strategy&

September 2016

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The steadying state of Medicaid in the United States

Growth slows, the significance of private Medicaid health plans shows, & consolidation grows

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As America heads into the election season, the political discourse and resulting public discussion on healthcare has focused on the flight of health insurers from Individual Exchange markets, along with the dramatic increases in premiums for those plans that remain. To put it in proper perspective, though, the impacts of the Individual Exchange are expected to alter affect fewer than 4% of the populace that receives health insurance through that channel.

Similarly, a few years ago market observers were prognosticating the end of the group insurance market as we know it, as a result of ACA regulations as small employers were predicted to dump coverage en masse, with large employers following their lead. However, recent studies showing a slight *increase* in employer benefit plan offer and take-up rates for large employers and modest declines for small employers suggest such forecasts have not materialized[1].

Yet the most enduring and significant impact of the Affordable Care Act may be the most under-reported and under-discussed – the expansion of Medicaid eligibility, which has contributed to a major expansion of health coverage for Americans. 75 million individuals are now covered by Medicaid - nearly one in four Americans, while in 2013 only 59 million were covered, meaning one in 17 citizens have been added to Medicaid programs.

Despite the significance of the Medicaid market, detail on the composition of the market, growth drivers, and trends is often elusive relative to other health programs. This analysis, the fourth annual on the State of Medicaid, aims to fill that gap by providing an in-depth view of the Medicaid market, including private Medicaid health plans, detailing the continuing impact of Medicaid expansion, and positing considerations for Medicaid health plans and organizations involved in Medicaid markets going forward, powered by the proprietary collection and analysis of state Medicaid data[2].

[1] Employee Benefit Research Institute, July 2016, https://www.ebri.org/pdf/notespdf/EBRI_Notes_07-No8-July16.Small-ERs.pdf

[2] *A note on the data: all data is based on state reporting of current membership publicly disclosed or provided under Freedom of Information Act (FOIA) requests. Data is from June – August 2016, aside from California Fee for Service (April 2016) and Montana Fee for Service (February 2016). All reported figures are at the prime contract level, sub-contracts not represented. Membership aggregated at parent entity. Private Managed Care excludes state-owned assets (such as Green Mountain Care in Vermont), but includes non-state run public entities (such as LA Care in California), as well as licensed provider-sponsored networks and other reported entities. The scope of inquiry was limited to physical health; behavioral, dental, drugs, etc. were excluded from analysis. Finally, membership in Medicaid programs was defined by each state, including in most cases full benefit TANF, CHIP, ABD, and MLTC populations receiving Medicaid benefits; in some cases, though, beneficiaries receiving family planning services exclusively have been excluded from analysis. Year-over-year comparisons are from PwC's The Still Expanding State of Medicaid in the United States, Summer 2015 and three year comparisons are from PwC's The Expanded State of Medicaid in the United States, Summer 2013.*

