



News Release

For Immediate Release

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Study Reveals Medicaid “Upper Payment Limit” Policies Represent an Important Barrier to Managed Care Expansion in Many States

Washington, DC, November 21, 2006 — A study sponsored by Medicaid Health Plans of America (MHPA) and released today by its author, The Lewin Group, finds that the Federal government’s formula for calculating supplemental Medicaid matching funds for states can serve as a barrier to managed care expansion in the Medicaid program. Specifically, Medicaid upper payment limit (UPL) Federal matching funds for hospitals are calculated based on fee-for-service (FFS) volume without considering care delivered in capitated managed care settings. Consequently, states expanding capitated managed care programs often stand to lose millions of dollars in UPL funds typically used to support public hospitals and other “safety net” providers.

“We engaged Lewin to better understand and highlight the predicament that many states are in as a result of an unintended Federal policy that effectively penalizes the expansion of Medicaid managed care,” noted Thomas L. Johnson, executive director of MHPA, the leading trade association solely focused on representing Medicaid health plans.

Joel Menges, a vice president at Lewin and the study’s principal author, added: “Existing Federal policies force an unfortunate choice in many states between preserving existing UPL funding streams and expanding the use of managed care contracting. However, on the upside, there are several ways to remedy the problem.”

Some of the study’s specific findings are summarized as follows:

- In calculating hospital UPL payments, states can only count the services utilized by Medicaid beneficiaries paid on a FFS basis. Services provided to Medicaid beneficiaries enrolled in managed care organizations (MCOs) on a capitated contracting basis are not counted.
- The intention of the distinction between care delivered in FFS vs. managed care settings is to avoid the Federal Government’s UPL-related extra payments ballooning upward.
- The practical result is that states considering expanding capitated Medicaid managed care must balance the potential cost savings and other benefits attributed to capitation contracting against the risk of losing substantial hospital UPL funds.

After profiling how hospital UPL issues have served as important factors influencing Medicaid managed care expansions (or proposed expansions) in Florida, Georgia, California and Texas, the Lewin study delineates several policy options, concluding with a specific recommendation.

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Lewin's principal policy recommendations are:

- The Federal government should establish an overall annual ceiling on Federal UPL funds distributed to states, based on each state's existing stream of Federal UPL funds.
- The ceiling should be trended upwards annually in accordance with an appropriate inflation index, and may also be adjusted upwards in proportion to any changes in overall Medicaid eligibility and/or inpatient volume.
- The hospital UPL funding mechanism should remain the same, beyond incorporating a cap on Federal costs (which neither increases nor decreases current funding levels) and treating any Medicaid hospital patient day or discharge equally regardless of whether it occurs in the fee-for-service or capitated setting.
- This policy change would ensure that existing UPL funding streams would be maintained and protected, Federal exposure to increased UPL outlays would be limited, and the UPL mechanism would no longer serve as a barrier to expanded use of capitation.

Aaron McKethan, a senior associate at The Lewin Group and co-author of the study, noted: "This policy approach would give state leaders the flexibility to carefully consider how — and to what extent — managed care contracting makes sense for each state Medicaid program instead of having to factor in any potential losses associated with federal UPL financing."

Johnson added, "It is very important that the Federal government remedy the current UPL challenges states are confronting as they seek to achieve much-needed Medicaid cost savings through managed care contracting. Otherwise, the pressures to cut eligibility and benefits could intensify."

The study was forwarded to the Federal Medicaid Commission for consideration in its final report. An electronic copy of the study is available at: www.lewin.com and www.mhpa.org.

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Medicaid Health Plans of America, a non-profit national organization based out of Washington, DC, provides advocacy, research, analysis and organized forums that support the development of effective policy solutions to promote and enhance the delivery of quality healthcare. For more information, visit MHPA's website at www.mhpa.org.

The Lewin Group is a premier national health care and human services consulting firm with more than 35 years of experience finding answers and solving problems for leading organizations in the public, non-profit, and private sectors. www.lewin.com