North Carolina Community Care Networks, Inc.

Cost Trends in North Carolina Medicaid Spending

State costs for 2010 through 2014 are flat – and per person costs are declining

Total state Medicaid spending is flat and predictable.

- When state appropriations spending is restated to account for ARRA and overrun payments, Medicaid spending has *decreased* 7% from SFY 2010 to SFY 2014

The apparent volatility in state Medicaid spending in recent years has resulted from factors unrelated to provider payments (claims spending).

- State spending on medical claims has been relatively flat, growing 1% annually since SFY 2010 ($3.5 billion to $3.6 billion from SFY 2010 to SFY 2014.)
- Medicaid budget overruns have been driven by the difficulty in predicting the amount of drug rebates and program integrity collections (e.g., third party liability, fraud and abuse recoveries, etc.) as well as the timing of the DSH/supplemental payments that help fund charity care in North Carolina. All of these efforts require close monitoring to accurately predict what the state can expect to receive from the pharmaceutical manufacturers, the federal government, providers and when and how much it shall retain from DSH and supplemental hospital funding.

Medicaid enrollment has grown significantly.

- As would be expected with a growing state population and a still-recovering state economy, demand for program services has increased. Enrollment in Medicaid grew by 17%, or 4% annually (1.4 million to 1.7 million enrollees) between 2010 and 2014.

Per-person Medicaid claims spending has actually *declined*.

- With Medicaid claims spending relatively flat despite the addition of more than 300,000 new enrollees, spending per person is actually declining.
- Monthly per person Medicaid spending from SFY 2010 to 2014 has decreased by 9%, or 2% annually ($597 to $543)
- The efficiency of the program is continuing to improve over time.

Now that the NC Medicaid budget is more closely aligned with actual spending, the likelihood of Medicaid shortfalls is significantly reduced.

- In SFY 2014, the General Assembly approved a budget that recognized this flat cost trend and actual costs tracked the budget much more closely than in recent years. In fact, 2014 came in at about $95 million under budget.
- DMA has made improvements to internal processes related to predicting future costs for these programs– this point was highlighted in the State Auditor's financial audit of the agency in April 2015. Much less budget volatility can be expected going forward.

Bottom line: financial control of the program's core functions is strong and shows signs of continued improvement.

Background:
The claim that costs in North Carolina's Medicaid program are "spiraling out of control" has been heard repeatedly in public debates over the last several years. Media coverage of the Medicaid reform debate has generally not subjected these claims to critical analysis. This matters greatly in public policy, because the perceived rate of growth in the program significantly impacts the public debate on how the system should be reformed. If costs are "out of control," then Medicaid is negatively impacting other state needs such as education and transportation, and major reforms may need to be considered.

At the request of the NCCCN Board, NCCCN staff conducted a review of North Carolina Medicaid spending over the past five years. Staff normalized cost trends by more clearly accounting for two somewhat unusual factors impacting the Medicaid budget over this period: 1) the one-time federal stimulus payments ("ARRA")[1] that replaced state appropriations in SFY 2010 and 2011; and 2) state appropriations covering repeated Medicaid shortfalls that were booked as "receipts" to the program in the state's budget methodology for SFY 2010 through 2013.

After adjusting for these two factors, a very different picture of the Medicaid budget emerges than has been suggested in public forums and covered extensively in news reports. In short**, medical costs under the program are both remarkably level over this period and eminently predictable**.

A video providing a detailed explanation of what they found is available on the NCCCN website [hot link to URL]. The information above is provided as a brief, high-level summary of NCCCN's analysis.

Caveats:
A claims and enrollment backlog related to NC TRACKS and NC FAST implementation could be making SFY 2014 state appropriations appear someone lower than they are and essentially pushing some costs forward. The General Assembly appropriated $136 million in SFY 2015 to cover the claims and enrollment backlog from the prior fiscal year. The final costs for SFY 2014 can't be known until the state completes a "true up" of claims and hardship advances from the period when the new systems were implemented.

NCCCN is not claiming sole responsibility for the improvement in per-person Medicaid costs. Many factors have likely contributed to a lower per-person cost over time, including:

- Change in mix of enrollees (more children as a percent of the Medicaid population)
- General Assembly mandates (e.g., changes in portion of hospital DSH payments retained by the state)
- Cuts in fees paid to doctors, hospitals and vendors
- Policy changes to reduce utilization (e.g. decreased limits on physician visits, PCS changes)
- NCCCN initiatives (Transitional Care, Managing ER "frequent flyers," Pregnancy Medical Home, CHIPRA, etc.)

[1] American Recovery and Reinvestment Act of 2009.