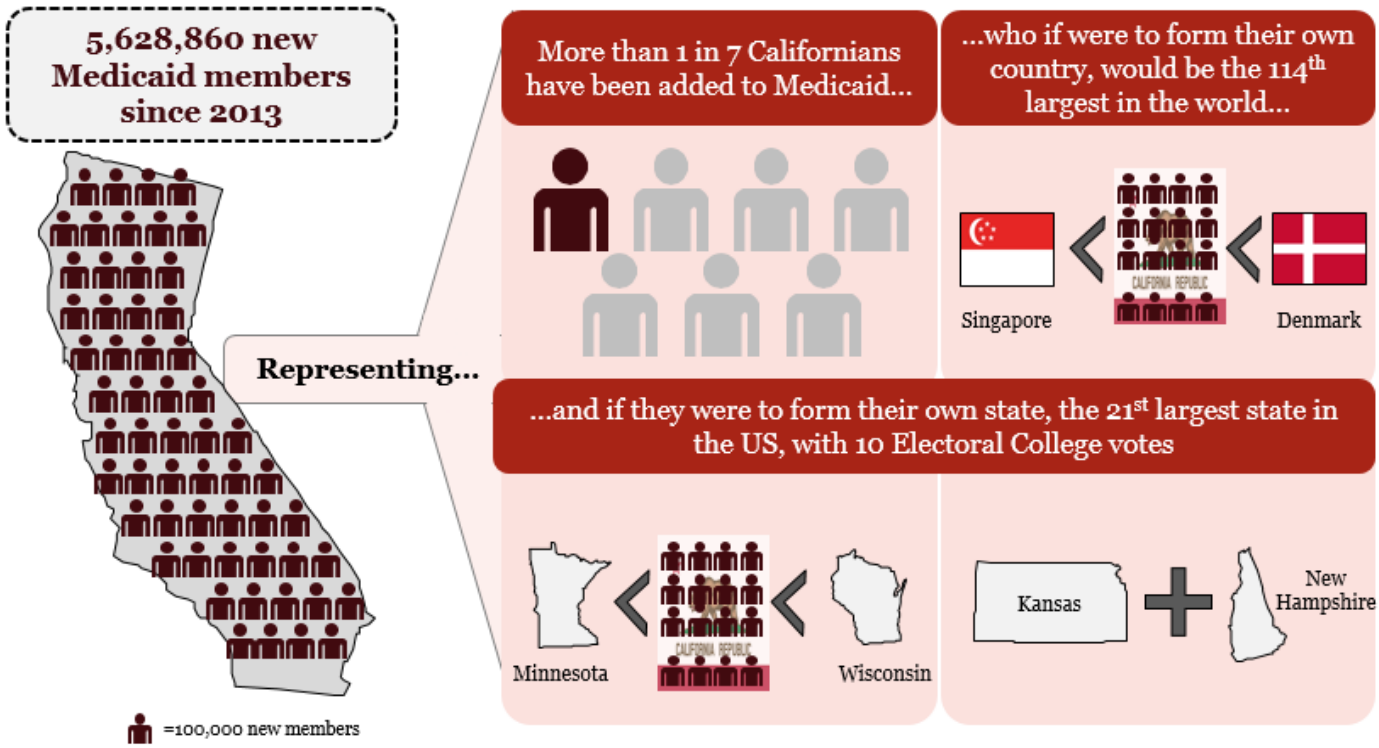
The steadying and significant Medicaid market

Medicaid enrollment

Following the 26% growth in Medicaid over the past two years, an improving US economy, and only three states expanding eligibility standards over the past year, it was an open question as to whether enrollment gains in Medicaid would continue into 2016. While the year-over-year growth has moderated substantially, in 2016 Medicaid still posted overall growth of 2.3 million beneficiaries, or 3%. This translates to 75.2 million Americans being covered by a physical health Medicaid program, or 23.4% of the nation's population.

In the past year, California added yet another 850,000 enrollees, for a total of 13.5 million residents on Medicaid - clearly the nation's largest Medicaid program by far. Over the past four years, California has added a staggering 5.6 million beneficiaries to Medicaid – greater than the population of Minnesota, or 30 states and the District of Colombia! (*See Figure 1*) Wyoming, the state with the smallest population, still has the fewest beneficiaries enrolled, with only 64,000 (or less than 0.5% of California's enrollment).

Figure 1: California Medicaid additions



New Mexico remains the state with the greatest proportion of residents enrolled at 36.3%, followed closely by the District of Colombia and California, both with 35%. Conversely, Utah has the lowest share of residents covered, at only 9.2%. *Figure 2 details the top five states in each category*.

