

## Privatizing the VA: Lessons from privatized Medicaid in Kansas and Iowa

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**A**s the Trump administration and organizations like the Koch-backed Concerned Veterans for America push to privatize health care for U.S. veterans, it's crucial to consider the experience of states that have privatized another form of publicly managed health care: Medicaid. Two recent examples sum up the dangers of privatization: both Kansas and Iowa have suffered cuts in care, reduced far less costs than expected, and sacrificed oversight and transparency by handing their programs over to private entities. These changes have been devastating for many Medicaid recipients that once could depend on public provision for life-sustaining care.

Medicaid provides critical health insurance to low-income residents and those with disabilities. This important public health care program is administered at the state level, yet both the state and the federal government share in the cost. Over the course of 2014, Medicaid provided health coverage for 80 million low-income Americans, nearly half of which were children.<sup>1</sup>

An increasing number of states have experimented with privatizing large portions of their Medicaid programs. Instead of administering the program themselves, these states have contracted with private managed care organizations (MCOs), which are typically private insurance companies, and pay a set amount per member per month to the MCOs based on the projected cost of services that Medicaid recipients will require that year. The MCOs typically have responsibility over many aspects of managing the program, including determining eligibility of Medicaid applicants, recruiting medical providers to their networks, and controlling the reimbursements to doctors and hospitals that Medicaid recipients use.

This model, often referred to as Medicaid Managed Care (MMC), is often touted as a way for states to save money, while still providing coordinated care. However, the repeated experience of privatized Medicaid programs shows that this model has high administrative costs and often fails to save money or improve care. Inherent in the fixed rate contract structure is the pressure for for-profit insurance companies to limit care and deny services because the less care they deliver, the more they profit.<sup>2</sup>

Large insurance giants, such as UnitedHealth Group, Humana, Anthem, and Centene, are becoming increasingly entrenched in the provision of Medicaid services with over half of recipients now enrolled in privatized plans.<sup>3</sup> Multiple states have had ongoing problems with Medicaid Managed Care, with contractors routinely denying or delaying payments to medical providers that serve Medicaid patients.

This brief examines the experiences of Kansas and Iowa, two states that have recently experimented with wide-scale Medicaid privatization, and summarizes the problems they have encountered.

**Problem #1: Cutting corners at the expense of Medicaid recipients' access to needed care**

As mentioned above, private insurance companies are typically paid using a fixed rate contract structure, which incentivizes companies to cut corners to maximize profits. This can mean reduced reimbursement rates for medical providers, denied coverage to Medicaid recipients, fewer case workers, less care for those who need it, and more.

In Kansas, almost immediately after privatization began, problems surfaced, including reduced levels of care for patients, slow payments to providers, increased paperwork and costs for providers seeking reimbursements, and inconsistent and inaccurate payments.<sup>4</sup> Problems have continued, and multiple allegations of improperly denied claims have surfaced against the state's three contractors, Amerigroup, United Healthcare, and Centene. In a December 2015 state legislative hearing, hospital officials explained how the contractors denied claims with no explanation in an effort to keep costs down and maximize profits.<sup>5</sup>

In Iowa, a 2017 report by the state's Managed Care Ombudsman Program calculated that the office had received more than 1,800 complaints between October 2016 and September 2017 related to Medicaid recipients' services being reduced, denied, or terminated.<sup>6</sup> Providers have also reported that the companies administering the state's program routinely delay payment or deny their claims. This has had the impact of putting lives at risk, and in some cases, has resulted in death. One Iowan who relied on a ventilator was no longer able to live at her local nursing home because the facility made the decision to no longer accept patients on ventilators due to insufficient and untimely payments from the companies administering the state's Medicaid program. The woman ultimately died shortly after she was moved to a temporary facility in fall 2017. Only six of Iowa's 417 nursing homes continue to accept ventilator patients.<sup>7</sup>

Problems with cutting corners have plagued the system from the very beginning. In August 2016, only four months into the privatization effort, results from a survey that included over 400 Iowa doctors, hospitals, local clinics, and nonprofit health care providers found that the majority of Medicaid providers weren't being paid on time by the insurance companies and their administrative costs were already increasing under the privatized system. As a result, many providers reported that they had to reduce the quantity and quality of services they provided.<sup>8</sup> These problems ultimately hurt Medicaid recipients. As one survey respondent explained, "It has harmed our most vulnerable locally, as they now have little to no options for some services ... and sometimes no local options at all."<sup>9</sup>

## **Problem #2: Cost savings fail to materialize**

While states often tout Medicaid privatization as containing costs and saving money, experience shows that cost savings often fail to materialize. As Dr. John P. Geyman, former chair of the University of Washington Department of Family Medicine explains, privatized programs have high administrative costs, built-in profits, and do not save money or improve care. Their route to financial success is by finding more ways to limit care and deny services.<sup>10</sup>

A recent state report shows that Iowa's privatized Medicaid system will save the state 80% less in fiscal year 2018 than what was originally anticipated. These shrinking cost savings combined with the myriad of problems that providers and recipients are experiencing with the system are causing many state legislators to question the state's managed care system.<sup>11</sup>

