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Part II: Child Medicaid Spending

A Roadmap to Saving \$128 Million in Maine Medicaid without Dropping Coverage for One Child.

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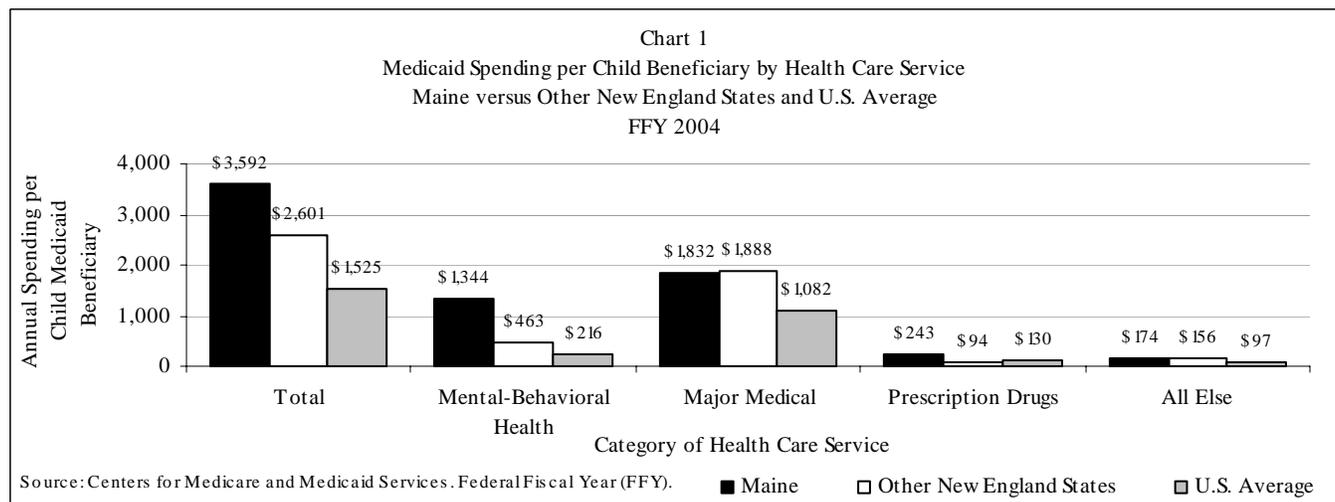
In 2004, Maine had the second highest spending per child Medicaid beneficiary of the 50 states and the District of Columbia, spending 136 percent more per child Medicaid beneficiary than the U.S. average.[1] Maine spent \$3,592 per child, while the U.S. average was \$1,525, and the average for the other New England states was \$2,601.[2] Maine Medicaid spent over \$403 million to cover 112,300 kids. The Maine child enrollment rate was the seventh largest in the country, despite Maine having a below average rate of children in poverty.[3,4]

In the five years from 1999 to 2004, spending per child beneficiary grew by 45 percent in Maine, twice the rate of medical inflation, compared to the U.S. average growth of 32 percent. Inpatient, outpatient, clinic, drugs, and targeted case management spending were the major cost drivers in per beneficiary Medicaid child spending growth from 1999 to 2004. During this same time, the rate of children without health insurance slightly decreased to 5.8 percent in 2004, from 6.5 percent in 1999.

Maine Medicaid could save almost \$232 million if spending for every child on Medicaid was at the U.S. average spending. Maine could save \$111 million if Medicaid spending for every child was at the average for the other New England states.

- Maine spends more than six times as much on mental and behavioral health services for children than the U.S. average - \$1,344 per child Medicaid beneficiary compared to \$216 (see Chart 1 and Table 1). Average mental and behavioral spending would save Maine Medicaid \$127 million.[5]
- Maine spends 69 percent more on major medical care per child Medicaid beneficiary than the U.S. average - \$1,832 compared to \$1,082. Having average spending in this area would save \$84 million. Maine's spending in this area is about the same as the other New England states.
- Maine spends 86 percent more on prescription drugs per child Medicaid beneficiary than the U.S. average - \$243 to \$130. Average spending would save Maine Medicaid \$12.6 million.

There are several immediate steps policymakers should take to reform Maine Medicaid for children, making Medicaid more affordable and sustainable. The three reforms for children, discussed at the end of this report, could save Maine Medicaid up to \$64 million a year, which is \$128 million over the biennium. State funds amount to \$47 million over the biennium.