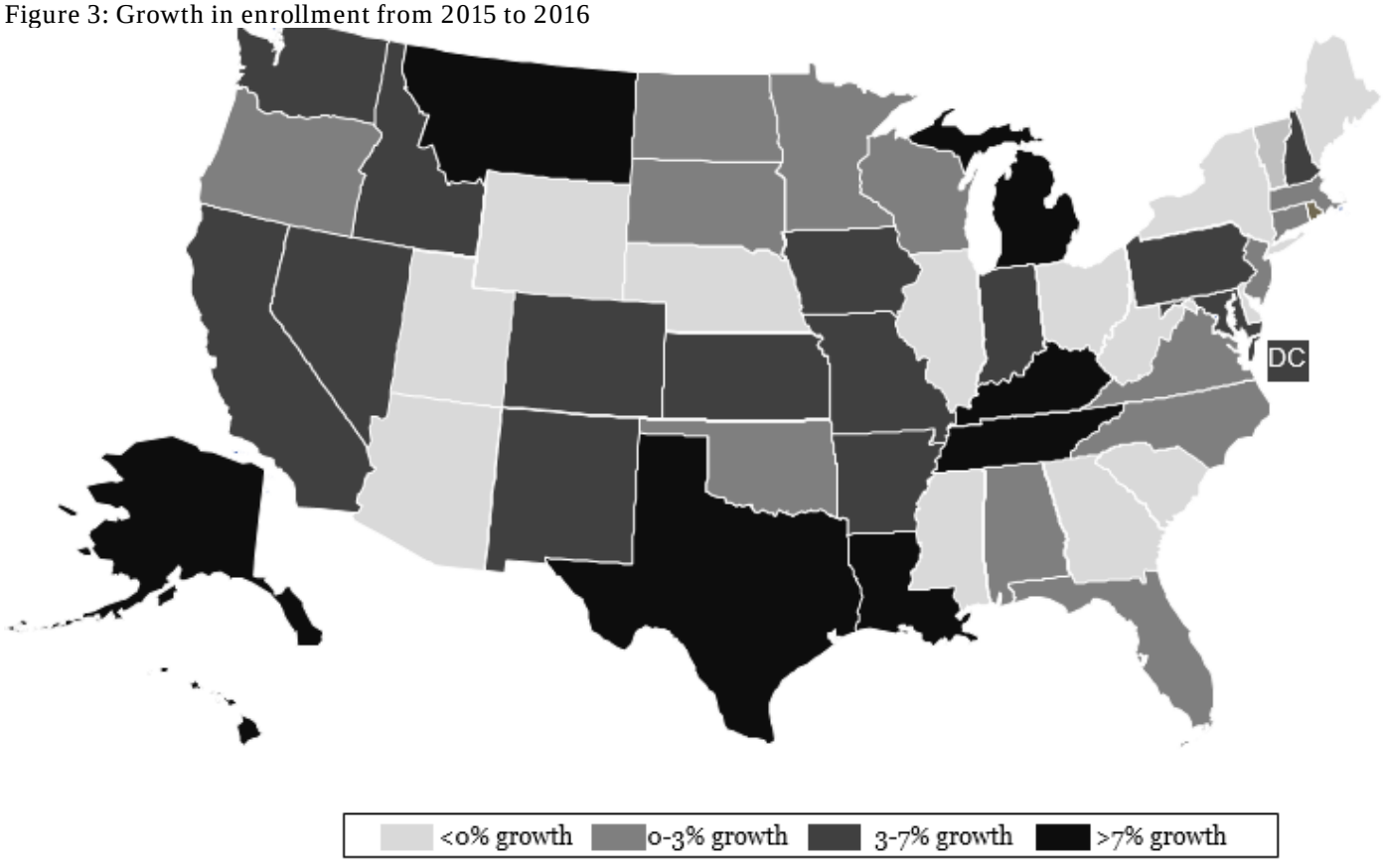
Figure 2: State Medicaid enrollment highlights[3]

Largest enrollment		Smallest enrollment		Largest share of population		Smallest share of population	
California	13.5M	Wyoming	64K	New Mexico	36.3%	Utah	9.2%
New York	6.1M	North Dakota	89K	District of Columbia	35.2%	Wyoming	10.9%
Texas	4.4M	South Dakota	119K	California	34.6%	Virginia	11.1%
Florida	3.9M	Alaska	156K	Arkansas	32.8%	North Dakota	11.8%
Illinois	3.1M	Vermont	178K	Kentucky	31.4%	Nebraska	12.2%

Most of the states posting significant increases in total enrollment this year accepted Medicaid expansion after January 2014. Alaska, Michigan, Montana, and Texas all reported greater than 10% growth in enrollment, while 15 states reported declining enrollment; most were in the low single digit range. Delaware posted the sharpest decline, with a 12% reduction as the state worked through systems issues expected to be temporary in nature.

This year's state with the greatest increase in Medicaid share was Montana (5.1% of residents) followed by Alaska (4.3% of residents). *Figure 3 shows the year over year change in Medicaid enrollment by state.*

