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# **Analysis Federal Health Reform's Potential Impact on Virginia Medicaid**

*Presentation to the*  
**Senate Finance Committee**  
**Health and Human Resources Subcommittee**

# Presentation Outline

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- Federal Health Reform & Medicaid/CHIP*
- Virginia Health Reform Initiative**

# Current Status of Federal Health Reform

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- Two pieces of federal legislation define “Federal Health Reform”:
  1. **The Patient Protection and Affordable Care Act**
    - The bill that originally passed the Senate, which includes the bulk of the reform initiatives
    - Signed into law by President Obama on March 23, 2010
  2. **The Health Care and Education Reconciliation Act of 2010**
    - Modifies provisions of the Senate bill as a “budget reconciliation bill” subject to different parliamentary procedures
    - Signed into law by President Obama on March 30, 2010

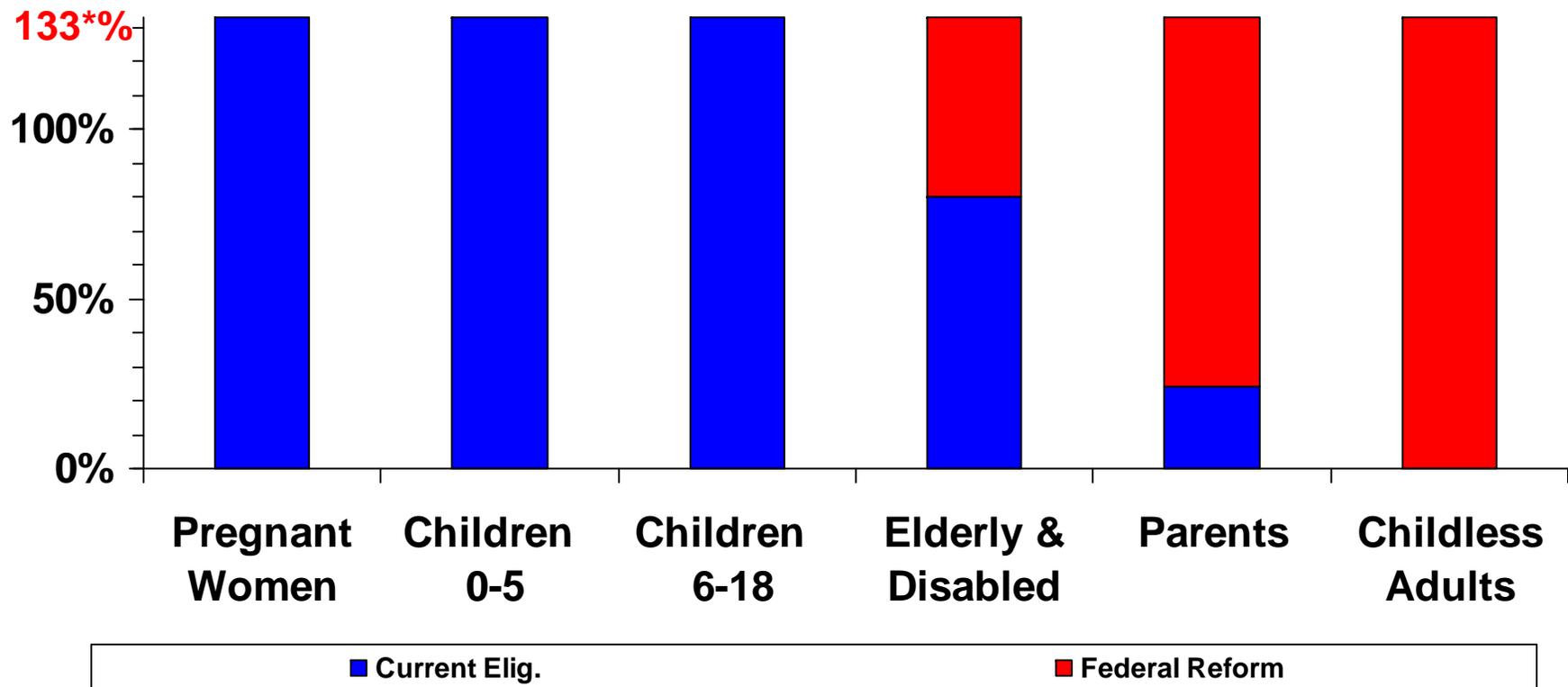
# Major Medicaid/CHIP Provisions of Federal Health Reform

