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Investing in Medicaid Management: What Governors Need to Do

Issue Brief

John Kitzhaber, MD • Bruce Goldberg, MD

EXECUTIVE SUMMARY

Every governor is faced with major decisions about state program management, and the Medicaid program is likely the biggest and most complex for any state to manage. In our experiences as a governor and a director of health and human services in Oregon, we know that strong and effective Medicaid management must be a priority for any governor, regardless of policy agenda. In this paper we make the case for investment in strong management of state Medicaid programs and explain what we mean by that term.

Why does strong management of Medicaid matter?

- Medicaid provides health care coverage for a large portion of the state's residents and consumes a significant portion of state budgets.
- The Medicaid program is complex. It serves diverse populations, covers very different health care services, and operates within a highly complex and dynamic health care industry.
- Medicaid operations involve a variety of administrative and management activities, including oversight of a variety of contracts (such as managed care, information technology systems, and data analytics). Administrative structure and staffing need to match these operational functions.

What constitutes strong Medicaid management?

- The Medicaid director is a senior executive who possesses a high level of competencies, skills, and experience. Attracting the best talent means offering compensation that matches the significant management responsibilities associated with the position.
- The Medicaid management team needs to have strong subject matter and managerial competencies, but hiring and promotion practices often focus more on the former. The competencies include problem solving and leadership and communication skills within the workplace, as well as a good understanding of the state's health care system and political environment. Good management of relationships—within state government and with external stakeholders—is an essential part of the Medicaid management team's responsibilities.
- Medicaid directors and their management teams need administration support to identify, hire, and develop qualified staff. This may require changes in hiring rules and salary scales. It is worth the effort to attract and retain the most qualified personnel.

As state budgets face growing challenges in supporting sustainable Medicaid programs, high-level management skills are increasingly important. As a consequence, greater state investment in Medicaid management will be critical to attracting—and, more importantly, retaining—the kind of management expertise your state will need to ensure that your Medicaid program is fiscally responsible and stable; that you are getting optimal value for the public investment; and, most importantly, that you are improving the health of the Medicaid population and, for that matter, all those in your state.

Introduction

Every governor is faced with major decisions about the management and leadership of state program operations, and managing the state's Medicaid program is likely the biggest and most complex of those programs. Because health care and the Medicaid program are so dynamic, this is a management challenge shared by new governors and multi-term incumbents alike.

In this paper, we share key insights based on our previous experience—as a governor and a health and human services agency director in Oregon—to help the

nation's governors understand the magnitude and importance of these management decisions. Our focus is different than that of most health care policy papers about Medicaid because we are addressing common concerns affecting all states regarding the personnel, skills, and resources needed to manage the Medicaid program effectively, regardless of state Medicaid policy decisions.

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Why is this issue important to you as a governor?

1. Medicaid serves a large and growing segment of your state's population. Nationally, Medicaid provides health care to almost one-quarter of our nation's population and finances almost half of all births. It is also responsible for addressing the long-term care needs for many of the elderly and people with disabilities. Senior management is responsible for ensuring that Medicaid services meet these diverse population needs.
2. Medicaid is the largest portion of any state's budget and the second largest component of state general fund spending. Stewardship of these resources requires excellent management and skills.
3. Health care is a vast and complex enterprise in every state. It affects all residents and the larger economy. Because of its size and scope, how well Medicaid operates affects the whole health care system in your state.

This paper distills our collective knowledge and experience to make the case for why you need to seek out and use the best expertise and devote the required resources to manage your state's Medicaid program. The Medicaid program provides governors and state policymakers the opportunity to make real and positive change in people's lives if the program is managed well. However, if not managed effectively, the Medicaid program can overrun budgets, become overly dependent on consultants (who are, in most instances, an expedient but poor and expensive substitute for organizational capacity), drain financial resources from other important state services (e.g., education), and impede the ability of vulnerable people from getting the health care they need, causing needless suffering and even death.

Medicaid's Evolution

Until the last two decades, governors, state legislators, and administrators generally viewed and managed Medicaid as they would any other state social service and benefit program. Medicaid programs were often (and many still are) housed within larger agencies providing social supports such as food, financial assistance, and senior services. Attention was paid to eligibility, enrollment, and the integrity of the program. Were the correct people being

enrolled? Were bills being paid correctly? Was the program operating within its budget? When it came to Medicaid, politicians campaigned on the need for accountability, efficiency, and elimination of “waste, fraud, and abuse.” Cost overruns in Medicaid budgets were addressed by some combination of reducing provider payments, reducing client benefits, and/or limiting eligibility requirements for the program.