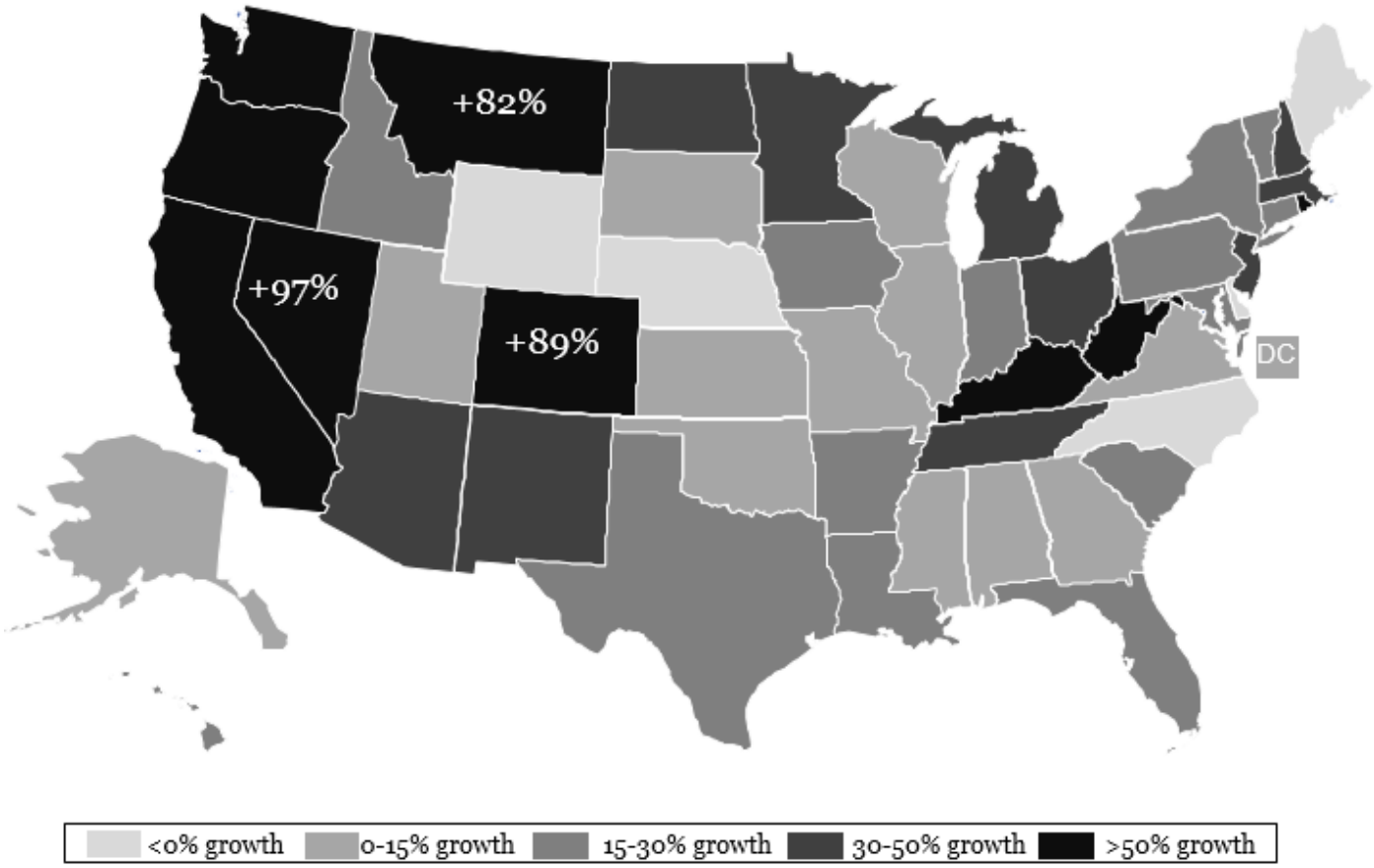
Figure 3: Growth in enrollment from 2015 to 2016



[3] ***Appendix A*** *contains additional details on Medicaid market size and structure by state.*

Over the past four years, including Medicaid expansion, the overall growth in Medicaid enrollment has been dramatic. Nationally, enrollment has grown to 75.2 million from 57.7 million in 2013, or total growth of 17.6 million (31%). Nine states have posted over 50% growth, with Nevada just shy of doubling at 97%, Colorado 89%, Montana 82%, Kentucky 73%, and California up 71%. Five states reported contraction in Medicaid enrollment over the past four years, although all were modest. *Figure 4 details the enrollment growth, by state, since 2013.*

Figure 4: Enrollment growth 2016 versus 2013



Medicaid managed care

Private Medicaid health plans continue to increase in prominence. 73% of beneficiaries are now covered by private Medicaid health plans, up from 70% last year, and 55% in 2013. 54.7 million Americans are covered by private Medicaid health plans, an increase of 60% from 2013. Over the past year, private plans added 3.4 million beneficiaries, while the number of beneficiaries enrolled in fee-for-service or public managed care decreased by 800,000**.** Since 2013, private Medicaid health plans have ***added*** 20.5 million to their rolls, while those in fee-for-service or public managed care has ***decreased*** 2.8 million.

