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The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Frank Pallone
Ranking Member
Committee on Energy and Commerce
House of Representatives

Medicaid Managed Care: Compensation of Medicaid Directors and Managed Care Organization Executives in Selected States in 2015

In fiscal year 2017, Medicaid is projected to finance the health care coverage for an estimated 74 million beneficiaries with estimated expenditures of \$596 billion.¹ State Medicaid directors oversee the day-to-day operations of their state Medicaid programs, and are responsible for a wide array of activities including benefit and payment determinations; procurement of services; and processing of claims for fee-for-service (FFS) delivery services and making payments to managed care organizations (MCOs). Executives of MCOs have a variety of responsibilities in delivering services to Medicaid beneficiaries, some of which are similar to those of state Medicaid directors and others that are different. For example, a MCO executive may oversee the enrollment and payment of providers in managed care—similar to what a state Medicaid director might do for the state’s FFS operations. However, MCO executives may also oversee marketing functions, manage operations across multiple states, or address the capital needs of the organization.² As of July 2014, almost 77 percent of total Medicaid enrollment was in some type of managed care arrangement.³ MCOs can be for-profit or nonprofit, stand-alone plans, or they can be members of a group of insurers or other holding companies.

¹Medicaid, a joint federal-state health program for low-income and medically needy individuals, finances the delivery of health care services to beneficiaries through fee-for-service (FFS) payments to participating providers and capitated payments to Medicaid managed care organizations (MCOs). Under managed care arrangements, states contract with MCOs to provide certain services to beneficiaries. States may use other Medicaid managed care arrangements, such as prepaid inpatient health plans (PIHP) and prepaid ambulatory health plans (PAHP); these plans are not included in this report.

Spending for Medicaid managed care has grown significantly, representing over one-third of federal spending on Medicaid in 2014.

Office of the Actuary, Centers for Medicare & Medicaid Services, United States Department of Health and Human Services: 2016 Actuarial Report on the Financial Outlook for Medicaid, (2016).

²Under the managed care delivery model, states typically contract with MCOs to provide a specific set of Medicaid-covered services to beneficiaries and pay them a set amount per beneficiary per month to provide those services.

³The most recent year for which enrollment data were available at the time of the report was 2014. Percentage represents enrollment in all types of managed care, which, according to Centers for Medicare & Medicaid Services officials includes MCOs, PHIP, PAHP, Program of All Inclusive Care for Elderly (PACE), and Primary Case Management.

You requested that we examine executive compensation in Medicaid managed care. This report examines what is known about the 2015 compensation of Medicaid directors and top paid MCO executives in selected states offering Medicaid managed care.

To determine what is known about the 2015 compensation of Medicaid directors and top paid MCO executives in states offering Medicaid managed care, we judgmentally selected 10 states that offered comprehensive, risk-based managed care in 2015.⁴ These states had varying levels of Medicaid enrollment in managed care, but at least 50 percent in 2014; required at least some of their MCOs to file National Association of Insurance Commissioners (NAIC) annual financial reports; and were geographically diverse.⁵ We collected the 2015 compensation—salaries and additional benefits—of Medicaid directors in the 10 selected states by reviewing the 10 states’ websites for compensation data. Where necessary, we also contacted officials of the Medicaid programs in those states to obtain compensation information. We obtained information on the salaries of the Medicaid directors from all 10 states and information on additional benefits from 9 of the states. The information we gathered cannot be generalized to other states.

We collected information about the 2015 compensation—salaries and supplemental compensation, such as stock options—of top paid MCO executives in the 10 selected states. We did so by reviewing two applicable sections of the NAIC financial reports that the MCOs filed with their state’s office of insurance for 2015.⁶ These sections provided information on the contribution of Medicaid premiums to total MCO revenues and executive compensation.⁷ We obtained all requested NAIC files from 9 states. We selected MCOs whose Medicaid premiums contributed more than half of their total revenue in 2015. We excluded MCOs that were members of a group of insurers or other holding company system and that reported the amount of the executives’ compensation that was allocated to the specific MCO in the state, rather than the entire compensation these executives received in 2015. This was the case for all MCOs in 2

States may have different types of managed care arrangements in Medicaid. In this report, where we refer to Medicaid managed care, we are referring to comprehensive, risk-based managed care, the most common type of managed care arrangement.

