

Cost Curveball: Over the Past Decade, Medicaid Controlled Costs More Effectively Than Private Insurance

Florida House and Senate leaders have relentlessly attacked the Medicaid program for purported runaway spending growth, blaming the program for the state's budget woes and demanding relief from even the most basic federal standards.

Although total Medicaid spending has more than doubled during the past decade, from \$8.9 billion in 2000-01 to \$19.8 billion in 2010-11,^{1,2} it is important to note that federal funds make up a large majority of Florida's Medicaid budget. State general revenue accounted for only \$2.4 billion of the \$8.9 billion total in total spending for 2000-01, or 27 percent. In the current year, 2010-11, state general revenue comprises only \$4.0 billion of the \$19.8 billion total, or 20 percent. So the Medicaid program required only \$1.6 billion more from basic state funding in 2011 than in 2001 – hardly a runaway budget item.

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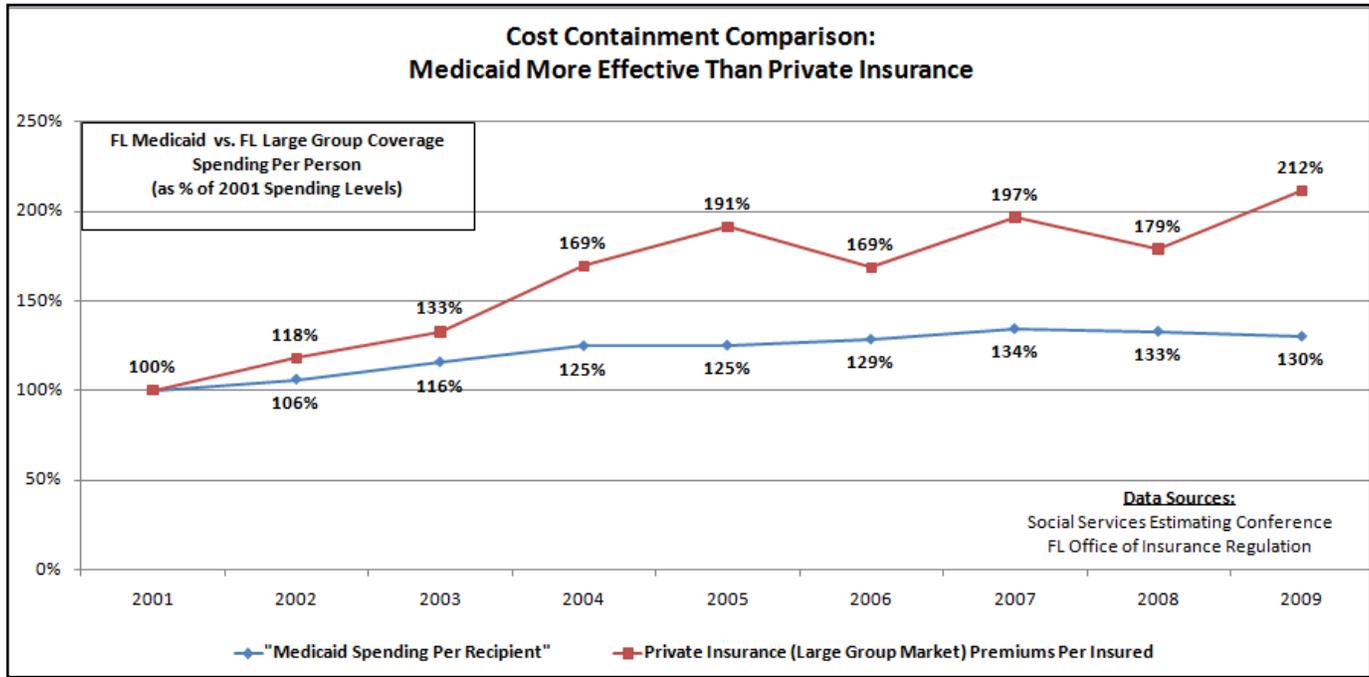
Nevertheless, a focus on the total Medicaid budget without reference to the federal contribution has helped justify current efforts to require almost all Florida Medicaid recipients to enroll in managed care plans like HMOs. The key premise underlying that push is that the private sector can best contain costs without sacrificing quality. A comparison of spending in Medicaid vs. the large group insurance market reveals precisely the opposite, however.

