

Medicaid Capitation Contracting Trends

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The Menges Group

Strategic Health Policy & Care Coordination Consulting

Introduction and Overview

- For the last three years, the majority of Medicaid spending has occurred through capitation contracting with health plans.
- The proportion of total national Medicaid expenditures occurring via capitation payments grew from 31.1% during FFY2013 to 55.9% during FFY2021.
- In FFY2013, capitation contracting represented over half of all Medicaid expenditures in 8 states. As of FFY2021, 25 states exceeded this threshold.
- In 9 states, capitation contracting represented less than 2% of FFY2021 Medicaid spending.

Distribution of National Medicaid Expenditures by Payment Type from FFY2019-FFY2021

- Medicaid capitation payments during FFY2021 totaled just under \$400 billion, 47% above Medicaid fee-for-service payments (FFS) to providers – \$271 billion – during that year.
- The long-dominant FFS component in Medicaid represented only 38% of Medicaid expenditures during FFY2021.
- Medicaid has steadily transitioned towards care and coverage models where access and quality are systematically tracked.
- Medicaid MCO contracts are typically awarded via a competitive procurement process, through which the state agency selects a small number of top-qualified and Medicaid-tailored health plans.

Federal Fiscal Year	Capitation	Fee-For-Service	Special Financing Arrangements	Total
2019	50.0%	42.6%	7.4%	100.0%
2020	52.4%	40.2%	7.3%	100.0%
2021	55.9%	38.0%	6.1%	100.0%

Notes: Special Financing Arrangements include disproportionate share payments, graduate medical education, and supplemental payments, none of which involve compensating for a specific Medicaid enrollee's covered services. Drug rebates for MCO-paid prescriptions were subtracted in tabulating net capitation spending levels.

Nationwide Medicaid Capitation Spending Progression, FFY2013-FFY2021

- The share of national Medicaid spending paid via capitation has increased every year except between FFY2017 and FFY2018.
- This table also conveys the degree to which Medicaid has been a “growth industry” overall, with national expenditures increasing every year. The average annual increase from 2013-2021 was 6.4%.

Federal Fiscal Year	Total Medicaid Spending (\$ billions)	Capitation Spending (\$ billions)	Capitation % of Total Medicaid Spending
2013	\$435.3	\$135.3	31.1%
2014	\$471.8	\$173.0	36.7%
2015	\$531.6	\$223.9	42.1%
2016	\$555.3	\$249.7	45.0%
2017	\$577.4	\$275.5	47.7%
2018	\$595.6	\$280.6	47.1%
2019	\$597.4	\$298.7	50.0%
2020	\$649.9	\$340.8	52.4%
2021	\$713.6	\$399.0	55.9%

State-By-State Use of Capitation Contracting in Medicaid, FFY2013 and FFY2021

State	Capitation Expenditures as % of Total Net Expenditures			State Rank, % of Medicaid Spending Paid via Capitation, FFY2021
	FFY2013	FFY2021	Percentage Point Change, 2013-2021	
Alabama	0%	0%	0%	45
Alaska	0%	0%	0%	46
Arizona	75%	84%	9%	4
Arkansas	0%	38%	38%	36
California	26%	44%	18%	33
Colorado	10%	13%	3%	42
Connecticut	0%	0%	0%	47
Delaware	73%	80%	7%	7
District of Columbia	31%	41%	10%	34
Florida	18%	66%	48%	15
Georgia	30%	37%	7%	37
Hawaii	79%	90%	11%	2
Idaho	2%	24%	22%	41
Illinois	6%	74%	69%	9
Indiana	19%	50%	30%	26
Iowa	8%	91%	83%	1
Kansas	53%	88%	34%	3
Kentucky	51%	72%	21%	11
Louisiana	18%	69%	51%	12
Maine	0%	0%	0%	47
Maryland	37%	46%	9%	32
Massachusetts	27%	40%	14%	35
Michigan	52%	68%	16%	13
Minnesota	44%	50%	6%	24
Mississippi	13%	49%	36%	27
Missouri	12%	25%	12%	40

State	Capitation Expenditures as % of Total Net Expenditures			State Rank, % of Medicaid Spending Paid via Capitation, FFY2021
	FFY2013	FFY2021	Percentage Point Change, 2013-2021	
Montana	0%	0%	0%	47
Nebraska	23%	60%	36%	21
Nevada	20%	48%	29%	29
New Hampshire	0%	49%	49%	28
New Jersey	33%	63%	29%	19
New Mexico	67%	81%	13%	5
New York	39%	67%	28%	14
North Carolina	16%	30%	14%	38
North Dakota	0%	26%	26%	39
Ohio	37%	64%	27%	17
Oklahoma	3%	1%	-2%	43
Oregon	46%	57%	11%	22
Pennsylvania	48%	78%	31%	8
Rhode Island	28%	63%	34%	18
South Carolina	29%	47%	17%	31
South Dakota	0%	0%	0%	47
Tennessee	63%	72%	9%	10
Texas	43%	66%	23%	16
Utah	41%	48%	8%	30
Vermont	0%	0%	0%	47
Virginia	28%	60%	32%	20
Washington	36%	81%	45%	6
West Virginia	15%	50%	36%	25
Wisconsin	41%	52%	11%	23
Wyoming	0%	0%	0%	44
Total, 50 States and DC	31.1%	55.9%	24.8%	

- In Iowa and Hawaii, capitation represented more than 90% of FFY2021 Medicaid expenditures. Five additional states (KS, AZ, NM, WA, and DE) were above 80%.
- Iowa, Illinois, and Louisiana are the three states that implemented the largest expansion of capitation contracting between 2013 and 2021, in terms of the increased percentage of total Medicaid expenditures paid via capitation.

5 Slide Series Overview

Our 5 Slide Series is typically a monthly publication whereby we briefly discuss/address a selected topic outside the confines of our client engagements. The Menges Group has developed a variety of datasets that we use to support our 5 Slide Series and client projects.

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