⁴For purposes of this report, we refer to “top paid” executives as those executives who either acted as principal executive officer or principal financial officer, or similar capacity, or whose total compensation exceeded \$100,000 in 2015.

⁵The 10 selected states were Florida, Hawaii, Indiana, Louisiana, Massachusetts, New Mexico, New York, Tennessee, Washington, and Wisconsin.

NAIC is the United States standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Through NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. States’ offices of insurance may require insurance plans to file annual financial statements using NAIC’s financial report.

⁶In MCO executives’ compensation we included salary paid, bonuses, stock awards, option awards, sign-on payments, and severance payments. We excluded other benefits the executives might have received in 2015, such as MCO contributions to vested and unvested defined contribution plans and the dollar value of any insurance premiums paid by, or on behalf of the MCO because we did not have similar information for Medicaid directors.

⁷We identified MCOs that served Medicaid beneficiaries in the 10 selected states in 2015 by contacting Medicaid officials in these states. We requested from the states’ offices of insurance in 9 states and a state’s Medicaid program two files that are part of MCO’s NAIC financial reports. Specifically, we requested the NAIC financial reports’ Supplemental Compensation Exhibit, which represents information on the compensation of the principal executive and financial officers and other top paid executives, and Schedule T, which includes information on the portion of the MCOs’ revenues attributable to Medicaid premiums.

states, and therefore we do not provide MCO executive compensation for these 2 states. We excluded executives whose total compensation was within the top and bottom 5 percent of total compensation of all executives in order to minimize the number of outliers in our data. We analyzed NAIC compensation data for the remaining 133 executives in 15 MCOs in 7 selected states.⁸ The results are not generalizable to executives in other MCOs or other states.

We also interviewed former Medicaid directors about their compensation as Medicaid directors and MCO executives, and reviewed reports with national data and related information on Medicaid directors' compensation. To select the former Medicaid directors, we used an iterative process to identify former Medicaid directors who then became MCO executives, and selected for interviews those who would provide us with perspectives on their experiences and compensation both at the state and MCO level.⁹ We also obtained national data on Medicaid directors' compensation and tenure by interviewing officials at the National Association of Medicaid Directors (NAMD), and obtained and reviewed NAMD's national data from their annual operations surveys.¹⁰ We also reviewed recent reports on Medicaid managed care and Medicaid directors' compensation.¹¹

We conducted this performance audit from May 2016 to March 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provided a reasonable basis for our findings and conclusions based on our audit objective.

Medicaid Directors Earned Less than Most Top Paid MCO Executives in Selected States in 2015

In 10 selected states, the average salary for Medicaid directors in 2015 was \$152,439, which was less than the \$236,007 average salary paid to MCO executives in 7 of these states. However, according to MCO executives who were former Medicaid directors, their roles and responsibilities as Medicaid directors were generally more complex and time consuming than their roles as MCO executives.

Medicaid Directors' Compensation in 2015 was Less than Most Top Paid MCO Executives in Selected States

Medicaid directors' salaries in the 10 selected states ranged from \$103,020 to \$260,088, with an average of \$152,439 and a median of \$141,000 in 2015. Our data on the 10 selected states is

⁸MCOs reported compensation information in various levels of detail. MCOs generally did not identify those executives for whom the reported compensation did not represent the entire year. For example, there were instances when an executive only worked for part of the year; in such cases, the reported information only represented compensation paid for the portion of the year during which the executive was employed with the MCO.

⁹At each interview, we solicited names of additional former Medicaid directors who then became MCO executives and who the interviewees thought would be useful to interview, ending the process after interviewing eight former Medicaid directors. This process is often referred to as "snowball sampling."

¹⁰National Association of Medicaid Directors (NAMD), *State Medicaid Operations Surveys, 2012-2016*.

