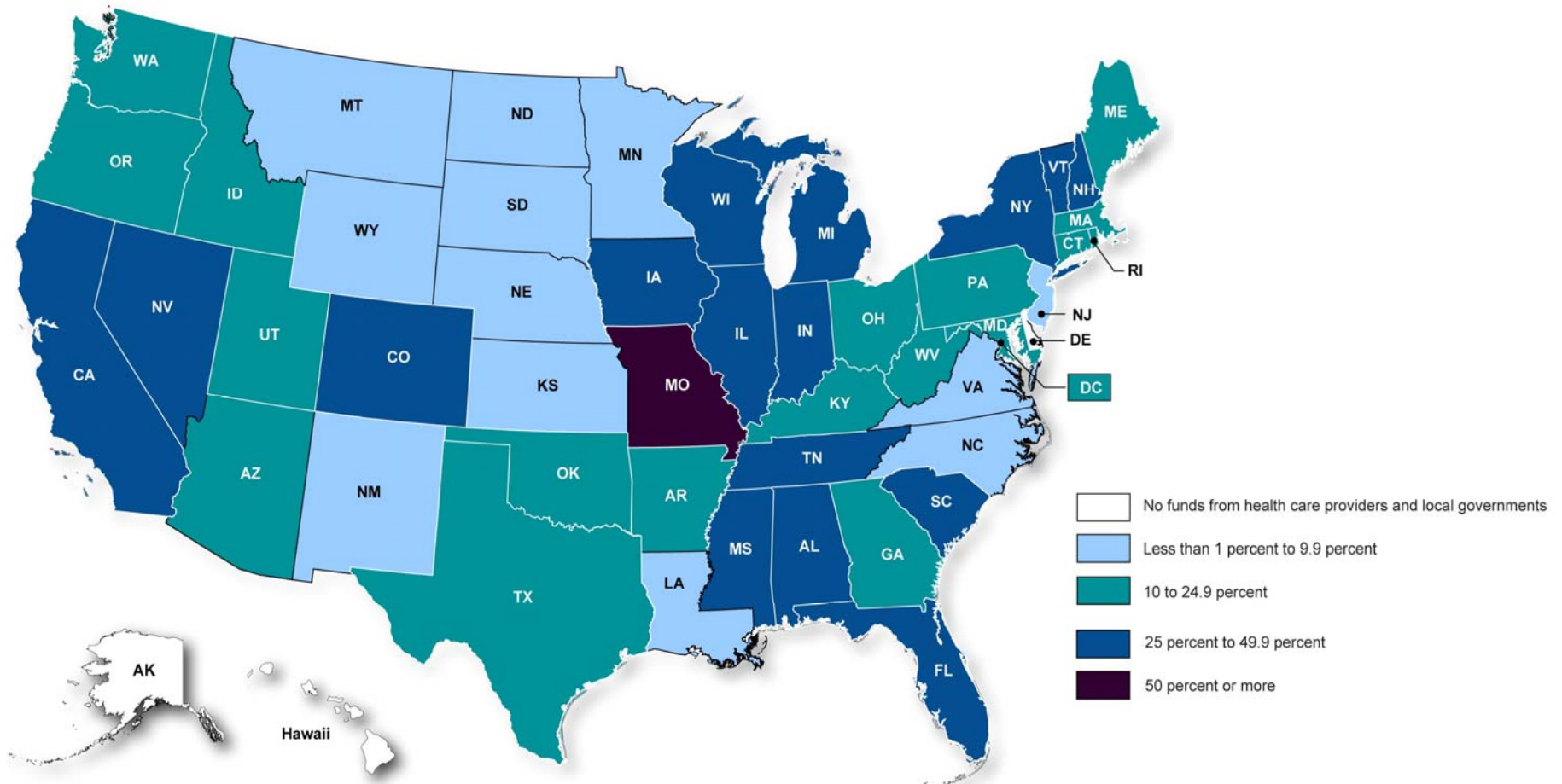


Notes: Data are for state fiscal year 2012. State funds includes state general funds and intra-agency funds. Local governments include intergovernmental transfers (IGTs) and certified public expenditures (CPEs). Health care providers includes provider taxes and provider donations.