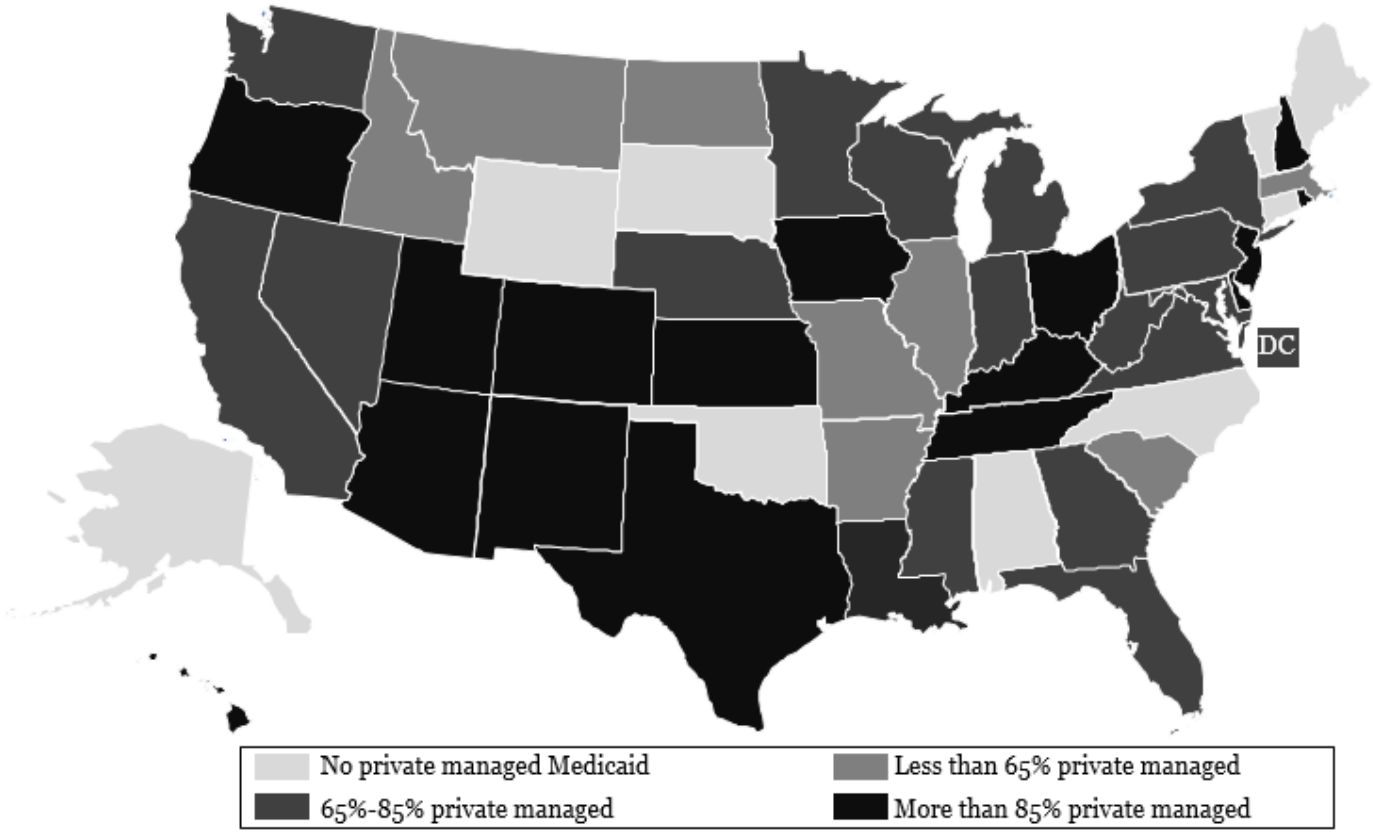
A number of states continued to migrate significant portions of their Medicaid populations to private managed care as they look to realize the cost and outcome benefits of privatization. Iowa launched a new program in April, lifting the private managed care share to 95% from just 10% last year. West Virginia grew private managed care's share by 33% to 73%, and is poised to continue the shift in January 2017 with the transition of Social Security Income (SSI) recipients to managed care. Louisiana moved to 93% private managed care, from 69% last year, as the state implemented expansion.