As health care costs grew in the 1990s, so did Medicaid budgets. States were slow to adopt private sector cost-control solutions, preferring instead to continue to lower provider payments, benefits, or enrollment when Medicaid budgets rose quickly. In reality, many of the market “solutions” employed by the private sector simply shifted costs to consumers—something states cannot do in Medicaid.

Then came the Affordable Care Act, and Medicaid was thrust into the forefront of the American political dialogue about health care. States were offered a choice of expanding Medicaid coverage to those up to 133% of the poverty level, initially financed entirely by federal funds, with states eventually required to fund 10% of those costs. Many states seized this opportunity, and Medicaid enrollment in expansion states greatly increased. Approximately 65 million Americans under age 65, or 22% of that population, rely on Medicaid for health insurance coverage with a range of 11% to 37% of state populations.¹ In some states, Medicaid covers more non-elderly people than the employer/commercial insurance sector.

Regardless of whether your state opted for expansion, Medicaid remains one of your largest state expenditures and, as such, requires sophisticated management. Today, Medicaid is the single largest component of all source state spending (general funds, federal funds, other state funds, and bonds) at 29.7%. And, more significantly, Medicaid expenditures are now the second largest component of state general fund expenditures at 20.2%, second only to elementary and secondary education at 35.8%.²

Medicaid Management: Program Functions

State Medicaid programs are often housed within large state human services agencies and, as such, are structured similarly. Yet, today’s Medicaid programs must function not merely as state benefit programs, but rather as large, complex health care organizations. They are responsible for the health care costs and quality of almost a quarter of our nation’s population, and they work in a rapidly changing health care environment. In this sense, the management requirements for Medicaid are in many ways more comparable to the major health care organizations in your state than to traditional state human services administration, but few states operate Medicaid in a fundamentally different way from other state programs.

As everyone seeks better value and improved quality, the health care environment is swiftly transforming. This multifaceted and complex industry is increasingly influenced not only by the general marketplace, but also by the pressures of state and federal regulation. The

frustrations and expectations of consumers, providers, purchasers, and policymakers are growing, and there is increasing pressure on all health care organizations, including Medicaid, to deliver better care at a lower cost. As a result, new payment models and quality measurement systems are being deployed, and both financial and quality performance are being more closely measured and scrutinized.

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In this environment, the role and responsibility of Medicaid agencies is increasingly multi-dimensional and complex. No longer can Medicaid agencies simply focus on enrolling the eligible population and paying their bills correctly. Today's Medicaid agency must administer a wide variety of functions including health care policy development, procurements, information technology (IT) systems, value-based payment models, performance metrics, health disparities and social determinants of health, population health improvement, utilization management, managed care rate setting, actuarial techniques, federal Medicaid regulation and policy, health care contracting, consumer protections, and more. Adding further complexity, Medicaid agencies have to work with Medicare, jointly administering eligibility, benefits, and payments for dually eligible beneficiaries; aligning with provider quality standards; and, more recently, participating in multi-player innovation models.

All of this requires a diverse and highly skilled staff, yet Medicaid directors cite great difficulties in recruiting and retaining qualified people, especially in the areas of analytics and clinical/health care experience.³ Among the reasons cited are heavy workloads and lower salaries compared to those in the private sector. As a result, many staff members at Medicaid agencies are career civil servants without significant health care industry experience or expertise.

The lack of experienced staff and an increasingly complex and demanding health care marketplace are significant factors driving Medicaid directors to look outside their agencies for help in managing programs. Almost 80% of Medicaid directors indicate that they rely on outside contractors for at least one key Medicaid function, and most rely on contractors to assist with multiple functions. Traditional managed care functions such as utilization management, decision support and analytics, quality measurement and reporting, and clinical oversight for pharmacy and medical services are among the services most frequently contracted. Interestingly, few agencies contract for such traditional agency services as eligibility and enrollment or contract oversight.³

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The cost for these consultants and contractors is often far greater than it would be for a state to provide the same services, even if paying employees at market rate. And while procuring this expertise from outside the agency is often necessary in the short term, in the long term it erodes the ability of Medicaid agencies to function effectively. Without internal expertise, agencies are unable to create a talent pool that they can train, nurture, and advance into positions of increasing responsibility. In fact, many younger employees now use state experience as a jumping off point for better paying employment with the consulting and contracting firms on which Medicaid agencies rely for needed expertise.

