TSG Status Update

To: Arkansas Health Reform Task Force

Re: Health Care Reform/Medicaid Consulting Services

Da: March 7, 2016

PREPARED BY:

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UPDATE SUMMARY

1. COST SAVINGS COMPARISON FOR MEDICAID MANAGEMENT MODELS FOR HIGH COST POPULATIONS

The following table describes the different proposed cost-saving strategies for the Arkansas Medicaid management models for high cost populations in the traditional Medicaid program. The cost-saving strategies are arranged by the particular populations and programs affected and, other than the long term care community based services, correspond to the TSG report to the Task Force on February 17, 2016.

Proposed Cost-Saving Strategies for Arkansas' Traditional Medicaid Program			
Populations/ Programs	**Governor's Proposal**	**Sen. Ingram's Proposal**	**DiamondCare (MFFS) with Risk**
Elderly, Non-SNF	LTC Industry Plan		
SNF	LTC Industry Plan		
DD, non-HDC	Capitated	MFFS	MFFS
HDC	No changes recommended		
BH	Capitated	Capitated	MFFS
Other Populations	Expanded PCMH		
Prescription Drugs	Savings incorporated within Elderly, Non-SNF; DD, non-HDC; and Other Populations	Savings incorporated within Elderly, Non-SNF; DD, non-HDC; and Other Populations	Abilify generic; CAP expansion; PDL expansion; antipsychotic review; hemophilia management
Dental	Capitated		
Admin Savings	Reduced agency DD staffing; eliminated DD case management fee		
Admin Costs	DMS admin for managed care; technology costs	DMS admin for BH managed care/MFFS; DAA admin costs for LTC program; technology costs	DMS admin for MFFS; DAA admin costs for LTC program; technology costs
Premium Tax	2.5% of all capitated payments; varies based on programs included		

The following table shows the estimated savings from the cost-saving strategies described in the table above. All projected savings are for the time period SFY 2017-2021 and are in millions of dollars. Projected savings amounts highlighted correspond with capitated managed care.

Projected Savings from Proposed Cost-Saving Strategies *(SFY 2017-2021; $millions)*			
Populations/ Programs	**Governor's Proposal**	**Sen. Ingram's Proposal**	**DiamondCare (MFFS) with Risk**
Elderly, Non-SNF	$88	$88	$88
SNF	$163	$163	$163
DD, non-HDC	$423	$193	$193
HDC	$0	$0	$0
BH	$568	$568	$261
Other Populations	$79	$79	$213
Prescription Drugs	$0	$0	$160
Dental	$20	$20	$20
Admin Savings	$28	$28	$28
Admin Costs	$80	$84	$84
Premium Tax	$150	$97	$17
Total	**$1,439**	**$1,152**	**$1,057**

General Fund Savings

The following table shows the effective general fund percentages for the different populations and programs. Although all of the populations and programs listed above are funded with 30% state funds, for SNF costs, the nursing home quality assurance fee provides almost half of the state share, leaving a lesser effective general fund percentage.

Populations/ Programs	Effective General Fund Match Rate	General Fund Savings		
		Governor's Proposal	Sen. Ingram's Proposal	MFFS with Risk
Elderly, Non-SNF	30%	$26	$26	$26
SNF	16.28%	$27	$27	$27
DD, non-HDC	30%	$127	$58	$58
HDC	30%	$0	$0	$0
BH	30%	$170	$170	$78
Other Populations	30%	$24	$24	$64
Prescription Drugs	30%	$0	$0	$48
Dental	30%	$6	$6	$6
Admin Savings	30%	$8	$8	$8
Admin Costs	30%	$24	$25	$25
Premium Tax	30%	$45	$29	$5
Total		**$457**	**$374**	**$346**

2. NEW ESTIMATE OF IMPACT OF PRIVATE OPTION ON STATE FUNDS

The table below shows the estimated impact of the Private Option (PO) on state funds. These estimates are based on ***updated projections provided to TSG by DHS***. Based on the new DHS data, DHS has projected that the 5-year impact on the general fund of the PO is $757 million. This revised estimate maintains the following assumptions regarding the level of state revenues and expenditures in the absence of the PO:

- Medicaid groups for which there has been a decrease in expenditures since the PO was established (medically needy, Aged, Blind and Disabled (ABD), SSI, and pregnant women) would see expenditures rise again to pre-PO levels;
- All of the waiver programs in place prior to the establishment of the PO (ARHealthNetwork, family planning, tuberculosis, and breast and cervical) would be re-established at their pre-PO levels;
- Uncompensated care funding provided by the state (mostly to UAMS) would be restored to its prior funding structure;
- Insurance Premium tax revenues associated with PO policies would go away; and

- General tax revenues have been impacted by the increase in federal funds associated with the PO.

With these assumptions, removing the PO could cost the state approximately $206 million in 2017, about half of which would be due to higher expenditures in the traditional Medicaid program and cost-effectiveness waivers, and about half of which due to foregone revenue from the premium tax and enhanced economic activity.

