



Alabama Medicaid Budget Reduction Report

Donald E. Williamson, MD

Chair, Medicaid Transition Task Force

April 8, 2015

Purpose of Report



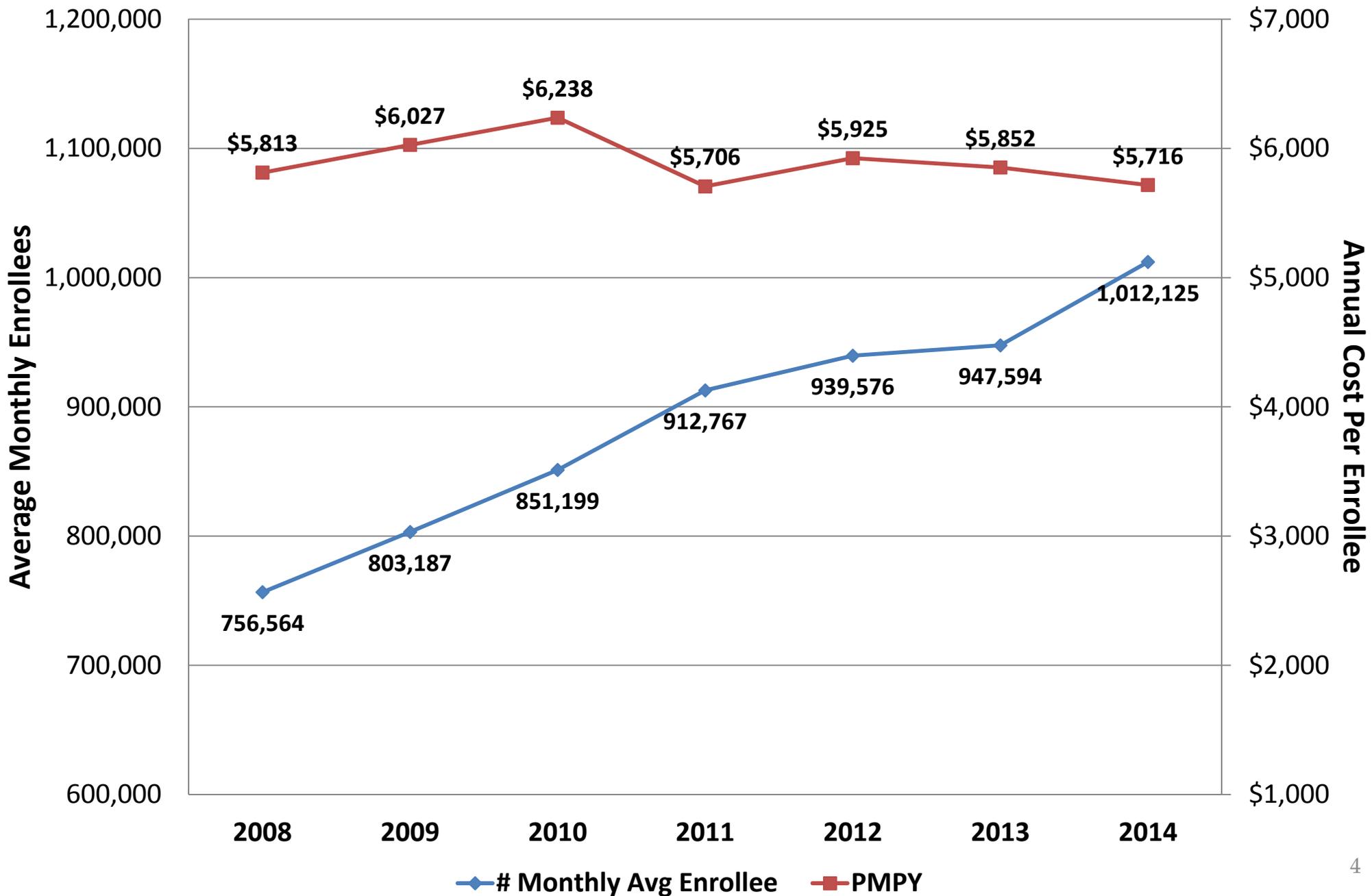
- **Explain Governor's Request of \$795 Million**
- **Respond to the Budget Proposal with a 3% Reduction to Medicaid**
- **Develop a Budget Reduction Plan for Medicaid for a 15% and a 30% General Fund Cut from Medicaid's 2015 Budget.**
 - 15% cut - \$102.75 million
 - 30% cut - \$205.50 million
- **We have Looked at the Following Factors:**
 - Alabama's uniquely favorable State funding structure
 - Allow the Federal government to approve resulting program reductions as meeting minimum standards for continued funding
 - Provide a rate structure sufficient to keep doctors, hospitals, and other providers in the program
 - Maintain momentum in healthcare reform efforts