The executive branch faces major trade-offs in these decisions. Because of the time required for the public procurement process to get from recognition of need to signed contract, the heavy reliance on consultants can impede the ability of states to react to a rapidly changing health care and health policy environment. This reliance on external consultants may also undermine the ability of new governors and state administrations to implement needed organizational changes because of the sheer number of contracts that must be renegotiated or redefined to provide a new set of deliverables. On the other hand, state civil service policies and processes can make it difficult to create job titles, hire from outside government, or promote staff based on rapidly changing program requirements. We would argue that it is worth the effort for governors to invest directly in their Medicaid management workforce as much as possible and empower the management team to reevaluate how contractors are used to perform state program functions.

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Medicaid Management: Defining the Skills and Competencies

For these reasons, the Medicaid management team needs a variety of competencies and skills to be effective. Managers must have:

- Strong managerial competencies that include creating a positive and productive work environment and setting a high standard for operational excellence.
- Organizational skills and the ability to cultivate a culture of service to all segments of the Medicaid population.
- Solid problem-solving skills and the ability to communicate clearly and effectively with staff and external audiences.
- Capabilities to measure and deliver strong financial and operational performance, including a basic understanding of the principles of nonprofit funds, accounting and public finance.

- Authority and resources to identify, hire, and develop qualified staff.

Medicaid managers also need to have external awareness to:

- Establish strong relationships with diverse external stakeholders, including beneficiaries, providers of clinical services, insurers, and others in the health care industry.
- Gain buy-in for change while being sensitive to the impact of change on those stakeholders.

Medicaid managers need strong political skills. They must understand the political environment in which they operate. That means understanding and working within both national and state political frameworks. It also means understanding that, as a public program, Medicaid must conduct its business operations with a high degree of accountability and transparency.

Medicaid managers need a strong understanding of the workings of the health care industry, which includes:

- Comprehending state and federal regulatory climates in which Medicaid programs operate.
- Grasping important issues facing the health care environment.
- Anticipating and managing changes with expertise in payment reform, quality measurement, health care information technology, and population health improvement. As a key need, Medicaid directors cite gaining additional expertise and experience within their agency in the area of value-based payments and purchasing.³

Medicaid managers are responsible for addressing the health care needs of a state's most vulnerable population, which includes:

- Understanding not only the health care industry but also the population that Medicaid serves.
- Recognizing the needs of low-income populations, people with disabilities, and historically disenfranchised populations.
- Understanding existing health disparities and what is needed to address them.

Medicaid managers need a deep understanding of who is served by the program and what type of health care they need.

- Medicaid finances almost half of all pregnancies and births. Medicaid managers need to understand women's and children's health care. It also means understanding important social issues that can disproportionately affect a Medicaid population, such as health disparities, homelessness, food insecurity, and substance use disorders.

- Medicaid finances more than 40% of long-term services and supports (both community and institutionally based) for the elderly and disabled.⁴ So Medicaid managers need to understand the unique needs of these populations and their specific social and economic issues, including housing, income, and family support.

Medicaid Management: Attracting the Best Talent

In the preceding sections we outlined the importance and span of Medicaid and the skills and competencies needed to manage Medicaid programs. Obviously, it's unlikely that one individual will have all those skills. However, effective Medicaid managers must understand the array of skills needed and focus on building a diverse, culturally competent leadership team with the ability to provide high-quality results. Medicaid directors must be able to hire a team of senior managers with leadership skills and strong expertise in critical areas of health care management. As noted before, a highly functioning Medicaid program requires individuals with expertise and experience in procuring and managing IT systems, as well as in managing and analyzing health care data. Individuals with these skills are in high demand and, as such, often command salaries greater than those paid by state programs. This creates an opportunity for strong leaders to step up and articulate the benefits of hiring needed competencies and the risks of not doing so.

