

Health Plan Performance Series

Identifying the Value of Medicaid Managed Care

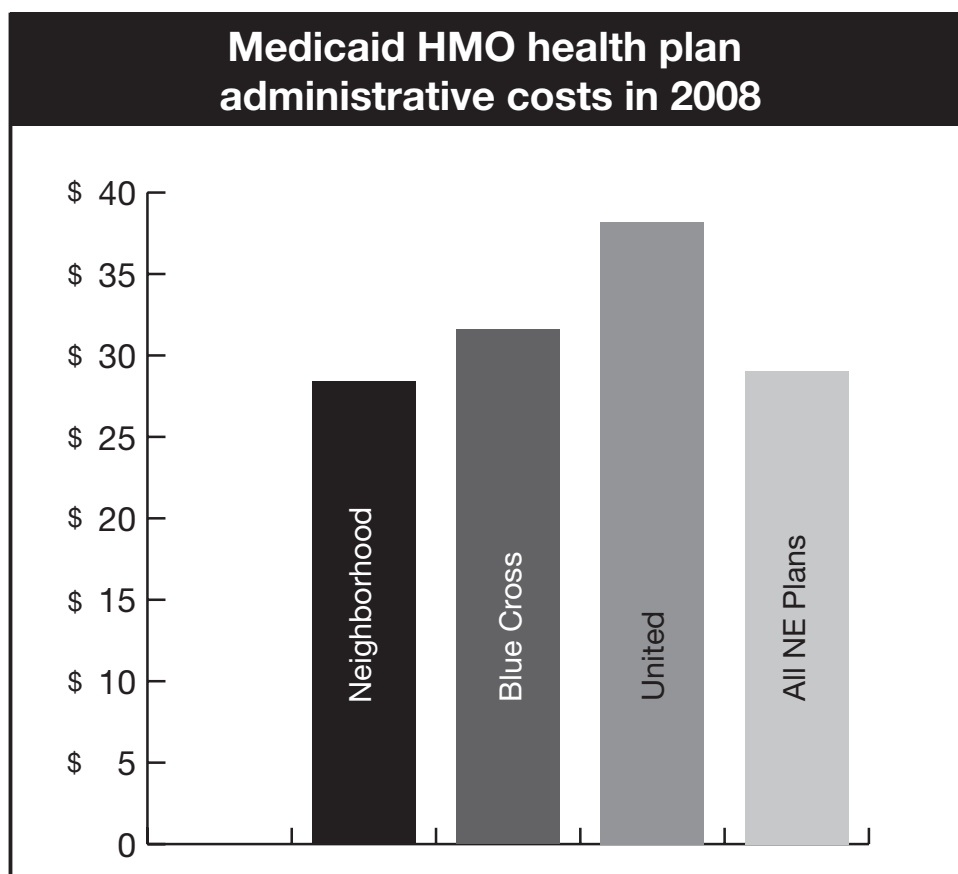
December 2009

Topic No. 4

Neighborhood Health Plan of Rhode Island Has The Lowest Administrative Costs of the Medicaid HMO Health Plans

A recent report from the Rhode Island Department of Health (DoH) and the Office of the Health Insurance Commissioner (OHIC) found that Neighborhood Health Plan of Rhode Island's (Neighborhood) administrative costs for managing care delivery to Medicaid beneficiaries were "favorably below"¹ its competitors. This finding is consistent with results from previous years and represents a significant financial benefit to the state.

In 2008, Neighborhood's administrative cost per member per month was \$28.38. Neighborhood's rate was 11 percent less than Blue Cross & Blue Shield of Rhode Island (\$31.57) and 35 percent less than United Healthcare (\$38.19). In addition to having the lowest administrative costs among Medicaid HMO health plans in Rhode Island, Neighborhood's rate was 2 percent lower than the average costs (\$29.05) for Medicaid plans throughout New England.²



What are Administrative Costs?

Administrative costs include a range of activities from paying utilities and rent to purchasing and maintaining information technology systems to covering staff salaries. Administrative cost is often shown as a percentage of the premium. "A health maintenance organization (HMO) with administrative costs of 8 to 12 percent of claims paid would be regarded as efficient," according to the American Academy of Family Physicians.³ Neighborhood's administrative costs have averaged 8.65 percent of total revenues since 2005.⁴

Neighborhood's Use of Administrative Funds

Two useful and cost-saving ways that Neighborhood spends administrative funds are on coordinating care for our members and implementing initiatives to control spending.

Because of our mission to improve access to care and health in Rhode Island, nearly forty percent of Neighborhood's 220 employees have direct day to day contact with our members. Our medical management staff interact with members and health care providers to secure medical appointments, educate on how to manage chronic diseases and obtain the basic necessities (food, clothing, shelter) members need to stay healthy and well. Our customer service staff buttress our medical team's activities by responding to member concerns and complaints. They also make welcome calls to new members to orient them on our services and help arrange for interpreters, when needed.

Our claims quality team detects and responds to instances of erroneous billing, including bills with unintentional errors as well as those representing fraud and abuse. They also identify members who have other health insurance through a spouse or job and ensure the responsible party pays some or all of the member's health care costs, as Medicaid is the payer of last resort.

The Right Amount to Spend on Administrative Costs

While effective and efficient use of limited resources remains one of Neighborhood's core tenets, it is not our ultimate sign of success. Neighborhood is in the business of making sure everyone has access to high quality, affordable health care and we look to a variety of sources for a balanced view of results.

National Committee for Quality Assurance (NCQA) accreditation and the annual U.S. News/NCQA "Best Health Plan" rankings are two of these markers. Neighborhood continually is lauded for being "Excellent" by NCQA and we have consistently been ranked among the top ten Medicaid health plans in America for quality of care and member satisfaction, despite our relatively low administrative costs.

Conclusion

Over time, constraint on administrative costs translates into savings for the state's Medicaid program by keeping negotiated reimbursement levels for managed care plans more affordable. This fiscal restraint is especially important in times of state budget difficulties and when coupled with increasing numbers of Rhode Island residents qualifying for Medicaid due to personal financial reversals.

Footnotes:

1. The Health of Rhode Island's Health Insurers (2008), Providence RI: Rhode Island Department of Health, 2009 is a biennial, up to date study of the finances of Rhode Island's health insurers. The study is based on standard financial forms filed by licensed health insurers on an annual basis with state regulators. OHIC and Health staff used a set of financial measures to examine trends in the profitability, financial strength, and medical and administrative expense trends for individual RI health insurers across major lines of business and compared to other health insurers in New England. Reference found on page 18 http://www.ohic.ri.gov/documents/Press/PressReleases/2008healthofinsurersRI/2_HEALTH%20OF%20INSURERS%20REPORT%202008.pdf
2. Excerpted from or derived from: Cryan B, The Health of Rhode Island's Health Insurers (2008), Providence RI: Rhode Island Department of Health, 2009.
3. Medicaid Topics: State by State Comparisons Administrative Costs (Tim M. Henderson, Consultant) http://www.aafp.org/online/etc/medialib/aafp_org/documents/policy/state/medicaid-adm-costs.Par.0001.File.tmp/stateadvocacy_MedicaidAdministrativeCosts.pdf
4. Neighborhood Health Plan of Rhode Island analysis (2005-2008)