¹¹Medicaid and CHIP Payment and Access Commission (MACPAC), *Report to the Congress on Medicaid and CHIP* (Washington, D.C.: June 13, 2014); and Andy Allison, Milbank Memorial Fund, *The Role of State Medicaid Directors: A Leadership Imperative* (New York, N.Y.: 2015).

generally consistent with national data collected by NAMD on the salaries of Medicaid directors. Specifically, NAMD found that Medicaid directors made between \$105,000 and \$260,000, with an average of \$152,518 and a median of \$142,000 in 2016. In addition, data from the 9 selected states that provided us with information on additional benefits provided to Medicaid directors indicated that Medicaid directors in those states received health insurance, paid leave, and life insurance in 2015 in addition to their salaries.¹² Table 1 provides information on the 2015 benefits in addition to salary of Medicaid directors in 9 of the 10 selected states.

Table 1: Type of Benefits in Addition to Salary Provided to Medicaid Directors in Selected States, Calendar Year 2015

State	Health insurance	Retirement benefits	Paid leave	Life insurance	Short term disability	Long term disability	Other benefits
1	Yes	Yes	Yes	Yes	Yes	No	Yes
2	Yes	No	Yes	Yes	No	No	Yes
3	Yes	Yes	Yes	Yes	No	No	Yes
4	Yes	Yes	Yes	Yes	No	Yes	No
5	Yes	Yes	Yes	Yes	Yes	Yes	No
6	Yes	Yes	Yes	Yes	Yes	Yes	Yes
7	Yes	Yes	Yes	Yes	No	No	Yes
8	Yes	Yes	Yes	Yes	No	No	No
9	Yes	Yes	Yes	Yes	Yes	No	No

Source: GAO analysis of state Medicaid information. | GAO-17-427R

Note: None of the nine states indicated that any additional cash benefits, such as bonuses or awards were provided to their Medicaid director in 2015.

According to the Supplemental Compensation Exhibits submitted by selected MCOs that we reviewed, the top paid executives' total compensation—salaries and supplemental compensation—in 2015 ranged from \$110,740 to \$1,904,431, with an average of \$314,278 and a median of \$270,713.¹³ The 2015 salaries paid to 133 top paid executives in seven of the selected states that we included in our analysis ranged from \$108,598 to \$796,732, with an average of \$236,007 and a median of \$229,442.¹⁴ In addition to their salary, these executives

¹²We did not collect information on the dollar value of the additional benefits.

¹³We also analyzed the executive compensation data by type of MCO. Specifically, we examined the data to identify any major differences in compensation between for-profit and nonprofit MCOs, and among MCOs with different levels of contribution of Medicaid premiums to the MCO's overall revenues. This analysis did not identify any major differences among the types of MCOs we examined.

¹⁴The NAIC files show the amounts paid for the time the executive worked for the MCO in 2015. Therefore, they may represent salaries and compensation paid for less than one year.

received supplemental compensation, such as bonuses, stock awards, and option awards, adding an average of about \$78,271.¹⁵

Based on our analysis, the 2015 salary of Medicaid directors was lower than most top paid MCO executives in 6 of the 7 selected states for which we had MCO executive compensation data. Overall, the Medicaid directors' average salary was \$84,645 less than the MCO executives' average salary, and \$162,916 less than the average total compensation. Table 2 shows the Medicaid director's salary in each of the 10 selected states compared to average MCO executive's compensation.

Table 2: Medicaid Directors' Salaries and Selected Managed Care Organizations' (MCOs) Top Paid Executives' Compensation Paid, in Selected States, Calendar Year 2015

State	2015 Medicaid director salary ^a	2015 MCO executives' compensation paid ^{b,c}		
		Number of executives	Average salary paid	Average total compensation paid
1	\$140,000	29	\$285,559	\$385,060
2	\$119,932	28	\$169,605	\$191,744
3	\$171,710	^d	^d	^d
4	\$142,000	17	\$194,953	\$263,697
5	\$210,000	10	\$186,017	\$200,518
6	\$146,400	27	\$265,211	\$318,973
7	\$260,088	^d	^d	^d
8	\$103,020	20	\$255,749	\$320,869
9	\$116,084	2	\$454,325	\$1,872,855
10	\$115,156	^d	^d	^d
Average	\$152,439	N/A	\$236,007	\$314,278

Source: GAO analysis of data obtained from selected states' websites or provided by selected states' Medicaid and office of insurance officials. | GAO-17-427R

Note: For purposes of this report, we refer to "top paid" executives as those executives who either acted as principal executive officer or principal financial officer, or similar capacity, or whose total compensation exceeded \$100,000 in 2015.

