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NEWS RELEASE

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FOR RELEASE November 26, 2018

State Auditor Mary Mosiman today released a report on a review of Medicaid savings estimates as a result of the Iowa Department of Human Services (Department) transitioning the Medicaid program from a primarily fee-for-service program to a managed care program.

The Office reviewed three estimates prepared using different methodologies for estimating fiscal year 2018 savings from the transition to a managed care program:

- January 2017 estimate from the Governor's Office, which reported estimated savings of $234 million,
- November 2017 estimate from the Department, which reported estimated savings of $47 million, and
- May 2018 estimate from the Department, which reported estimated savings of $141 million.

Because of the nature and complexity of the Medicaid program, and the timing of the determination of costs associated with the program which cannot be paid until a future period, it is necessary to use estimates in all three methodologies.

Mosiman reported the January 2017 and the November 2017 estimates were based on data which did not account for all Medicaid program costs or costs incurred during the year which were not paid by fiscal year end and, therefore, these methodologies should not be used to estimate Medicaid savings. Mosiman determined the May 2018 methodology is an accurate and reliable method for estimating Medicaid savings and this is the methodology which should continue to be used by the Department for the following reasons:

- The estimate was calculated based on a financial assessment of the overall Medicaid program.
- The May 2018 methodology applies the accounting matching principle by adjusting the raw data to align expenditures with the year in which they were incurred.

The May 2018 savings of $141 million reported by the Department was an accurate estimate based on the information available at the time. In the report on page 13, the May 2018 estimate has been updated with September 30, 2018 cost information and updated estimates as of November 7, 2018 and compared to the original May 2018 estimate. This updated information will be used for financial reporting purposes and included in the Comprehensive Annual Financial

Report (CAFR). This comparison shows the May 2018 estimate was accurate based on the information available at the time the estimate was prepared.

The average cost per member for SFY 2018 is $8,934 while it is estimated to be $9,436 for SFY 2019. This differs from the average cost per member reported by the Department in the recent Improve Iowans' Health Status Report because those numbers were not adjusted to match most Medicaid costs paid with the year in which the services were provided. The unadjusted estimate shows average cost-per-member growth of 6.6% in SFY 2018 and 11.0% in SFY 2019. The adjusted estimate shown in the **Table** below shows an average cost-per-member growth of 1.5% in SFY 2018 and 5.6% in SFY 2019.

Revised Average Cost per Member per the Department

	2015	2016	2017	2018	2019
Total Spending	$ 4,936,488,051	5,181,578,396	5,070,561,873	5,184,248,970	5,623,705,462
Average Total Enrollment	548,045	577,896	587,478	586,486	600,248
* Less:					
Family Planning Waiver	(19,131)	(15,226)	(11,667)	–	–
State Family Planning Program	–	–	–	(6,178)	(4,235)
Adjusted Enrollment	528,914	562,670	575,811	580,308	596,013
Average Cost Per Member	$ 9,333	9,209	8,806	8,934	9,436
Percentage Change		(1.3%)	(4.4%)	1.5%	5.6%

* - The Department excludes the Family Planning Waiver and the State Family Planning Program enrollment from the determination of average cost per member.

The Centers for Medicare and Medicaid Services (CMS), Office of Actuary, annually produces projections of health care spending within the National Health Expenditure (NHE) Accounts, which track health spending. The latest NHE Projections 2017-2026 - *Forecast Summary*, projects a 5.8% annual growth in Medicaid spending.

Mosiman said, "Applying the fundamental accounting matching principle of reporting costs in the year in which they are incurred is essential to getting an accurate cost comparison."

Auditor Mosiman also concluded the transition from fee-for-service to managed care was implemented without establishing a reliable methodology for calculating cost savings. This resulted in various methodologies being used in an effort to satisfy requirements to report estimated Medicaid program costs savings. Mosiman said, "With the complexity of the Medicaid program, calculating cost savings is not as simple as a comparison of costs from the State's accounting system. It would be like reporting the cost of your December Christmas expenses without including your January credit card payments."

Mosiman recommended the Department continue to use the May 2018 estimate methodology, but she cautions savings estimates will become less accurate and less meaningful as the State gets further from a fee-for-service program because future cost trends may or may not be representative of the annual growth rates currently used to estimate future Medicaid costs.

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REPORT ON A REVIEW OF THE MEDICAID SAVINGS ESTIMATES

FOR THE PERIOD JANUARY 1, 2017 THROUGH NOVEMBER 7, 2018

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Auditor of State's Report

To the Governor and Members of the General Assembly:

In response to Legislative and citizens' concerns regarding the estimated savings attributed to transitioning the Medicaid program from a primarily fee-for-service program to a managed care program, we have reviewed the methodologies used by Governor Branstad and the Iowa Department of Human Services (Department) to estimate savings and determine the validity of the methodologies used to estimate savings.

The Medicaid program is audited annually as part of the State of Iowa's Comprehensive Annual Financial Report (CAFR) and the State of Iowa's Single Audit report performed in accordance with Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

In conducting our review, we performed the following procedures:

1. Obtained an understanding of the methodologies used to calculate the January 2017 estimated cost savings of $234 million, the November 2017 estimated cost savings of $47 million and the May 2018 estimated cost savings of $141 million.
2. Obtained and reviewed information provided by the Department to support the calculation of the estimated cost of the Medicaid program under a fee-for-service program as of June 30, 2018.
3. Tested supporting documentation provided by the Department which was used to determine the estimated emerging trend, rate adjustment and withhold payments due to the managed care organizations (MCOs) from the Department.
4. Obtained and reviewed supporting documentation provided to the Department by its actuarial consultant which was used to estimate the Health Insurer Fee, risk corridor payments and other adjustments used to estimate Medicaid cost savings.
5. Analyzed the methodologies used to estimate the Medicaid cost savings to determine if all relevant information was included in the determination of the savings estimates.
6. Analyzed the three methodologies to determine the most accurate and reliable method to be used to estimate Medicaid cost savings.

