The Impact of Medicaid Expansion on Medicaid Focused Insurers in California

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Abstract
To gain insights into the impact of Medicaid Expansion under the Affordable Care Act, this study assesses the enrollment, utilization, and financial performance measures of California Medicaid focused health insurers. The study compares these quarterly measures, during the expansion period of 2014 to the same quarterly measures in 2013 and 2012. During 2014, Medicaid focused insurers expanded enrollment, decreased inpatient days, and generated higher profit margins.

Keywords
Medicaid Expansion, ACA, health insurers, financial performance, utilization

Introduction
In January 2014, the Affordable Care Act (ACA) expanded Medicaid coverage for adults up to the age of 65 with incomes under 138% of the federal poverty level. (A major limitation of this study is that the membership increase in Medicaid may also stem from the “out of wood work effect,” whereby individuals who were previously eligible for Medi-Cal, but were not enrolled, were found to be eligible when signing up for health care insurance under the ACA. One analysis estimates that at least 5% of California Medi-Cal members were previously eligible [see Gorn D, “Medi-Cal Enrollment Jumps to 11.3 Million,” CaliforniaHealthline. http://www.californiahealthline.org/capitol-desk/2014/11/ medical-jumps-to-11-3-million. November 12, 2014.]) California’s Medicaid program called the “Medi-Cal” program has the largest Medicaid enrollment1 in the United States.2 (Total Medi-Cal enrollment grew to 11.9 million members by December of 2014 compared with 8.6 million members at the beginning of 2014.) To assess the impact of Medicaid Expansion, this study measures the enrollment, utilization, and financial measures of Medicaid focused health insurers during the quarterly time periods of 2014.3,4

Study Data and Methods
The study initially identified 27 full-service health insurers with Medi-Cal members in 2014. (The study excluded one specialty full-service insurer that was focused on aids treatment and one insurer with a senior care focus.) To assess the direct impact of the Medi-Cal expansion on utilization and financial measures,5 the study identified 17 insurers with 70% of their enrollment in the Medi-Cal program. Enrollment and utilization data of these insurers were collected from the financial statement database of the California’s Department of Managed Care.6 (In 2013 and 2014, one Medicaid focused health insurer did not report inpatient days per thousand and ambulatory encounter data. Therefore, the utilization analysis is based on 16 health insurers. For 2012, only 12 Medicaid focused plans reported encounter data and one Medi-Cal health insurer’s Medicaid enrollment was below 70% in 2012.) The study design was an “interrupted time series design,” whereby the quarterly financial performance and utilization measures during the expansion period of 2014 were compared with the same quarterly measures in the prior years of 2013 and 2012.7 (The growth analysis of these data points is defined as quarter over quarter basis. The major weaknesses of this design is the lack of a comparison group of health insurers that did not experience Medicaid Expansion in the state of California during these periods, which would enable the design to control for other extraneous events that occurred during these time periods. Given this design, the study compared over time each respective quarterly period of 2014 with its respective quarterly periods of 2013 and 2012. The strength of this design is that each Medicaid focused health insurer is able to act as its own control for seasonal effects that may occur from enrolling and dis-enrolling members as well as managing their care.)
Enrollment and Utilization Results

Medicaid focused insurers increased their total Medi-Cal enrollment in the last quarter of 2014 by 47% to 7.7 million members, from 5.2 million members for the last quarter of 2013 (see Table 1). In addition to enrollment gains, Medi-Cal members’ utilization patterns changed in response to Medicaid Expansion. The first and fourth quarters’ ambulatory care encounters per member per month (PMPM) were reduced by more than 0.06 encounters PMPM from 2013 to 2014 (see Table 1). Non-physician to physician ambulatory encounters for last three quarters of 2012 were significantly higher than their respective values for 2013 and 2014. Although relative to 2013 findings, non-physician versus physician ambulatory encounters for 2014 trended downward to an almost identical median ratio of 0.27 in 2013 (Quarter 4) and 0.29 in 2014 (Quarter 4). Finally, starting in the second quarter for 2012 and 2013, inpatient days per thousand trended upward, while in 2014, inpatient days per thousand increased in the third quarter and declined slightly in the fourth quarter. However, starting in the second quarter of 2014, inpatient days were substantially lower than their respective prior quarters of 2012 and 2013. The greatest difference occurred in the fourth quarter with a reduction of 56 days from 279 days in 2013 to 223 days in 2014 (see Figure 1).