Legislation in both chambers would almost completely integrate and privatize the Medicaid payment and delivery systems throughout Florida. In other words, care-related management functions and decision-making responsibilities in Florida Medicaid would be turned over to HMOs and other managed care plans, most of which are for-profit companies that report to investors or shareholders.

Any expectation that the private insurance market will somehow organically “bend the Medicaid cost curve” would be seriously misplaced, however. One reason is that the problem of growth in Medicaid spending has been overstated. Comparisons of total spending alone omit two of the main drivers of spending growth, namely pre-recession population growth and recession-driven enrollment growth. **Most importantly, historical data reveals that, on a per-person basis, Medicaid has contained costs more effectively than private health insurance.**

We compared total Medicaid spending (including federal, state and local sources)³ per recipient with total premiums collected (including both employer and employee contributions) per “covered life”⁴ in the large group

health insurance market⁵ from 2001 through 2009.⁶ **In short, average Medicaid spending per recipient increased 30 percent during the period (3.8 percent per year). However, average spending per covered life in the large-group market increased by a far greater 112 percent (i.e., more than doubled) during that time.**⁷ The chart below depicts the growth in Medicaid and large group market spending per person from 2001 to 2009 on the same scale.



The fact that the cost curve for Medicaid is so much flatter than the corresponding curve for private insurance may seem counter-intuitive, but it is likely not surprising to those familiar with the program. For one thing, Florida has implemented a number of policy initiatives and adjustments that directly impacted spending, using methods not available in the private sector. As the legislature has noted, “Florida has made numerous and repeated efforts to control costs in the program...through rate reductions, utilization limits, fraud and abuse efforts, and other cost control initiatives.”⁸

The more significant underlying problem propelling the rise in both public and private health insurance costs must be acknowledged, namely the growth in health care costs generally. Although Medicaid has kept rising costs in check more effectively, its long-term sustainability nevertheless ultimately depends on controlling the growth in health care costs overall.

While some of these efforts have set the stage for reduced access to and quality of care, the Medicaid program and the coverage it provides have remained largely intact.

Although a significant portion of Florida Medicaid recipients are already enrolled in Medicaid managed care, it is a more protected and buffered form of managed care in which market forces have a more limited effect. In particular, the MediPass program, in which primary care providers coordinate access, is a Medicaid managed care option. Access to a well-defined set of benefits is also guaranteed.⁹ The proposals currently pending in the Florida Legislature, by contrast, aim to reshape Medicaid so that it operates much more like private insurance.

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public and private health insurance costs must be acknowledged, namely the growth in health care costs generally. Although Medicaid has kept rising costs in check more effectively, its long-term sustainability nevertheless ultimately depends on controlling the growth in health care costs overall.

The Patient Protection and Affordable Care Act includes more than a dozen initiatives intended to explore ways to bend the cost curve for the entire health care system, though most are initial steps that Congress would need to expand in the future. In the meantime, however, **simply “hitching” Medicaid to the “wagon” of private insurance not only will fail to safeguard the program, but also will hasten the erosion of the health care safety net.**

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Endnotes

- ¹ Florida Legislature, Office of Economic and Demographic Research, Social Services Estimating Conference, Long-Term Medicaid Forecasts, 2004-present
State general revenue funding for Medicaid during the decade increased by far less than total spending (64 percent vs. 222 percent).
- ³ For any given year, average Medicaid spending per recipient was calculated as total Medicaid expenditures divided by total enrollment. Because the state fiscal year runs from July 1 to June 30, however, the average of the two pertinent fiscal years were used as a proxy for calendar year totals.
- ⁴ i.e., an individual covered under the group plan; a member (including primary insureds as well as covered dependents)
- ⁵ Florida Office of Insurance Regulation, Florida Health Insurance Advisory Board, Annual Market Reports, 2005-present
- ⁶ Comparison of Medicaid with the large group market is more appropriate than with the small group or individual markets is most appropriate. For example, employees may not be excluded from large group coverage based on medical history.
- ⁷ For any given year, average premiums per covered life were calculated as total premiums collected divided by total enrollment for the large group market.
- ⁸ Florida House of Representatives, Health and Human Services Committee, Staff Analysis for Proposed Committee Bill HHSC 11-01, March 2011, p.4
- ⁹ Both MediPass and the “defined benefit” are eliminated in the five-county “Medicaid Reform” experiment.