Are Medicaid MCO Price Negotiations With Providers Negating The Model's Savings?

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The Menges Group

A Key Goal of Medicaid Managed Care Programs Involves Delivering Savings to the Taxpayer

- Our recent work for the Association for Community Affiliated Plans estimated typical savings for mature Medicaid MCO programs at approximately 1% for TANF beneficiaries and 6% for Medicaid-only SSI beneficiaries.

https://

These savings are contingent on MCOs paying providers, on average, at underlying Medicaid FFS rates.

- To the extent providers with sufficient leverage are negotiating unit prices from Medicaid MCOs well above Medicaid FFS, the program-wide savings created by the health plans' extensive (and successful) coordinated care efforts can easily be negated

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MCO-Provider Price Negotiation Outcomes Are Not Well-Understood in Policy Arena

- Medicaid's unit prices are typically well below Medicare's and *far* below commercial insurance
  - The MCO model is not needed for purposes of negotiating favorable prices with providers – discount for volume arrangements are not achievable or desirable
- What is needed from the MCOs is to coordinate care – which is where all available Medicaid medical cost reductions must occur
- Those involved in negotiation outcomes know that in many states – and for many provider types – the prices being paid under a Medicaid MCO program are often well above Medicaid FFS

Excessive Provider Price Negotiation Outcomes Require Policymaking Intervention

- There are situations where paying a provider above Medicaid rates is a desired public policy outcome (to foster better access)
- In general, however, MCO-provider negotiation outcomes above Medicaid FFS prices are an adverse public policy outcome – often negating the overall savings the coordinated care program would otherwise achieve
  - Such negotiation outcomes are the antithesis of "paying for performance," unless negotiation performance is what we want to be rewarding
  - These outcomes essentially run a wire (and in many cases, more like a firehose) from the taxpayer's wallet to the provider's bank account -- leveraging the Medicaid MCO's need to include certain providers in their network

Examples of What States Can Do

- Key need is for states to ascertain whether its MCO-provider price negotiation outcomes are creating excess costs for the Medicaid managed care program.
- Where this is occurring, states can/should regulate the negotiation outcomes
  - One example would be to prohibit any payment above Medicaid FFS – at least prior to any operational performance bonuses – unless MCO provides a specific exception request to state (with rationale) and state approves it
- In many states, this type of action is needed to get the Medicaid managed care program back to where it is intended to be fiscally
  - A vehicle for taxpayer savings – not additional taxpayer costs
- The price negotiation dynamics described herein are *not* a valid reason to eliminate a Medicaid MCO program.
  - We just need to fix this unit price problem where it exists and allow the capitated model to function optimally – yielding savings from the excellent care coordination that is occurring

5 Slide Series Overview

Our 5 Slide Series is a monthly publication whereby we briefly discuss/address a selected topic. This series provides us the opportunity to "see something and say something" outside the confines of our client engagements. We strive to create new information in each edition – through our own data tabulations and/or through conveying our ideas and opinions.

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