^aThe Medicaid director's salary for one of the 10 selected states was for fiscal year 2015. The rest of the salaries were for calendar year 2015.

^bThe data on MCO executives' compensation generally does not indicate whether the executives worked for the entire year in 2015. Therefore, the figures presented represent the amounts paid for the time the executives worked at the plans.

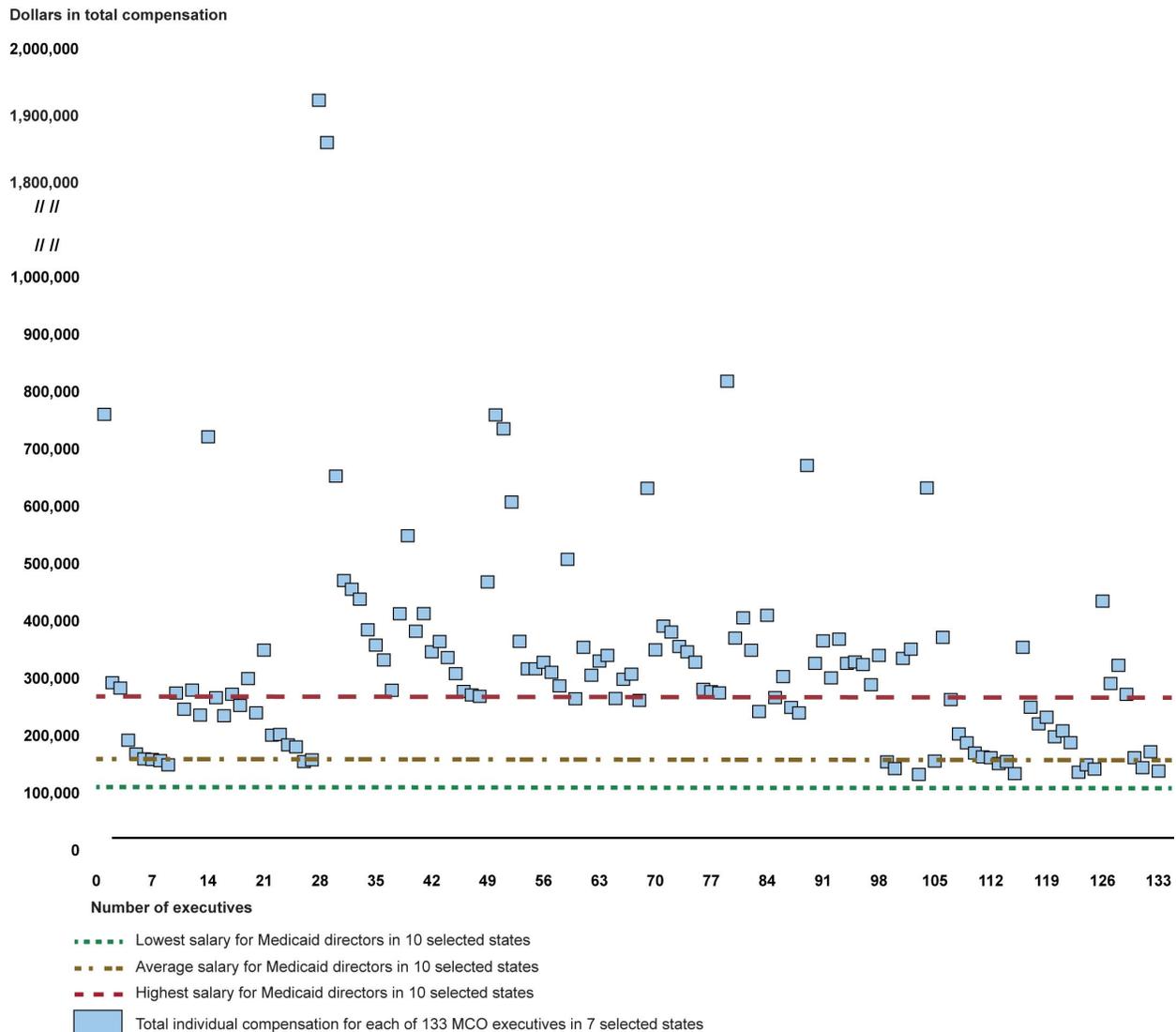
^cIn MCO executives' compensation we included salary paid, bonuses, stock awards, option awards, sign-on payments, and severance payments. We excluded other benefits the executives might have received in 2015, such as MCO contributions to vested and unvested defined contribution plans and the dollar value of any insurance premiums paid by, or on behalf of the MCO, because we did not have similar information for Medicaid directors.

