

GAO Highlights

Highlights of [GAO-13-384](#), a report to the Ranking Member, Committee on Finance, U.S. Senate

Why GAO Did This Study

Medicaid, a \$436 billion federal and state health care program for low-income individuals and families, is a significant and growing expenditure. Section 1115 of the Social Security Act authorizes the Secretary of Health and Human Services to waive certain Medicaid requirements and allow otherwise uncovered costs for demonstration projects that are likely to promote Medicaid objectives. By HHS policy, these demonstrations should be budget neutral, that is, not increase federal spending over what it would have been if the state's existing program had continued. States estimate what their spending would have been without the demonstration, and HHS approves a spending based on projected spending.

GAO was asked to review HHS approval of recent Medicaid section 1115 demonstrations. GAO examined (1) the purpose of new demonstrations, and (2) the extent to which HHS's policy and process for reviewing proposed demonstration spending provide assurances that federal costs will not increase. For 10 new comprehensive demonstrations approved from January 2007 through May 2012, GAO reviewed application, approval, and budget neutrality documents provided by HHS; calculated estimated spending limits; and interviewed HHS officials.

What GAO Recommends

GAO recommends that HHS update its budget neutrality policy and reexamine spending limits for the Arizona and Texas demonstrations. HHS disagreed with GAO's recommendations. GAO believes these steps are needed to improve the budget neutrality process.

View [GAO-13-384](#). For more information, contact Katherine Iritani at (202) 512-7114 or iritanik@gao.gov.

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MEDICAID DEMONSTRATION WAIVERS

Approval Process Raises Cost Concerns and Lacks Transparency

What GAO Found

The 10 new demonstrations GAO examined expanded states' use of federal funds and implemented new coverage strategies. Arizona and Texas established funding pools to make new supplemental payments beyond what they could have made under traditional Medicaid requirements and receive federal matching funds for the payments. All 10 demonstrations were approved to use different coverage strategies or impose new cost sharing requirements, including limiting benefits or imposing deductibles for certain populations.

The Department of Health and Human Services' (HHS) budget neutrality policy and process did not provide assurances that all recently approved demonstrations will be budget neutral. For 4 of 10 demonstrations GAO reviewed, HHS approved spending limits that were based on assumptions of cost growth that were higher than its benchmark rates, and that, in some cases, included costs states never incurred in their base year spending. HHS's benchmark growth rates are the lower of the state's recent growth rates or projections for Medicaid program growth nationwide. For example, HHS approved a spending limit for Arizona's demonstration using outdated information on spending—1982 data that was projected forward—that reflected significantly higher spending than what the state's Medicaid program had actually cost. For Texas, HHS approved a spending limit using a base year that included billions in costs the state had not incurred. GAO found limited support and documentation for the higher-than-benchmark limits HHS approved. If HHS had held the 4 demonstrations' spending to levels suggested by its policy, the 5-year spending limits would have been an estimated \$32 billion lower than what was approved; the estimated federal share of this reduction would be about \$21 billion.

Comparison of 5-Year Medicaid Spending Limits as Approved by the Department of Health and Human Services (HHS) and as Estimated Using Benchmark Growth Rates and Actual Costs for Selected Demonstrations Approved between January 2007 and May 2012

Dollars in millions, federal and state spending

State	HHS-approved	GAO estimate using benchmark growth rates and actual costs	Difference
Arizona	\$72,679	\$46,382	\$26,297
Indiana	10,626	10,211	416
Rhode Island	12,075	11,303	772
Texas	142,394	137,987	4,567
Total	\$237,774	\$205,723	\$32,051

Source: GAO analysis of HHS data.

For 6 other demonstrations, the approved spending limits reflected the states' actual historical costs or criteria that were specified in law, which HHS followed. In examining HHS's current written budget neutrality policy, GAO found that the policy is outdated and does not include a process for assuring the reliability of the data used to set spending limits. GAO has previously suggested that Congress require HHS to improve its budget neutrality process, in part, by improving the review criteria and methods, and by documenting and making clear the basis for approved limits. In addition to these suggestions, GAO believes HHS needs to take further actions to address the findings in this report.