The Impact of Medicaid on Alabama Citizens



- **Medicaid Provides Coverage For:**
 - 53% of All Alabama Deliveries
 - 43% of All Alabama Children
 - 60% of Nursing Home Residents
- **The \$6 Billion Investment into Alabama's Health Care System is Important to All Healthcare Sectors but is Critical to Funding:**
 - Rural Hospitals
 - Nursing Homes
 - *Children's Hospital* in Birmingham and *Women's and Children's* in Mobile
 - Physicians
 - Healthcare System Reform
- **Loss of Medicaid will Limit Everyone's Access to Care -- Even Those with Private Insurance**

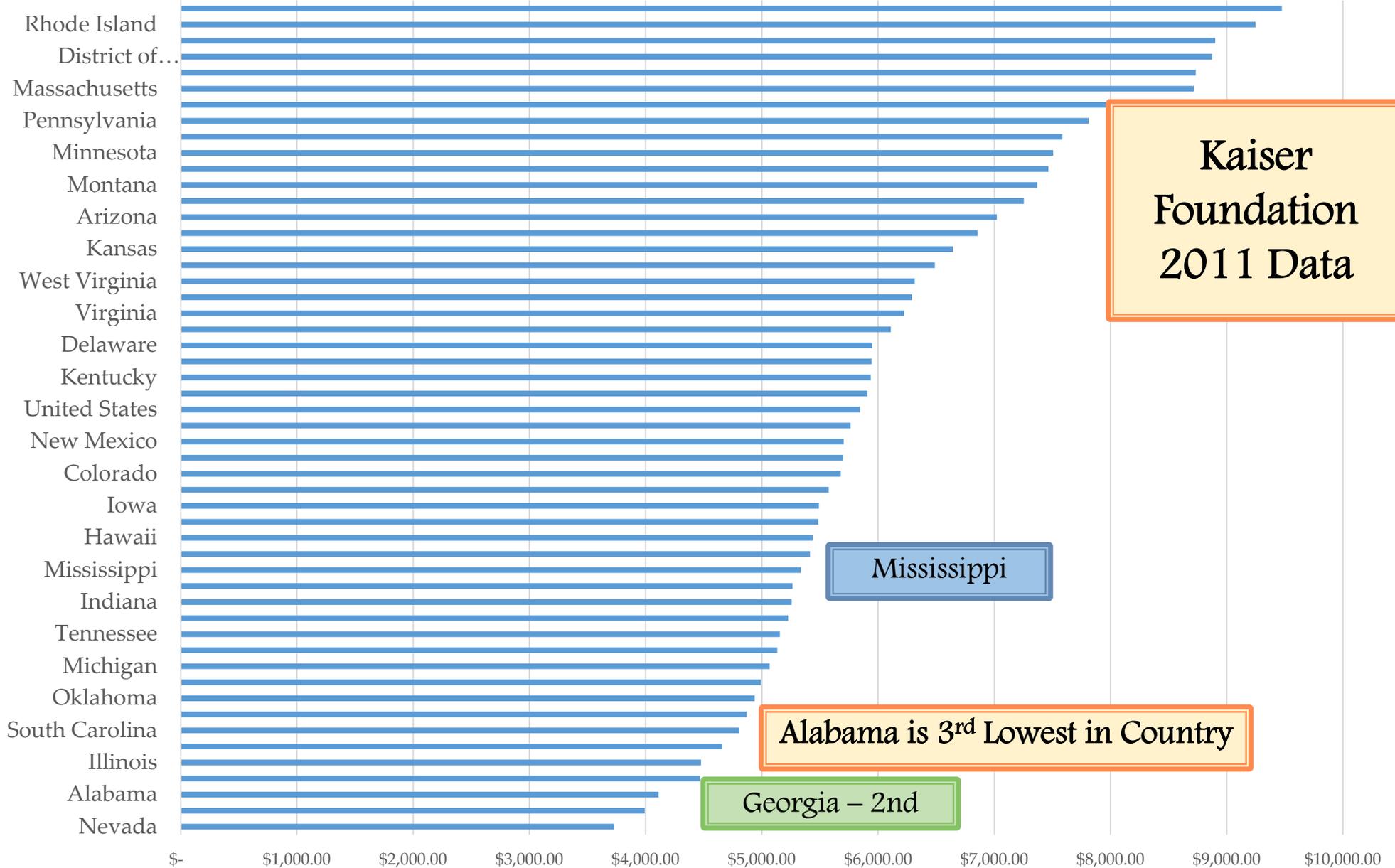
Eligibility and Annual Cost Per Enrollee 2008-2014



