

May 7, 2019

Ms. Jenny Felmley, Program Evaluator
Legislative Finance Committee
325 Don Gaspar, Suite 101
Santa Fe, NM 87501

Re: Response to Legislative Finance Committee Report
Medicaid Spending on Program and Managed Care Administration

Dear Ms. Felmley:

Please accept this letter as the Human Services Department's (HSD) response to the Legislative Finance Committee's (LFC) "Medicaid Spending on Program and Managed Care Administration" Health Note. HSD finds the report to be generally fair and an accurate representation of administrative costs in the Medicaid program. We ask that LFC please consider HSD's comments listed below:

At a Glance

HSD Comment: HSD agrees that it is important to look at hospital spending as part of a comprehensive view of Medicaid program spending on Administrative costs. However, a better way to enhance our understanding of hospital efficiency may be to look at the EBITDA margin analysis in the CMS cost report for each hospital. We believe the wide variation in Administrative costs is almost entirely due to variation in reporting methodology, as you have suggested.

HSD's administrative spending for New Mexico's Medicaid program compares well to other states.

HSD Comment: HSD is very happy to see that New Mexico holds the top ranking of our peers for the portion of Medicaid dollars spent on medical services. Our 1115 Demonstration Waiver, our Managed Care Contracts, and our MCO partnerships are all geared towards ensuring that the maximum amount of dollars available for services are utilized.

At least 29 percent of HSD contract funding went to New Mexico companies and schools.

HSD Comment: HSD will continue to make every effort to contract with New Mexico companies.

Managed Care Organizations Administrative Spending

HSD Comment: HSD agrees that we should strive for greater transparency and consistency in MCO financial reporting. The MCO contracts are currently structured to ensure MCOs do not prioritize profit over the health and well being of our members. Further, MCO contracts are structured to allow for the maximization of service delivery to our members and without specifying the delivery system requirements. The department has made great strides in ensuring that MCO reporting is accurate and meaningful, and we intend to continue to improve upon that work.

Although some MCOs at times exceeded the contractual cap of 3 percent profit, the Centennial Care MCOs averaged a 2 percent profit rate for 2014 through 2017.

HSD Comment: Centennial Care MCOs averaged a two percent profit rate for 2014 through 2017. The two percent profit rate is well within national norms and is within contractual requirements.

Review of Medicaid administrative spending can offer insights into how the program is functioning that are not accessible anywhere else.

HSD Comment: HSD agrees review of administrative spending can offer insights into the program. Unfortunately, this specific information is not available in the Medicaid systems as it was requested, nor is it currently required to be produced elsewhere. Therefore, production of this information requires significant staff time. However, MAD has almost completed the production and synthesis of this data to be shared with LFC and we will continue to strive to provide timely and accurate responses to requests.

Between 2014 and 2017, HSD recouped over \$660 million in over-payments from the four MCOs.

HSD Comment: Centennial Care 1.0 was designed with guard rails in place to ensure the viability of the program. Risk corridors, reconciliations, and other mechanisms were designed to cushion the swings in gains or losses. As HSD gained more experience, with Centennial Care those mechanisms were adjusted accordingly. Consequently, as we moved into the later years of Centennial Care the rates were better developed. We will reevaluate the appropriateness of ending the Hepatitis C risk corridor.

HSD levied \$42.5 million in performance-related financial penalties against the four MCOs.

HSD Comment: HSD agrees that performance related requirements in contracts are key tools to ensure effective program management. HSD uses national data wherever available to track MCO performance and builds in targeted goals that are designed to improve care quality to our members.

HSD agrees that New Mexico Medicaid is financially well managed program. HSD is constantly striving to improve its operations and performance. HSD annually updates our MCO contracts to ensure that services are delivered to our members in the most cost effective and performance-based

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way. We agree that providers are key viability to providing effective care to our members, and one of the highest priorities for us is to strategically raise provider reimbursements.

Thank you for the opportunity to comment. We appreciate and commend the work of your staff to understand the complexity of this program and evaluate our work. We remain committed to continued collaboration with the LFC and ongoing improvement of the Medicaid Program.

Sincerely,

A handwritten signature in dark ink, appearing to read "David R. Scrase", written in a cursive style.

David R. Scrase, M.D.
Cabinet Secretary