Maine’s Behavioral and Mental Health Spending

Maine spends much more than all other states on mental and behavioral health services and six times the U.S. average. Maine spends \$1,344 per child Medicaid beneficiary on mental and behavioral health services compared to a U.S. average of \$216 (see Chart 1 and Table 1). If Maine spent at the U.S. average, Maine Medicaid would save almost \$127 million.

Maine spends 47 percent more than the next highest state, Alaska, which spends \$915 per child beneficiary. The other New England states average \$463. If Maine still spent as much as Alaska, Maine Medicaid would save \$48 million. If Maine spent as much as the other New England states, it would save \$99 million.

Maine children access inpatient mental health treatment more than three times the national average at a cost per user that is almost twice the U.S. average.[6] The comparison to other New England states is even starker. The other five New England states collectively have almost eight times as many kids

on Medicaid as Maine. Yet in Maine, 579 kids utilized inpatient mental health services compared to a total of 538 children in the five other New England states combined.

Despite almost average utilization, the cost for other home and community-based services per user in Maine is over thirteen-times the national average. Personal care, targeted case management, and therapy are used at three-times the national rate, with higher costs per user as well. Are children in Maine so different in mental health status and need than in other states?

Maine’s Major Medical Spending

Maine spends 69 percent more than the U.S. average on major medical services per child Medicaid beneficiary. The cost for Maine is \$1,832, while the U.S. average is \$1,082. These major medical services include inpatient, outpatient, physician, primary care case management (PCCM), health maintenance organization managed care (HMO), clinic and lab services, and x-ray services. Maine spends about as much as the other New England states in this area.

Table 1
Maine Children - Medicaid Spending and Utilization Compared to US Average
FFY 2004

	Users	Spending	Cost per Beneficiary		Cost per User of Health Care Service		Users per 1,000 Kids on Medicaid		Savings to Maine Medicaid Budget if Maine Had Average Costs and Utilization	Maine Compared to U.S. Average (US=100%)	
			Maine	U.S. Average	Maine	U.S. Average	Maine	U.S. Average		Cost per User	Utilization
Total	112,278	\$ 403,337,944	\$3,592	\$1,525	\$3,592	\$1,525	n/a	n/a	\$232,067,767	235%	N/M
Major Medical											
Inpatient	9,041	\$71,662,421	\$638	\$237	\$7,926	\$4,204	81	56	\$45,061,246	189%	143%
Outpatient	63,856	\$62,672,185	\$558	\$84	\$981	\$356	569	235	\$53,279,074	276%	242%
Physician	60,715	\$13,131,371	\$117	\$111	\$216	\$288	541	385	\$711,939	75%	141%
PCCM-Capitation	101,487	\$2,737,608	\$24	\$8	\$27	\$37	904	214	\$1,850,599	73%	423%
HMO-Capitation	0	\$0	\$0	\$550	N/A	\$1,005	0	547	-\$61,791,025	N/A	0%
Clinic	36,602	\$52,838,306	\$471	\$73	\$1,444	\$411	326	179	\$44,593,294	351%	182%
Lab & X-ray	47,820	\$2,616,540	\$23	\$19	\$55	\$87	426	216	\$498,432	63%	197%
Subtotal	N/A	\$205,658,431	\$1,832	\$1,082	N/A	N/A	N/A	N/A	\$84,203,558	169%	
Mental & Behavioral											
Mental Health-Inpatient	579	\$16,523,996	\$147	\$22	\$28,539	\$14,703	5.2	1.5	\$14,001,108	194%	337%
Other Home and Community-based Services	19,938	\$90,807,894	\$809	\$53	\$4,555	\$333	178	158	\$84,906,094	1368%	113%
Personal Care	143	\$496,630	\$4	\$1	\$3,473	\$3,215	1.3	0.3	\$371,276	108%	367%
Targeted Case Mgt	16,385	\$39,295,177	\$350	\$21	\$2,398	\$492	146	42	\$36,965,526	488%	346%
Rehab	20	\$66,398	\$1	\$53	\$3,320	\$2,509	0.2	21	-\$5,850,518	132%	1%
Therapy	4,362	\$3,734,362	\$33	\$8	\$856	\$646	39	12	\$2,829,723	133%	311%
PHP-Capitation	0	\$0	\$0	\$58	N/A	\$183	0	319	-\$6,547,496	N/A	0%
Subtotal	N/A	\$150,924,457	\$1,344	\$216	N/A	N/A	N/A	N/A	\$126,675,712	622%	
Dental	41,677	\$12,095,289	\$108	\$68	\$290	\$302	371	225	\$4,486,907	96%	165%
Drugs	75,054	\$27,292,471	\$243	\$130	\$364	\$302	668	432	\$12,643,736	120%	155%
Transportation	9,819	\$3,352,316	\$30	\$6	\$341	\$210	87	29	\$2,673,462	163%	304%
All Else	N/M	\$4,014,980	\$36	\$23	\$36	\$23	N/M	N/M	\$1,384,392	153%	N/M