Based on these procedures, we determined the January 2017 and November 2017 estimated cost savings methodologies should not have been used because they did not include all Medicaid program costs. We also determined the Department should continue to use the methodology used to prepare the May 2018 estimated cost savings.

The May 2018 estimate has been updated with September 30, 2018 cost information and updated estimates as of November 7, 2018 and compared to the original May 2018 estimate. This comparison shows the May 2018 estimate was accurate based on the information available at the time the estimate was prepared.

In addition, we determined over time it will become more difficult to determine what costs would be incurred using a fee-for-service program. As a result, savings estimates will become less accurate and less meaningful.

The transition from fee-for-service to managed care was implemented without establishing a reliable methodology for calculating cost savings. This resulted in various methodologies being used in an effort to satisfy requirements to report estimated Medicaid program costs savings.

We extend our appreciation to the personnel of the Iowa Department of Human Services for the courtesy, cooperation and assistance provided to us during our review.

Mary Mosiman, CPA
Auditor of State

November 14, 2018

Background

The Medicaid program is managed by the Iowa Department of Human Services (Department). Medicaid pays for health care services for individuals with limited income and resources who meet Medicaid eligibility requirements. Iowa Code section 249A.3 states mandatory medical assistance shall be provided to individuals residing in the State of Iowa who meet eligibility requirements. Medicaid is funded by both the state and federal government and costs are shared, ranging from a state participation rate of approximately 6% to 42%, based primarily on the member group.

The Department released a Request for Proposal (RFP) for Medicaid Modernization (managed care) on February 16, 2015. The RFP requested bids from potential vendors as the State moved toward a risk-based managed care approach for Iowa's Medicaid program. On August 17, 2015, the Department issued a notice of intent to award contracts to four Managed Care Organizations (MCOs) to administer the program – Amerigroup Iowa, AmeriHealth Caritas Iowa, United Healthcare Plan of the River Valley and WellCare of Iowa. On December 18, 2015, the selection of WellCare of Iowa was terminated. In addition, AmeriHealth Caritas Iowa exited the managed care program in November 2017. The Department intended to make the switch to managed care on January 1, 2016, however, the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services (CMS) determined additional time was needed to make the transition. On April 1, 2016, the Department transitioned most Iowa Medicaid members to a Medicaid managed care system called IA Health Link.

Prior to implementation of managed care, Medicaid services were paid using a primarily fee-for-service method. Under the fee-for-service method, health care providers were paid for each allowable covered service provided to a Medicaid beneficiary. Payments were made by the Iowa Department of Human Services, Iowa Medicaid Enterprise (IME) after receipt of a claim from a provider. Under managed care, the State pays a capitation payment to the MCO for each member enrolled in the plan. The MCO then pays providers for the allowable services provided to Medicaid beneficiaries. A capitation payment, similar to an insurance premium, is the payment made each month by the State to the MCO on behalf of each beneficiary enrolled in the plan, based on the actuarially determined capitation rate for the provision of services under the State plan. As of June 30, 2018, the Department has made the required monthly capitation payments to the MCOs. As noted above, the MCOs are responsible for paying the provider for services rendered. Any outstanding payments due to providers are the responsibility of the MCOs.

Milliman, Inc. (Milliman) was retained by the Department to provide actuarial and consulting services related to the development of capitation rates for the IA Health Link program. Included in these services was the preparation of the IA Health Link: State Fiscal Year 2018 Capitation Rate Certification which was used by the Department in the determination of the November 2017 savings estimate, as discussed below.

In accordance with Chapter 1139, Section 93.2(a)(4)(c) of the Iowa Acts, 2016 Session, the Department shall submit quarterly and annual reports regarding Medicaid consumer protections, outcome achievement and program integrity. According to the Iowa Acts, outcome achievements should report financial information, including program cost savings. Although the Department has submitted quarterly reports regarding Medicaid consumer protections, outcome achievement and program integrity, program cost savings have not been included in the quarterly reports since the report issued for the quarter ended December 31, 2017. Per discussion with Department personnel, beginning with the methodology used to establish the May 2018 savings estimate, discussed below, it is the Departments' intention to report estimated savings once the estimate is established for the fiscal year. The savings estimate will be updated only when capitation rates change or if there is a significant shift in enrollment trend.

Any Medicaid cost savings reported by the Department are estimates and not actual. Our review was conducted to determine whether the three methodologies used to report the estimated Medicaid cost savings were valid and supported. In addition, we determined which methodology

is the most accurate and reliable method to be used going forward. These methodologies estimated cost savings of $234 million in January 2017, $47 million in November 2017 and $141 million in May 2018. Each methodology is discussed in the following section.

According to Medicaid.gov, 41 states and the District of Columbia are using managed care organization models to help control costs.

This review does not examine the impact on quality or timeliness of services provided to Medicaid beneficiaries under the fee-for-service or managed care program. The Department and the MCOs have both established grievance and appeal procedures to address services provided by the MCOs.

Cost Savings Methodologies

Total expenditures for the Medicaid program are approximately $5 billion per year, funded by both the state and federal governments. The following estimated cost savings in the three methodologies used by the Governor and the Department represent only the state share of savings.

One of the fundamental principles of accounting is reporting costs in the year in which they are incurred. An important part of determining the cost of the Medicaid program is to identify those costs which require adjustment to match the costs with the year in which the costs were incurred. As part of the review of the various methodologies, this matching principle was applied when determining the accuracy of the Medicaid costs used in the estimated savings calculations. Medicaid expenditures reported on the State's accounting system, Integrated Information for Iowa (I/3) system, represent expenditures paid during a fiscal year. I/3 system expenditures are used by the State for budgeting purposes. However, I/3 system expenditures (the underlying or raw data) require adjustment to match costs with the proper fiscal year for financial reporting purposes, as discussed above. A reconciliation of the I/3 system expenditures used for budgeting to the financial statements is included in each CAFR.