Alabama's Per Member Cost



Total



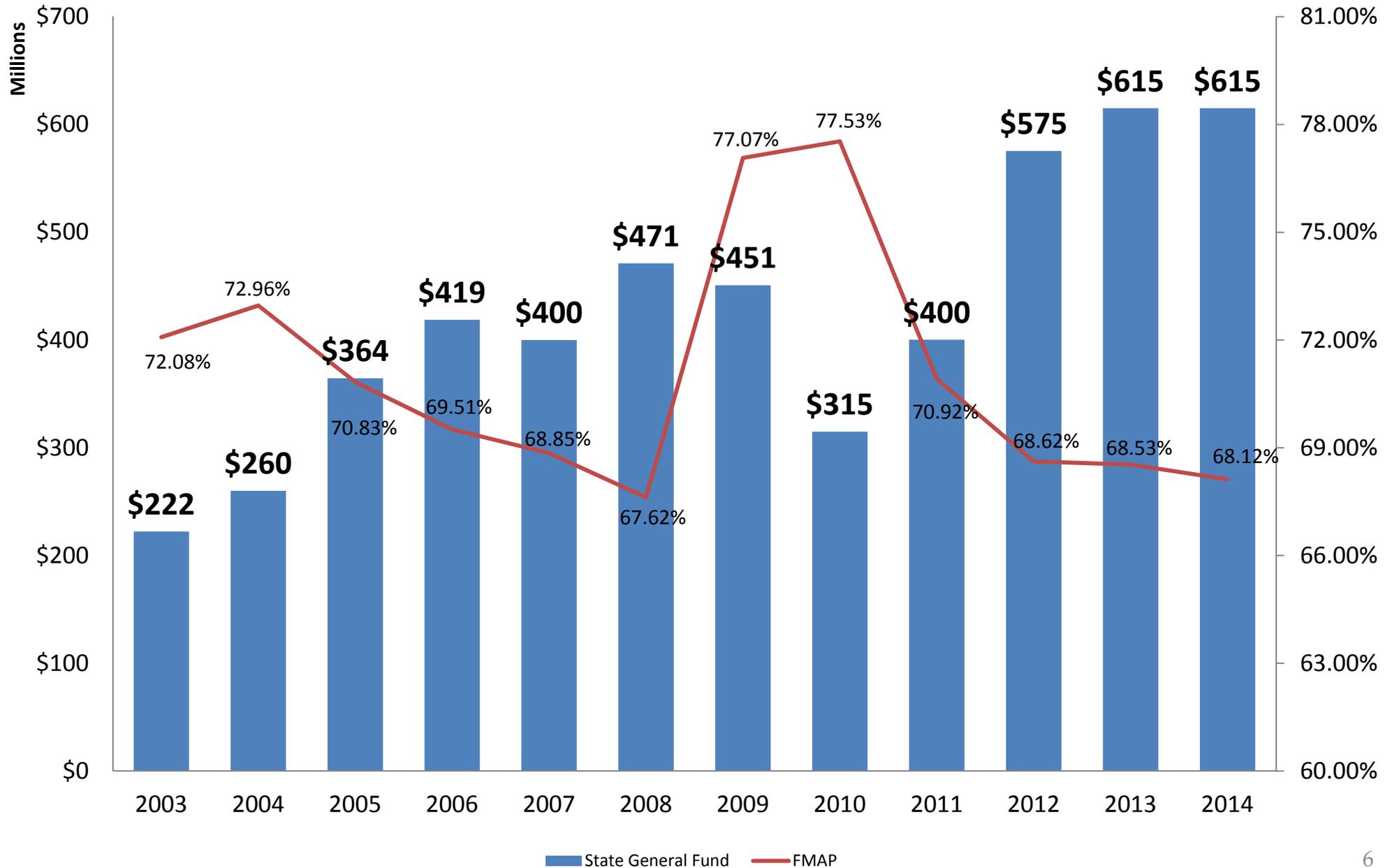
**Kaiser
Foundation
2011 Data**

Mississippi

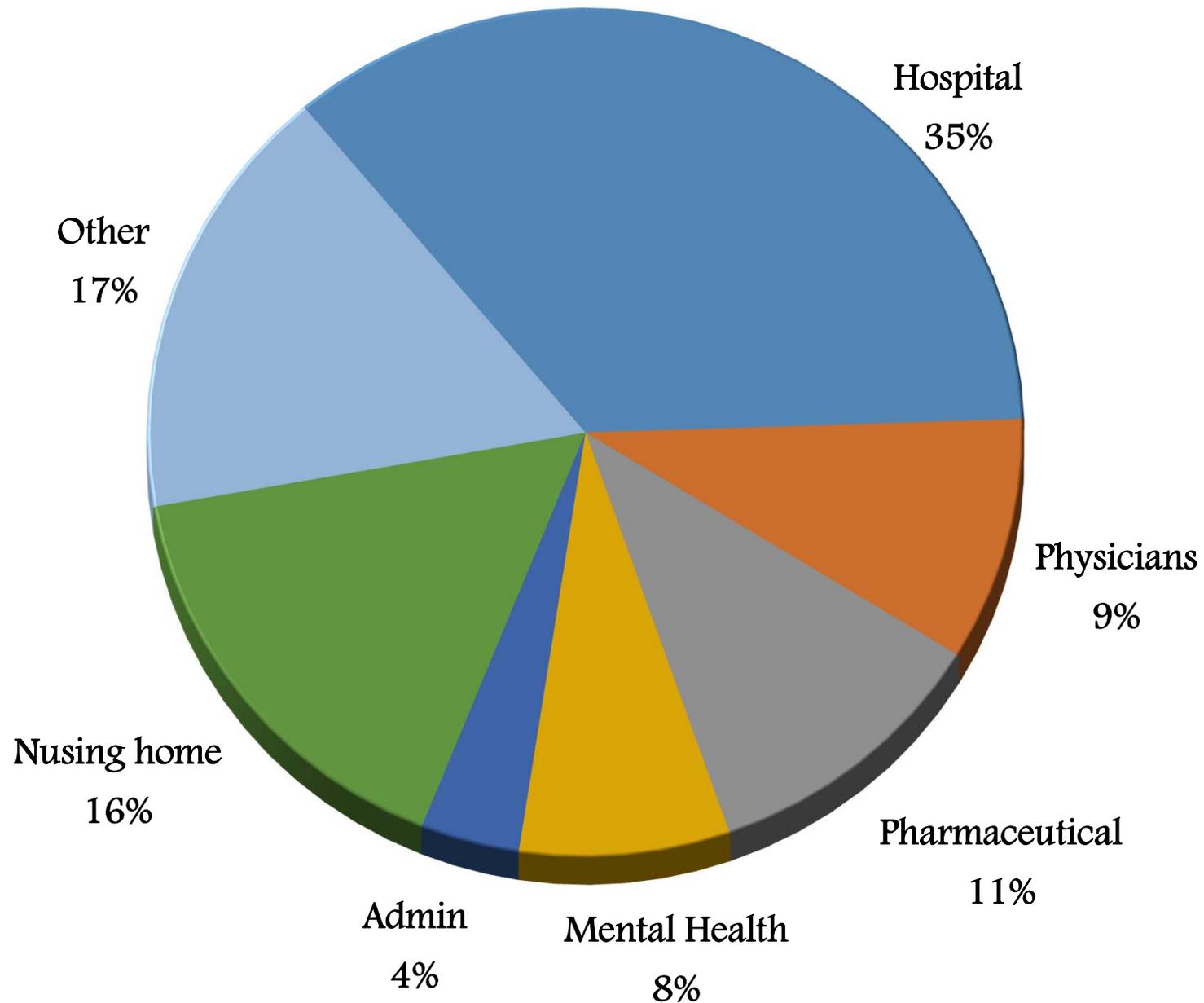
Alabama is 3rd Lowest in Country

Georgia – 2nd

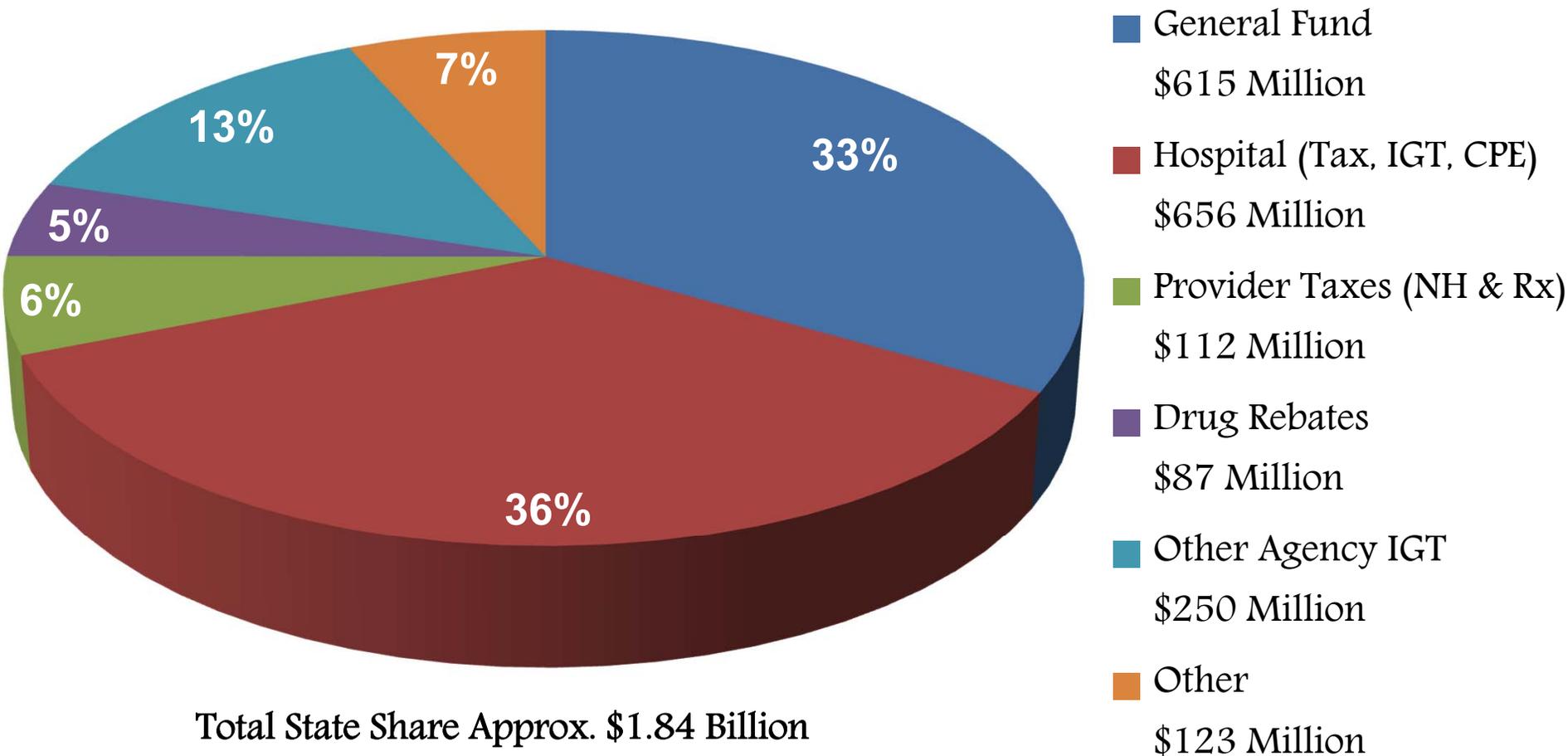
FMAP – A Major Driver of Cost



Medicaid Expenditures – FY 2014



FY 14 Budget – Sources of State Share



Explanation of FY2016 Governor's Budget



Governor's Proposal		795
Less FY2015 General Fund Appropriation		685
Difference		<u>110</u>
Adjustment to Funds Available on FY2015 Funding Basis		
FY2015 Fund Appropriation		
Cash Balance Carry Forward	(38)	
Change in FMAP	(25)	
Explanation of Additional Costs		
2015 Operating Deficit	22	
Predictable Increases from Operations	38	
Subtotal from Operations		(3)
Loss of Hospital Redirected Funds	50	
Known CMS Paybacks	38	
Non-Primary Care Physician and Ambulance Bump	25	
Subtotal Additional Funds Needed		<u>113</u>
Difference		<u><u>110</u></u>

Alabama's Hospital Program is Self Funded