Source: Centers for Medicare and Medicaid Services, n/a - not applicable, n/m - not meaningful.

Comparing actual child Medicaid users of the various major medical services reveals why Maine and New England spend more.

Inpatient Care

Maine spends \$7,900 per user on inpatient care. The other New England states spend \$5,600 per user and the U.S. average is \$4,200 per user. Even though there are differences in the cost per user, Maine, the other New England states, and the U.S. average all have almost the same average stay (days per user). The number of days per user for Maine is 4.8, for the other New England states it is 4.6, and for the U.S. average it is 4.3.

The difference in per user cost results from Maine’s inpatient costs per day is above the New England and national averages. Maine spends \$1,664 per day compared to the other New England states at \$1,224, U.S. average at \$985. Additionally, Maine’s cost per child discharged is above the New England and national averages. Maine spends \$6,077 per discharged child compared to \$5,226 for the other New England states, and \$3,427 for the U.S. average. The differences indicate that Maine’s Medicaid hospital costs per day are 36 percent above the average for the other New England states, and 69 percent above the U.S. average.

Outpatient Services

Maine spends \$981 per user on outpatient services compared to the other New England states which spend \$603, and the U.S. average that is \$356 per user. The differences indicate that Maine’s provider costs for outpatient services are 63 percent above the average for the other New England states, and 176 percent above the U.S. average.

Clinic Services

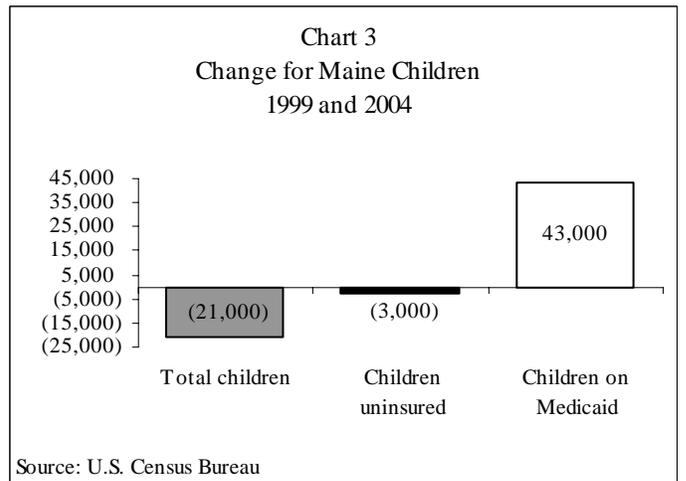
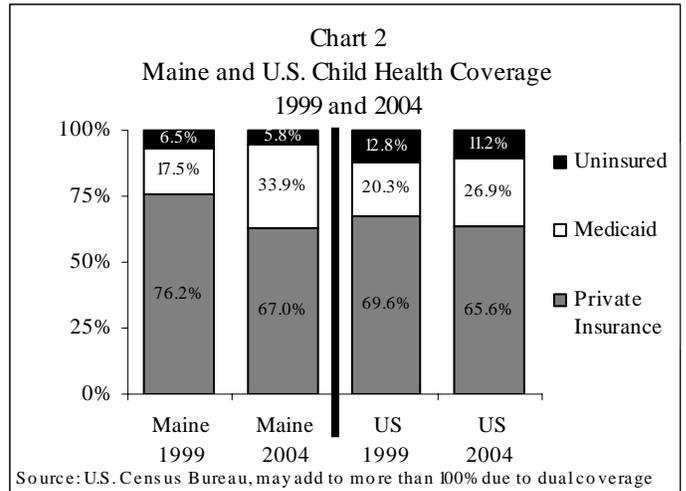
Maine spends \$1,444 per user on clinic services compared to the other New England states which spend \$927, and the U.S. average that is \$411 per user. The differences indicate that Maine’s provider costs for clinic services are 56 percent above the average for the other New England states, and 251 percent above the U.S. average.

