

SUBJECT: SLC Medicaid Administrative Comparison Report

DATE: March 29, 2005

Attached you will find a report comparing Medicaid administrative expenses to Medicaid program expenses for the sixteen states which are members of the Southern Legislative Conference (SLC).

The report shows that Oklahoma's administrative expenses to operate the Medicaid program have steadily declined since the Oklahoma Health Care Authority took over the program in 1996. Administrative expenses went from a reported 11.26% of total expenses in 1996 to 5.44% in 2004. The data also indicate that the Oklahoma administrative expenses are also approaching the SLC state average and the national average of approximately 5%.¹

Methodology

In order to make administrative expenses as comparable as possible among the states, disproportionate share hospital payments (DSH) were subtracted out of the medical assistance payments. DSH payments were removed because administrative costs are not affected by the size of a state's DSH program and during the 1980s states were given broad authority to use funds provided by the DSH program to increase payments to hospitals. In an attempt to control federal DSH expenditures during the 1990s, Congress limited the ability of states to exploit the program, established state and hospital specific DSH allotments and limited future growth in the allotments. Unfortunately, the Congressional action locked in large inequities in the states' ability to utilize DSH to address the increasing cost of providing health care to low income persons.²

The attached analysis includes State Children Health Initiative Program (SCHIP) expenditures. States adopted the SCHIP program in 1997 and 1998 using different administrative techniques. Some states created separate stand alone programs, others incorporated the SCHIP program into their Medicaid program while others used a combination of a stand alone SCHIP program and incorporated certain aspects of SCHIP into their Medicaid program.

The methods used by the different states to administer the SCHIP program illustrate and lend credence to the often stated description of Medicaid:

If you've seen one state Medicaid program.... you've seen one state Medicaid program.

¹ Information for the report comes from the CMS Forms 64 and 21 for 1997 through 2001, <http://www.cms.hhs.gov/medicaid/mbes/ofs-21.asp>. The information for 2003 and 2004 comes from the quarterly reports filed by each state.

² In 2002 Oklahoma's DSH payment was \$24.1 million compared to North Carolina's DSH payment of \$460 million, Louisiana's DSH payment of \$860 million and Texas' DSH payment of \$1.4 billion.

When Medicaid was created in 1965 the architects of the program attempted to create the perfect blend of what a true American program should look like: part private, part public, part state and part federal. As such, while the federal government looks over the state's shoulders and sets guidelines for the program's operations each state is given broad latitude in how it designs and operates its Medicaid program. The methods used by each state to operate Medicaid can determine how expenditures are reported and whether those expenditures are administrative or programmatic.

Tennessee and Oklahoma: A Tale of Two States

No two states in this report illustrate the vagaries of the Medicaid program more than Tennessee and Oklahoma.

In FFY 2001 Tennessee's administrative expenses were reported to be \$166 million and represented 2.92% of their total Medicaid expenses. By FFY 2004 Tennessee's administrative expenses were reported to be \$545.8 million and represented 7.21% of their total expenses.

The person who files the Tennessee federal reports to Center for Medicaid and Medicare Services (CMS) stated that the administrative costs increased due to a change in the way Tennessee reports its administrative costs. For over ten years Tennessee was reporting most of its administrative expenses under its Managed Care Organization (MCO) contract. In 2002 the state was told to change its reporting methodology to comply with federal requirements.

In addition, Tennessee is the only member state of SLC that does not report DSH hospital payments. Tennessee received a Medicaid waiver over ten years ago which allowed the state to capture federal DSH dollars but call them "Essential Access Hospital Payments" and include those payments under its MCO contract as part of its inpatient hospital payments.

Finally, Tennessee no longer appears to report SCHIP expenditures separately from its other Medicaid services. In FFY 2001 Tennessee reported spending \$19.3 million on SCHIP while in FFY 2004 the state did not report any SCHIP expenditures.

The experiences in Oklahoma are opposite those of Tennessee. Oklahoma's expenditures for administration were \$169 million in FFY 2003 but declined to \$148 million for FFY 2004. The decline is due to the shifting of expenditures from administration to programs. Oklahoma moved case management services from an administrative expense to a program expense and then received a waiver to establish non-emergency client transportation as a program rather than continue to operate the services as an administrative service expense. Shifting both programs out of administration allowed the state to receive a higher federal matching rate while at the same time report legitimate program services correctly. The two changes combined were valued at \$27 million, of which \$21 million was realized in FFY 2004.³

³ The value of the case management change was \$10 million at the time of the change while the value of the client transportation change was \$17 million.

The federal matching rate for administration is 50% while the federal matching rate for programs is 70.18%.