- **The Hospital Program Produces Over \$2 Billion in Total Funding for Medicaid and Uninsured Patients. Historically, \$50 million of CPE's provided by the Hospital Program have been Redirected for Use of the Medicaid Agency:**
 - \$260 million from tax on private hospitals,
 - \$240 million in IGTs from State and other public hospitals
 - \$150 million in CPEs from State and other public hospitals
- **In the Aggregate, Payments for Medicaid Beneficiaries and the Uninsured Represent Approximately 65% of the Actual Cost to the Hospitals After Paying for the State Share**
 - Medicaid represents only about 16% of their patients
 - Rural hospitals are under great stress. Approximately 40 to 45% of the State's hospitals have operating losses -- the majority of them rural, where the proportion of Medicaid and particularly Medicare patients is higher than the averages.

Hospitals Have a Need to Retain Funds for 2016



- **The Allocation of Medicaid and DSH Funds (Federal allocation for the uninsured) has been Further Complicated as Other Insurers Cut Reimbursements**
 - Medicare, representing roughly 50% of hospital patients, has reduced its rates – due to sequestration and wage index changes – by 4.5% compared to four years ago
- **Federal DSH Allocations for the Uninsured are Scheduled to be Reduced in the Coming Years.**
- **In View of These Shortfalls:**
 - Hospitals have a need for those redirected funds
 - Without the redirected funds, shortfalls threaten hospital support for the renewal of the hospital provider tax, including the related IGT and CPE funding.
 - Without the unified support of the hospitals for renewal of the provider tax and maintenance of the current funding structure, the general fund would likely face a **\$650 million** crisis for fiscal year 2017
 - Medicaid's FY2016 proposed budget envisioned allowing the hospitals to keep 50 million dollars.

Taxes that Fund State Share were Enacted with the Support of the Tax Payers



- **Alabama's System is Uniquely Favorable to the General Fund**
 - This system was developed over a period of years in a delicate balance with providers, the Legislature, and the Federal Government
 - The resulting enabling legislation, even though it required substantial taxation on their industries, was widely supported
 - **Cuts of this magnitude will substantially impact the providers that pay Medicaid's State Share – a State Share that would otherwise be paid by the General Fund.**
- **Taxes Must Be Reauthorized (nursing homes in 2015; hospitals in 2016) and/or have Conditions that Trigger Automatic Repeal if Payment Methodologies, written into the tax law, are Changed.**
 - Title 40, Chapter 26B, Articles 1, 2 & 5.
 - Article 1 is Pharmaceutical Services
 - Article 2 is Nursing Facilities
 - Article 5 is Hospital Services

Fundamental Elements For All Cut Strategies



- 1. Retaining or Losing the Hospital Redirected Funds**
- 2. Deferring or Satisfying CMS Paybacks**
- 3. Maintenance or Loss of Primary Care Physician Bump**
- 4. Keep or Change Current Pharmacy Program**
- 5. Keep or Eliminate Optional Programs**
- 6. Cover Any Remaining Shortfall with Across-the-Board Cuts**

