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Medicaid proposal draws criticism

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By Brian Lyman

The chairman of the House Ways and Means General Fund committee thinks the state could reduce Medicaid costs by putting the Alabama Medicaid Agency in the hands of a private firm.

The proposal has drawn criticism from physicians' groups and an advocacy group for low-income Alabamians, both of which say there's nothing left to cut in Medicaid except essential care.

Rep. Jim Barton, R-Mobile, said Thursday he has reached out to three companies -- including Missouri-based Centene and Virginia-based Amerigroup -- about the possibility of managing Medicaid.

The \$1.7 billion General Fund, which provides state funding for the agency, could see an estimated \$400 million shortfall in next year's budget. Medicaid makes up about 36 percent of the General Fund, and its share of the Fund is expected to grow significantly in the next few years.

Barton said he wanted to see better management of Medicaid resources and felt that a privately run company would best do that.

"I'm a private-sector guy," Barton said. "I think the private sector nine out of 10 times can do a better job than an agency. That's who I am."

Managed care companies generally seek savings by attempting to reduce utilization of unnecessary services. Centene and Amerigroup have been aggressive in winning Medicaid management contracts around the country in the past year. Both companies received contracts worth up to \$1 billion from Texas in August, and last week scored contracts to run Washington state's Medicaid Agency.

However, the managed-care proposal drew criticism from Alabama Arise, a nonprofit group that advocates on poverty issues, and the Alabama chapter of the Academy of Pediatricians. Both groups said that Alabama's unique structure of Medicaid payments - including hospitals putting payments for Medicaid up front, which helps secure federal funding -- would make it difficult for a for-profit model to work in the state.

Alabama Medicaid currently limits hospitalizations, the first place many look for cost savings, to 16 days, and Jim Carnes, a spokesman for Alabama Arise, said it would be difficult to find savings there.

"Managed care typically derives profits from reductions in hospital payments, but Alabama payments are so minimal there's not a margin to work there," he said.

Dr. Grant Allen, president of the Alabama chapter of the Academy of Pediatricians, said he feared that cost savings would come from reducing Medicaid reimbursements to doctors, currently set at two-thirds of Medicare fees.

"That's really the only place they could go," he said, adding that the current rate provides adequate coverage in the state. "If they do that, (doctors) would drop out of the program."

Messages left with Centene and Amerigroup were not returned Friday evening. Barton said the state would hire multiple companies if it went to a managed-care model. Any payment the companies received would be based on money saved.

Barton acknowledged that Medicaid recipients were "apprehensive" about his proposal.

"But at this point, we're looking at a possible crash and burn," he said. "Basically you've got 20 percent of the Medicaid recipients costing 80 percent of the dollars. If you managed that population, you'd get something accomplished."

The Alabama Medicaid Agency has launched several pilot programs to do just that, including a series of Care Networks, based on programs in North Carolina that helped achieve Medicaid savings in that state.

"Our feeling is our programs can produce the same results as commercial managed care, and we have anecdotes that it's already working," said Dr. Bob Mullins, Alabama Medicaid Commissioner.

Medicaid's operating cost represent about 3 percent of its budget; both Carnes and Allen said a privately run company could spend up to 15 percent on overhead, under federal health care reform.

"If we were to subcontract Medicaid to spend up to 15 percent on overhead, it's profit for stockholders and paying extra employees," he said. "It's paying an out-of-state corporation instead of spending it on health care in Alabama."

Dr. W. Jeff Terry, president of the Medical Association of Alabama, was not as critical of the proposal, but said there was uncertainty as to how it would work. Any company that contracted with the state, he said, should have doctors among their leaders.

"We don't want a company coming and ramrodding this thing down our throats for purely profit reasons," he said.