MEDICAID TOPICS

State-By-State Comparisons
Administrative Costs

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Issue Summary

Medicaid Administrative Costs (MACs) are among the lowest of any health care payer in the country. MACs are significantly less than private health insurance plans; typically in the range of four to six percent of claims paid. By comparison, a health maintenance organization (HMO) with administrative costs of eight to twelve percent of claims paid would be regarded as efficient and a well-run commercial health insurer typically would have administrative costs of 15 to 20 percent of claims paid. No insurer has more limited administrative costs than Medicaid. Researchers at Harvard found that 31 cents of every dollar spent on health care in the United States pays administrative costs (nearly double the rate in Canada, by contrast).

Medicaid has also done an excellent job in holding down the per capita growth in spending. Over the period from 2000 to 2003, Medicaid per capita growth in the cost of acute care was just 6.9 percent. This compares with per capita growth for all Americans with private insurance coverage of 9.0 percent and with the per capita growth in employer-sponsored health insurance of 13.6 percent.

Medicaid Administrative Match

Currently, the federal government matches most state Medicaid administrative expenditures at the 50 percent rate. However, a number of activities receive enhanced federal funding at the 75 percent or higher levels. States currently receive federal funding for a wide range of administrative activities beyond the staffing and operation of state and local Medicaid offices. Many of these activities are eligible to receive enhanced federal funding and include expenditures associated with:

- Assuring access to services of adequate quality
- Ongoing costs control activities
- Improvement of information and information technology

In general, the Medicaid Administrative Match (MAM) program uses federal Medicaid matching funds to provide reimbursement to community based programs for administrative activities related to outreach and coordination for people who are potentially eligible for Medicaid or current recipients.

An example of reimbursable activity is identifying children and families who are eligible and in need of medical assistance and providing the assistance they need to access services. In Washington, the goals of state's MAM program are to:

- Assist children and families in accessing needed Medicaid services;
- Increase the number of children and adults needing Medicaid services;
- Administer an effective, efficient statewide MAM program; and
- Increase the number of providers available to treat Medicaid eligible clients in Washington.

Schools, local health jurisdictions and tribal organizations are in a unique position to participate in this program. Many already provide information about the Medicaid program and assist those already enrolled in Medicaid in gaining access to services and benefits.

Proposed Federal Changes

The Bush Administration has proposed capping federal funding for the costs incurred by states to administer their Medicaid programs. Under this option, the federal government would cap the per-enrollee amount that it pays each state for Medicaid administration. The cap would grow by 5 percent annually from a base-year amount that represented the per-enrollee administrative costs for which each state claimed matching payments in 2004. In his 2006 budget, the President proposed placing caps on federal funding for each state's administrative costs rather than placing caps on per-enrollee spending.

A rationale for this option is that such a change would result in savings totaling $600 million in 2006 and $4.2 billion through 2010. (Limiting federal payments for administrative costs to a 5 percent growth rate would produce substantial savings because the actual growth rate of those costs is projected to be about 7 percent in 2005 and ensuing years.) Another rationale for implementing the option is that it would give states a stronger incentive to improve the efficiency with which they manage their Medicaid programs.

An argument against this option is that, faced with fewer administrative resources, states might cut back on some activities that could improve the functioning of their Medicaid programs. For example, they might reduce funding for efforts to combat waste, fraud, and abuse. More importantly, the federal government's share of Medicaid administrative costs is an essential source of financing for state efforts to safeguard the quality of nursing home care, prevent Medicaid fraud and abuse, and conduct outreach to eligible but uninsured individuals. Starting in 2006, state Medicaid programs also will be required to help administer the low-income subsidy for Medicare prescription drug coverage. This is a major new administrative burden being imposed on states by the federal government.

Importance to Family Physicians

Family physicians who serve Medicaid patients as part of their association with various local programs concerned with quality of care assessments in managed care settings, educational activities related to current or potential beneficiaries, case management, utilization review, and training of skilled medical personnel and the staff supporting them may be affected by any cap on federal Medicaid funding for states' administrative costs.