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Press Release

Milliman explains assumptions and methodology used in Nebraska Medicaid budget exposure analysis

Cost of insuring children, other key aspects of reform law explain higher cost estimate

Seattle – September 17, 2010 – Milliman has been retained by several states, most visibly Nebraska and Indiana, to calculate the budget exposure for state Medicaid agencies created by the Patient Protection and Affordable Care Act (PPACA). Recent criticism of this analysis, especially in Nebraska, ignores the explanations of methodologies in our report and overlooks important implications that go beyond the bottom line numbers.

Several considerations are essential for a constructive discussion of the analysis and the new law.

- The analysis offers a range of enrollment estimates. Critics have cited the full enrollment figure and tried to ignore the partial enrollment estimates provided in the reports. It is the nature of actuarial work to provide a range of possible outcomes, and that was done in this case. Milliman's range for adult and parent enrollment is 78,504 to 107,640 individuals, while the Kaiser Family Foundation/Urban Institute analysis most often cited by critics is 83,898 to 110,820 (see table at http://bit.ly/cG6kbJ for more detail). With adjustments for time period differences between the two studies, Milliman's mid-range participation scenario is in the range offered by the KFF/Urban Institute analysis.
- The biggest difference between Milliman's enrollment estimates and other published estimates is the inclusion of children in the Milliman analysis. The KFF/Urban Institute analysis does not include children. Research published this month by the Urban Institute in Health Affairs indicates nationwide Medicaid enrollment figures of more than 80% for children. The only state with an individual mandate already in place, Massachusetts, has child enrollment of 95%. Once enrolled in Medicaid, children will have different cost dynamics than adults and parents due to certain federal match rate specifications in PPACA.
- The Milliman analysis includes not just Medicaid expansion but other costs that will affect the Medicaid budget under PPACA, including administrative costs and a loss of revenue due to changes in pharmacy rebates. The pharmacy rebates are one example of how the law does not universally result in increased Federal funding to the state—under PPACA, states will accrue less rebate revenue than they have in the past.
- The analysis assumes that a temporary physician fee schedule increase in 2013 and 2014 will be maintained after 2014. While this is not specifically in the law, it seems highly unlikely that physicians, who already balk at Medicaid rates, will accept what amounts to a reduction in their fees at the same time that Medicaid enrollment is projected to grow by 20 million lives nationally.

- We were asked to calculate Medicaid budget exposure, not to calculate the state's full economic impact. It is possible that certain aspects of reform—in particular a reduction in uncompensated care—may result in savings in non-Medicaid segments of the health system. For example, in a project for Families USA last year, Milliman actuaries calculated that a reduction in uncompensated care could save $1,017 per family nationally, and that number has been widely cited by numerous government officials of all political persuasions and has even been used by critics of Milliman's Medicaid analysis. The topic of uncompensated care is indeed relevant to the larger coverage expansion, though the savings forecasts are for commercial insurers, not for Medicaid.
- Milliman consults with Medicaid departments in 25 states total, of all sizes and political stripes, as well as with territories such as Puerto Rico. Milliman has more than 20 fully-credited actuarial fellows who specialize in Medicaid. Milliman has a strong peer review culture and our Medicaid experts review others' assumptions, methodologies, and calculations.

As experts in healthcare financing, we are the first to acknowledge that there are various factors that could drive our cost estimates either upwards or downwards. If state health exchanges can offer a more cost-effective method for delivering insurance, and if accountable care organizations can encourage efficiency, the cost trend may decelerate in the long term. If the federal government changes its approach to match rates or if the pharmacy rebates are reconfigured it could dramatically impact our assumptions and results. Alternatively, if the cost trend remains on its current trajectory and unemployment persists or worsens, these estimates may not capture the full budget impact.

There are many "ifs" associated with reform. For this reason, Milliman has encouraged clients and other interested parties to consider analysis in its entirety rather than just through the lens of a single number. While it is not the nature of actuarial analysis to be fully digestible to the layperson, we have offered transparency around our assumptions and methodology in the published Medicaid reports. We encourage people to read the reports. As the country tackles other fresh questions created by PPACA, a thoughtful and sober consideration of the details will allow for a more realistic understanding of cost dynamics.

The Nebraska report is available at http://www.governor.nebraska.gov/news/2010/08/pdf/Nebraska%20Medicaid%20PPACA%20Fiscal%20Impact.pdf.

About Milliman

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