January 2017, $234 million estimated savings

In January 2017, as part of the Governor's Budget and Program for Fiscal Year 2017, estimated savings of $234 million in state funds were reported for State Fiscal Year (SFY) 2018, the period July 1, 2017 through June 30, 2018, as a result of implementing a managed care system. This savings amount was based on an estimated growth in Medicaid costs of between 4% and 6% per year without the implementation of managed care. **Table 1** illustrates the estimated State share of Medicaid costs as reported in the Governor's budget recommendation:

Table 1

SY 2018 Estimated State Share of Medicaid Costs	
Estimated State Share Without Managed Care	$ 1,883,583,453
Governor's Recommendation (With Managed Care)	1,649,619,619
Estimated State Share of Savings	$ 233,963,834

The SFY 2018 State share of Medicaid costs noted above represent the estimated costs to be paid in SFY 2018 and are not adjusted to match the Medicaid costs with the year in which the costs were incurred. This method should not be used to estimate cost savings.

November 2017, $47 million estimated savings

In November 2017, the Department estimated savings of $47 million for SFY 2018 due to transitioning from a primarily fee-for-service program to managed care. The estimated $47 million cost savings was calculated based on estimating the cost of the Medicaid program with the implementation of managed care compared to the estimated cost of the Medicaid program under

the fee-for-service program. This estimate only accounted for those members in the managed care program and did not include the Medicaid members who remained in the fee-for-service program and did not transition to managed care. Therefore, all Medicaid program costs were not included in the development of this estimate and as a result, this methodology should not be used to estimate cost savings.

The SFY 2018 actuarially determined gross capitation rates were used to develop the annual estimated cost of the Medicaid program with the implementation of managed care and the estimated Medicaid cost under the fee-for-service program. There are approximately 50 different capitation rates, ranging from approximately $137 per member per month (pmpm) for a child 1 to 4 years old to approximately $5,491 pmpm for a member in an Intermediate Care Facility with Intellectual Disabilities (ICF/ID).

The SFY 2018 capitation rates were adjusted by Milliman to develop an estimated fee for service equivalent rate. The adjustments included: removing the impact of managed care factors, removing the managed care organizations' administrative costs and adjusting for certain costs related to targeted case management and integrated health home services. Managed care factors are the estimated costs which may be potentially avoidable through improved managed care. As noted in the IA Health Link: State Fiscal Year 2018 Capitation Rate Certification, "The clinical literature suggested that potentially avoidable expenses are associated with certain chronic conditions that have been identified as ambulatory care sensitive conditions." The Agency for Healthcare Research and Quality (AHRQ) defines ambulatory care sensitive conditions as, conditions for which good outpatient care can potentially prevent the need for hospitalization, or for which early intervention can prevent complication or more severe disease. This would include the reduction of emergency room visits due to the utilization of office visits and consultations.

The SFY 2018 capitation rates and the fee-for-service equivalent rates were applied to the SFY 2018 estimated member months participation to calculate the annual estimated Medicaid program cost.

The estimated annual Medicaid program costs using the gross capitation rates and the fee-for-service equivalent rate were further adjusted for other known impacts/variances. These other factors included the estimated administrative load for prior managed care programs which would have been incurred had the Department remained on a fee-for-service program, anticipated unearned performance withhold (withhold), Health Insurer Fee and other Federal Medical Assistance Percentages (FMAP) adjustments. In addition, due to the exit of AmeriHealth Caritas Iowa from the managed care program in November 2017, additional payments were made to United Healthcare to assist in the transition of members from AmeriHealth Caritas Iowa to United Healthcare. These factors, along with the estimated annual Medicaid program costs using the gross capitation rates and the fee-for-service equivalent rate, resulted in an estimated savings of $47 million.

May 2018, $141 million estimated savings

In May 2018, the Department revised the methodology used to estimate managed care savings for SFY 2018. Unlike the November 2017 methodology, the May 2018 methodology accounts for all Medicaid costs, including costs for those members who remained under the fee-for-service program. This methodology reported an estimated savings for SFY 2018 of $141 million. This method compared total projected Medicaid program spending under the current managed care program to the estimate of what spending may have been for the same period under the previous fee-for-service program. The annual cost of the Medicaid program was determined by considering total expenditures, including both state and federal dollars. The Department estimated Medicaid costs under the fee-for-service program by averaging the growth in Medicaid costs over the five year period SFY 2011 through SFY 2015. The growth rate was determined based on the change in total Medicaid expenditures between fiscal years. The average annual growth rate, based on the

change in total Medicaid expenditures over this five year period as shown in **Table 2**, was 4.96% per year.

Table 2

Medicaid Growth Rate Based on the Change in Total Medicaid Expenditures	
SFY 2010 to SFY 2011	6.20%
SFY 2011 to SFY 2012	5.10%
SFY 2012 to SFY 2013	4.60%
SFY 2013 to SFY 2014	3.50%
SFY 2014 to SFY 2015	5.40%
Average Growth Rate	4.96%

- Fee-For-Service Program – SFY 2015 Medicaid expenditures were used as the base expenditure period since it was the last complete year under the previous fee-for-service program. The SFY 2015 Medicaid expenditures per the I/3 system were adjusted to reflect the anticipated payment to the State University of Iowa (SUI) for the Physician upper payment limit (UPL). This Medicaid UPL payment was approved to begin in SFY 2015 but due to timing of the approval, the first payment (for SFY 2015) was made in SFY 2016; however, to accurately estimate future payments, the State University of Iowa UPL payment was included in the SFY 2015 base year expenditures. Expenditures were then trended to SFY 2017 using a 4.96% annual growth rate. Adjustments were made to the SFY 2018 trend rate to account for cost containment strategies implemented in SFY 2018. Cost containment strategies were initiatives mandated by the Legislature and implemented by the Department to control spending related to the Medicaid program. As a result of the cost containment strategies, the estimated annual growth rate between SFY 2017 and SFY 2018 used by the Department to estimate SFY 2018 Medicaid expenditures under the fee-for-service program was 2.88%. The Department estimated the Medicaid cost for SFY 2018 under the fee-for-service program was $5,595,697,354, as shown in **Table 3**.

