

# **IS THE MEDICAID REFORM EXPERIMENT SAVING FLORIDA MONEY?**

**State Alters Question to Ensure Desired Answer**



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## Is the Medicaid Reform Experiment Saving Florida Money?

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### Summary

Florida's most recent report on the progress of the Medicaid Reform experiment purports to show a 20% reduction in Medicaid spending per beneficiary per month in Year 2 of the Pilot. However, that claim is based on the use of inappropriately inflated estimates of how much Medicaid costs would have grown, had Reform not been implemented. Specifically, those estimates were sharply criticized by the U.S. General Accounting Office. After substituting appropriate assumptions, the actual savings are on the order of only 4%, and even this likely overstates true cost savings and is less than what could have been achieved, had Florida undertaken alternatives to the Pilot in its current form.

### Background

Florida's Medicaid Reform Pilot Program was launched in 2006. In seeking approval of a federal "Section 1115" waiver allowing flexibility to depart from otherwise applicable Medicaid regulations, the State in turn pledged to "introduce more individual choice, increase access, and improve quality and efficiency while stabilizing cost."<sup>1</sup> Although cost is the last consideration listed, it is no secret that the primary impetus for the Reform experiment is controlling the growth in the State's Medicaid budget. For example, in pushing unsuccessfully for expansion of the Pilot during the 2008 legislative session, House Speaker Marco Rubio explained:

*Our current Medicaid system is unsustainable. It is currently 22 percent of the state budget... Florida simply cannot afford to continue doing business like we are currently. In order to save the Medicaid system, continuing reform is vital.*

Consequently, the ability or inability of Medicaid Reform to save the State money will almost certainly be the most important determinant of its prospects for statewide implementation. However, Florida's Agency for Health Care Administration (AHCA) may seek to avoid the suspense by setting up a "straw man" in the form of an inflated estimate of what the State would have spent on Medicaid, had the waiver not been

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1 AHCA, [Florida Medicaid Reform: Application for 1115 Research and Demonstration Waiver](#), p.5.

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implemented. As described in this brief, by using such problematic estimates, Florida may have ensured that it can produce the desired answers to inquiries about Reform cost savings simply by changing the questions being posed.

### Florida's Problematic Calculation of Cost Savings

Based on a report recently filed by AHCA with the federal Center for Medicare and Medicaid Services (CMS), the federal agency that approved and currently oversees Florida's performance under the waiver, it seems likely that the first of a series of claims of significant savings are forthcoming. Specifically, in its most recent quarterly report on the progress of the Medicaid Reform initiative, AHCA discusses the extent to which Florida is meeting "budget neutrality" requirements. Under these Congressionally-imposed requirements, the State, as a condition of approval of the waiver, ostensibly must show that its total Medicaid spending is not increased.

Specifically, AHCA's budget neutrality calculations "showed" that, for the first three quarters of Year 2 of Reform (July 2007 – March 2008), Medicaid expenditures per beneficiary per month amounted to only 80% of what they would have been, had the Pilot not been launched (i.e., "without-waiver").<sup>2</sup> But that claim warrants greater scrutiny.

AHCA uses a complex and jargon-laden method of comparing with-waiver and without-waiver spending per beneficiary, concluding as follows:

*For Demonstration Year Two, the weighted target PCCM [Per Capita Per Month] for the reporting period using the actual case-months and the MEG [Medicaid Eligibility Group] specific targets in the Special Terms and Conditions is \$354.11. The actual PCCM weighted for the reporting period using the actual case-months and the MEG specific actual PCCM as provided in Table 24 is \$283.20. Comparing the calculated weighted averages, the actual PCCM is 79.97% of the target PCCM.*

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<sup>2</sup> AHCA, [Medicaid Reform Quarterly Progress Report: January 1, 2008 - March 31, 2008](#), p.56.

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Put simply, AHCA compared actual Medicaid spending in Year 2 of Reform with projected without-waiver spending, taking appropriate care to compare only the same groups of eligible beneficiaries over equal lengths of time. AHCA “found” that spending per beneficiary with the waiver in effect was 20% lower than estimated without-waiver spending.