Example of the Strategy in Achieving 3% Reduction



PATHWAY 1 AND 2 FUNDING IMPACT

	Pathway 1	Pathway 2	
	Keep Hospital Redirected Funds & Defer CMS PMT	Release Hospital Redirected Funds & Pay CMS	Change
FY 2015 Appropriation	685	685	0
\$50 Million Hospital Issue	0	50	50
\$38 Million CMS Payment Issue	0	38	38
Adjusted Baseline	685	773	88
3% Cut Target	665	665	0
Required Reduction	<u>20</u>	<u>108</u>	<u>88</u>

Proposed 3% Medicaid Reduction – Two Pathways



- **3% Reduction is a Cut of 20 Million State Dollars and 66.4 Million Total**
- **2 Pathways to Achieve the Reduction**
 - **Pathway 1**
 - Retain hospital redirected funds of \$50 million and risk potential non renewal of hospital tax in 2016 creating a \$650 million shortfall in the General Fund
 - Use all legal strategies to delay repayments of \$38 million to CMS while spending \$2-3 million in additional legal fees
 - To achieve \$20 million reduction:
 - Eliminate primary care physician bump
 - Implement state wide PBM

Analysis of Primary Care Rate Bump



Medicaid Rate vs Bump Rate

Procedure code	Description	Bump Rate	Medicaid Regular Rate	Difference	Percent Decrease
99214	Office Visit	\$100.91	\$ 67.00	\$ (33.91)	-34%
99213	Office Visit	\$ 68.17	\$ 42.00	\$ (26.17)	-38%
99212	Office Visit	\$ 40.36	\$ 31.00	\$ (9.36)	-23%
99223	Hospital Care	\$194.33	\$ 113.00	\$ (81.33)	-42%
99233	Hospital Care	\$ 99.74	\$ 57.00	\$ (42.74)	-43%
99239	Hospital Discharge	\$102.17	\$ 69.00	\$ (33.17)	-32%

Proposed 3% Medicaid Reduction – Two Pathways cont.



- **Pathway 2**

- If hospital redirected funds can not be retained and/or CMS withholds the \$38 million then the General Fund shortfall becomes \$108 million
- This creates a shortfall of 16% of the General Fund budget
- To achieve those savings the following is necessary:
 - **Elimination of all optional programs – adult eyeglasses, outpatient dialysis, hospice, orthotics, PACE, and Health Homes**
 - **Elimination of primary care bump for physicians**
 - **Implementation of PBM with mail order or preferred provider network**
 - **An additional cut to all providers of about 200 million total dollars including hospital and nursing homes. This change will require legislative action to revise existing statutory payment provisions and will jeopardize continued support for hospital tax renewals**

- **Implementation of Either Pathway will have Serious Consequences for the Continuation of Medicaid Reform and Implementation of Managed Care. Pathway 2 will Likely Result in Creation of a Non-Viable Medicaid Program.**

Strategy for Achieving the 15% Reduction



- **A Line by Line Explanation of the Cuts is Provided in the Next Table**
 - The strategy is to eliminate all optional Medicaid programs
 - Keep the \$50 million redirected funds, needed by the hospitals, and accept the associated consequences
 - Use all legal strategies to further delay repayment of CMS disallowances and accept cost of litigation will not be insignificant and possible CMS action to force repayment.
 - Apply an across-the-board reduction of the remaining activities of between 4-5%
- **Please Note: To Achieve a 15% Savings in State General Fund Total, Cuts to Providers will be in Excess of \$371,000,000.**
- **If Medicaid is Unable to Retain the Redirected Funds, and is Required to Repay CMS during Fiscal Year 2016, an Additional \$292 Million in Total Cuts (\$88 Million in State Share) to Providers would be Required.**