Between 2001 and 2002 Oklahoma implemented a Quality of Care Nursing home fee to increase the reimbursement rates for nursing homes. The fee generates \$57 million per year and allows the state to provide nursing homes with an additional \$195 million per year of increased reimbursements. Finally, in 2000 and again in 2004, Oklahoma implemented significant provider rate increases and benefit expansions.

The combination of increasing reimbursements to providers with the appropriate shifting and decreasing of administrative costs has allowed Oklahoma's administrative expenses relative to total Medicaid expenses to decline and become more consistent with the SLC and national averages.

Another Interesting Issue

A report by the Kaiser Commission on Medicaid and the Uninsured concluded that there are many shortcomings to the information provided to CMS concerning state and local administrative costs.⁴ Some of the issues mentioned by the Kaiser report are illustrated by the above examples from Oklahoma and Tennessee.

One notable issue, however, involves how the information used by organizations and the general public is reported by the CMS. In FFY 2002 the state of Michigan reported administrative expenses of -\$163 million. In FFY 1997 California reported administrative expenses of -\$363 million. A review of all states and Medicaid programs suggests that while the information may be reported accurately it needs further explanation.

Conclusions

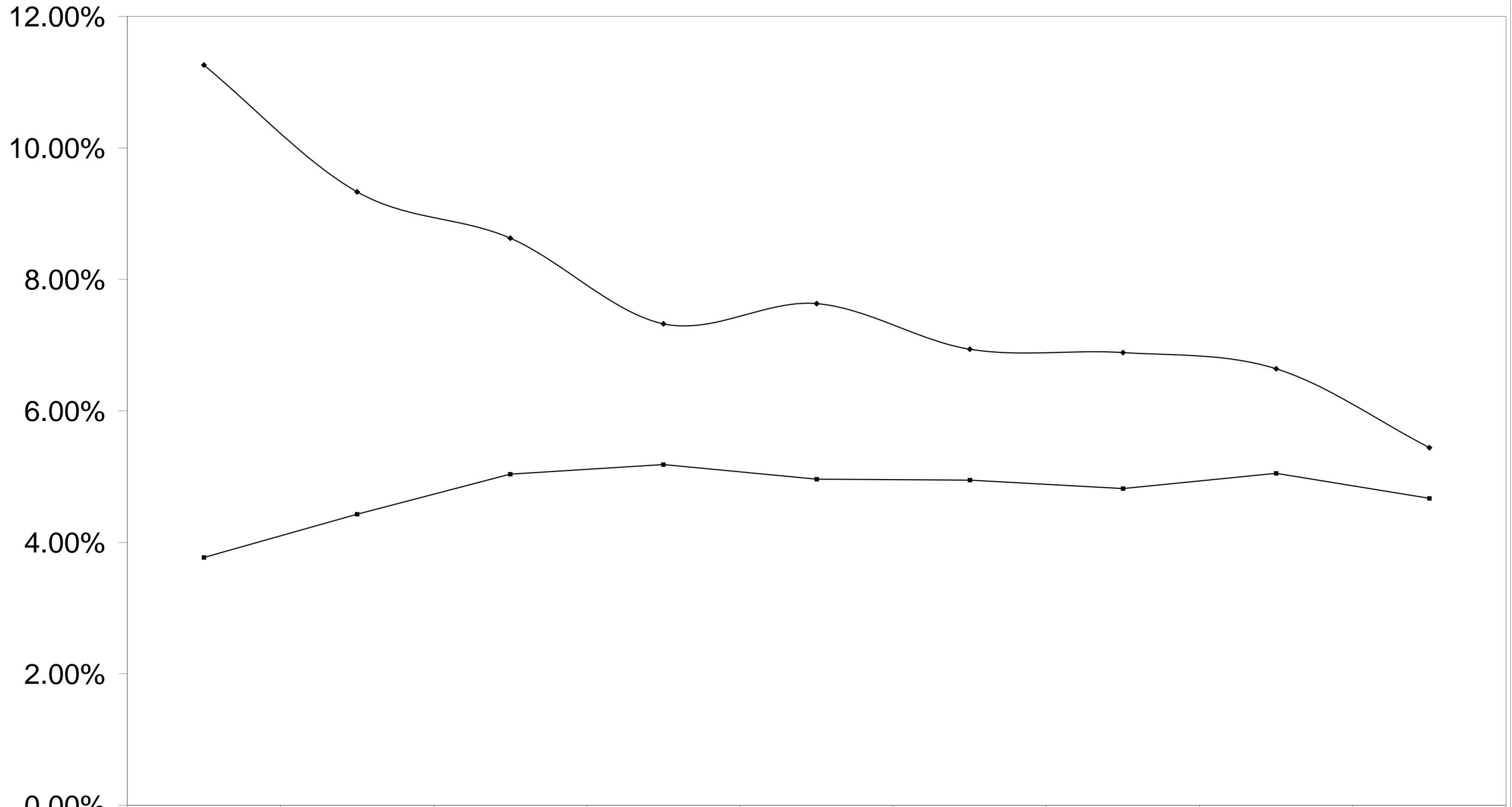
As this report illustrates, making broad and simplified comparisons of the Medicaid program and the way it is administered by the various states is impossible and leads to inaccurate oversimplifications of how the program is performed.