As noted previously, it is AHCA’s estimate of without-waiver spending that is pivotal to their conclusion. In essence, AHCA “shows” that the new system saves money over the system it replaced by inflating estimates of how much it would have cost to maintain that old system. Yet the U.S. General Accounting Office (GAO)<sup>3</sup> made a specific point of reporting to Congress that Florida and CMS did precisely that in negotiating the terms and conditions of the waiver.<sup>4</sup> In summarizing its report, the GAO noted that:

*HHS did not adequately ensure that Florida’s...Medicaid demonstrations will be budget neutral to the federal government before approving them. HHS approved spending limits that were higher than the limits that would have been granted if HHS had held the states to limits based on benchmark growth rates, that is, the lower of the state’s historical spending growth or nationwide estimates of Medicaid growth...In Florida, HHS approved a \$52.6 billion spending limit for the 5 year demonstration— \$6.9 billion more than the documentation supported.<sup>5</sup>*

The GAO report continued:

*HHS approved cost growth rates of 8 percent for both aged, blind, and disabled beneficiaries, and for families and children...Under HHS’s benchmark policy, which calls for basing spending limits on projections of growth at the lower of state-specific history or estimates of Medicaid growth nationwide, the approved cost growth rates would have been 4.80 percent for aged, blind, and disabled beneficiaries and 3.11 percent for children and families.<sup>6</sup>*

As an aside, even assuming for the sake of argument that AHCA’s assumptions concerning cost growth were not at issue, the representation that actual Year 2 spending per consumer per month is \$354.11 still overshoots the appropriate estimate by 10%.<sup>7</sup>

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3 The GAO is the audit, evaluation, and investigative arm of Congress.

4 See GAO report 08-87: [Medicaid Demonstration Waivers, Recent HHS Approvals Continue to Raise Cost and Oversight Concerns](#).

5 *Id.*, p. 18.

6 *Id.*, p.21.

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### Comparison of Cost Savings (Budget Neutrality) Calculations

Reining in this inappropriate cushion Florida built into its cost growth estimates would dramatically impact AHCA's report of cost savings. Tables I and II below contrast two different methods of calculating the savings achieved under Reform. The amounts shown in the first table are taken directly from AHCA's quarterly report, while the corresponding amounts in the second table were calculated by Florida CHAIN, substituting the benchmark growth rates that the GAO indicates should have been used.

In particular, Table II shows that, using the appropriate growth estimates required by CMS policy and other reasonable assumptions, actual per-beneficiary spending under the waiver thus far in Year 2 is only 4% less than it would have been without the waiver, not 20% as Table I suggests.<sup>8</sup>

**TABLE 1 AHCA's Calculation of Reform Waiver Savings (7/1/07–3/31/08)**

	Actual \$ Spent Under Reform (Without Waiver)	Projected \$ Spent If Reform Had Not Been Implemented (Without Waiver)	Actual \$ Spent With Waiver As A Percentage Of Projected \$ Spent Without Waiver
	(X)	(Y)	(X ÷ Y)
Families with Children (A)	\$155.14	\$215.44	\$72.01%
SSI Recipients (B)	\$902.42	\$1,024.69	88.07%
<b>Total (Combined A + B)</b>	<b>\$283.20</b>	<b>\$354.11</b>	<b>79.97%</b>