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- **Effective January 1, 2014: Expansion of Medicaid Coverage of Adults to 133% of the Federal Poverty Level (FPL), plus a 5% income disregard (also modifies income calculation generally)**
  - **Expands coverage for groups currently under Medicaid**
    1. **Low Income Families with Children (LIFC): Parents and other caretaker adults are currently covered up to 24% FPL (on average)**
    2. **Non-Dual Disabled Adults (without need for long-term care): This coverage group is currently limited to 80% FPL**
  - **Includes new coverage groups under Medicaid**
    1. **Childless adults: currently not covered unless they meet some other coverage group (aged, blind, disabled, for example)**
    2. **Former foster care “children” up to age 26 (regardless of income)**

# Major Medicaid/CHIP Provisions of Federal Health Reform

(continued)



\*Does not include 5% income disregard

# Major Medicaid/CHIP Provisions of Federal Health Reform

(continued)

- All **New** Coverage (new groups or coverage of existing groups above current levels) is funded with enhanced federal match:

Year	Match by CY (January to December)		Match by SFY (July to June)	
	Federal	State	Federal	State
2014	100%	0%	100%	0%
2015	100%	0%	100%	0%
2016	100%	0%	100%	0%
2017	95%	5%	97.5%	2.5%
2018	94%	6%	94.5%	5.5%
2019	93%	7%	93.5%	6.5%
2020	90%	10%	91.5%	8.5%
2021-beyond	90%	10%	90%	10%

# Major Medicaid/CHIP Provisions of Federal Health Reform

(continued)

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- Includes a Medicaid increase in payments for primary care services up to the Medicare reimbursement level
  - Required for States
  - 100% federally funded
  - Only in effect for two years (2013 & 2014)
    - 100% Federal Funding ceases after two years
    - States could choose to continue after two years, but at normal match
  
- Includes a 23 percentage point increase in the CHIP federal match rate effective October 1, 2015 through September 30, 2019, resulting in a savings to the Commonwealth on the costs of the FAMIS program

# Major Medicaid/CHIP Provisions of Federal Health Reform

(continued)

- **Changes components of the Medicaid drug rebate program**
  1. **Increases rebate percentages**
    - **Brand Name Drugs: Rebate increased from 15.1% to 23.1% (clotting factors/pediatric outpatient to 17.1%)**
    - **Generic Drugs: Rebate increased from 11% to 13%**
    - **Important to note that the federal government retains all savings associated with the increased rebate percentages**
      - **This could actually lead to a reduction in supplemental rebates negotiated by Virginia Medicaid through the Preferred Drug List (i.e. a potential cost to the State)**
  2. **Application of rebates to drugs administered by Medicaid Managed Care Plans**
    - **Currently excluded from the Medicaid rebate program**
    - **Current models indicate a net savings to the state**

# Major Medicaid/CHIP Provisions of Federal Health Reform

(continued)

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- **Reductions in federal Disproportionate Share Hospital (DSH) payments**
  - **Theory is that as the number of uninsured reduces (due to Medicaid expansion and insurance mandate), less charity care is needed for the uninsured in hospitals; therefore, less DSH needed by hospitals to address the uncompensated care burden**
    - **DSH in Virginia only covers a portion of the Medicaid losses for most hospitals**
  - **Absent policy change, this would trigger a reduction in the state match of federal DSH payments, thereby producing a net savings in State funding**
  - **The distribution of the DSH reduction is not yet fully determined (making it difficult to accurately model the potential effect)**

# Major Medicaid/CHIP Provisions of Federal Health Reform

(continued)

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- **Requires Medicaid coordination with the new Insurance Exchange**
  - **Establishment of a website for: application for health benefits including plans offered through the Exchange, through premium assistance for qualified plans, or application under Medicaid/CHIP; coordinating benefit delivery; and, conducting outreach (by 01/01/14)**
  - **Acceptance of Exchange determination of eligibility under Medicaid or CHIP (FAMIS)**
  
- **Requires acceptance of presumptive eligibility determinations by hospitals**
  - **A hospital may become a “qualified entity” to determine Medicaid eligibility of patients based on preliminary information obtained by the hospital**

# Major Medicaid/CHIP Provisions of Federal Health Reform

(continued)

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- **Other provisions**
  - **State Plan option for coverage of family planning (currently covered through waiver)**
  - **Extension of repayment period for States for identified overpayments related to fraud up to one year (currently 60 days) when a final determination has not yet been rendered (due 30 days after final determination)**
  - **Optional demonstration program for bundled or global payment methodologies for safety net hospitals**
  - **Required coverage of services provided by freestanding birth centers**
  - **Increased FMAP (1 percentage point) for certain optional preventive services and adult immunizations**
  - **Increased FMAP for long-term care rebalancing efforts between community care and institutional care**
  - **Extension of the Money Follows the Person Grant through September 30, 2016**

# Major Medicaid/CHIP Provisions of Federal Health Reform

(continued)