Maine’s Prescription Drug Spending

Maine spends 86 percent more than the U.S. average on prescription drugs per child Medicaid beneficiary. Per beneficiary prescription drug spending for Maine is \$243, while the U.S. average is \$130. Per beneficiary prescription drug spending for the other New England states is \$94 per child beneficiary, lower than Maine and the U.S. average.

The data reveals that Maine’s high drug spending appears to be driven by a higher percentage of kids being medicated. Nation-

ally, about four in every 10 kids on Medicaid have a prescription. In Maine, almost seven out of 10 children on Medicaid have a prescription. The cost per child prescription drug user in Maine is about \$364 compared to the U.S. average of \$302. Only 10 states have a higher percentage of children on Medicaid that receive prescription drugs.



Dramatic Increase in Medicaid, Little Change in Uninsured Children

It has been a popular belief with policymakers that increased Medicaid spending and expansions have significantly changed Maine’s rate of uninsured kids. However, the data does not support that assumption.

In 1999, compared the U.S. average, Maine had a smaller portion of kids on Medicaid, more on private insurance and about half the child uninsured rate.

By 2004, Maine had more kids on Medicaid than the U.S. aver-

age. At the same time, Maine’s child uninsured rate dropped by less than one percentage point, to 5.7 percent from 6.5 percent (see Chart 2).

According to the U.S. Census Bureau, from 1999 to 2004, the number of children in Maine decreased by 21,000. At the same time, the number of children on Medicaid increased by 43,000. However, the number uninsured children only decreased by 3,000 (see Chart 3).[7]

From 1999 to 2004, Maine Child Medicaid Spending Doubled – Per Child Medicaid Beneficiary Spending Grew Twice as Fast as Medical Inflation

In just five years, in Maine the spending doubled on children’s Medicaid. Per child beneficiary spending grew 45 percent in Maine, compared to a U.S. average of 32 percent. During this same time, inflation grew by 13 percent and medical inflation grew about 23 percent. Maine Medicaid costs for children grew almost twice as fast as medical inflation.

However, only five categories of health care services grew significantly faster in Maine, per beneficiary, than the U.S. average. These areas were inpatient, outpatient, clinic, prescription drugs, and targeted case management. Combined growth of these five categories was \$1,007 per beneficiary. Over these same five years, all other spending categories combined grew 9 percent, growth equaling \$106 per beneficiary (see Chart 4). Of these same five areas, nationally, only drug spending and targeted case management grew significantly faster than overall per beneficiary spending.