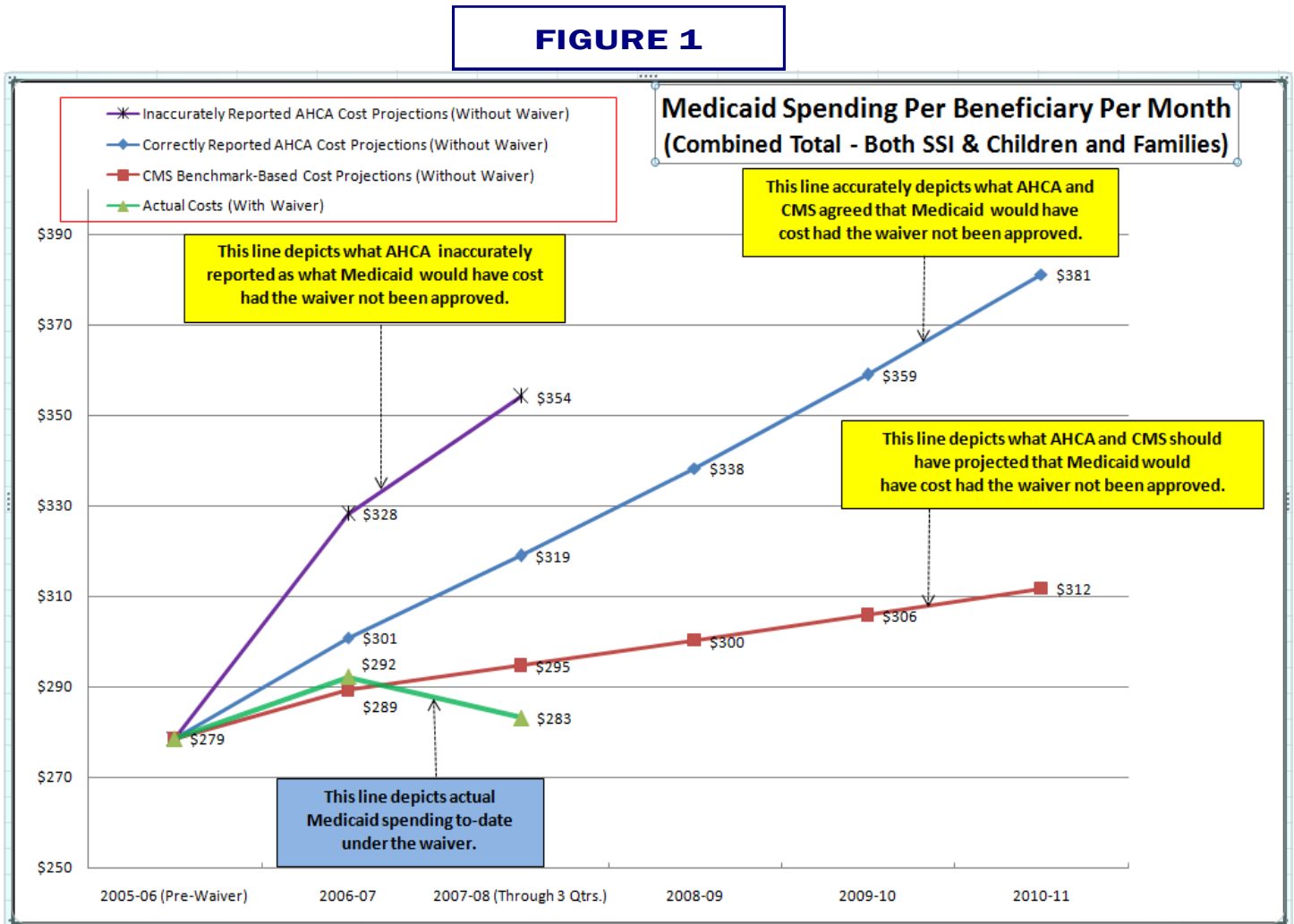
**TABLE 2 Calculation of Reform Waiver Savings (7/1/07–3/31/08) Using HHS Benchmarks**

	Actual \$ Spent Under Reform (Without Waiver)	Projected \$ Spent If Reform Had Not Been Implemented (Without Waiver)	Actual \$ Spent With Waiver As A Percentage Of Projected \$ Spent Without Waiver
	(X)	(Y)	(X ÷ Y)
Families with Children (A)	\$155.14	\$196.37	79.00%
SSI Recipients (B)	\$902.42	\$964.87	93.53%
<b>Total (Combined A + B)</b>	<b>\$283.20</b>	<b>\$294.66</b>	<b>96.11%</b>

<sup>8</sup> A similar calculation for Year 1 shows that the actual combined spending under the waiver was 101% of (i.e., more than) what without-waiver spending would have been.

