

Making Medicaid More Affordable and Accountable

Assure Appropriate Federal-State Partnership

1. *Payment Reforms - Restricting Intergovernmental Transfers:* The Administration proposes to further improve the integrity of the Medicaid matching rate by curbing the use of financing arrangements that States use to avoid legally determined State match requirements. Through various mechanisms State and county government providers return Federal Medicaid funds back to the States or for other uses. States, in turn, recycle these funds by using them to draw down additional funding. To curb these practices the Administration proposes match only funds kept by providers as payment for services.

Savings: 1 year: \$0
 5 year: -\$4.6 billion
 10 year: -\$11.9 billion

2. *Payment Reforms - Cost Based Reimbursement for Government Providers -* Under current law States may make Medicaid payments to providers far in excess of the actual costs of services. Government providers are often expected to return a portion of this augmented payment to the States. States in turn use the additional Federal match to leverage Federal reimbursement rates in excess of their Medicaid matching rate or for other purposes. To avoid this misuse of funds, the President's budget proposes to limit reimbursement levels to government providers to no more than the cost of providing services.

Savings: 1 year: \$0
 5 year: -\$1.2 billion
 10-year: -\$3.3 billion (net of interactions with proposal 1)

3. *Phase Down of Safe Harbor Tax:* Under current rules, taxes imposed on health care providers may not exceed 6 percent of total revenues and must be applied uniformly across all health care providers in the same class. The President's Budget proposes to phase down this allowable tax rate from six to three percent.

Savings: 1 year: -\$231 million
 5 year: -\$2.8 billion
 10 year: -\$6.2 billion

4. *Managed Care Provider Tax Reform:* Under current rules, managed care organizations are not treated the same as other classes of health care providers with respect to provider tax requirements. The President's Budget proposes to bring MCOs into line with other provider classes.

Savings: 1 year: \$0
 5 year: -\$399 million
 10 year: -\$1.4 billion

5. *Reduce the Targeted Case Management Match to 50 Percent:* The President's budget seeks to lower the reimbursement level for targeted case management to the 50 percent match States currently receive for Medicaid administrative costs.

Savings: 1 year: -\$129 million
 5 year: -\$1.0 billion
 10 year: -\$4.0 billion

6. *Avoid Cost Shift for Targeted Case Management and Other Services:* The President's budget proposes to explicitly clarify which services may be claimed as Medicaid targeted case management costs. States are shifting costs into Medicaid that are the obligations of other programs, and are, in addition, using expanded definitions of allowable services.

Savings: 1 year: \$0
 5 year: -\$2.0 billion
 10 year: -\$7.7 billion

7. *Medicaid Administrative Claiming:* Under current law Medicaid administrative claims operate under an open-ended financing framework which does not encourage States to administer their program efficiently. The President's budget proposes to curtail these inefficient Medicaid administrative spending patterns by establishing an allotment for Medicaid administrative claiming for future years.

Savings: 1 year: \$0
 5 year: -\$1.1 billion
 10 year: -\$6.0 billion

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- *Restructure Pharmacy Reimbursement:* The President's Budget proposes a pharmacy reimbursement system that more closely aligns pharmacy reimbursement to pharmacy acquisition costs.

Savings: 1-year \$542 million
 5-year \$5.4 billion
 10-year \$15.1 billion

- *Reform of Transfer of Assets Policy:* Current law requires individuals applying for Medicaid long-term care services to divest all but a minimum level of assets before becoming eligible. If applicants transfer assets at below market value to avoid these requirements, Medicaid rules hold them subject to delays in eligibility. Creative estate planning has allowed many individuals to skirt around these sanctions, however. The budget proposes to curtail this practice by tightening existing rules regarding transfers of assets.

Savings: 1-year \$99 million

5-year \$1.5 billion
10-year \$4.5 billion