Table 3

Determination of Estimated Fee-For-Service Expenditures		
SFY 2015 I/3 Expenditures	$ 4,877,950,895	
Adjustment for SUI Physician UPL	58,537,156	$ 4,936,488,051
2016 Estimated Expenditures 4.96% growth		5,181,337,858
2017 Estimated Expenditures 4.96% growth		5,438,332,216
2018 Estimated Expenditures 2.88% growth		5,594,956,184
*SFY 2018 Estimated Expenditures per the Department **		*5,595,697,354*

* - Estimate used by the Department is $741,170 (0.01%) more than the calculated amount shown due to rounding

- Managed Care Program – SFY 2018 base expenditures of $5,341,821,871 represented the December 2017 estimate of total SFY 2018 Medicaid expenditures, as determined by the Medicaid Forecasting Group and adjusted in the Governor's budget recommendation. The Medicaid Forecasting Group is composed of members of the Iowa Department of Human Services, the Iowa Department of Management and the Legislative Services Agency. The estimate used was partially based on trended managed care per member per month participation. To match the Medicaid costs with the year in which they were incurred, adjustments were made to the base expenditures to remove payments made in SFY 2018 for services provided in SFY 2016 and SFY 2017. These adjustments included emerging trend capitation rate adjustments, estimated withhold payments, estimated risk corridor payments and the estimated Health Insurer Fee. Adjustments were also made to base expenditures to include estimated SFY 2018 managed care payment obligations which

would not be paid until a future period. As shown in **Table 4**, the estimated Medicaid cost for SFY 2018 under the managed care program, adjusted to match Medicaid costs with the year in which they were incurred, was $5,184,248,970.

Table 4

SFY 2018 Estimated Medicaid Cost

Base SFY 2018 Medicaid Expenditures		$ 5,341,821,871
Adjustments to Estimated Medicaid Expenditures:		
SFY 2016 and SFY 2017 Emerging Trend	(379,136,566)	
SFY 2016 and SFY 2017 Withhold	(55,550,058)	
SFY 2018 Rate Adjustment	129,691,013	
SFY 2018 Withhold	57,133,738	
SFY 2018 Risk Corridor	52,000,000	
SFY 2018 Health Insurer Fee	38,288,972	(157,572,901)
Estimated SFY 2018 Medicaid Cost		$ 5,184,248,970

The difference in total estimated Medicaid expenditures under the fee-for-service program of $5,595,697,354 and the managed care program of $5,184,248,970 resulted in an estimated savings due to implementation of managed care of $411,448,384, which includes both state and federal dollars. The state share of the savings was estimated to be approximately 34.25% of the total estimated savings, or $140,939,522.

Comparison of Methodologies

The three methodologies which have been used to estimate cost savings for SFY 2018 resulted in different estimated cost savings. A comparison of the methodologies follows.

The estimated savings reported as part of the Governor's January 2017 budget recommendation does not include adjustments for changes in the capitation rates due to emerging trends and withholds to be paid in a future period which are attributed to costs incurred in SFY 2016 and SFY 2017. These adjustments could not be included because they were unknown at the time the estimate was developed. These adjustments are necessary to obtain an accurate estimate of total Medicaid costs for SFY 2018. Therefore, this methodology does not include all Medicaid program costs and should not be used to estimate cost savings.

The November 2017 and May 2018 estimates were derived under two different scenarios. The November 2017 calculation used actuarially estimated equivalent costs of providing the services under a fee-for-service model. This determination of the fee-for-service equivalent rate relied upon numerous estimates including quantifying potentially avoidable expenses, other utilization trends and an estimate of per member per month use of services. In addition, this estimate only accounted for those members in the managed care program and did not include the Medicaid members who remained in the fee-for-service program and did not transition to managed care. Therefore, not all Medicaid program costs were included in the development of this estimate and as a result, this methodology should not be used to estimate cost savings.

The May 2018 calculation relied upon historical trend information to determine what the cost may have been under the fee-for-service program. As previously explained, this scenario estimated the SFY 2018 Medicaid expenditures under the fee-for-service program based on a 4.96% annual growth rate for SFYs 2016 and 2017 and a 2.88% annual growth rate for SFY 2018. The annual growth rate was applied to SFY 2015 I/3 system expenditures, adjusted for the SUI physician UPL, to develop the SFY 2016 estimated Medicaid expenditures under the fee-for-service program. The annual growth rate was then applied to each year's estimated Medicaid expenditures under

the fee-for-service program to calculate the subsequent years estimated fee-for-service program expenditures. The estimated fee-for-service Medicaid expenditures were compared to the estimated Medicaid expenditures under managed care. This methodology provided a reasonable estimate of all Medicaid program costs and the estimated costs had Medicaid remained under the fee-for-service program. As a result, we consider this methodology the most accurate and reliable method for determining an estimated cost savings.