Yet, as Oklahoma continues to review its programs and services and works with CMS to insure that they are reported in the most effective way the state's administrative costs will continue to decline.

Finally, increasing provider rates - which is a priority for the agency - will cause the state's administrative rate relative to total Medicaid expenditures to decline. Oklahoma remains well below the national average in Medicaid payments per recipient.

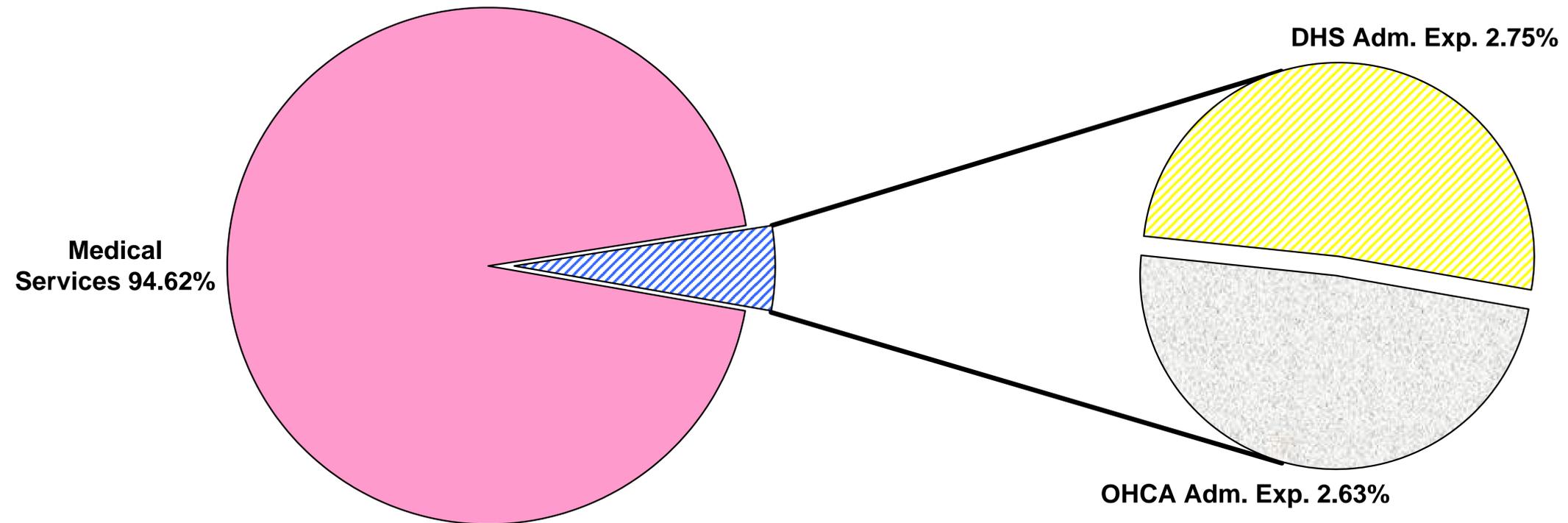
⁴ Chapter IV: Medicaid Administration by Andy Schneider and Victoria Wachino. Pages 148 – 150. The Kaiser Commission on Medicaid and the Uninsured.

Administration as a % of Medicaid Expenses



	1996	1997	1998	1999	2000	2001	2002	2003	2004
→ Oklahoma	11.26%	9.33%	8.63%	7.32%	7.63%	6.94%	6.89%	6.64%	5.44%
→ SLC TOTAL	3.77%	4.43%	5.04%	5.18%	4.96%	4.95%	4.82%	5.05%	4.67%

**OKLAHOMA HEALTH CARE AUTHORITY
 MEDICAL SERVICE EXPENSES COMPARED TO ADMINISTRATIVE EXPENSES
 SFY 2004: Expenditures = \$2.65 Billion**



Description	SFY04 ACTUALS
Total Medicaid Administration	2,650,637,315
OHCA Adm. Exp.	69,713,276
DHS Adm. Exp.	72,784,895
Medical Services	2,508,139,143