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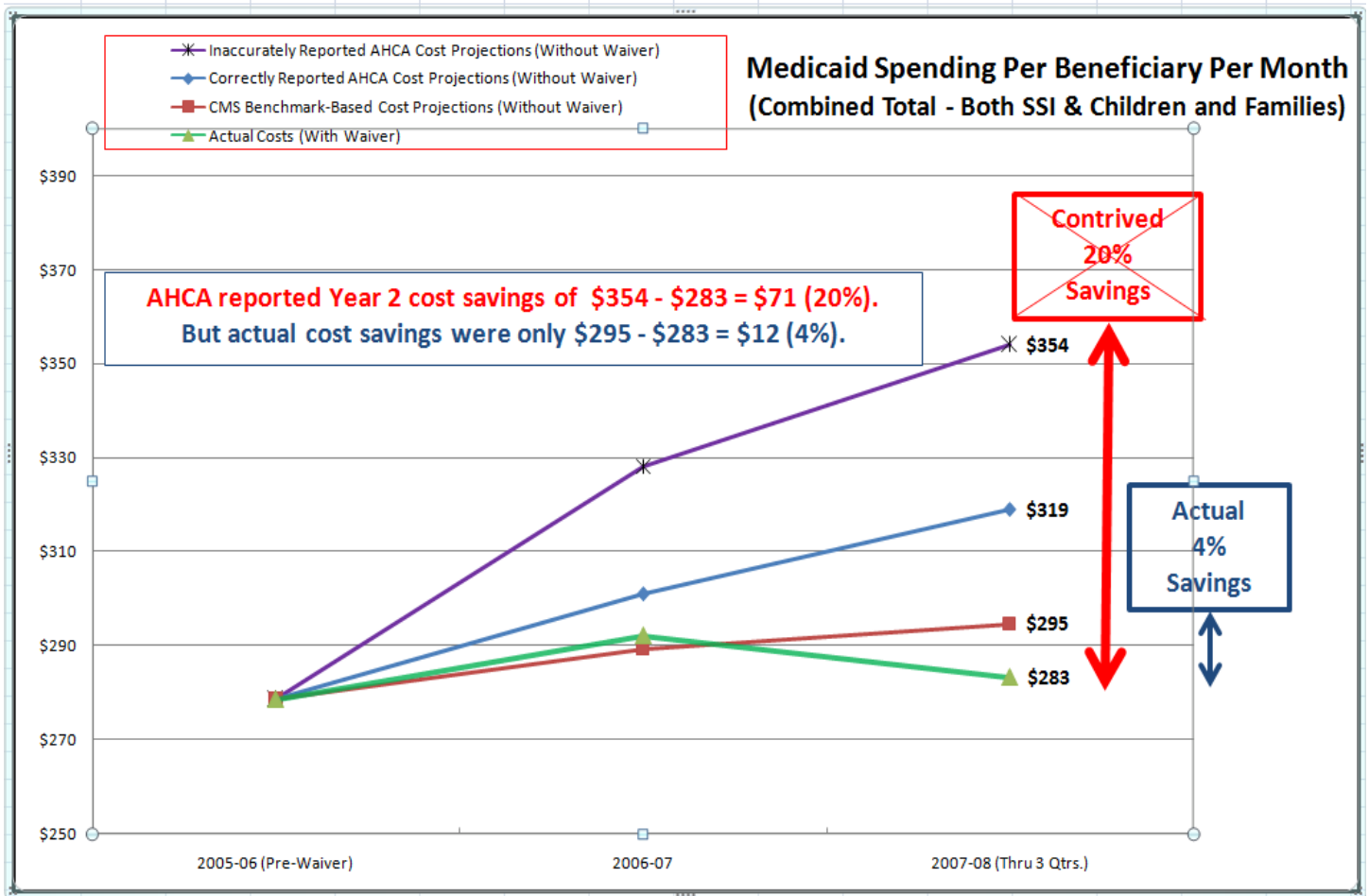
Figure 1 below depicts the disparity among the various projections of what Medicaid spending would have been had the waiver not been implemented, as contrasted with actual spending.<sup>9</sup> Figure 2 contrasts the methods used by AHCA and Florida CHAIN to calculate the extent of savings achieved under the waiver.



<sup>9</sup> AHCA, [Florida Medicaid Reform Implementation Plan](#), pp. 42-45.