In addition, the estimated savings for the November 2017 and May 2018 estimates differ, in part, due to the following:

- The risk corridor allows for the Department and the MCO to share the risk for medical expenditures relative to capitation payments. The risk corridor calculation is determined by an actuary and is based on payments for medical expenditures made by the MCO, which can take several months to complete. In January 2018, the actuary determined the risk corridor payment for SFY 2018 was estimated to result in a payment from the Department to Amerigroup Iowa of approximately $52 million. The estimated risk corridor payment to Amerigroup Iowa was included in the May 2018 savings calculation; however, the payment was not included in the November 2017 savings calculation. The estimated risk corridor payment for SFY 2018 was not available when the November 2017 savings calculation was prepared. Therefore, it was not included in the November 2017 savings calculation. This decreased the estimated state share savings between the November 2017 and the May 2018 estimated savings by approximately $17.8 million.

- Another factor impacting the estimated savings calculations is the amount included for the Health Insurer Fee (HIF). Section 9010 of the Patient Protection and Affordable Care Act (ACA) imposes a fee on each covered entity engaged in the business of providing health insurance. The MCOs must pay this fee to the Federal government by September 30th and CMS requires the Department to reimburse the MCOs for this fee. HIF payments were estimated by an actuary to be 3% of premium revenue and were based on calendar year activity. Therefore, the HIF payment due September 30, 2018 was for half of SFY 2017 (January to June 2017) and half of SFY 2018 (July to December 2017). The HIF payment for the remainder of SFY 2018 would be made in calendar year 2019 since the 2019 payment would be based on calendar year 2018 activity. However, a federal continuing resolution was passed in January 2018 to suspend the HIF payment due in calendar year 2019 for calendar year 2018 activity. As a result, the HIF associated with the January to June 2018 period will not be paid. The suspension of the HIF payment for calendar year 2018 activity was passed after the November 2017 estimated savings calculation was prepared. As a result, the entire estimated HIF payment for SFY 2018 of $65.9 million was included in the November 2017 estimated savings calculation. However, due to the suspension of the HIF payment for calendar year 2018 activity, only $38.3 million of the estimated HIF payment attributed to the July to December 2017 activity was included in the May 2018 estimated savings calculation, a difference of $27.6 million. This difference increased the estimated state share savings between the November 2017 and the May 2018 savings calculation by $9.5 million.

- The projected per member per month participation used in the November 2017 estimated savings calculation was different from the projected per member per month participation used in the May 2018 estimated savings calculation. The projected per member per month participation is a significant factor in determining the cost of the Medicaid program. The November 2017 estimated participation was determined by Milliman using historical per member per month information projected for future years, while the May 2018 estimated participation was trended based on actual member participation for the first 4 months (July 2017 – October 2017) of SFY 2018. The November 2017 estimated participation in the Medicaid program included approximately 187,000 more member months than the May 2018 estimated participation in the Medicaid program. Based on the estimated average annual cost per member of approximately $8,934, as shown in **Table 8**, the effect

on the savings calculation between November 2017 and May 2018 was an increase in the estimated state share savings of approximately $48 million.

- The determinations of the Medicaid cost under the fee-for-service program between the November 2017 and May 2018 savings estimates were derived using different underlying data and assumptions which can not be reconciled.

Per discussion with Department personnel, the methodology used to establish the November 2017 estimated savings calculation focused only on capitation rates and not the full Medicaid program. A methodology which assessed the overall Medicaid program cost was deemed to be more appropriate. As a result, this revised methodology (May 2018) was developed to reflect total Medicaid costs.

Factors Affecting Calculations

Table 5 shows the average annual number of individuals enrolled in Medicaid and the Medicaid expenditures per the I/3 system over the past 6 years:

Table 5

Average Medicaid Enrollment

	SFY 2013	SFY 2014	SFY 2015	SFY 2016	SFY 2017	SFY 2018
Regular Medicaid	401,129	405,704	406,155	416,285	424,916	423,924
Family Planning Waiver	30,107	26,462	19,131	15,226	11,667	–
Iowa Health and Wellness Plan	–	43,729	122,759	146,385	150,895	156,383
State Family Planning Program	–	–	–	–	–	6,178
Total Members	**431,236**	**475,895**	**548,045**	**577,896**	**587,478**	**586,486**
Actual Expenditures per I/3 system	$ 3,784,467,610	4,157,099,253	4,877,950,895	5,160,009,999	4,685,878,168	5,289,178,775
Average Annual Expenditure per Member	$ 8,776	8,735	8,901	8,929	7,976	9,018

Source: Average Medicaid Enrollment provided by the Iowa Department of Human Services

While Table 5 shows the average annual expenditure per member, the Medicaid expenditures reported on the I/3 system and the average annual expenditure per member are not comparable between SFYs 2016, 2017 and 2018 and do not represent the actual average annual expenditure per member for a variety of factors including, but not limited to, the following:

- SFY 2018 Medicaid expenditures per the I/3 system are overstated $431,041,952 due to SFY 2016 and SFY 2017 emerging trend and withhold payments included in the SFY 2018 expenditure amount.
- SFY 2017 Medicaid expenditures per the I/3 system are understated $341,294,353 due to emerging trend and withhold payments incurred during SFY 2017 which were paid and included in the SFY 2018 expenditure amount.
- SFY 2016 Medicaid expenditures per the I/3 system are understated by the remaining $89,747,599 due to emerging trend and withhold payments incurred during SFY 2016 which were paid and included in the SFY 2018 expenditure amount.

Although other factors exist which affect comparability, the largest factors are the emerging trend payments and the withhold payments. The emerging trend payments are affected by capitation rates. Initial capitation rates for the IA Health Link program were set in July 2015. The base data used for rate setting was SFY 2014 data: July 1, 2013 through June 30, 2014. As part of the Department's budget process, as well as the capitation rate setting process, the Department asked

Milliman to review the emerging trends in more recent data compared to the assumptions utilized in the IA Health Link capitation rates. The fee-for-service experience data through March 31, 2016 was compared to the SFY 2014 base data utilized in developing the initial IA Health Link capitation rate. This review resulted in what is generally referred to as the "emerging trend adjustment." As shown in **Table 4**, the estimated amount to be paid in SFY 2018 for the SFY 2016 and SFY 2017 emerging trend adjustment totaled $379,136,566. The emerging trend adjustment was not paid to the MCOs until approval was received from the CMS. Therefore, as discussed above, SFY 2016 and SFY 2017 expenditures per the I/3 system are understated, while SFY 2018 expenditures per the I/3 system are overstated. As more historical information is accumulated regarding the utilization and cost of service, we do not expect the need for an emerging trend rate adjustment to continue in future years.

