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NEWS RELEASE

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State Auditor Mary Mosiman today released a report on a review of Medicaid savings estimates as a result of the Iowa Department of Human Services (Department) transitioning the Medicaid program from a primarily fee-for-service program to a managed care program.

The Office reviewed three estimates prepared using different methodologies for estimating fiscal year 2018 savings from the transition to a managed care program:

- January 2017 estimate from the Governor's Office, which reported estimated savings of \$234 million,
- November 2017 estimate from the Department, which reported estimated savings of \$47 million, and
- May 2018 estimate from the Department, which reported estimated savings of \$141 million.

Because of the nature and complexity of the Medicaid program, and the timing of the determination of costs associated with the program which cannot be paid until a future period, it is necessary to use estimates in all three methodologies.

Mosiman reported the January 2017 and the November 2017 estimates were based on data which did not account for all Medicaid program costs or costs incurred during the year which were not paid by fiscal year end and, therefore, these methodologies should not be used to estimate Medicaid savings. Mosiman determined the May 2018 methodology is an accurate and reliable method for estimating Medicaid savings and this is the methodology which should continue to be used by the Department for the following reasons:

- The estimate was calculated based on a financial assessment of the overall Medicaid program.
- The May 2018 methodology applies the accounting matching principle by adjusting the raw data to align expenditures with the year in which they were incurred.

The May 2018 savings of \$141 million reported by the Department was an accurate estimate based on the information available at the time. In the report on page 13, the May 2018 estimate has been updated with September 30, 2018 cost information and updated estimates as of November 7, 2018 and compared to the original May 2018 estimate. This updated information will be used for financial reporting purposes and included in the Comprehensive Annual Financial

Report (CAFR). This comparison shows the May 2018 estimate was accurate based on the information available at the time the estimate was prepared.

The average cost per member for SFY 2018 is \$8,934 while it is estimated to be \$9,436 for SFY 2019. This differs from the average cost per member reported by the Department in the recent Improve Iowans' Health Status Report because those numbers were not adjusted to match most Medicaid costs paid with the year in which the services were provided. The unadjusted estimate shows average cost-per-member growth of 6.6% in SFY 2018 and 11.0% in SFY 2019. The adjusted estimate shown in the **Table** below shows an average cost-per-member growth of 1.5% in SFY 2018 and 5.6% in SFY 2019.

Revised Average Cost per Member per the Department					
	2015	2016	2017	2018	2019
Total Spending	\$ 4,936,488,051	5,181,578,396	5,070,561,873	5,184,248,970	5,623,705,462
Average Total Enrollment	548,045	577,896	587,478	586,486	600,248
* Less:					
Family Planning Waiver	(19,131)	(15,226)	(11,667)	-	-
State Family Planning Program	-	-	-	(6,178)	(4,235)
Adjusted Enrollment	528,914	562,670	575,811	580,308	596,013
Average Cost Per Member	\$ 9,333	9,209	8,806	8,934	9,436
Percentage Change		(1.3%)	(4.4%)	1.5%	5.6%

* - The Department excludes the Family Planning Waiver and the State Family Planning Program enrollment from the determination of average cost per member.

The Centers for Medicare and Medicaid Services (CMS), Office of Actuary, annually produces projections of health care spending within the National Health Expenditure (NHE) Accounts, which track health spending. The latest NHE Projections 2017-2026 - *Forecast Summary*, projects a 5.8% annual growth in Medicaid spending.

Mosiman said, "Applying the fundamental accounting matching principle of reporting costs in the year in which they are incurred is essential to getting an accurate cost comparison."

Auditor Mosiman also concluded the transition from fee-for-service to managed care was implemented without establishing a reliable methodology for calculating cost savings. This resulted in various methodologies being used in an effort to satisfy requirements to report estimated Medicaid program costs savings. Mosiman said, "With the complexity of the Medicaid program, calculating cost savings is not as simple as a comparison of costs from the State's accounting system. It would be like reporting the cost of your December Christmas expenses without including your January credit card payments."

Mosiman recommended the Department continue to use the May 2018 estimate methodology, but she cautions savings estimates will become less accurate and less meaningful as the State gets further from a fee-for-service program because future cost trends may or may not be representative of the annual growth rates currently used to estimate future Medicaid costs.