MEDICAID CONSENSUS FORECASTING

EXECUTIVE APPROPRIATIONS COMMITTEE
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ISSUE BRIEF

SUMMARY

The Medicaid consensus forecast team estimates costs to the General Fund in FY 2016 of $18.0 million one-time and an ongoing of $37.8 million in FY 2017. Both of these estimates are point estimates of costs and include no cushion (no extra money) for unforeseen circumstances. There are no estimated increased costs for the Children's Health Insurance Program. The Legislature may want to include these estimates in the base budgets for FY 2016 and FY 2017. These estimates do not include any funding for state administration or any optional provider inflation. The 2011-2012 consensus process helped save the State from appropriating an additional General Fund of $13 million for FY 2012 during the 2012 General Session for medical services in Medicaid.

RECOMMENDATIONS

S.B. 98, *Medicaid Accountable Care Organizations,* (http://le.utah.gov/~2015/bills/static/SB0098.html) from the 2015 General Session requires that the base budget include an appropriation increase to the per member per month for Medicaid accountable care organizations equal to the projected General Fund growth factor up to at least 2%. In some years the Legislature has opted to address all Medicaid costs in the base budget.

DISCUSSION AND ANALYSIS

Below is a summary of the consensus General Fund mandatory cost estimates for FY 2016 and FY 2017:

Medicaid Consensus General Fund Cost Estimates	FY 2016	FY 2017
Caseload	$ 0.1	$ 12.2
Inflationary Changes	$ 10.5	$ 18.2
Program Changes	$ 7.4	$ 7.4
Total in Millions	**$ 18.0**	**$ 37.8**

Medicaid – What is Included in Consensus for Mandatory Costs?

The Medicaid forecast team (Legislative Fiscal Analyst, Governor's Office of Management and Budget, and the Department of Health) estimates costs to the General Fund in FY 2016 of $18.0 million one-time and an ongoing of $37.8 million in FY 2017. The consensus forecast for FY 2016 from February 2015 estimated cost increase for Medicaid of $11.9 million but no additional funding for FY 2016 was provided during the 2015 General Session. The forecast accounts for legislative appropriations changes in FY 2016 and FY 2017. Additionally, this is the second year where the consensus estimates do not include a cushion (extra money) for unforeseen circumstances in estimates. Each of the items in the forecast has a more detailed discussion below:

Caseload - $12.2 Million in FY 2017

1. **Change in caseloads** – estimated increase of 11,700 or 4% clients in FY 2016 and 3,900 or 1% in FY 2017. The majority of the increase in FY 2016 is from children.

2. **Federal medical assistance percentage** - unfavorable change of 0.18% for an ongoing cost of $2.6 million beginning in FY 2016 and an unfavorable change of 0.34% in FY 2017 at an additional ongoing cost of $5.1 million.
3. **Collections by the Office of the Inspector General, Medicaid Fraud Control Unit, and Office of Recovery Services –** the estimates assume that collections from these three entities will be lower by $3.4 million in FY 2016 and $4.4 million in FY 2017 as compared to FY 2015 collection of $18.2 million. These estimates represent each of these three agency's low estimates of collections.
4. **Medicaid to CHIP adjustment –** transfer of $4.1 million ongoing beginning in FY 2016 for children on Medicaid with incomes 100% to 138% who previously qualified for CHIP whose services are paid at the higher CHIP match rate. The Affordable Care Act increased Medicaid's income eligibility levels for children and removed an asset test. As a result of these changes, many CHIP children became eligible for Medicaid.

<u>Inflationary Changes - $18.2 Million in FY 2017</u>

1. **Accountable care organization contracts –** $4.5 million in FY 2016 and FY 2017 for 2% increases starting in January 2015 and 2016. Medicaid contracts with four accountable care organizations to provide about 50% of all services statewide. These organizations serve about 88% of clients. These contracts traditionally have annual increases.
2. **S.B. 98, *Medicaid Accountable Care Organizations*** - (http://le.utah.gov/~2015/bills/static/SB0098.html) from the 2015 General Session requires that the base budget include an appropriation increase to the per member per month for Medicaid accountable care organizations equal to the projected General Fund growth factor up to at least 2%. The Department of Health estimates a $2.3 million cost to the General Fund to complete the growth in the per member per month rate for Medicaid accountable care organizations by 2% over FY 2016.
3. **Medicare Buy-in –** The federal government requires the State to pay Medicare premiums and coinsurance deductibles for aged, blind, and disabled persons with incomes up to 100 percent of the Federal Poverty Level. Medicare cost sharing increases are projected to cost the State $1.1 million in FY 2016 and $2.1 million in FY 2017.
4. **Clawback –** payments began in 2006 when the federal government took responsibility for the pharmacy costs of clients that are dually eligible for Medicaid and Medicare. State payments are projected to increase costs by $1.9 million in FY 2016 and $3.9 million in FY 2017.
5. **Forced provider inflation –** this includes cost increases to the State's fee-for-service program of $3.1 million ongoing beginning in FY 2016 and an additional $2.3 million in FY 2017 over which the state has no control due to federal regulation or has opted not to exercise more state control over cost increases. About 92% of the increases come from the following two areas: pharmacy drug reimbursement ($1.8 million) and outpatient hospital ($0.3 million). The $1.8 million increase keeps the state's outpatient hospital reimbursement rates at 100% of Medicare rates. The federal government has announced plans to increase its Medicare outpatient reimbursement rates 2.1% in 2016.