Another factor affecting comparability is withhold payments. The Department withholds a portion of each MCO's monthly capitation payment to be paid to the MCOs until after fiscal year end if certain performance measurements are met. As shown in **Table 4**, the amount withheld from the SFY 2016 and SFY 2017 capitation payments which the Department estimated would be paid in SFY 2018, based on meeting certain performance measurements, totaled $55,550,058. Therefore, as discussed above, SFY 2016 and SFY 2017 expenditures per the I/3 system are understated, while SFY 2018 expenditures per the I/3 system are overstated. The Department will continue to withhold a portion of the capitation payment to be paid to the MCOs if certain performance measurements are met. As a result, an adjustment will be needed each year to estimate the amount of withholds to be paid in future years.

The total emerging trend adjustment and the amount withheld used in the May 2018 savings estimate totaled $434,686,624.

During SFY 2018, $375,514,026 was paid to the MCOs for SFYs 2016 and 2017 costs related to the emerging trend adjustment and $55,527,926 was paid to the MCOs for the amount withheld based on meeting certain performance measurements. The difference of $3,644,672 between the amounts actually paid in SFY 2018 for costs incurred in prior years and the amounts used in the May 2018 savings estimate will not be paid as additional adjustments were made to the emerging trend adjustment and the MCOs did not meet all performance measurements. As discussed above, the $431,041,952 paid, which related to costs incurred in SFYs 2016 and 2017, is included in the SFY 2018 Medicaid expenditures per the I/3 system. Therefore, the SFY 2018 Medicaid expenditures per the I/3 system and adjustments to allocate the Medicaid expenditures to the proper fiscal year will be made for financial reporting purposes and will be reported in the 2018 CAFR.

In addition, the Medicaid population had an overall increase of approximately 155,000 members since SFY 2013. On January 1, 2014, the Iowa Health and Wellness Plan was added to provide Medicaid coverage to low income adults in accordance with the Affordable Care Act. As shown in **Table 5**, the Iowa Health and Wellness Plan included approximately 156,000 members during SFY 2018. As a result of adding additional members due to the implementation of the Affordable Care Act, Medicaid expenditures have increased.

SFY 2018 Medicaid Expenditures

The SFY 2018 Medicaid expenditures reported on the I/3 system (the underlying or raw data) do not represent the incurred SFY 2018 cost of the Medicaid program for the year ended June 30, 2018. Because certain costs incurred during a fiscal year are not known until after the program year has been completed, those costs are not included in the expenditures reported on the I/3 system for the year the costs are incurred. To estimate the cost of the Medicaid program for SFY 2018, certain costs related to prior fiscal years which were paid during SFY 2018 must be removed from the SFY 2018 I/3 system expenditure amount. In addition, costs incurred during SFY 2018 which can not be determined until after the end of the fiscal year, or are awaiting final

resolution, will not be paid until a future period and must be estimated and added to the I/3 system expenditure amount.

Using the methodology for the May 2018 savings estimate, SFY 2018 Medicaid expenditures included in the May 2018 estimated savings calculation, as shown in **Table 4**, have been updated to report known amounts as of September 30, 2018 and updated estimates as of November 7, 2018. **Table 6** compares SFY 2018 Medicaid costs per the May 2018 savings estimate and updated amounts as of November 7, 2018. The SFY 2018 base expenditures, SFY 2016 and SFY 2017 emerging trend and withholds were paid during SFY 2018 and, therefore, these amounts reported in **Table 6** for September 30, 2018 represent actual amounts paid. The SFY 2018 rate adjustment, SFY 2018 withhold, SFY 2018 risk corridor and SFY 2018 health insurer fee have not been paid as of November 7, 2018. These amounts remain estimated and where applicable, have been updated based on additional information provided by the Department. **Table 6** shows the comparison of SFY 2018 Medicaid costs and estimated savings as of May 2018 and updated as of November 7, 2018.

Table 6

Description	Savings Estimates		
	May 2018	**Updated with 9/30/18 Costs and 11/7/18 Estimates**	**Increase/ (Decrease)**
Base SFY 2018 Medicaid Expenditures	$ 5,341,821,871	5,289,178,775	(52,643,096)
Adjustments to estimated Medicaid Expenditures:			
SFY 2016 and SFY 2017 Emerging Trend	(379,136,566)	(375,514,026)	3,622,540
SFY 2016 and SFY 2017 Withhold	(55,550,058)	(55,527,926)	22,132
SFY 2018 Rate Adjustment	129,691,013	221,460,691	91,769,678
SFY 2018 Withhold	57,133,738	57,133,738	–
SFY 2018 Risk Corridor	52,000,000	52,000,000	–
SFY 2018 Health Insurer Fee	38,288,972	38,288,972	–
Total Adjustments	(157,572,901)	(62,158,551)	95,414,350
Estimated SFY 2018 Medicaid Cost	$ 5,184,248,970	5,227,020,224	42,771,254
Percentage Change in SFY 2018 Medicaid Cost			0.83%
Estimated Medicaid Cost for SFY 2018 under the Fee-For-Service Program, per **Table 3**	$ 5,595,697,354	5,595,697,354	–
Estimated SFY 2018 Medicaid Cost	5,184,248,970	5,227,020,224	42,771,254
Total Estimated Savings	411,448,384	368,677,130	(42,771,254)
State Percentage of Savings	34.25%*	34.25%*	
Estimated State Share of Savings Resulting from Transitioning to Managed Care	$ 140,939,522	126,288,450	(14,651,072)
State Share of Savings as a Percentage of Total Medicaid Cost	2.72%	2.42%	

* - The State share percentage is rounded to the nearest 100th of a percent.

