



Medicaid Payment Reform Could Save States Billions: State Savings Estimates

In the table below, we estimate the annual savings that Medicaid payment reform could yield for states. We assume that states: 1) reduce payments to hospitals with higher-than-average risk-adjusted rates of potentially preventable complications and readmissions in Fee-For-Service (FFS) Medicaid, and 2) incorporate these payment adjustments into Medicaid managed care contracts and adjust capitation rates to reflect the savings.

About the estimates: To generate these estimates, we assumed state Medicaid programs could achieve the same savings, as a percentage of inpatient spending, as studies have shown could be saved in Medicare payment reform.¹ We applied those percentages to state-specific estimates of fee-for-service and managed care inpatient Medicaid spending, calculated from information available on Kaiser's [State Health Facts](#) website. We then used each state's current Federal Medical Assistance Percentage (FMAP) to calculate the state's share of that spending.

These are rough estimates, and are very sensitive to assumptions about how the payment reform is structured. The estimates assume that Medicaid reduces payments to hospitals with higher-than-average risk-adjusted rates of 64 potentially preventable complications (PPCs) and potentially preventable readmissions within 30 days of discharge (PPRs). Under these assumptions, each hospital's payment reduction is calculated by estimating the costs of its "excess" (i.e. above risk-adjusted average) PPCs and PPRs. These estimates account only for payment reductions; they do not account for any savings that would likely result from reduced rates of PPCs and PPRs.

For more information about how these estimates were generated, please contact Katherine Howitt at (617) 275-2849 or khowitt@communitycatalyst.org.

¹ Richard Fuller et al "A new approach to reducing payments made to hospitals with high complication rates", *Inquiry*, Spring 2011; and Averill et al, "Redesigning the Medicare Inpatient PPS to Reduce Payments to Hospitals with High Readmission Rates", *Health Care Financing Review*, Summer 2009.

State	Annual State Savings from Potentially Preventable Complications			Annual State Savings from Potentially Preventable Readmissions			Total Annual Potential Savings
	FFS	Managed Care	Total	FFS	Managed Care	Total	
Alabama	\$1,300,000	\$500,000	\$1,800,000	\$1,600,000	\$700,000	\$2,300,000	\$4,100,000
Alaska	\$1,500,000	\$0*	\$1,500,000	\$1,900,000	\$0*	\$1,900,000	\$3,400,000
Arizona	\$1,700,000	\$10,000,000	\$11,700,000	\$2,100,000	\$12,500,000	\$14,600,000	\$26,300,000
Arkansas	\$2,800,000	\$0*	\$2,800,000	\$3,500,000	\$0*	\$3,500,000	\$6,300,000
California	\$77,900,000	\$28,100,000	\$106,000,000	\$97,400,000	\$35,100,000	\$132,500,000	\$238,400,000
Colorado	\$5,300,000	\$1,300,000	\$6,600,000	\$6,600,000	\$1,600,000	\$8,200,000	\$14,800,000
Connecticut	\$4,000,000	\$2,200,000	\$6,300,000	\$5,100,000	\$2,800,000	\$7,900,000	\$14,100,000
Delaware	\$500,000	\$800,000	\$1,300,000	\$600,000	\$1,000,000	\$1,600,000	\$2,900,000
District of Columbia	\$1,900,000	\$800,000	\$2,700,000	\$2,400,000	\$1,000,000	\$3,400,000	\$6,100,000
Florida	\$26,800,000	\$9,900,000	\$36,700,000	\$33,500,000	\$12,400,000	\$45,900,000	\$82,600,000
Georgia	\$8,300,000	\$7,400,000	\$15,700,000	\$10,400,000	\$9,200,000	\$19,600,000	\$35,300,000
Hawaii	\$900,000	\$2,200,000	\$3,200,000	\$1,200,000	\$2,800,000	\$4,000,000	\$7,100,000
Idaho	\$1,200,000	\$100,000	\$1,300,000	\$1,500,000	\$100,000	\$1,600,000	\$2,800,000
Illinois	\$46,000,000	\$1,300,000	\$47,300,000	\$57,500,000	\$1,600,000	\$59,100,000	\$106,400,000
Indiana	\$5,500,000	\$3,600,000	\$9,100,000	\$6,900,000	\$4,500,000	\$11,400,000	\$20,500,000
Iowa	\$2,400,000	\$200,000	\$2,700,000	\$3,000,000	\$300,000	\$3,300,000	\$6,000,000
Kansas	\$2,400,000	\$1,600,000	\$3,900,000	\$3,000,000	\$2,000,000	\$4,900,000	\$8,900,000
Kentucky	\$5,100,000	\$1,700,000	\$6,800,000	\$6,400,000	\$2,100,000	\$8,400,000	\$15,200,000
Louisiana	\$9,000,000	\$0*	\$9,000,000	\$11,200,000	\$0*	\$11,200,000	\$20,200,000
Maine	\$2,800,000	\$0*	\$2,800,000	\$3,500,000	\$0*	\$3,500,000	\$6,300,000