Montana was the only state to introduce private managed care this past year as Medicaid Expansion members in the Treasure State now have coverage through HCSC. In total, 42 states have some form of private managed Medicaid, with North Carolina and Alabama moving forward with plans to introduce it in the near future. *Figures 5 and 6 detail the share of private Medicaid health plans as a percent of the overall state Medicaid population.*

Figure 5: Share of private managed Medicaid (as % of overall Medicaid population[4])

Largest share		Smallest share	
Tennessee	100%	Idaho	1%
Hawai'i	100%	Arkansas	21%
New Hampshire	96%	North Dakota	22%
Iowa	95%	Montana	27%
New Jersey	95%	Massachusetts	47%

Figure 6: Private managed care enrollment share, by state



[4] *Only includes states with some form of private managed Medicaid.*

Private managed Medicaid health plans

For the first time in three years, the number of private Medicaid health plans declined in 2016, from 195 last year to 183. This net decline of twelve plans represents a mix of new plans entering the space; consolidation between existing plans; and plans ceasing operations, losing contracts, or exiting Medicaid.

Five health plans exited the market – two Illinois care coordination entities that only began operations recently and were unable to achieve scale and meet capital requirements; two Blue plans that no longer serve Medicaid expansion populations (Blue Cross Blue Shield of North Dakota and Pennsylvania's Capital Blue Cross); along with a New York provider-sponsored plan that closed.

This past year had a sizable number of Medicaid plans seeking to gain scale inorganically by acquiring other Medicaid health plans. In total, 16 plans were acquired or assumed; foremost, Centene's acquisition of Health Net. Molina continued to be aggressive in rolling-up smaller plans, completing acquisitions in Florida, Illinois, Michigan, New York, & Washington.

Anthem, Blue Cross Blue Shield of Michigan, Gundersen Lutheran, and WellCare acquired Medicaid assets. Florida Blue also re-entered the Medicaid space in conjunction with AmeriHealth Caritas.

In Illinois, the market churn continued, with Cigna, HCSC, Health Alliance, Meridian, and Molina assuming membership from failed accountable care entities.

And, in July 2016, UnitedHealthcare announced its intention to acquire Colorado's Rocky Mountain Health Plan, pending regulatory approval, continuing the consolidation trend.

Nine health plans joined the list, all from the Northeast, in particular a commercial plan and two CO-OPs in New Hampshire, a Duals-focused plan in Massachusetts, and a new Medicaid plan in New York, YourCare, which fully acquired Univera, previously a subsidiary of Excellus. Finally, four New York managed long-term care plans all crossed the 1,000 member threshold necessary for inclusion.

Medicaid continues to be incredibly local. 165 plans this year operate in only a single state (90%, unchanged from last year). Only nine plans operate in four or more states, with an additional nine operating in two states.

With Health Net's acquisition by Centene, the number of plans with greater than 1 million members declined to 11 from 12. 76 plans have fewer than 50,000 members (including 21 managed long-term care plans with an average membership of 6,100). Excluding the 11 plans over 1 million and the managed long-term care plan, the remaining 151 plans have average membership of 155,000, a 12% increase from last year, reflecting the consolidation of sub-scale players.

Medicaid: Expansion effects & forecasts

In 2016, Medicaid expansion took hold in three states, as citizens of the Bayou State, Big Sky Country, and the Last Frontier had eligibility limits raised, bringing the total number of Medicaid expansion states to 32. Alaska and Montana were the two states posting the strongest Medicaid growth, as 1 out of every 20 Montanans and 1 in 23 Alaskans were added to Medicaid. Other late-expanding states (after January 1, 2014) also posted markedly sharper increases in enrollment this past year, suggesting the Medicaid expansion effect may take more than a single year to fully take hold.

States that were either original expansion states or have still not expanded posted relatively symmetric changes in enrollment over the past twelve months. Specifically:

- **Initial expansion states** posted growth of 1.1 million, or 2.6%, with private managed care growing by 1.9 million, or 6.0%, year-over-year. Since 2013, such states have grown by 13.1 million beneficiaries in total (41.5% growth) and 14.2 million in private managed care (72.3%).
- **Non-expansion states** posted growth of 600,000 lives, or 3.0%, with private managed care growing by 400,000, or 3.3%. Since 2013, the non-expansion states have still posted gains in Medicaid enrollment, 2.6 million overall (or only 13.5% versus the composite gain of 30.7%), while private managed care has increased by 4.2 million (or 41.2%).
- **Late-expansion states** posted sharp overall growth of 900,000 lives and 1.0 million in private managed care, 11.4% and 18.2%, respectively. Since 2013, these states fall between the initial expansion states and non-expansion states, with growth of 1.9 million overall (29.2%) and 2.1 million in private managed care (47.2%)

For the past two years, this report has estimated the *Medicaid Expansion Gap* – the number of additional individuals that would be covered if all states expanded eligibility, using an archetype analysis related to initial coverage limits and Medicaid expansion election. Given the lack of a distinction between expansion status (yes/no) in growth this past year, the Medicaid Expansion Gap remained relatively stable at 5.0 million. Thus, if all remaining states were to expand Medicaid eligibility, Medicaid coverage would extend to over 80 million Americans.