Moreover, the private insurance companies have demanded and secured increased fees from the state, after they complained they were losing money operating the program. It is important to note that the companies are paid up to 12 percent of the program's annual \$4.8 billion cost, even though the state only needed between 4 percent and 8 percent of program costs to manage the program, significantly adding to what the state pays in administrative costs.<sup>12</sup>

While a 2016 consultant's report showed that Kansas's privatized Medicaid system was able to save the state money, it emphasized that these cost savings were the result of cutting corners. The report determined that while cost-control benchmarks had been reached, KanCare had not delivered on quality outcomes, such as the coordination of physical health, behavioral health, and daily support services for people with disabilities or met targets for improved health outcomes. Moreover, that same year, provider rates were cut by 4 percent, resulting in a \$56.4 million cut to the program.<sup>13</sup> Those cuts were ultimately reversed in 2017 after outcry from squeezed medical providers.<sup>14</sup>

## **Problem #3: Less oversight and transparency**

A lack of transparency and accountability have been central features of both the Kansas and Iowa privatization experiments. In January 2017, the federal Centers for Medicare and Medicaid Services denied Kansas's request to expand its Medicaid privatization program. The letter stated that KanCare was "substantively out of compliance with Federal statutes and regulations, as well as its Medicaid State Plan" based on a review by federal investigators in October 2016.<sup>15</sup> *The Wichita Eagle* reported that investigators also found that the state's failure to ensure effective program oversight put the lives of enrollees at risk and made it difficult for them to navigate their benefits. They cited concerns about the program's transparency and effectiveness.<sup>16</sup>

Likewise, Iowa's program has had very little oversight from the committee designed to oversee it. The Health Policy Oversight Committee, the legislative committee tasked with oversight of the for-profit companies that manage the state's Medicaid system, met just twice in 2017, and didn't convene until November of that year, even as serious problems were piling up.

Furthermore, the state has very little oversight over contractors' decisions to deny care for Medicaid recipients. When a patient is denied care, they file an appeal through their corporate insurer. The insurer only shares certain data with the state about the appeals, which does not include basic details about the denial. The number of complaints about denied care should prompt the state to subject contractors to robust oversight and scrutiny, but instead Iowa doesn't even know basic facts about recipients who are formally challenging an insurer's denial of care.<sup>17</sup> As such, there is little recourse for the state or the public to evaluate or hold the insurers accountable for their decisions regarding access.

Information about the program and the state's negotiations with the insurance companies over payment increases have also been shrouded in secrecy. For months in 2017, state administrators failed to disclose any information to the public or legislators regarding negotiations over hundreds of millions of dollars in Medicaid spending that had dragged on for weeks after they were supposed to conclude.<sup>18</sup> In February 2018, issues around transparency have surfaced again, with the new Medicaid director excluding legislators and the public from important meetings about the program.<sup>19</sup>

#### **Problem #4: Medicaid recipients lose due process**

In a system where many recipients believe that their care is being unfairly denied by private insurance companies, it is important to have a robust appeals process ensuring that people are not losing the care crucial to their health and wellbeing. However, a 2018 investigation by the *Des Moines Register* found in Iowa "an appeal process that presents a thicket of administrative and legal roadblocks to patients and their families, who must clear hurdle after hurdle to secure care," even though federal law requires the companies give Medicaid recipients timely notice about denied claims and provide them an opportunity for a fair hearing.<sup>20</sup>

The investigation found that there were cases where the companies failed to properly notify recipients about health care reductions and their appeal rights. In one such case, the company failed to share with the recipient a copy of 78 exhibits used to justify her denied care. Even when a Medicaid recipient is able to appeal their denial before an administrative law judge and wins their hearing, the private insurance companies routinely "re-evaluate" their health needs, denying care again in as little as 60 days, forcing the recipient into endless rounds of appeals.<sup>21</sup> A July 2017 Ombudsman report called this practice a "systemic" trend associated with the privatized system. These types of re-

evaluations rarely occurred when the Medicaid program was publicly managed by the state.<sup>22</sup> These due process violations are not only illegal but can have serious and harmful impacts on the very people the Medicaid program was designed to serve. With limited ability to appeal and actually reverse care denials, recipients are at the mercy of private corporates that have an inherent interest in reducing costs.

<sup>1</sup> Center on Budget and Policy Priorities, "Policy Basics: Introduction to Medicaid," June 19, 2015. <http://www.cbpp.org/research/health/policy-basics-introduction-to-medicaid>.

<sup>2</sup> John Geyman, "Privatized Medicaid Managed Care: Yet Another Health Policy Disaster," The Huffington Post, June 15, 2016. [http://www.huffingtonpost.com/john-geyman/privatized-medicaid-manag\\_b\\_7588398.html](http://www.huffingtonpost.com/john-geyman/privatized-medicaid-manag_b_7588398.html).