State	Annual State Savings from Potentially Preventable Complications			Annual State Savings from Potentially Preventable Readmissions			Total Annual Potential Savings
	FFS	Managed Care	Total	FFS	Managed Care	Total	
Maryland	\$6,400,000	\$6,900,000	\$13,300,000 ²	\$8,000,000	\$8,700,000	\$16,600,000	\$29,900,000
Massachusetts	\$16,500,000	\$8,600,000	\$25,100,000	\$20,700,000	\$10,700,000	\$31,400,000	\$56,500,000
Michigan	\$7,000,000	\$13,800,000	\$20,800,000	\$8,800,000	\$17,300,000	\$26,000,000	\$46,800,000
Minnesota	\$4,100,000	\$6,300,000	\$10,400,000	\$5,100,000	\$7,900,000	\$13,000,000	\$23,400,000
Mississippi	\$5,400,000	\$0*	\$5,400,000	\$6,700,000	\$0*	\$6,700,000	\$12,000,000
Missouri	\$11,900,000	\$3,900,000	\$15,900,000	\$14,900,000	\$4,900,000	\$19,800,000	\$35,700,000
Montana	\$900,000	\$0*	\$900,000	\$1,200,000	\$0*	\$1,200,000	\$2,100,000
Nebraska	\$1,700,000	\$200,000	\$1,900,000	\$2,100,000	\$300,000	\$2,400,000	\$4,400,000
Nevada	\$1,700,000	\$600,000	\$2,300,000	\$2,200,000	\$800,000	\$2,900,000	\$5,300,000
New Hampshire	\$700,000	\$0*	\$700,000	\$800,000	\$0*	\$800,000	\$1,500,000
New Jersey	\$7,600,000	\$5,100,000	\$12,700,000	\$9,500,000	\$6,400,000	\$15,900,000	\$28,500,000
New Mexico	\$2,500,000	\$6,300,000	\$8,800,000	\$3,100,000	\$7,900,000	\$11,100,000	\$19,900,000
New York	\$66,000,000	\$36,500,000	\$102,500,000	\$82,500,000	\$45,700,000	\$128,200,000 ³	\$230,700,000 ¹
North Carolina	\$12,800,000	\$200,000	\$13,100,000	\$16,100,000	\$300,000	\$16,300,000	\$29,400,000
North Dakota	\$400,000	\$0*	\$400,000	\$500,000	\$0*	\$500,000	\$1,000,000
Ohio	\$7,900,000	\$11,900,000	\$19,900,000	\$9,900,000	\$14,900,000	\$24,800,000	\$44,700,000
Oklahoma	\$5,800,000	\$400,000	\$6,200,000	\$7,300,000	\$500,000	\$7,700,000	\$13,900,000
Oregon	\$1,500,000	\$2,400,000	\$3,800,000	\$1,800,000	\$3,000,000	\$4,800,000	\$8,600,000
Pennsylvania	\$5,500,000	\$21,400,000	\$26,900,000	\$6,900,000	\$26,800,000	\$33,700,000	\$60,600,000
Rhode Island	\$1,900,000	\$1,500,000	\$3,400,000	\$2,400,000	\$1,900,000	\$4,300,000	\$7,700,000

² Maryland has already begun tying hospital payments to their rates of complications. Maryland's payment reform initiative was designed to be "revenue-neutral" – that is, payment cuts to some hospitals with high rates of complications were offset by additional payments to hospitals with low rates of complications. Despite the "revenue-neutral" design, the reduction in PPCs resulting from the new financial incentives translated to approximately \$62.5 million in savings in the second year of the initiative. The estimates in this table reflect how much more Maryland could save in Medicaid through rate reductions if its payment reform program were more aggressive and were not designed to be revenue-neutral.

³ New York has already implemented a payment policy to reduce hospital rates – by \$47 million in 2010 – to account for potentially preventable readmissions. The savings estimates in the table above do not account for the \$47 million New York is already saving.

State	Annual State Savings from Potentially Preventable Complications			Annual State Savings from Potentially Preventable Readmissions			Total Annual Potential Savings
	FFS	Managed Care	Total	FFS	Managed Care	Total	
South Carolina	\$5,500,000	\$2,100,000	\$7,600,000	\$6,900,000	\$2,600,000	\$9,500,000	\$17,100,000
South Dakota	\$1,100,000	\$0*	\$1,100,000	\$1,300,000	\$0*	\$1,300,000	\$2,400,000
Tennessee	\$3,200,000	\$8,400,000	\$11,600,000	\$4,000,000	\$10,500,000	\$14,500,000	\$26,200,000
Texas	\$33,700,000	\$13,700,000	\$47,400,000	\$42,200,000	\$17,100,000	\$59,300,000	\$106,700,000
Utah	\$1,800,000	\$600,000	\$2,300,000	\$2,200,000	\$700,000	\$2,900,000	\$5,200,000
Vermont	\$600,000	\$0*	\$600,000	\$800,000	\$0*	\$800,000	\$1,400,000
Virginia	\$6,300,000	\$4,100,000	\$10,400,000	\$7,900,000	\$5,100,000	\$13,000,000	\$23,400,000
Washington	\$7,000,000	\$4,400,000	\$11,400,000	\$8,700,000	\$5,500,000	\$14,300,000	\$25,700,000
West Virginia	\$1,500,000	\$400,000	\$1,900,000	\$1,800,000	\$600,000	\$2,400,000	\$4,300,000
Wisconsin	\$4,000,000	\$6,400,000	\$10,400,000	\$5,000,000	\$8,000,000	\$13,000,000	\$23,300,000
Wyoming	\$800,000	\$0*	\$800,000	\$1,000,000	\$0*	\$1,000,000	\$1,800,000
Total	\$441,000,000	\$238,200,000	\$679,200,000	\$551,300,000	\$297,700,000	\$849,000,000	\$1,528,100,000

*Asterisk indicates that either the state has no managed care spending, or its estimated savings in managed care round down to zero when rounded to the nearest hundred thousand.