- **Maintenance of Eligibility under Medicaid and CHIP**

- Under Federal Health Reform, states are prohibited from implementing:

*...eligibility standards, methodologies, or procedures under the State plan under this title or under any waiver of such plan that is in effect during that period, that are more restrictive than the eligibility standards, methodologies, or procedures, respectively, under the plan or waiver that are in effect on the date of enactment of the Patient Protection and Affordable Care Act. [until the Exchange is fully operational]*

*The requirement ... shall continue to apply to a State through September 30, 2019, with respect to the eligibility standards, methodologies, and procedures under the State plan under this title or under any waiver of such plan that are applicable to determining the eligibility for medical assistance of any child who is under 19 years of age...*

# Budget Amendments In Potential Conflict With Federal Healthcare Reform

- The MOE requirement in the federal reform package makes some of the budget savings initiatives passed by the General Assembly no longer feasible
- All of these already have funding restored if the increased FMAP under the Federal Stimulus is extended
- To the extent the Stimulus funding is **not** extended, alternate savings (or additional revenue) would need to be achieved to replace the assumed savings of these newly prohibited items

Budget Items In <i>Potential</i> Conflict with MOE	FY 2011 GF Cost	FY 2012 GF Cost	Biennium Total Cost
Reduce FAMIS and FAMIS MOMS from 200% to 175% FPL	\$0	\$19,295,228	\$19,295,228
Reduce income eligibility level for 300% SSI group to 250%	\$16,870,746	\$72,881,622	\$89,752,368
Reduce ABD from 80% to 75% FPL	\$0	\$36,167,138	\$36,167,138
Medically Needy Income Limits	\$0	\$563,081	\$563,081
Intermediate Care Facility for the Mentally Retarded Provider Assessment	\$4,168,066	\$8,486,183	\$12,654,249
Retention of school rev max	\$0	\$592,869	\$592,869
Medicaid Impact of Aux Grant reduction	\$0	\$623,520	\$623,520
Freeze enrollment in long-term care waivers beginning 1/1/2011 for one year	\$3,745,802	\$13,310,010	\$17,055,812
<b>TOTAL</b>	<b>\$24,784,614</b>	<b>\$151,919,651</b>	<b>\$176,704,265</b>

# Preliminary Fiscal Impact Estimate of Health Reform on Medicaid/CHIP

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## **IMPORTANT NOTE:**

**The following represents an estimate of the fiscal impact of federal health reform related to major provisions affecting Medicaid and CHIP (FAMIS) only. Federal health reform has multiple aspects affecting the Commonwealth, including additional provisions with an impact on Medicaid and/or CHIP which are not included herein.**

**The Department of Medical Assistance Services is continually revising these estimates based on emerging information and guidance from CMS and other entities. This estimate represents the agency's current understanding of the provisions discussed herein and should be considered as preliminary and subject to change as our understanding of health reform evolves**

# Preliminary Fiscal Impact Estimate of Health Reform on Medicaid/CHIP

(continued)

- **Estimated Increase in Monthly Enrollment:**
    - **Between 270,000 – 425,000 new enrollees (average monthly recipients)**
      - **Includes approximately 50,000 estimated children currently eligible but un-enrolled entering the program due to the coverage mandate**
        - **These costs would be reimbursed at the normal federal match (this is not “new” coverage)**
  - **This provision is estimated to cost between \$2.1 – \$2.8 billion (using the enrollment estimates above as the lower and upper bounds) in State funding through 2022 (includes 1.5% add-on for administrative costs)**
- NOTE:** 2021 is the first full SFY where the FMAP settles to 90% (for newly eligibles)– 2022 completes that biennium

# Preliminary Fiscal Impact Estimate of Health Reform on Medicaid/CHIP

(continued)

SFY	Federal Match Rate*	Lower Bound Estimated <b>STATE</b> Expansion Cost**	Upper Bound Estimated <b>STATE</b> Expansion Cost**
2014	100.00%	\$54,197,792	\$56,814,807
2015	100.00%	\$113,548,404	\$119,044,135
2016	100.00%	\$118,958,865	\$124,729,382
2017	97.50%	\$172,678,469	\$210,609,017
2018	94.50%	\$241,574,093	\$321,559,267
2019	93.50%	\$274,075,336	\$372,115,103
2020	91.50%	\$331,490,309	\$463,948,267
2021	90.00%	\$382,306,899	\$544,631,764
2022	90.00%	\$400,613,802	\$571,054,909
<b>TOTAL</b>		<b>\$2,089,443,970</b>	<b>\$2,784,506,651</b>
<p>* represents a blended match rate based on State fiscal year, as opposed to calendar year  **does not include potential savings associated with other aspects of Medicaid reform contained in the PPACA</p>			