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

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State Reliance on Provider and Local Contributions Varies



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.

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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

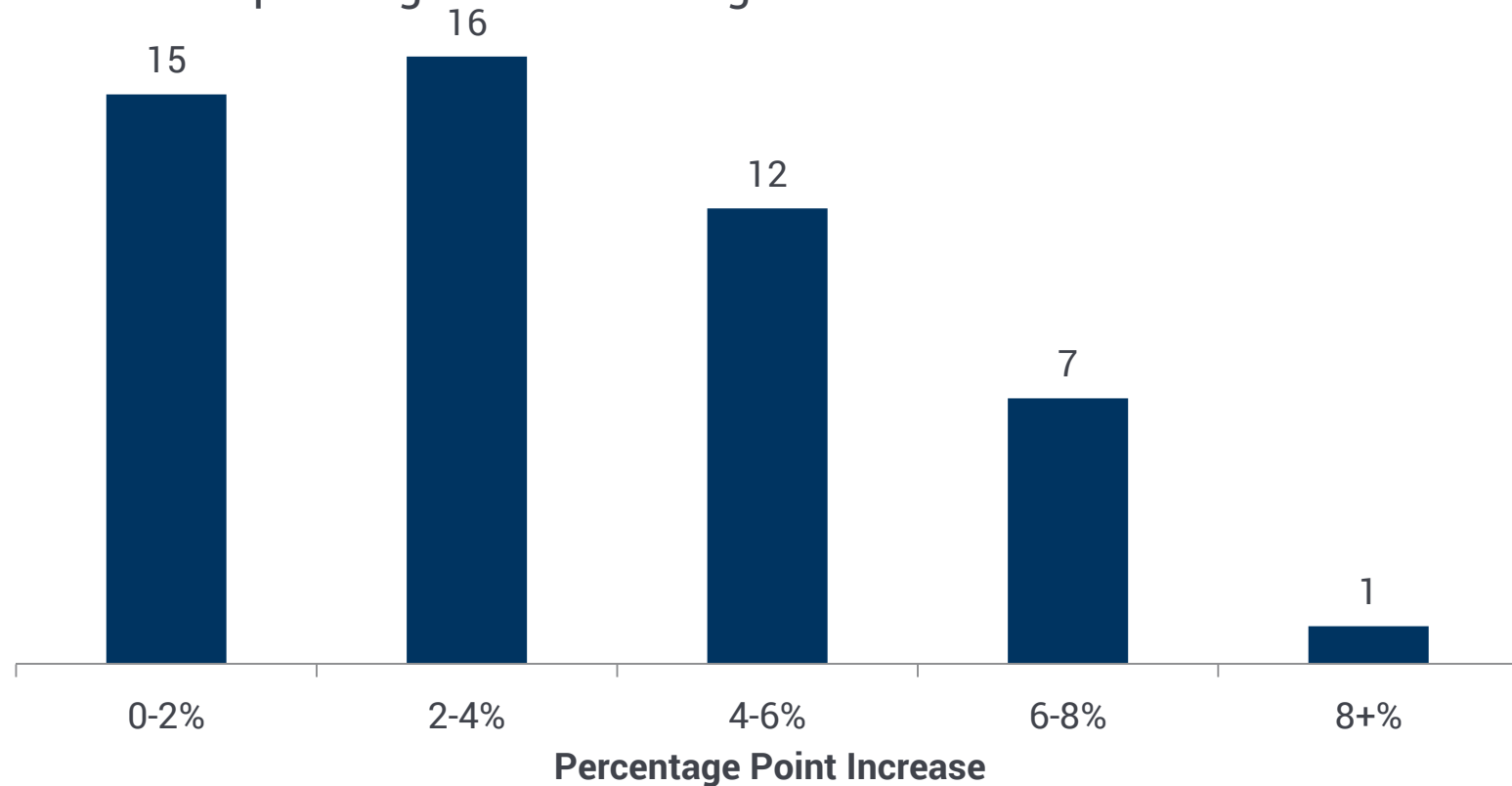
- Used GAO survey data on the extent to which each state uses various sources of non-federal financing
- Made assumptions about how much of the non-federal share contributed by providers and local governments was returned to those providers through provider payments
- Applied these assumptions to the 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.

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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



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