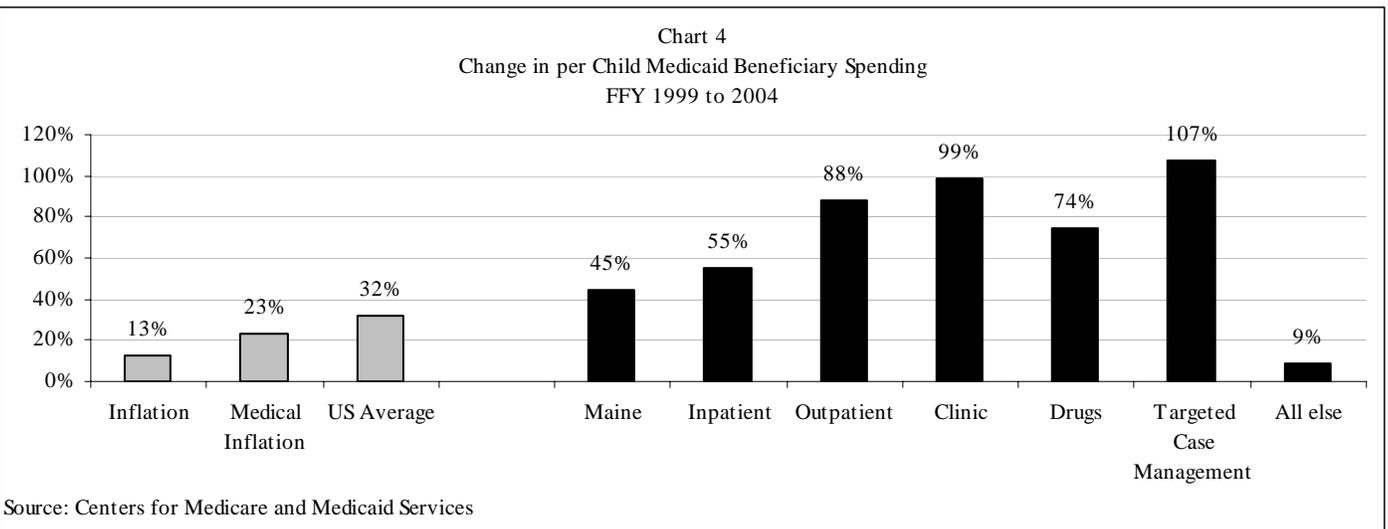
Questions for Policy Makers

Given the outlined cost drivers to the Maine child Medicaid system, policymakers and the administration need to ask some tough questions about Maine Medicaid for children:

- Why should Maine taxpayers pay \$111 to \$232 million more to cover 112,300 kids than the average cost of covering those kids in the other New England states or the U.S. on average?
- For this dramatically higher spending, do Maine kids on Medicaid have significantly better health outcomes than their peers in other states?
- Why does Maine Medicaid spend six times as much on mental and behavioral health services as the U.S. average?
- Why, on average, do Maine kids on Medicaid use mental and behavioral health services three times more often than their peers in other states and at significantly higher costs per user as well?
- Why are Maine Medicaid inpatient hospital costs for children 36 percent higher than those in the other New England states and 69 percent higher than the U.S. average, despite similar average stay lengths?
- Why are Maine Medicaid outpatient reimbursements for children 63 percent higher than those in the other New England states and 176 percent higher than the U.S. average?
- Why are Maine Medicaid clinic reimbursements for children 56 percent higher than those in the other New England states and 251 percent higher than the U.S. average?
- Why are Maine kids on Medicaid prescribed drugs 55 percent more frequently than the U.S. average? What prescriptions are driving this potential over-prescribing?
- Why did Maine’s Medicaid expansions for children have such a nominal impact on the uninsured rate among children? Did the expansion provide incentives for parents to drop employer-sponsored dependent coverage for their children?

Policy Solutions that Save Money and Improve Care

There are three immediate steps policymakers should take to



reform Maine Medicaid for children and make Maine Medicaid more affordable and sustainable. The three reforms for children, discussed at the end of this report, could save Maine Medicaid up to \$64 million a year, which is \$128 million over the biennium. State funds amount to \$47 million over the biennium.

1. Implement mandatory managed care.

Nine states and the District of Columbia had mandatory managed care for children in 2004. In those states, the average costs per child on Medicaid were \$1,236 to \$2,300 compared to Maine's per child cost of \$3,592. Managed care ensures that children have access to the primary care and preventative services that they need. At the same time, through appropriate utilization management, managed care ensures that children do not receive unnecessary, or potentially harmful, health care services that are not appropriate or that are not proven to improve health outcomes.

If Maine saved just 10 percent of total child Medicaid spending through mandatory managed care and utilization management, the Medicaid program would save \$40 million a year.

2. Expand and simplify premium assistance for lower-income families receiving coverage through their employer.

Maine Medicaid for children is particularly expensive compared to private health insurance. In 2004, Maine businesses and individuals paid \$3,444 more in premiums to expand employee and spouse coverage to family coverage, covering one or more children. Premiums for an employee and spouse averaged \$7,379 per year compared to \$10,823 for family coverage.[8,9] Of this increased premium, the employee typically paid only \$749 a year, about 21 percent.

For those children eligible for Medicaid with access to employer-sponsored health insurance, Maine Medicaid could simply pay the employee's share of the premium and place the child the parent's plan. For every child in this category, Maine Medicaid could save up to \$2,800. Additionally under such a scenario, Medicaid would supplement insurance policies in order to cover those minimum services required by federal law.

If 5 percent of child Medicaid enrollees had access to employer coverage through their parents, then Maine Medicaid would save up to \$16 million a year.

