

# Medicaid and Managed Care

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Medicaid is one of the largest government health programs in the United States, serving nearly 75 million low-income individuals as of 2018. The program is structured as a federal/state partnership, with states administering the program within a federal framework and states and the federal government sharing the costs. States have the flexibility to determine the system for administering payments to providers of services to Medicaid enrollees using one of two models: fee-for-service (FFS) or Medicaid managed care (MMC).

States are increasingly looking to managed care arrangements to improve outcomes and control costs. Forty state Medicaid programs, including the District of Columbia and Puerto Rico, have adopted some type of managed care model. The majority of people with Medicaid are enrolled in managed care organizations (MCOs). More than 56 million Americans, representing nearly 75 percent of total Medicaid enrollment, rely on private health plans for their Medicaid coverage. In 12 states, at least 90 percent of Medicaid beneficiaries are enrolled in MCOs.<sup>1</sup>

While most non-disabled children and adults under age 65 are enrolled in managed care, a significant number of high needs beneficiaries who drive the majority of Medicaid spending remain in FFS programs. As of 2016, over 57 percent of Medicaid spending is still fee-for-service.<sup>2</sup>

## What is Medicaid Managed Care?

Medicaid has traditionally been operated under a fee-for-service (FFS) model. Fee-for-service is an uncoordinated system, in which providers submit claims for services to the state Medicaid program or a contractor, and the state or contractor pays the claims. There is no mechanism for coordinating services across providers or ensuring that services are appropriate and necessary. And Medicaid beneficiaries receive little or no assistance in navigating across providers to obtain necessary care.

By contrast, in Medicaid managed care (MMC) arrangements, the state contracts with several Medicaid MCOs to administer Medicaid benefits, arrange and coordinate care and services, and pay providers. The state pays the Medicaid MCO a fixed per-person monthly amount, called a *per capita* or capitated payment, to provide benefits to each of the MCO's Medicaid enrollees.

Managed care is a risk-based financing arrangement. The MCO receives a pre-determined capitated payment for each of its Medicaid enrollee; the MCO then must use those payments to pay for all of its enrollees' covered Medicaid services and supports set forth in its contract with the state. These are full-risk arrangements; if the cost of an enrollee's care is higher than the capitated payment, the MCO still must cover the added expense and does not receive any additional money from the state.

The range of MCO administrative functions are determined by the state and can vary broadly. MCOs provide a variety of services to meet the general and unique needs of their beneficiaries, including programs to coordinate care and services for people with multiple chronic conditions or functional impairments; outreach and education initiatives to promote prevention and healthy living; and efforts to facilitate beneficiaries' access to non-medical supports, such as social services or transportation.

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1 Kaiser Family Foundation. [Medicaid Managed Care Market Tracker](#).

2 Kaiser Family Foundation. [Total Medicaid MCO Spending FY 2016](#).

## Cost Savings

One of the key drivers of the widespread adoption of Medicaid managed care has been that states have looked to MMC arrangements to achieve cost savings over time. Managed care arrangements provide budget predictability, and MCOs can provide more effective and efficient Medicaid operations for the state. While FFS systems encourage higher utilization of services without coordination, MMC capitation arrangements encourage MCOs to keep their enrollees healthy across the full spectrum of care.

Compared to FFS systems, MMC arrangements have resulted in Medicaid program savings of up to 20 percent in some states.<sup>3</sup> MCOs achieve savings through a range of practices and techniques, including care coordination, use of primary care medical homes, and emphasizing use of generic prescription drugs. One report estimated states would realize savings of over \$6 billion in 2016 through MMC.<sup>4</sup>

## Beneficiary Impacts

Managed care can improve value and outcomes in the Medicaid program. States rely on MCOs to provide care coordination and management services, and quality management programs to improve patient outcomes. A 2015 study of MMC provided clear evidence that care coordination by MCOs achieved reductions in hospitalizations, unnecessary emergency department visits, and prescribing errors.<sup>5</sup> States track MCO performance through quality measurement and reporting using standard measurement tools and Medicaid-specific benchmarks.

In addition to achieving cost savings and better outcomes, research demonstrates greater beneficiary satisfaction for managed care enrollees compared to Medicaid beneficiaries enrolled in FFS programs. One survey found that 85 percent of people enrolled in MCOs reported satisfaction with their benefits compared to 81 percent satisfaction for those enrolled in traditional FFS Medicaid.<sup>6</sup>

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**For more information on Medicaid, please refer to other briefs in AHIP's Medicaid 101 series**

- [Medicaid 101 — Program Overview](#)
- [Medicaid Eligibility and Enrollment](#)
- [Medicaid Administration and Financing](#)
- [Medicaid Prescription Drug Coverage](#)
- [Children's Health Insurance Program \(CHIP\)](#)
- [Long Term Services and Supports \(LTSS\) in Medicaid](#)

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3 AHIP. [The Medicaid Program and Health Plans' Role in Improving Care for Beneficiaries: What You Need to Know](#). June 2016.

4 L Shugarman, J Bern and J Foster; [The Value of Medicaid Managed Care](#). Health Management Associates, November 2015

5 Ibid.

6 Morning Consult, June 23-July 1, 2016, [https://www.ahip.org/wp-content/uploads/2016/08/Medicaid-Poll-Topline\\_Final.pdf](https://www.ahip.org/wp-content/uploads/2016/08/Medicaid-Poll-Topline_Final.pdf)