# Preliminary Fiscal Impact Estimate of Health Reform on Medicaid/CHIP

(continued)

- In addition to the Expansion costs, there are also provisions currently estimated to produce a net savings to the Commonwealth

Provision	<b>STATE</b> Savings Estimate (2010-2022)
CHIP Match Rate Increase	\$56,770,696
Pharmacy Rebate Changes	\$428,698,482
DSH Reductions	\$140,391,085
<b>TOTAL Estimated Potential Savings</b>	<b>\$625,860,262</b>

\*This table only includes estimated savings associated with these three major items - there are likely additional savings items attributable to Medicaid reform within the federal legislation that are not yet included in this analysis. Furthermore, this table does not address potential savings achieved through health reform outside of the Medicaid program."

# Preliminary Fiscal Impact Estimate of Health Reform on Medicaid/CHIP

(continued)

Estimate Component	Lower Bound Enrollment Increase	Upper Bound Enrollment Increase
Assumed Enrollment Increase	271,047	425,930
Expansion Cost	\$2,089,443,970	\$2,784,506,651
Reform Savings	\$625,860,262	\$625,860,262
Net Estimated <b>STATE</b> Cost of Reform (SFYs 2010-2022)	\$1,463,583,708	\$2,158,646,389

**Note:** these costs do not include potential costs associated with reversing eligibility changes prohibited by health reform as contained in the 2010 Appropriations Act

# Presentation Outline

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- Federal Health Reform & Medicaid/CHIP**
- Virginia Health Reform Initiative***

# The Virginia Health Reform Initiative

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- **On May 14, 2010, Governor McDonnell announced the establishment of a statewide health reform initiative to be overseen by Secretary of Health and Human Resources Bill Hazel:**
  - **to prepare Virginia for the implementation of federal health reform by planning for the expansion of Medicaid eligibility**
  - **to make it easier for Virginians to be healthier and to purchase and retain health insurance**
  - **to provide incentives for health promotion and disease prevention and encourage individuals to remain healthy**
  - **to encourage individuals to make informed decisions in purchasing healthcare by promoting consumer directed healthcare**
- **On June 17, Governor McDonnell announced the appointment of Cindi Jones to lead the initiative in the Secretary's Office**

# The Virginia Health Reform Initiative

(continued)

- **Medicaid Reform:**
  - **Plan for the expansion of Medicaid to cover all Virginians under the age of 65 up to 133% of the Federal Poverty Level by 2014;**
  - **Consider implementing best practices for Medicaid programs across the nation;**
  - **Examine the audit, when completed, of the Department of Medical Assistance Services and recommend reforms and improvements to the Medicaid program; and**
  - **Explore consumer driven reforms to Virginia's Medicaid program**

# The Virginia Health Reform Initiative

(continued)

- **Insurance Reform:**
  - **Plan for the organization and creation of a Health Insurance Exchange for implementation in 2014;**
  - **Prepare for required insurance reforms, including the requirements for guaranteed issue and renewability; prohibition on pre-existing conditions, rating bands that include age, family structure, geography, actuarial value and tobacco use;**
  - **Examine alternatives to the required insurance reforms; and**
  - **Explore avenues to improve competition among health insurers.**

# The Virginia Health Reform Initiative

(continued)

- **Healthcare Delivery Reform:**
  - **Propose reforms to Virginia's health care delivery system to make it more effective and efficient;**
  - **Plan for implementation of near term and long term federal requirements for Health Care Reform;**
  - **Evaluate Virginia's existing health care infrastructure to handle mandated federal programs;**
  - **Determine existing resources in state government for implementation of Health Care Reform and gaps that need to be addressed;**
  - **Address the current and anticipated health care workforce shortage;**

# The Virginia Health Reform Initiative

(continued)

- **Healthcare Delivery Reform (continued):**
  - **Examine timelines associated with federal legislation and ensure there is ample time to enact legislative and regulatory action to comply with federal deadlines for implementation;**
  - **Develop a communications plan for stakeholders, the general public and state agencies on the effects of Health Care Reform;**
  - **Propose market incentives to lower costs and improve efficiencies and effectiveness; and**
  - **Reduce the regulatory burden on businesses and individuals.**

# The Virginia Health Reform Initiative

(continued)

- **The Health Care Reform Initiative will set forth a comprehensive strategy for implementing health care reform through**
  - **establishment of an advisory workgroup of stakeholders and interested parties to provide input and advice (appointed by the Secretary)**
  - **submission to the Governor a report of its findings and recommendations on matters potentially impacting the development of the Executive Budget no later than September 30, 2010**
  - **submission to the Governor reports of its activities, findings and recommendations no later than January 10, 2011, January 10, 2012, January 10, 2013, and a final report no later than January 10, 2014**