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**FIGURE 2**



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### Discussion and Implications

Although the 4% savings is considerably less than the State anticipated, it is nevertheless a savings, and so could garner an unenthusiastic endorsement as “better than nothing.” Additional context must be considered.

First, the Reform vs. “do nothing” comparison sets up a false dichotomy. There are alternatives to the model implemented under Medicaid Reform that may save as much or more, and also deliver more than Reform has in terms of access, quality, etc. Further study is needed in this area.

Second, only a small fraction of the consumers who would be required to participate in Medicaid Reform under statewide implementation are actually enrolled in the Pilot in Year 2, because the Pilot Program is only underway in 5 counties. But these per-beneficiary spending rates are calculated on a statewide basis, not just for Reform counties. So the question follows: What portion of any overall savings can be attributed to changes implemented under the waiver?

A simple way to begin to formulate an answer to that question would be to compare changes in Medicaid spending in Reform vs. non-Reform counties during the most recently reported quarter (ending March 31, 2008). By this period, the enrollment phase-in had been completed in all 5 Reform Pilot counties. AHCA’s report shows that while Reform enrollment increased by 2.3%<sup>10</sup> during the quarter, Reform spending increased by 6.9% in the aggregate.<sup>11</sup> By contrast, in non-Reform counties, enrollment increased by 2.5%<sup>12</sup>, while total spending rose by only 1.6%.<sup>13</sup> A number of factors impacting Medicaid spending vary across time periods and locations, however, and a quarter’s worth of data would not be dispositive regardless. Nevertheless, the comparison further calls into question that legitimacy of using AHCA’s reported cost savings as a measure of the extent to which cost containment efforts have been successful thus far in Reform.

Finally, perhaps the most important and still unanswered question is what these savings buy. A small reduction in spending cannot justify significant decreases in access, quality and/or health outcomes. It should be noted that Reform plans need only prove medical sufficiency at a level of 98.5%, and thus Reform plans are given permission *a priori* to spend considerably less on essential services than the system

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10 AHCA, Medicaid Reform Quarterly Report, p.28.

11 *Id.*, p.55 (derived).

12 AHCA, [Medicaid Non-Reform Enrollment Reports](#), January—March 2008 (derived).

13 AHCA, Medicaid Reform Quarterly Report, p.55 (derived).

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they replaced. Hypothetical actuarial equivalence of benefits also means little if access to ostensibly available services are strictly controlled. Furthermore, the expenditures incorporated in AHCA's calculations exclude the 2% of plan capitations set aside to fund credits earned by beneficiaries for performing healthy behaviors under the Enhanced Benefits component of Reform. Most significantly, this 4% savings is likely more than offset by hidden cost increases elsewhere in the Medicaid system, particularly in terms of additional administrative responsibilities for providers, not to mention yet to be measured cost-shifting onto other systems beyond those that are directly Medicaid-funded.

### **Conclusion**

AHCA's at least implicit claim that Reform reduced Medicaid spending per beneficiary by 20% through the first 3 quarters of Year 2 of the Pilot Program is highly suspect. The reduction is rather on the order of 4%, and even this likely significantly overstates the true extent of the savings, as Reform does not seem to be providing the same level of service as the version of Medicaid it replaced. Admittedly, freezing capitation rates will reduce costs across Medicaid managed care, including within Reform. Such freezes will have no bearing on the question of whether Medicaid Reform will save money over traditional Medicaid managed care or other alternatives to the Reform experiment.

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## ***State Alters Question to Ensure Desired Answer***

**Florida CHAIN** (Community Health Action Information Network) was launched in 1999 to build common purpose and action among diverse statewide groups and voices on issues of health care access.

The organization has evolved into a statewide consumer health care advocacy network organization dedicated to improving the health of all Floridians by promoting sustainable access to affordable, effective health care.

Programs and service includes bi-weekly electronic health policy updates; advocacy trainings; publications of issue briefs; coalition building; consumer story compilations; forum and town hall meetings; and health information distribution. Florida CHAIN has partnerships with local organizations across the state serving health-care consumers

In Florida, an estimated 3.8 million individuals are uninsured. Of those, over 717,000 are children. Over 2 million individuals are enrolled in Medicaid and 250,000 children are enrolled in the KidCare program.



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