Current Medicaid Parallels to Per Capita Financing Options

Medicaid and CHIP Payment and Access Commission

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Overview

- Review of goals, methods, and monitoring for two parallels to per capita financing:
  - Managed care rate setting
  - Budget neutrality for Section 1115 demonstrations
- Common issues and challenges
  - Populations and services included
  - Data sources
  - Trend rates
  - Accounting for savings
- Key distinctions

Managed Care Rate Setting

Managed Care Rate Setting: Goals

- Rate setting establishes a per member per month capitation payment to cover the services provided by managed care organizations
- Medicaid managed care capitation rates must be actuarially sound
  - Payments must cover reasonable, appropriate, and attainable costs in providing covered services to enrollees in Medicaid managed care programs
  - Capitation rates must be certified by a qualified actuary

Managed Care Rate Setting: Methods

- Baseline costs are calculated using fee-for-service claims data and data from health plans
- Different rates are developed for specific population subgroups and may include adjustments for high-cost services that are difficult to predict
- Actuaries project future costs by taking into account several factors
  - Medical cost inflation for particular types of services
  - Expected savings through managed care efficiency factors

Managed Care Rate Setting: Monitoring

- States must submit rates, contracts, data, and methods to CMS prior to payment
- CMS staff review rates for adequacy and appropriateness
- Medicaid rates are certified for 12 months; states can make minor adjustments (±1.5 percent) without federal re-review

Section 1115 Budget Neutrality

Section 1115 Budget Neutrality: Goals

- Budget neutrality provides a benchmark for ensuring that additional costs authorized under a Section 1115 demonstration do not exceed expected costs without the demonstration
- Budget neutrality is not defined in statute or regulation
- 26 states currently demonstrate budget neutrality using a per capita method

Section 1115 Budget Neutrality: Methods

- Baseline costs for each eligibility group are based on most recent year of state spending
- Per capita costs are trended forward by lower of:
  – President’s budget trend rate; or
  – states’ historical growth rate during the five years prior to the demonstration
- States can include some hypothetical costs for populations that could have been covered without the demonstration but are not in the baseline

Section 1115 Budget Neutrality: Monitoring

- Budget neutrality is enforced over the entire period of the demonstration (five years)
- In 2016, CMS revised its budget neutrality policy to phase down accumulated savings and rebase per capita spending at renewal
- The Government Accountability Office (GAO) has recommended that CMS provide more transparency about its budget neutrality methods and assumptions

Common Challenges and Key Distinctions

Populations and Services Included

- States often exclude complex populations and services from rate setting and budget neutrality calculations due to methodological challenges
- It is difficult to account for populations or services not included in the historical baseline
- Legislative proposals for per capita caps include some populations and services that most states do not have experience managing under per capita payments

Data Sources

- Data sources used to estimate per capita costs are often incomplete and subject to substantial lags
- Both managed care rate setting and budget neutrality rely on state data, which reflects states' policies (e.g. eligibility, covered benefits, and payment rates)
- National per capita cap proposals primarily rely on national data, which is less detailed than data available to states

Trend Rates

- Accounting for future costs involves making assumptions, for which there may be a range of appropriate responses
- Actuaries have a more sophisticated process for estimating future costs in managed care, but this process requires more data about enrollees and the services they use
- Under a national per capita cap model, there may be less opportunity for state-by-state negotiation about assumptions and trend rates

Accounting for Savings

- Managed care rates are adjusted to account for anticipated savings
  - Savings achieved by the managed care plan are retained by the plan
  - Actuary must certify that rates are sufficient to cover reasonable, appropriate, and attainable costs
- Budget neutrality benchmarks are not adjusted to account for anticipated savings
  - Savings achieved through the demonstration can only be spent by the state with CMS approval

Key Distinctions

- Mechanisms that have been developed to establish state-level per capita payments may not translate to a national per capita cap model
  - Different goals may require different methods
  - Rate setting and budget neutrality methods do not need to account for different state policies
- Managed care contracts and Section 1115 waivers involve negotiation of performance and payment terms, national per capita cap model anticipates an automatic formula

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