<sup>3</sup> Robert Pear, "As Medicare and Medicaid Turn 50, Use of Private Health Plans Surges," The New York Times, July 29, 2015. [http://www.nytimes.com/2015/07/30/us/as-medicare-and-medicaid-turn-50-use-of-private-health-plans-surges.html?\\_r=0](http://www.nytimes.com/2015/07/30/us/as-medicare-and-medicaid-turn-50-use-of-private-health-plans-surges.html?_r=0).

<sup>4</sup> Steve Otto, "KansCare is bad for the health of Kansas," The Examiner, October 31, 2013. <http://www.examiner.com/article/kanscare-is-bad-for-the-health-of-kansas>.

<sup>5</sup> Peter Hancock, "LMH accuses KanCare contractors of systematically denying legitimate claims," Lawrence Journal-World, December 29, 2015. <http://www2.ljworld.com/news/2015/dec/29/lmh-accuses-kancare-contractors-systematically-den/>.

<sup>6</sup> Managed Care Ombudsman Program, Office of the State Long-Term Care Ombudsman, "Managed Care Ombudsman Quarterly Report," July/August/September 2017. <https://www.legis.iowa.gov/docs/publications/IH/865777.pdf>.

<sup>7</sup> Rick Smith, "How Many Iowans Must Die Before Reynolds Reverses Medicaid Privatization?" Iowa Starting Line, October 19, 2017. <https://iowastartingline.com/2017/10/19/how-many-iowans-must-die-before-reynolds-reverses-medicaid-privatization/>.

<sup>8</sup> Tony Bisignano, "Iowa Medicaid is in state of emergency," The Des Moines Register, August 2, 2016. <http://www.desmoinesregister.com/story/opinion/2016/08/02/tony-bisignano-iowa-senate-private-medicaid/87947626/>. Full survey data can be found here: <http://www.iowahouse.org/medicaidprovider.pdf>.

<sup>9</sup> Tony Bisignano, "Iowa Medicaid is in state of emergency," The Des Moines Register, August 2, 2016. <http://www.desmoinesregister.com/story/opinion/2016/08/02/tony-bisignano-iowa-senate-private-medicaid/87947626/>.

<sup>10</sup> John Geyman, "Privatized Medicaid Managed Care: Yet Another Health Policy Disaster," The Huffington Post, June 15, 2016. [http://www.huffingtonpost.com/john-geyman/privatized-medicaid-manag\\_b\\_7588398.html](http://www.huffingtonpost.com/john-geyman/privatized-medicaid-manag_b_7588398.html).

<sup>11</sup> Tony Leys, "Medicaid privatization is saving Iowa 80% less money than predicted, state report says," Des Moines Register, January 5, 2018. <https://www.desmoinesregister.com/story/news/health/2018/01/05/medicaid-privatization-saving-iowa-80-less-money-than-predicted-state-report-says/1008693001/>.

<sup>12</sup> Jason Clayworth, "Care Denied: How Iowa's Medicaid maze is trapping sick and elderly patients in endless appeals," Des Moines Register, <http://features.desmoinesregister.com/news/medicaid-denials/>.

<sup>13</sup> Andy Marso, "Report: KanCare delivered on cost, not quality of care," Kansas Health Institute, November 17, 2016. <http://www.khi.org/news/article/report-kancare-delivered-on-cost-not-quality-of-care>.

<sup>14</sup> Andy Marso, "Restored Kansas Medicaid funding expected to boost children's health providers," Kansas City Star, June 16, 2017. [www.kansascity.com/news/business/health-care/article156677154.html?utm\\_source=&utm\\_medium=email&utm\\_campaign=9344](http://www.kansascity.com/news/business/health-care/article156677154.html?utm_source=&utm_medium=email&utm_campaign=9344).

<sup>15</sup> Bryan Lowry and Hunter Wodall, "Criticizing Kansas, feds deny extension of KanCare privatized Medicaid program," Kansas City Star, January 19, 2017. <http://www.kansascity.com/news/politics-government/article127424309.html>.

<sup>16</sup> Ibid.

<sup>17</sup> "Privatizing Iowa Medicaid has privatized previously public information," Des Moines Register, Editorial, January 16, 2018. <https://www.desmoinesregister.com/story/opinion/editorials/2018/01/16/privatizing-iowa-medicaid-has-privatized-public-information/1036718001/>.

<sup>18</sup> Tony Leys, "Iowa's high-stakes Medicaid payment talks have bogged down, but it's not clear why," Des Moines Register, August 10, 2017. <https://www.desmoinesregister.com/story/news/health/2017/08/10/iowas-high-stakes-medicaid-payment-talks-have-bogged-down-but-its-not-clear-why/548293001/>.

<sup>19</sup> Tony Leys, "New Medicaid director's closed-door meetings upset Democratic legislators," Des Moines Register, February 21, 2018. <https://www.desmoinesregister.com/story/news/health/2018/02/21/new-medicaid-directors-closed-door-meetings-upset-democratic-legislators/360813002/>.

<sup>20</sup> Jason Clayworth, "Care Denied: How Iowa's Medicaid maze is trapping sick and elderly patients in endless appeals," Des Moines Register, <http://features.desmoinesregister.com/news/medicaid-denials/>.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.