^dExecutive compensation information is not presented for 3 of the 10 states. Selected MCOs in 2 of the 3 states were excluded from our analysis, because they were members of a group of insurers or other holding company system and only reported partial compensation for their executives. The compensation they reported for their executives was the portion of the executives' total compensation that was allocated to the specific plan in the state, rather than the entire compensation these executives received in 2015. The third state did not provide us with information on executives' compensation in selected MCOs.

The total compensation paid to 109, or 82 percent, of the 133 executives in our selected MCOs was higher than the average Medicaid director's salary, while the total compensation paid to 24 executives, or 18 percent, was less. Figure 1 illustrates how the actual total compensation of the 133 MCO executives in 7 selected states compares with the average Medicaid director's salary in the 10 selected states.

¹⁵We excluded from our analysis other benefits the executives might have received in 2015, such as MCO contributions to vested and unvested defined contribution plans and the dollar value of any insurance premiums paid by or on behalf of the MCO, because we did not have similar information for Medicaid directors.

Figure 1: Highest, Lowest, and Average Medicaid Director’s Salary and Selected Managed Care Organizations’ (MCOs) Top Paid Executives’ Compensation Paid, in Selected States, Calendar Year 2015



Source: GAO analysis of information on state Medicaid directors’ salaries and MCO executives’ compensation we obtained from selected states’ public websites, and Medicaid program and offices of insurance officials. | GAO-17-427R

Notes: For purposes of this report, we refer to “top paid” executives as those executives who either acted as principal executive officer or principal financial officer, or similar capacity, or whose total compensation exceeded \$100,000 in 2015.

The Medicaid director salary for one state was for fiscal year 2015. The rest of the Medicaid directors’ salaries were for calendar year 2015.

Compensation data for top paid MCOs is presented for 133 executives in the 15 MCOs in 7 of 10 selected states. Executive compensation information is not presented for 3 of the 10 states. Selected MCOs in 2 of the 3 states were excluded from our analysis, because they were members of a group of insurers or other holding company system and only reported partial compensation for their executives. The compensation they reported for their executives was the portion of the executives’ total compensation that was allocated to the specific plan in the state, rather than the entire compensation these executives received in 2015. The third state did not provide us with information on executives’ compensation in selected MCOs.

In MCO executives’ compensation we included salary paid, bonuses, stock awards, option awards, sign-on payments, and severance payments. We excluded other benefits the executives might have received in 2015, such

as MCO contributions to vested and unvested defined contribution plans and the dollar value of any insurance premiums paid by or on behalf of the MCO, because we did not have similar information for Medicaid directors.

Our review of the data suggests that at least some compensation figures reflect partial years—executives who were in their position in the selected MCO for only a portion of the year. Partial compensation data would depress the overall average compensation figures for the MCO executives, as well as the difference between the Medicaid directors' salaries and MCO executives' compensation. Thus, the difference between the Medicaid directors' salaries and MCO executives' compensation would have been greater had plans reported a full year of compensation for all of the MCO executives.

Former Medicaid Directors Said They Earned Less as Medicaid Directors and Had More Complex and Time Consuming Roles than They Experienced as MCO Executives

Former Medicaid directors we interviewed said that their roles and responsibilities as Medicaid directors were generally more complex and time consuming than their roles as MCO executives. In addition, they said their compensation as Medicaid directors was lower than their compensation as MCO executives. They described their responsibilities as Medicaid directors as being numerous and diverse, including overseeing

- the provision of several services—ranging from mental health services to long term services and supports;
- many programs—including different agencies and sub-agencies within their states that may be responsible for the various aspects of Medicaid;
- two different Medicaid delivery systems, depending on the state—FFS and Medicaid managed care; and
- different functions—including provider and beneficiary enrollment, payment rate setting, management of the claims processing system, program integrity audits, testifying in court cases involving Medicaid, and negotiating contracts with MCOs.