Medicaid: Future opportunities in a steadying market

After the growth of recent years, it is clear Medicaid has now moved into more of a steady state. The steady state of Medicaid is significant – nearly one in four Americans covered, nearly three in four beneficiaries in a private health plan. Last year's analysis suggested that the era of easy Medicaid growth had ended, with overall enrollment nearing a ceiling and the transition to private managed care slowing as states reach critical mass of privately managed lives. The data bears out such conclusions. The question many plans, vendors, and service providers are now asking is: how best to capitalize on this substantial market, even absent the easy growth of the past?

In order to fully answer the question, it is critical to understand how the Medicaid marketspace will be defined in the near to medium-term. Quite simply, the future of Medicaid is expected to be **more** of many of the same trends that have propelled the market in the past. Specifically, Medicaid will likely become:

- **More consequential –** Perception of Medicaid's stature and importance to the nation's overall healthcare financing and delivery system has trailed the growth in enrollment. Medicaid has broad impacts on the nation's overall health, as well as our healthcare delivery infrastructure, most acutely in places like California and New Mexico where over one in three are covered. With such increased prominence will come greater attention on contracting practices, plan and provider payments, and the program's overall fiscal sustainability in light of competing budget priorities. Plans should prepare for greater scrutiny, but also improved opportunities to demonstrate their part in delivering healthcare value.

- **More consolidated –** This analysis has often suggested the opportunity for plans with greater scale to more effectively compete. The increased consolidation activity over the past several months bears watching as sub-scale plans exit and scale players seek to grow, optimize returns, and spread administrative costs through rolling up smaller plans. As regulations continue to be promulgated around greater standardization, consolidated entities will benefit from reduced variability in operating model and reporting requirements. Future years will likely see an increased cadence in consolidation as sub-scale plans realize the limited opportunities present to achieve the necessary scale to support investments in administrative overhead and achieve organizational objectives, while a host of roll-up platforms begin to emerge to achieve efficiencies.

- **More coordinated –** Private managed care is the predominant form of coverage in Medicaid**.** Even at 73% today, the share of Medicaid beneficiaries receiving coverage through a private plan is poised to increase. States that have some form of private managed care continue to move beneficiary populations from fee-for-service to managed care; West Virginia and Pennsylvania have announced new program launches for 2017. In fact, even in the past year the share of population managed by private plans increased in two-thirds of the states with private managed care. Furthering the market opportunity, the two largest states without any private managed care are in the process of moving towards a private model. As new growth opportunities diminish, plan growth will be reliant on effectively competing in re-procurements for existing programs, putting a strong emphasis on cost control techniques and the ability to drive superior results, compared to incumbents.

- **More complex –** Demographics and the increased prevalence of higher intensity health care requirements will make Medicaid more complex. As the nation ages, healthcare needs will become more frequent, expensive, and complicated. Such changes will likely put pressure on both the care delivery ecosystem and on policy makers looking to control spending. Concurrently, many remaining private managed care opportunities will likely be in higher acuity segments – seniors and the disabled, the intellectually and developmentally disabled, and those requiring long-term care services and supports. Such populations account for a disproportionate amount of spend and require highly specialized capabilities and processes to effectively deliver and manage care. Plans looking to realize the forthcoming opportunity can start by ramping up and developing capabilities and qualifications across higher complexity populations. More so than anywhere else, success will likely be predicated on effective partnerships with vendors and service providers that can supplement specialized capabilities – at scale- for plans to effectively compete.

- **More comingled –** Increasingly the Medicaid story will have chapters devoted to Medicare and Individual coverage. By 2025, an estimated 17 million will be enrolled in both Medicare and Medicaid. While the Financial Alignment Demonstrations have not performed to expectations, the tremendous spend requires additional policy action – actions that should build on the significant foothold of private plans in Medicaid. Coupled with Medicare Advantage being the main driver of growth for health plans in the next decade, Medicaid plans will be well served to develop enhanced Medicare Advantage offerings, targeting both Medicaid members as well as standalone offerings. To a lesser extent than in Medicare, plans and policymakers will continue to have an opportunity to align on a working solution for individuals churning between Medicaid and subsidized Individual coverage. Medicaid-focused plans, given their relative outperformance compared to multi-line carriers on Exchanges, will be in a strong position to help drive this dialogue and benefit from future actions.