<u>Program Changes - $7.4 Million in FY 2017</u>

1. **Autism increased federal requirements** - $3.0 million in FY 2016 and FY 2017 for a new federal regulation to provide autism spectrum disorder-related services when medically necessary for any Medicaid clients up to age 21 with autism spectrum disorder beginning July 1, 2015. Previously only clients qualifying as disabled qualified for these services or those served by the Utah pilot program for those ages 2 through 6. The funding includes 7.5% for administration of $354,000 General Fund ($708,500 total funds) in FY 2016 and FY 2017. The administrative funding is 75% for utilization control and 25% for program administration. This administrative structure is the same one used for the Medicaid autism pilot in FY 2014 and FY 2013. Through October 28, 2015 there have been service claims of $81,000 General Fund ($274,000 total funds).

2. **Orkambi** – New prescription drug with an annual cost of $257,400 indicated for clients 12 or older with cystic fibrosis who have two copies of the F508del mutation in their genes.
    a. Accountable Care Organizations – estimated to have 108 eligible clients at an annual ongoing cost of $3.0 million beginning in FY 2016.
    b. Fee-for-service – 13 Utah counties not served by accountable care organizations are estimated to have 20 eligible clients at an annual ongoing cost of $1.4 million beginning in FY 2016.

Why Did FY 2015 Have $8.5 Million in Unspent General Fund for Medicaid Services?

Medicaid services ended FY 2015 with $8.5 million in unspent General Fund. The consensus estimates for FY 2015 included a buffer of $2.6 million. The unexpected unspent balance was $5.9 million or 1.4%. There was $4.1 million due to higher collections primarily from the Office of Recovery Services. When you factor this out of the error rate for forecasting, there is a $1.8 million underestimate of costs which is a 0.4% error rate. Prior year error rates for FY 2014 through FY 2012 have been 0.3%, 2.6%, and 5%.

The 2012 General Session was the first year for consensus forecasting for Medicaid and Children's Health Insurance Program and saved the State $13 million General Fund in FY 2012 when compared to the original building block request for Medicaid.

Medicaid Caseload Cost Estimate (General Fund)	FY 2012	Higher/(Lower) Than Building Block
Building Block from Health	$ 48	$ -
October 2011 Consensus	$ 44	$ (4)
February 2012 Consensus	$ 35	$ (13)

Children's Health Insurance Program (CHIP) – Why $0 Cost Estimate?

From October 2015 through September 2019, the federal government will pay 100% of the costs for CHIP program services. There is enough money in CHIP to cover the state's share of costs from July through September of 2015 for FY 2016.

Why Consensus Forecasting for Medicaid?

When arriving at final point estimates for tax revenue projections, economists from the Legislative Fiscal Analysts Office, the Governor's Office of Management and Budget, and the State Tax Commission compare numbers and attempt to reach a consensus. The details of each projection are examined and critiqued against the other offices' numbers. By comparing competing forecasts, all involved parties attempt to flush out any errors or left out factors. These same reasons apply to Medicaid. From June 2000 to June 2012, Utah Medicaid grew from 121,300 clients to 252,600 clients, an increase of 108%. Over the same period, the percentage of the State's population on Medicaid grew from 5.4% to 8.8%.

Officially, Medicaid is an "optional" program, one that a state can elect to offer. However, if a state offers the program, it must abide by strict federal regulations. As Utah has, to this point, chose to offer Medicaid, it has established an entitlement program for qualified individuals. That is, anyone who meets specific eligibility criteria is "entitled" to Medicaid services. An accurate forecast is essential to adequately funding that entitlement.

Additional Resources

- *Medicaid Consensus Forecasting* Issue Brief from the 2015 General Session http://le.utah.gov/interim/2015/pdf/00001149.pdf

- Kaiser Summary of Federal Health Care Reform
  http://le.utah.gov/interim/2012/pdf/00002141.pdf