3. Require premiums and the maximum co-payments, as allowed by federal law.

Under the *Deficit Reduction Act* Congress passed last year, states can require premiums and co-payments for certain Medicaid recipients. According to the Maine Legislature, Office of Fiscal and Program Review, there are 15,000 kids on Medicaid

or the expanded State Children's Health Insurance Program (SCHIP) whose families have incomes over the poverty limit (100-200 percent of FPL). According to the U.S. Census Bureau, there are 24,000 families in Maine in this same income range with private health insurance.[10]

As previously shown, families with private insurance pay premiums (on average \$749 marginal cost for family coverage) and then have an average deductible of \$150-300, and then often 20 percent coinsurance.[11] Medicaid recipients, even at income levels comparable to those with private insurance, do not have a similar fee structure. The Maine Legislature should reduce the incentives for individuals to choose Medicaid, currently with nominal out of pocket costs, over private insurance, with premiums, deductibles and co-payments.

The State should require premiums for all kids in families who fall between income guidelines of 150 to 200 of poverty, or about \$31,000 to \$41,000 a year for a family of four in 2007. In order to buy-into Medicaid/SCHIP coverage, this group should pay 3 percent of family income, \$930 to \$1,240 or just \$465 to \$630 per child. Such a funding change would reduce the disparity between those who to get Medicaid over private insurance and create a more seamless Medicaid to private insurance transition, dramatically reducing the so-called Medicaid cliff.[12]

Additionally, the State should require the maximum co-payments as allowed by federal law. Such a payment structure is:

- 10 percent mandatory co-payments for most services and the maximum \$6 co-payment for non-emergency use of the emergency room for all children in families between 100 and 150 percent of poverty
- 20 percent mandatory co-payments for most services and a \$75 co-payment for non-emergency use of the emergency room for all children in families above 150 percent of poverty
- Maximum out of pocket of 5 percent of family income for all premiums and co-payments for all populations

Maine Medicaid savings from mandatory premiums and co-payments for children could be up to \$7 million a year.

Conclusion

Maine Medicaid is a critical, but much too costly, health care safety net for lower income Maine children. Through cost effective reforms, Maine Medicaid provide better care and better quality outcomes for Maine children and can be more affordable and sustainable for Maine taxpayers.

Notes and Sources

1. Alaska is the most expensive at \$4,136 per child Medicaid beneficiary.
2. Beneficiary means any child enrolled in Medicaid that used at least one health care service during the year.
3. Kaiser Family Foundation. 2004-2005. Only DC, Arkansas, Mississippi, Vermont, New Mexico and Louisiana have a larger share of kids on Medicaid.
4. Kaiser Family Foundation. 2004-2005. From U.S. Census Bureau figures.
5. Mental and behavioral health includes – mental health inpatient, clinic, ICF-MR, other home and community-based (waiver), rehab, personal care, targeted case management and therapy.
6. User means how many children on Medicaid used a particular health care service during the year. Cost per user is the average cost for a child who used that particular service during the year.
7. “Table HI-5. Health Insurance Coverage Status and Type of Coverage by State—Children under 18: 1987 to 2005.” U.S. Census Bureau, Current Population Survey, 1988 to 2006 Annual Social and Economic Updates. Available at: <http://www.census.gov/hhes/www/hlthins/historic/hihist5.html>
8. “Table II.E.1(2004) Average total employee-plus-one premium (in dollars) per enrolled employee at private-sector establishments that offer health insurance by firm size and States: United States, 2004.” Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2004 Medical Expenditure Panel Survey-Insurance Component. Available at: http://www.meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2004/tiie1.htm
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10. U.S. Census Bureau. Current Population Survey 2002-2005. Accessed at [Census.gov](http://www.census.gov) on March 28, 2006.
 11. Kaiser Family Foundation. “2004 Kaiser/HRET Employer Health Benefit Survey.” Pages 77 and 93. Available at: <http://www.kff.org/insurance/7148/upload/2004-Employer-Health-Benefits-Survey-Full-Report.pdf>.
 12. The “Medicaid cliff” occurs when people are eligible for free Medicaid coverage, but by earning one dollar more in income, they become ineligible.

Methodology

Federal Centers for Medicare and Medicaid Services’ MSIS reports were used for all 50 states and Washington, D.C. providing information in 2004. 2004 is the most recent data available for all states. The data is available at <http://msis.cms.hhs.gov/>.

Costs per beneficiary were calculated based on spending for every child who used any Medicaid service in 2004.

Utilization was calculated based on the number of children on Medicaid that used a particular health care service. For comparison, utilization is expressed in users for every 1,000 children on Medicaid.

Cost per user was calculated based on the average cost for each child using a particular health care service.

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