NC Medicaid Spending Flat, Predictable

Budget overruns not due to rising spending

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KEY POINTS FROM THIS BRIEF:

- North Carolina's Medicaid spending is flat and predictable
- Claims spending is NOT the source of volatility in the NC Medicaid budget
- Per person spending has dropped as enrollment growth outpaced growth in claims spending
- Medicaid's budget is now better aligned with actual spending, reducing the chances of future budget overruns

This brief analyzes state spending on North Carolina's Medicaid budget since fiscal year 2010. We reviewed information from a variety of sources to compile a more comprehensive view of how state funds were allocated and accounted for in Medicaid budgets over the past several years. All figures are drawn from public documents and work completed by state agencies such as the Office of Budget and Management (OBM), Division of Medical Assistance (DMA) and the Fiscal Research Division (FRD).

The Medicaid budget picture in recent years is complicated because of changes in federal funding related to the economic downturn, the movement of state money required to address Medicaid shortfalls, and the way these transfers were reflected in the state's financial records.

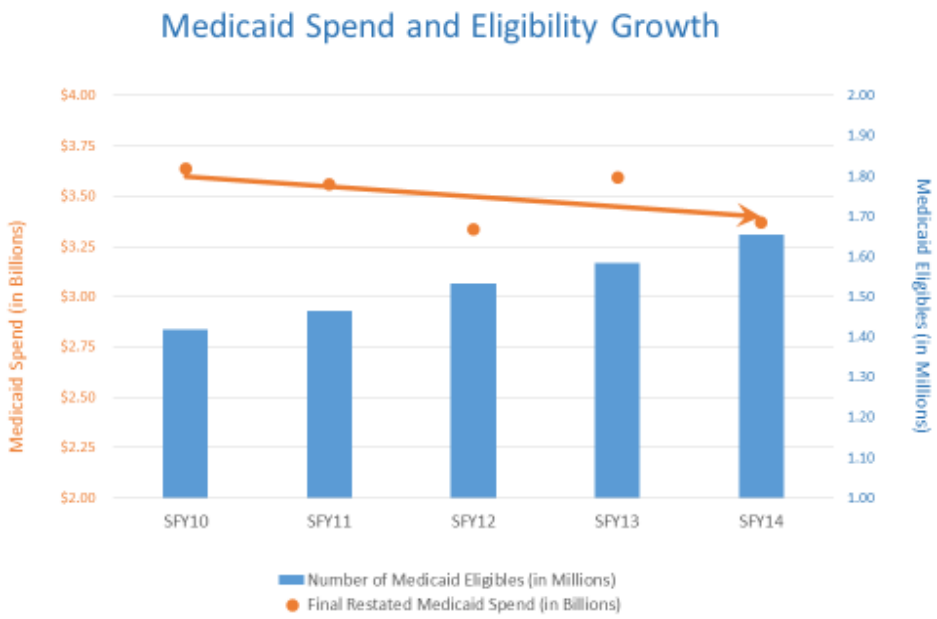
We looked closely at two key factors: how receipts from other agencies were used to cover Medicaid shortfalls and how federal stimulus funds were addressed in the budget. After tracking exactly how these funds were used, we made adjustments in SFY 2010 – SFY 2013 receipts so that actual expenses in these years could be compared to SFY 2014 on a consistent basis.

The results of our analysis were very surprising. Despite the common perception among legislators and the general public that Medicaid spending is out of control, and despite significant growth in the number of recipients enrolled in the Medicaid program, expenses were, in fact, remarkably level over the five-year period examined.

Medical Costs for Medicaid Recipients are on the Decline

Total Medicaid spending declined slightly from FY 2010 to FY 2014, while enrollment grew by 17%. See **Table 1**, below.

Table 1. Total NC Medicaid spend and growth in eligible population



Why the Perception that Medicaid Spending is Out of Control?

Official budget figures for state Medicaid appropriations in recent years indicate that the cost of the program is increasing at a rapid rate (see **Table 1**, below). If you consider only these "authorized" amounts you would conclude that North Carolina's Medicaid costs are rising rapidly.

Table 1. Appropriated by General Assembly (BD307)

SFY2010	SFY2011	SFY2012	SFY 2013	SFY 2014
$2,318,653,169	$2,368,365,829	$2,958,388,184	$3,101,448,568	$3,461,950,119

However, these figures fail to account for hundreds of millions of dollars that were actually spent on Medicaid in past years, but aren't apparent due to the way they were recorded in budget documents.

Part of the confusion stems from federal funds paid to the state through the American Reinvestment and Recovery Act, or ARRA. Coming out of the Great Recession in 2008, Congress greatly increased matching funds for state Medicaid programs around the country. In North Carolina's case, this pumped a billion dollars a year more into Medicaid, freeing up state funds for other needs.

Medicaid financing is complex, but in the end, it comes down to what is paid for with federal funds versus the remainder picked up by the state. ARRA funding significantly increased the federal share of Medicaid expenses, but only for a brief period of time (see **Table 2**). Many states, including North Carolina, used this as an opportunity to move state funds out of the Medicaid budget into other cash-strapped areas of state government, such as education and commerce. However, when the ARRA funding expired in 2012, the agencies that received state funds from Medicaid were not asked to return them.