In addition, the former Medicaid directors said they were held accountable for their state's Medicaid program to the federal government, their governor and legislature, the media, and the public. They added that they managed large budgets ranging from \$3 million to \$13 billion. The former directors said that their responsibilities were very complex and time consuming, requiring a range of skills including leadership, communication, flexibility, good negotiation ability, and knowledge of all Medicaid related issues and programs.

In contrast, the former Medicaid directors said that their roles as MCO executives were generally less complex and time consuming. They said that MCO executives develop strategy and oversee, develop, and run the MCOs' functional areas. For example, they may be responsible for overseeing specific functions, such as government and investor relations, Medicaid, expansion to other states, and business development. They said that they are generally not held accountable to various entities, such as state legislatures and the public, to the same degree as Medicaid directors.

The former Medicaid directors said that it is not uncommon for Medicaid directors to take higher paying jobs in the private sector. They noted that MCOs often recruit Medicaid directors, because of their extensive programmatic knowledge and experience. One former Medicaid director said that this has resulted in a loss of institutional knowledge in state Medicaid programs. The former Medicaid directors also commented that state Medicaid programs are having difficulty attracting new Medicaid directors with the right skills and programmatic

experience to fill vacant positions.¹⁶ In particular, they said that states usually have difficulty in raising the salaries of Medicaid directors in order to retain them or attract new individuals with the right skills for the job. For example, two former directors said that states may be constrained by state laws that cap Medicaid directors' compensation, or concerns about negative perceptions associated with raising the salary of the head of a social services program.

National studies also suggest that Medicaid directors' compensation is not competitive with the compensation of individuals completing similar tasks in the private sector. For example, a 2015 Milbank report noted growth in Medicaid and the related increase in the responsibilities and influence of Medicaid directors; on the other hand, it noted that Medicaid directors' compensation has been stagnant relative to the private sector.¹⁷ Similarly, a 2014 report by the Medicaid and CHIP Payment and Access Commission found that in the midst of increasing Medicaid program demands and complexity, state Medicaid programs are experiencing a "brain drain" as seasoned state Medicaid directors leave.¹⁸ The report concluded that high turnover compromises the ability of the Medicaid program to sustain focus and achieve larger program goals. According to national data that NAMD has been collecting through surveys of Medicaid directors since 2012, Medicaid directors' responsibilities and budgets have been growing as their salaries have remained flat, and tenure has been declining, often because Medicaid directors leave to join the private sector. For example, according to the NAMD data, Medicaid directors in 2016 had been in their position for a median of less than 2 years. This was down from a median of almost 4 years when compared to the states' previous Medicaid directors, according to NAMD officials we spoke to. Also, according to the NAMD data, in 2016, fewer than 27 percent of Medicaid directors had been in that position for over 2 years.¹⁹

Agency Comments

We provided a copy of this report to the Department of Health and Human Services (HHS) for comment. HHS did not have any comments.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Secretary of the Department of Health and Human Services, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

¹⁶The former Medicaid directors said that new Medicaid directors often may join the program for a short time—enough to gain experience before taking a private sector job.

¹⁷Andy Allison, *The Role of State Medicaid Directors: A Leadership Imperative*.

¹⁸Medicaid and CHIP Payment and Access Commission (MACPAC), *Report to the Congress on Medicaid and CHIP* (Washington, D.C.: June 2014).

¹⁹National Association of Medicaid Directors (NAMD), *State Medicaid Operations Survey: 5th Annual Survey of Medicaid Directors*, (Washington D.C.: December 2016).

If you or your staffs have any questions about this report, please contact me at (202) 512-7114 or yocomc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in enclosure I.

A handwritten signature in black ink, appearing to read 'Carolyn L. Yocom', with a stylized flourish at the end.

Carolyn L. Yocom
Director, Health Care

Enclosure I: GAO Contact and Staff Acknowledgements

GAO Contact: Carolyn L. Yocom, (202) 512- 7114 or yocomc@gao.gov

Staff Acknowledgments: In addition to the contact named above, Thomas Conahan (Assistant Director), Pauline Adams (Analyst-in-Charge), Julie Flowers, Jacquelyn Hamilton, Drew Long, and Katya Rodriguez made key contributions to this report.

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