Today's Medicaid management teams are responsible for managing annual budgets that, for most states, exceed a billion dollars. Yet the compensation of high-level Medicaid managers falls significantly below industry standards for senior managers with similar levels of responsibility. For example, there is a profound lack of competitiveness in Medicaid director salaries when compared to other health care executives and leaders of nonprofit organizations.⁵

The noncompetitive nature of state salary scales for high-level managers is often cited as the reason that Medicaid managers' compensation is so low. Yet, states have demonstrated they can create salary structures to attract talent when so desired. Take, for example, public university presidents. Public university presidents manage smaller budgets and impact the lives of fewer individuals than Medicaid directors, yet their average compensation in 2013 was \$513,000 or 3.6 times that of Medicaid directors. It should come as no surprise then that their tenure was 50% greater than that of the average Medicaid director.⁵

This is not to say that those who oversee our universities are not performing an incredibly important function. It is simply to point out that those who administer our Medicaid programs also perform an important function: overseeing far larger public budgets, which impact far more people and provide services essential to the health and welfare of millions of Americans.

Conclusion: Governors Need to Invest in Strong Medicaid Management

Only a small portion of a state's Medicaid budget is spent on its own management salaries, and yet investing in management capacity and expertise can produce great improvements in care and avoid preventable mishaps that can be harmful to clients, budgets, and even political careers. It is even more difficult to justify the staggering disparity in pay and industry expertise between Medicaid managers and the senior leaders in health care organizations such as hospitals, medical clinics, and long-term care facilities, especially given that Medicaid managers have vastly broader responsibilities.⁶ Governors need to consider changes in hiring and compensation practices to attract and retain staff in a highly competitive environment. Making these investments involves both policy changes and a financial commitment. As such, it will require your leadership. We tried to provide this leadership in our tenures, and we encourage you to do the same.

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Being governor is at once a tremendous opportunity and a great responsibility—one that entails many hard choices. In today's politically charged environment, it is often difficult to make long-term investments or to invest in the staff necessary to assure you have the requisite expertise. But ensuring there is strong management within an agency that manages 25% of your budget and influences the welfare of 15% or more of your population is not a political judgment, it is just common sense.

As state budgets face increasing challenges in supporting sustainable Medicaid programs, increased state investment in Medicaid managers will be critical to attracting and retaining the expertise necessary to ensure that your Medicaid program is fiscally responsible and stable, that you are getting optimal value for the public investment, and, most importantly, that you are improving the health of the Medicaid population in your state.

Notes

- ¹ Henry J Kaiser Family Foundation. State Health Facts. Health Insurance Coverage of the Total Population. 2017. <https://www.kff.org/other/state-indicator/total-population/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>. Accessed April 8, 2019.
- ² National Association of State Budget Officers. State expenditure report: fiscal years 2016-2018. 2018. <https://www.nasbo.org/reports-data/state-expenditure-report>. Accessed April 8, 2019.
- ³ National Association of Medicaid Directors. State Medicaid operations survey. Sixth annual survey of Medicaid directors, FY 2017. 2018. http://medicaiddirectors.org/wp-content/uploads/2018/09/NAMD-Survey-Report_General_FINAL.pdf. Accessed April 8, 2019.
- ⁴ Congressional Research Service. Who pays for long-term services and supports? August 22, 2018. <https://fas.org/sgp/crs/misc/IF10343.pdf>. Accessed April 8, 2019.
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- ⁶ US Government Accountability Office. Medicaid managed care: compensation of Medicaid directors and managed care organization executives in selected states in 2015. GAO-17-427R. March 31, 2017. <https://www.gao.gov/products/GAO-17-427R>. Accessed April 8, 2019.

The Authors

John Kitzhaber, MD

John Kitzhaber, MD, is a former emergency physician, state legislator, and three-term governor of Oregon. He is the author the Oregon Health Plan, which built a defined benefit based on a prioritized list of health service. He is also a chief architect of Oregon's Coordinated Care Organizations, which now provide care to a million Oregonians within a global budget indexed to a sustainable growth rate, while meeting rigorous quality and outcome metrics. In 2013, *Modern Healthcare* magazine ranked Kitzhaber number two on their list of the “100 Most Influential People in Health Care” and number one on the list of the “50 Most Influential Physician Executives.” Kitzhaber is currently a writer, speaker, and private consultant on health policy and politics—and holds the Chair in Health Policy at the Foundation for Medical Excellence.

Bruce Goldberg, MD

Bruce Goldberg, MD, served two Oregon governors for over ten years as the director of the Office for Oregon Health Policy and Research and director of the Oregon Department of Human Services. He went on to become the founding director of the Oregon Health Authority. As director, he was responsible for Medicaid policy and management. He led Oregon's nationally recognized health reforms transforming the state's Medicaid system to one based on a model of coordinated care and value-based payment for care. For more than 15 years, he has also been a faculty member at Oregon Health and Sciences University.

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