The state was then caught short on its share of Medicaid costs because billions of dollars had been permanently moved out of Medicaid's budget – setting up significant budget shortfalls in 2010 through 2013. The state had to put in more money – not because spending was growing, but to catch up on monies that had been shifted out of Medicaid. The program's deficits were exacerbated by other unexpected costs such as the repayment of pharmacy rebates and paybacks for overdrawing federal funds.. To fill these budget holes, funding was shifted from other state agencies – both from within and outside of the Department of Health and Human Services – to bring Medicaid to a breakeven point. That funding would ideally have been recorded as "state appropriations," but instead those shortfalls were booked in the state's official accounting records as "receipts" (See **Table 2).**

Table 2. State Appropriations Analysis

	SFY 2010	SFY 2011	SFY 2012	SFY 2013	SFY 2014
Actual Year End Appropriations Spent (BD701)	$2,318,507,905	$2,465,689,313	$3,026,960,879	$3,517,694,237	$3,367,638,773
Shortfall receipts NOT reflected above	$316,667,659	$306,343,616	$307,071,855	$74,000,000	
Time-limited ARRA funds	$999,832,572	$785,985,960			
Restated State Appropriations Spent	**$3,635,008,136**	**$3,558,018,889**	**$3,334,032,734**	**3,591,694,237**	**$3,367,638,773**

The transfers made sense from an accountant's perspective, as they balanced the books. But these fund transfers make it very difficult to discern the state's true spending trend and understate the amount of state appropriations needed to meet Medicaid obligations.

When policymakers looked back at state spending in DMA's budget, they deduced that Medicaid state spending was growing exponentially. Beginning in 2013, the McCrory administration ended these accounting practices, insisting that transfers be treated as state appropriations.

Actual Medicaid Cost Trend

When all state Medicaid payments are considered, the restated figures show that state Medicaid program costs over five years were in fact ***nearly level***. And since enrollment was growing over this period, costs per Medicaid beneficiary were actually ***falling***. (See **Table 3**)

Table 3. Enrollment and Per-Person Costs

State Fiscal Year	State Medicaid Spend	Avg. Medicaid Eligibles	Per member, Per Month Cost
2010	$3,635,008,136	1,419,110	$597
2011	$3,558,018,889	1,456,436	$573
2012	$3,334,032,734	1,532,126	$574
2013	$3,591,694,237	1,583,720	$571
2014	$3,367,638,773	1,655,477	$543

Other Sources of Volatility

In addition to unusual, one-time issues like ARRA funding, the Medicaid program includes several funding components subject to volatility on a regular basis. **Table 4** examines Medicaid spending variation within the individual components that make up the overall Medicaid budget. These include administration and staffing costs, claims payments, settlements, program integrity (fraud and abuse recovery), third-party insurance payments and payments to hospitals such disproportionate share (DSH) and supplemental payments. We found that claims spending – which accounts for approximately 92 to 95 percent of DMA's total budget – has remained nearly flat for five years. The source of volatility in the Medicaid budget is not claims spending, but other administrative payments and rebates. The amount and timing of these high-dollar line items can be very difficult to predict.

Table 4. NC Medicaid State Appropriations Overview - Budget Code 14445 By Category

Spending by Category	SFY 2010	SFY 2011	SFY 2012	SFY 2013	SFY 2014
Administration	$50,418,057	$59,298,493	$61,452,008	$66,226,545	$67,819,345
Health IT	$0	$0	$200,000	$200,000	$201,933
Claims	$3,516,885,871	$3,525,397,045	$3,633,836,193	$3,705,593,132	$3,649,414,421
Program Integrity/Rebates	$(64,334,197)	$(119,919,544)	$(208,673,327)	$(122,744,185)	$(204,820,079)
Settlements	$35,997,489	$25,882,312	$24,627,108	$10,896,757	$25,469,928
DSH/Supplemental	$86,359,374	$29,694,648	$(264,981,901)	$(90,321,757)	$(129,552,915)
Other	$9,681,542	$37,665,935	$87,572,653	$21,843,746	$(40,893,859)
Total State Spend (Restated)	**$3,635,008,136**	**$3,558,018,889**	**$3,334,032,734**	**$3,591,694,237**	**$3,367,638,773**

Why Do Past Budget Figures Matter?

Medicaid costs are important for a number of reasons. After education, Medicaid is the state's biggest expense, and represents a large portion of the state's $20 billion total budget. Secondly, the state is considering significant changes in how the Medicaid program is funded, shifting from a traditional "fee-for-service" payment system to reimbursement based primarily on outcomes, and possibly administering the program in new ways. As this new system is designed, policymakers need a clear view of the program's current financial status and effectiveness.

While Medicaid remains a significant state expenditure and efforts to cut costs must continue, our analysis indicates that over the past five years, Medicaid program costs are stable and predictable. More importantly, medical care costs – the costs that would fall under the umbrella of managed care capitation – are NOT the explanation for perceived increases in state spending.

Data Sources

Analyses used NC Medicaid eligibility and enrollment administrative data. NCCCN program costs were pulled from the North Carolina Accounting System (NCAS) reports BD307 and BD701.

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