As stated above, using the same methodology used in the May 2018 savings estimate, Table 6 compares the May 2018 estimated SFY 2018 Medicaid cost and estimated savings to SFY 2018 Medicaid cost as of September 30, 2018 and estimated savings updated as of November 7, 2018.

As of November 7, 2018, the SFY 2018 estimated Medicaid cost is $5,227,020,224. However, the SFY 2018 rate adjustment, SFY 2018 withhold, SFY 2018 risk corridor and SFY 2018 health insurer fee remain estimates as of November 7, 2018 because these adjustments can not be determined until the next fiscal year, or are still awaiting final resolution. Based on additional

information available as of November 7, 2018 the Department revised the estimate for the SFY 2018 rate adjustment. As of September 30, 2018, the amount paid per the I/3 system and the SFY 2016 and SFY 2017 emerging trend and withhold payments have been made and are no longer estimates.

When preparing the May 2018 estimated savings, the Department estimated Medicaid costs to be $5,184,248,970. The difference between the estimated cost of $5,227,020,224, updated as of November 7, 2018, and the Department's estimate of $5,184,248,970, as of May 2018, is $42,771,254, or a difference of less than one percent. The difference of $42,771,254 is due to timing, as discussed in the previous paragraph.

The information updated as of November 7, 2018 will be used for financial reporting purposes and included in the CAFR.

The estimated Medicaid cost used in the May 2018 savings estimate is considered an accurate and reliable estimate of SFY 2018 Medicaid cost.

Since the November 2017 estimated savings calculation did not include all Medicaid program costs, a comparison between the estimated SFY 2018 Medicaid costs and the November 2017 estimate cannot be performed. In addition, as previously discussed, since the January 2017 estimated savings calculation does not include all adjustments, the amounts are not comparable.

Cost per Member

On September 11, 2018, as part of the State fiscal year 2020-2021 budget presentation to the Council on Human Services, the Department discussed the Improve Iowans' Health Status report. This report included the average cost per member for SFYs 2015 through 2017 and projected the average cost per member for SFYs 2018 through 2021. The Medicaid expenditures used in the calculation of the Medicaid cost per member did not accurately reflect the cost of the program for the applicable fiscal year. The cost per member reported by the Department was based on Medicaid expenditures paid during the year and were not adjusted to remove costs paid during the current fiscal year which were incurred in prior fiscal years, or add costs incurred during the current fiscal year which will not be paid until a future period. As identified on **Table 6**, Medicaid expenditures per the I/3 system require adjustment to determine the Medicaid cost for each fiscal year.

In addition, the Department excluded the Iowa Health and Wellness Plan members and the expenditures related to the Iowa Health and Wellness Plan members from the calculation of the cost per member. **Table 7** shows how the Department calculated the average cost per member as reported in the Improve Iowans' Health Status report.

Table 7

Average Cost per Member reported by the Department in the Improve Iowans' Health Status Report

	2015	2016	2017	2018	2019
Total Spending	$ 3,710,427,238	3,750,578,778	3,653,851,326	3,924,462,010	4,372,183,925
Average Enrollment	406,140	416,262	424,888	428,029	429,597
Average Cost Per Member	$ 9,136	9,010	8,600	9,169	10,177
Percentage Change		(1.4%)	(4.6%)	6.6%	11.0%

To more accurately estimate the Medicaid cost per member:

- Medicaid expenditures should have been adjusted to reflect all costs incurred in the applicable fiscal year.
- Iowa Health and Wellness Plan members and the corresponding expenditures should have been included.

On October 4, 2018, the Department provided us revised average cost per member information based on Medicaid costs incurred for the applicable fiscal year and included the Iowa Health and Wellness Plan members and corresponding costs. Per discussion with Department personnel, the revised cost per member amounts were previously provided to the Council on Human Services, the Department's Public Information Officer, the Des Moines Register, The Gazette and others. See **Appendix A** for the information provided by the Department. **Table 8** shows the revised average cost per member per the Department.

Table 8

Revised Average Cost per Member per the Department

	2015	2016	2017	2018	2019
Total Spending	$ 4,936,488,051	5,181,578,396	5,070,561,873	5,184,248,970	5,623,705,462
Average Total Enrollment	548,045	577,896	587,478	586,486	600,248
* Less:					
Family Planning Waiver	(19,131)	(15,226)	(11,667)	–	–
State Family Planning Program	–	–	–	(6,178)	(4,235)
Adjusted Enrollment	528,914	562,670	575,811	580,308	596,013
Average Cost Per Member	$ 9,333	9,209	8,806	8,934	9,436
Percentage change		(1.3%)	(4.4%)	1.5%	5.6%

* - The Department excludes the Family Planning Waiver and the State Family Planning Program enrollment from the determination of average cost per member.

The average cost per member does not agree between **Table 5** and **Table 8** because **Table 8** does not include the Family Planning Waiver or State Family Planning Program enrollees. In addition, the average cost per member in **Table 5** has not been adjusted to remove costs paid during the current year which were incurred in prior years, or add costs incurred during the current year which will not be paid until a future period.

The CMS, Office of Actuary, annually produces projections of health care spending within the National Health Expenditure (NHE) Accounts, which track health spending. The latest NHE Projections 2017-2026 - *Forecast Summary*, projects a 5.8% annual growth in Medicaid spending.