GENERAL FUND 15% CUTS IMPACT

PROGRAM	TOTAL CUT	GF CUTS	FMAP	COMMENTS
ADMINISTRATION	3,642,946	1,097,620	2,545,326	Merit staff resources are already limited and every effort would be made to reduce cost by contract reductions and attrition. Managed Care implementations will be delayed or suspended.
HIE	250,453	75,461	174,991	The Health Information Exchange efforts would be slowed which would have an effect on the roll-out of RCOs
HOSPITAL	86,092,951	25,939,806	60,153,145	Hospital payments would be reduced. This will have implications for continued provider payment of state share. Outpatient Dialysis would be Eliminated.
HEALTH SUPPORT	13,024,842	3,924,385	9,100,457	Eyeglasses for Adults would be Eliminated. Dental, Optometry, Hearing, Transportation, EPSDT/Screening, and Health Education would receive 4-5% cuts
ALTERNATIVE CARE	79,929,928	24,082,887	55,847,041	Optional Programs Eliminated: Prosthetic Devices, Hospice, PACE and Health Homes. In addition, there are over 50 programs in this category that will be cut 4-5% -- to include: Maternity, Family Planning, and Home Health
NURSING HOME	46,628,343	14,049,120	32,579,223	Cut of 4-5%. This will have implications for continued provider taxation and will require changes to law, which prescribe reimbursement formulas before it can be implemented
PHYSICIAN	71,452,775	21,528,721	49,924,054	This Requires Roll-Back of the Primary Care "Bump" and a Further Reduction of 4-5%. This reduction will likely reduce the already critical supply of doctors willing to accept Medicaid patients.
PHARMACEUTICAL	40,000,000	12,052,000	27,948,000	This requires the implementation of a state wide PBM or preferred provider and may trigger loss of a provider tax which may eliminate the net benefit of the cuts.
OTHER	29,977,763		29,977,763	Other reductions in FMAP to account for variations in program match rates
TOTAL	371,000,000	102,750,000	268,250,000	

Potential Federal and Provider Reaction to the Cuts



- **Reductions of This Magnitude Require Legislative Action Beyond Medicaid's Control**
 - To achieve these cuts would require rewriting several tax statutes and changing the Administrative Code in the face of probable opposition of providers
 - CMS is unlikely to approve the State Plan changes required due to access issues and other adverse impacts on Medicaid recipients
 - Currently, CMS routinely questions Alabama's highly favorable use of provider contributions. If we reopen the State Plan to make massive cuts of this type, CMS disapproval is a significant concern.
- **At the 15% Cut Level, the Changes to the Medicaid Program, if allowed by CMS, will be Detrimental to Providers and Medicaid Beneficiaries which may Trigger Battles over Current Provider Taxes.**
- **Cuts at 15 and/or 30% Levels Require Suspension of Efforts to Transform Medicaid and Implement Managed Care.**
- **At the 30% Level, these Cuts are Inconsistent with Any Practical Continuation of the Alabama Medicaid Program.**

30% Cuts



Program	Targeted and Across the Board	State GF Savings	FMAP Loss
ADMINISTRATION	9,626,362	2,900,423	6,725,939
HIE	661,812	199,404	462,408
HOSPITAL	208,573,238	62,843,117	145,730,121
NURSING HOME	123,213,829	37,124,327	86,089,502
PHYSICAN	101,123,630	30,468,550	70,655,080
PHARMACEUTICAL	111,356,676	33,551,766	77,804,910
HEALTH SUPPORT	28,888,638	8,704,147	20,184,491
ALTERNATIVE CARE	98,600,289	29,708,267	68,892,022
Grand Total	682,044,474	205,500,000	476,544,474

The table above provides an example 30% reduction. It continues the program eliminations forward and increases the across the board cuts to between 12% and 13%. Again, these additional cuts are even more problematic.

Conclusion



- **Medicaid has Used Every Means Possible to Minimize Impact on the General Fund Over the Past Three Years to Include:**
 - Prior year carry-forwards
 - Provider cuts
 - Legal delays to federal demands for repayment
 - Other economies and temporary stop-gaps to get through FY2015
- **The Agency has had the Good Fortune to Profit from Small Increases in Federal FMAP to Cover Operating Losses**
- **Medicaid has held Costs Down to Give Alabama One of the Least Costly Medicaid Programs in the Nation.**
- **Cuts of the Magnitude Proposed are so Large, and Funding is so Interrelated, that they Cannot be Made Without Impacting Provider Taxes and Federal Reaction that Medicaid Does Not Control. They Put at Risk:**
 - Continuation of Alabama's uniquely favorable state funding structure
 - Federal disapproval of continued funding
 - Continuation of doctors, hospitals and other providers in the program and closure of critical healthcare facilities
 - Healthcare reform efforts through RCOs