Program savings projections shown in this table are based on the difference between a projected baseline and trend lines based on revised DHS data. The projected baseline is based on the SFY 2013 claims experience, inflated at 5%. The new trend lines are based on claims experience through the end of calendar year 2015.

Projected PO expenditures are based on PO enrollment and spending through the end of calendar year 2015. PO expenditures in these projections are lower than in previous projections due to lower cost experience than had previously been anticipated. PO enrollment is slightly higher than had previously been anticipated, but average enrollee cost is lower than had previously been estimated leading to a new cost projection that is lower than had previously been estimated.

DHS and their outside actuary had initially anticipated that the medically frail group within the expansion population would have a cost experience similar to that of one of the disabled eligibility groups within traditional Medicaid, but, in fact, the medically frail are not turning out to be as expensive as the disability eligibility group.

Projected Aggregate Private Option Impact (SFY 2017-2021)							
(all figures millions $ unless otherwise indicated)							
		2017	2018	2019	2020	2021	2017-2021
Private option expenditures		1,630	1,712	1,797	1,887	1,982	9,009
Impact on State Funds							
Impact on state expenditures	**State match on Private Option**	41	92	114	157	193	598
	State fund savings from optional Medicaid waiver programs discontinued after the establishment of the PO	(21)	(22)	(23)	(25)	(26)	(117)
	State fund savings from cost-shifting from traditional Medicaid to PO	(91)	(96)	(101)	(106)	(111)	(504)
	Administrative costs	3	3	3	3	3	14
	Reductions in state fund outlays for uncompensated care	(37)	(39)	(41)	(43)	(45)	(203)
	Total impact on expenditures	**(106)**	**(62)**	**(47)**	**(13)**	**15**	**(213)**
Impact on state revenues	**Increase in premium tax revenue**	37	39	41	44	46	208
	Increase in collections from economically-sensitive taxes (4%)	64	65	67	69	72	336
	Total impact on revenues	**101**	**104**	**109**	**113**	**118**	**544**
Net impact on state funds		**206**	**166**	**156**	**126**	**103**	**757**

Table 1 – Impact of Private Options on State Funds (developed March 2016)

Methodological Note

The cost savings for certain eligibility groups were calculated based on the difference between a baseline growth rate calculated at 5% annual growth, starting with the SFY2013 actual expenditure experience, and a new trend line projected based on the actual expenditure experience in time periods after the implementation of the PO. The particular groups/categories included in these estimates were as follows:

- Medically Needy
- Aid to Aged Blind Disabled
- Disability Enrollment Growth
- Pregnant Women

These groups/categories were included because it was felt that, among all of the eligibility groups in Medicaid, enrollment in these categories would be most likely to be effected by the presence of the PO, with individuals able to access coverage through the PO and thus not enrolling in traditional Medicaid. In fact, enrollment in these categories did drop after the establishment of the PO. However, it is difficult to definitively attribute a causal relationship between the PO and the decrease in enrollment in these categories, as there are other factors at play, such as the drop in the unemployment rate across the state.

In particular, for the SSI groups (represented here as 'Disability Enrollment Growth'), some amount of the decrease in growth could be due to the improvement in the economy. Nationally, the rate of increase in the number of SSI applications and determinations has declined, but in Arkansas, the rate of decline is greater than in the nation as a whole, suggesting that some of the drop in enrollment in that group can reasonably be attributed to the PO.

If all of the savings from the SSI groups (represented here as 'Disability Enrollment Growth'), were to be removed from the Net Impact on State Funds identified in Table 1 above, the new Net Impact on State Funds would be $542 million over the 5 years of the projection (SFY 2017-2021) rather than $757 million in the high-range estimate. The following table shows the Net Impact on State Funds at different assumed percentages of causal effect for the SSI groups.

Percentage of SSI group enrollment drop attributed to PO	**Recalculated Net Impact on State Funds** ($millions; including all impacts on expenditures and revenues from PO)
100%	$757
75%	$703
50%	$649
25%	$596
0%	$542

Estimating a More Conservative Impact of the PO on State Funds

A more conservative estimate of the impact of the PO on state funds could be established by relaxing some of the assumptions built into these projections and previously noted. In particular,

if the following changes to the assumptions previously noted are made, then a lower net impact on state funds is estimated:

- ARHealthNetwork is not re-established (approx. $83M 5-year total);
- Only half of the savings due to the decrease in expenditures for the SSI groups is attributed to the PO (approx. $108M 5-year total);
- None of the state funded outlays for uncompensated care are reinstated (approx. $203M 5-year total)

With these assumptions, the net 5-year impact of the PO on the General Fund is approximately $363 million. In conjunction with the above 5-year impact of $757 million, this provides a general fund impact range for the PO of $363-$757 million.

Additional savings from not re-establishing the family planning, tuberculosis, and breast and cervical waiver programs were not included here because these programs were established initially specifically because it was believed that they would save money.