Conclusion

In accordance with Chapter 1139, Section 93.2(a)(4)(c) of the Iowa Acts, 2016 Session, the Department is required to report financial information to the Legislature, including program cost savings. However, during the decision making process to move the Medicaid program from a primarily fee-for-service program to a managed care program, the method or parameters to be used to estimate the program savings were not established. Due to the numerous variables included in the development of an estimate for a program the size and complexity of Medicaid, the Legislature, Governor's Office and Department should have worked together to establish a method to estimate the program cost savings.

The January 2017 estimated savings of $234 million does not include adjustments for SFY 2018 expenditures which will be paid in a future period or expenditures paid in SFY 2018 which are attributed to costs incurred in SFY 2016 or SFY 2017. As a result, the SFY 2018 estimated Medicaid expenditures do not accurately reflect SFY 2018 Medicaid costs incurred. Because all costs have not been accounted for, this methodology should not be used to estimate savings.

The method used to calculate the estimated savings of $47 million in November 2017 used numerous estimates when developing the fee-for-service equivalent capitation rates, including quantifying potentially avoidable expenses, other utilization trends and an estimate of per member per month use of services. In addition, this method does not include costs related to members who did not transition to managed care. Therefore, all Medicaid program costs are not included in this methodology and as a result, this methodology should not be used to estimate savings.

The method used to calculate the estimated savings of $141 million in May 2018 provides a reasonable estimate of SFY 2018 Medicaid program cost. As noted in **Table 6**, the SFY 2018 estimated Medicaid cost as of November 7, 2018 is within 1% of the estimated cost used by the Department in the calculation of the May 2018 estimated savings. The estimated Medicaid cost is considered reasonable in comparison to the most recent information available. Also, the methodology used for determining the estimated cost if Medicaid had remained under a fee-for-service program is reasonable. Therefore, we consider the May 2018 methodology the most accurate and reliable method for determining an estimated cost savings.

In summary:

- The January 2017 estimated savings methodology does not include all Medicaid program costs and should not be used to estimate cost savings.

- The November 2017 estimated savings methodology does not include all Medicaid program costs and should not be used to estimate cost savings.

- The May 2018 estimated savings methodology is the most accurate and reliable method and should be used to estimate cost savings.

Over time, savings estimates will become less accurate and less meaningful as the State gets further from a fee-for-service program. The estimate of what it may have cost to provide services under the fee-for-service program will become more difficult to determine because future cost trends may or may not be representative of the annual growth rates currently used to estimate future Medicaid costs.

We recommend the Department continue to use the May 2018 methodology, if estimated savings continue to be tracked.

Staff

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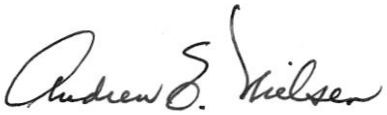


Andrew E. Nielsen, CPA
Deputy Auditor of State

Report on a Review of the
Medicaid Savings Estimates

Iowa Department of Human Services Cost per Member Memo

Iowa Department of Human Services

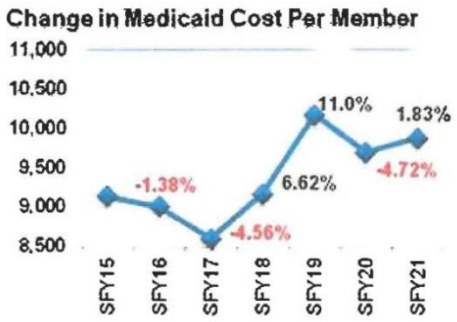
Kim Reynolds, Governor | Adam Gregg, Lt. Governor | Jerry R. Foxhoven, Director

10/4/2018

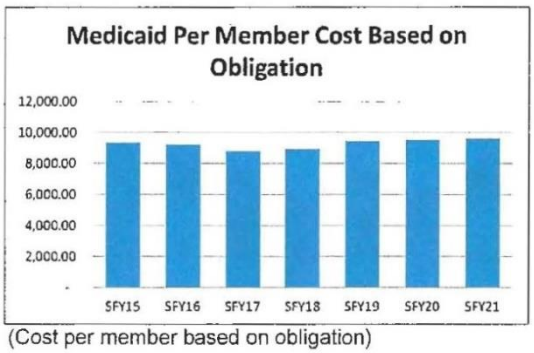
The cost per member figures in the chart on page 3-8 of the Department's state fiscal year 2020 and 2021 budget book are presented on a cash basis. The chart presents cost per member based on actual cash payments made in the relevant fiscal year. This chart may have caused confusion because it does not account for the period in which an obligation is incurred.

Reflecting cost per member based on an obligation basis is how the Medicaid system under managed care is compared to the Medicaid system under fee-for-service. The per-member cost presented below reflects costs in the period during which the obligations were incurred (or estimated to be incurred). This information presented included both traditional Medicaid and Iowa Health and Wellness Plan members.

In other words, the budget book chart reflects what was paid out in a given year, whereas the obligated funds more accurately reflect the true cost incurred each month per member.



(Cost per member based on cash basis)



(Cost per member based on obligation)

Per Member Cost	SFY15	SFY16	SFY17	SFY18	SFY19	SFY20	SFY21
Per Member Cost	9,333.25	9,208.90	$8,805.94	$8,933.63	$9,435.54	$9,543.49	$9,616.57
Percent Change		-1.3%	-4.4%	1.4%	5.6%	1.1%	0.8%

(Detail of cost per member based on obligation)

According to the Des Moines Register:

> *"On average, Iowa employers faced premium increases of 8.4 percent for 2018, according to the new survey by consultant David P. Lind.*
>
> *Before that, Iowa employers often saw even steeper premium increases, peaking at nearly 19 percent in 2002.*
>
> *The insurance premium increases are mainly driven by rising prices of health care, including prescription drugs and hospital bills."*

The increases in the per member cost based on obligation chart are significantly lower than those experienced in the health care system as a whole as described above.

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