The steadying state of Medicaid

Over the past year, Medicaid has steadied – enrollment has steadied following the extraordinary gains of the past two years and private managed care penetration has steadied at nearly three-quarters of enrolled lives. Medicaid has reached more of a steady state.

Undoubtedly, opportunities will remain for private managed care plans and service providers, but the steady state of Medicaid will likely make achieving the outsized gains of the past more difficult.

Plans that achieve the scale necessary to invest to support existing business today and the more complex business of tomorrow will likely be most successful. Service providers that recognize where the market is headed and can deliver meaningfully differentiated capabilities, with real performance impacts, will likely be most successful in the market.

The extraordinary growth in Medicaid has focused the attention of the healthcare market. A more consequential, concentrated, coordinated, complex, and comingled future will supply the dynamism to ensure that attention will continue to be focused on the space.

Appendix A – Detailed state data[5]

State	Total Medicaid beneficiaries (Thousands)	Growth from 2015 (%)	Growth from 2013 (%)	Private managed Medicaid beneficiaries (Thousands)	Non-private managed Medicaid beneficiaries (Thousands)
Alabama	826	0%	13%	0	826
Alaska	156	26%	4%	0	156
Arizona	1,666	(2%)	31%	1,472	195
Arkansas	978	4%	26%	207	772
California	13,546	7%	71%	10,453	3,093
Colorado	1,331	7%	89%	1,137	194
Connecticut	757	2%	22%	0	757
Delaware	199	(16%)	(8%)	187	11
District of Columbia	237	5%	10%	179	58
Florida	3,932	0%	20%	3,165	767
Georgia	1,948	(2%)	10%	1,379	569
Hawaii	351	8%	21%	351	0
Idaho	294	5%	16%	2	292
Illinois	3,138	(1%)	10%	1,923	1,214
Indiana	1,337	6%	26%	1,090	247
Iowa	625	4%	22%	596	29
Kansas	448	4%	13%	420	28
Kentucky	1,391	8%	73%	1,253	139
Louisiana	1,431	2%	17%	1,337	94
Maine	275	(3%)	(3%)	0	275
Maryland	1,296	5%	22%	1,091	204
Massachusetts	1,859	3%	37%	877	982
Michigan	2,533	16%	43%	1,946	586
Minnesota	1,192	1%	36%	913	278
Mississippi	755	(1%)	9%	502	253
Missouri	983	4%	13%	495	487
Montana	190	40%	82%	51	139
Nebraska	232	(0%)	(6%)	190	42

[5] *Source: PwC Strategy& analysis of state Medicaid enrollment, Summer 2016.*

State	Total Medicaid beneficiaries (Thousands)	Growth from 2015 (%)	Growth from 2013 (%)	Private managed Medicaid beneficiaries (Thousands)	Non-private managed Medicaid beneficiaries (Thousands)
Nevada	642	6%	97%	451	191
New Hampshire	185	4%	43%	177	8
New Jersey	1,760	0%	35%	1,664	96
New Mexico	757	4%	44%	672	85
New York	6,066	(2%)	16%	4,647	1,419
North Carolina	1,791	(6%)	(2%)	0	1,791
North Dakota	89	0%	35%	19	69
Ohio	2,847	(1%)	35%	2,471	376
Oklahoma	788	0%	1%	0	788
Oregon	1,035	0%	65%	895	140
Pennsylvania	2,772	6%	26%	2,218	554
Rhode Island	284	3%	59%	253	31
South Carolina	1,163	(1%)	20%	746	417
South Dakota	119	1%	3%	0	119
Tennessee	1,558	8%	31%	1,558	0
Texas	4,450	11%	22%	3,971	479
Utah	276	(3%)	11%	236	40
Vermont	178	(12%)	20%	0	178
Virginia	931	1%	3%	760	171
Washington	1,859	3%	55%	1,500	358
West Virginia	532	(3%)	57%	389	143
Wisconsin	1,154	0%	4%	803	351
Wyoming	64	(2%)	(3%)	0	64

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Ari is a Director with PwC Strategy&'s Health Strategy practice. His primary experience lies in areas of growth and deals for health plans and health services organizations. Aside from authoring a series of publications on Medicaid markets in the United States, Ari leads client engagements across all healthcare payers and health services businesses on a range of core strategy, growth, and Deals-related topics.