Financial Performance Results

The medical loss ratio for the Medicaid focused insurers trended downward (see Table 2) each quarter in 2014 and declined to 86.6% for the fourth quarter of 2014, which was 330 basis points lower than medical loss ratio for the 2013 fourth quarter. (Data were collected from the Department of Managed Health Care Financial Summary dataset on a quarterly basis. For the denominator of each measure, the study used total revenues and not premium revenues as this date element is not available on the summary quarterly data. As a result, the medical loss ratio and administrative cost ratio values may be lower than medical loss and administrative cost ratios based on premium revenues as total revenues include not only premium revenues but also other revenues such as interest income and sales tax revenues and grants. Profit margin was computed by summing medical and administrative expenses and subtracting this summary value from total revenues. The profit margin ratio was profit margin divided by total revenues. Median values for each performance ratio do not sum across the three financial performance ratios.) Quarterly medical loss ratios for 2013 trended downward for 2013 from 91% in the first quarter to 89.9% in the last quarter, whereas 2012 quarterly medical loss ratios remained around 92% for three out of four quarters. Quarterly administrative cost ratios decreased over the four quarters of 2014 and were more than 100 basis points lower for three out of four quarters in 2013. Quarterly administrative cost ratios between 2012 and 2013 were not substantially different for each quarter. Quarterly profit margin ratios grew from 3.55% in the first quarter to 9.36% in the fourth quarter compared with 1.99% in the first quarter of 2013 and 4.79% in the last quarter of 2013. Quarterly profit margin ratios for 2012 were less than or equal to 1% for each reporting period whereas quarterly profit margins for 2013 were more than 4 times higher in last 3 quarters of 2012.

Conclusion

From the first quarter to the last quarter of 2014, Medi-Cal membership increased by almost 1.7 million members for
Medicaid focused insurers. To control their medical expenses, Medicaid focused insurers appear either to enroll members who required less care due to their health status or were more effective in managing the care of these new members. This outcome supports preliminary studies that expected these newly enrolled Medicaid members, specifically childless adults, under ACA to use less inpatient care over time. The utilization measures support these findings as well, specifically with respect to inpatient days per thousand in the last quarter, which was 56 days lower than prior year’s last quarter. Except for the first and last quarters of 2014, ambulatory encounters by members appear to be similar to prior years, which suggests that these insurers continue to manage their care on an outpatient basis.

Increased membership may have contributed to achieving the effects of economics of scale due to fixed administrative costs, especially in terms of compensation. As a result of the declines in the medical loss ratio and administrative cost ratio, the Medicaid focused insurers were able to generate substantially higher profits that grew from 3.55% in the first quarter to 9.36% in the last quarter of 2014. However, the study has several major limitations, specifically related to the smaller sample size, lack of comparison group, and the generalizability of findings to only one state. Future studies should expand this analysis on a national basis to assess the utilization and financial impact of Medicaid health insurers in the 30 states that expanded the Medicaid program compared with remaining states that did not.

Figure 1. California Medicaid focused insurers’ 2012-2014 quarterly inpatient days per 1,000 annualized.

| Medical loss ratio 2014 | 1st Qtr | 2nd Qtr | 3rd Qtr | 4th Qtr |
|------------------------|---------|---------|---------|---------|
| 90.7%                  | 89.5%   | 88.5%   | 86.6%   |
| Medical loss ratio 2013| 91.0%   | 90.3%   | 90.0%   | 89.9%   |
| Medical loss ratio 2012| 91.4%   | 92.0%   | 92.8%   | 92.4%   |
| Percentage change 13-14 in basis points Qtr over Qtr | (30) | (80) | (150) | (330) |
| Percentage change 12-13 in basis points Qtr over Qtr | (40) | (170) | (280) | (250) |
| Administrative cost ratio 2014 | 4.96% | 4.53% | 4.01% | 3.70% |
| Administrative cost ratio 2013 | 6.24% | 5.07% | 5.86% | 5.81% |
| Administrative cost ratio 2012 | 6.12% | 5.57% | 5.50% | 6.22% |
| Percentage change 13-14 in basis points Qtr over Qtr | (128) | (54) | (185) | (211) |
| Percentage change 12-13 in basis points Qtr over Qtr | 12 | 50 | 36 | 41 |
| Total profit margin ratio 2014 | 3.55% | 4.79% | 6.60% | 9.36% |
| Total profit margin ratio 2013 | 1.99% | 4.07% | 4.13% | 4.79% |
| Total profit margin ratio 2012 | 1.00% | 0.02% | 0.50% | 0.89% |
| Percentage change 13-14 in basis points Qtr over Qtr | 156 | 72 | 247 | 457 |
| Percentage change 12-13 in basis points Qtr over Qtr | 99 | 405 | 363 | 390 |

Note. Qtr = quarter.


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