



# MEDICAID CONSENSUS FORECASTING

EXECUTIVE APPROPRIATIONS COMMITTEE  
STAFF: RUSSELL FRANSEN & ANGELA OH

ISSUE BRIEF

**SUMMARY**

The Medicaid consensus forecast team estimates surplus General Fund in FY 2014 of \$48.5 million one-time and an ongoing cost of \$13.1 million in FY 2015. For the Children’s Health Insurance Program, consensus forecast estimates General Fund surplus in FY 2014 of \$4.0 million and \$0.5 million in FY 2015. The Legislature may want to include these estimates in the base budgets for FY 2014 and FY 2015. 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**

In some years the Legislature has opted to address Medicaid costs in the base budget. The Legislature may want to consider this option with the estimates contained in this brief. If so there is an estimated General Fund surplus in Medicaid of \$48.5 million in FY 2014 and a cost of \$13.1 million in FY 2015. These estimates do not include any funding for state administration or any optional provider inflation.

**DISCUSSION AND ANALYSIS**

Below is a summary of the consensus General Fund mandatory cost estimates for FY 2014 and FY 2015:

| Consensus General Fund Estimates (Surplus)/Cost | Medicaid         |                | CHIP            |                 |
|---|------------------|----------------|-----------------|-----------------|
|   | FY 2014          | FY 2015        | FY 2014         | FY 2015         |
| Baseline Caseload                               | \$ (42.9)        | \$ (4.7)       | \$ (2.3)        | \$ (0.5)        |
| Federal Health Care Reform                      | \$ (5.6)         | \$ 17.8        | \$ (1.7)        | \$ -            |
| <b>Total in Millions</b>                        | <b>\$ (48.5)</b> | <b>\$ 13.1</b> | <b>\$ (4.0)</b> | <b>\$ (0.5)</b> |

**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) forecast a reduction in mandatory costs of \$48.5 million in FY 2014 and an increase in cost of \$13.1 million in FY 2015. This forecast includes the following components: baseline caseload costs and impacts from federal health care reform. Each of these items has a more detailed discussion below:

1. **Baseline caseload** includes the following additional costs/savings (all items are for FY 2015 unless specifically noted otherwise):
  - a. \$38 million nonlapsing balance – FY 2014 started with a \$38 million nonlapsing balance due to lower-than-estimated costs in FY 2013 (explained more below)
  - b. Baseline change in caseloads and cost per member per month – estimated increase of 6,200 or 2% clients in FY 2014 and 2,500 or 1% in FY 2015. A utilization increase of 2.4% in FY 2014. Caseload and per member per month changes represent the majority of all cost estimates.
  - c. Forced provider inflation of \$5.5 million – this includes cost increases over which the state has no control due to federal regulation or has opted not to exercise more state control over cost increases. About 93% of the increases come from the following three areas (listed in order of size): accountable care organization contracts, Medicare buy-in program, and

pharmacy drug reimbursement. This is the second year that forced provider inflation was included in consensus forecasting. The consensus cost estimate is \$0.1 million less General Fund than the agency's request due to an item deemed by the consensus group not to be forced inflation.

- d. Clawback payments to the federal government - \$1.6 million reduction in FY 2014 from lower-than-estimated per person charges.
- e. Unused stimulus money - \$3.8 million one-time in FY 2014 for unused stimulus money from the federal government.
- f. Federal medical assistance percentage favorable change of 0.4% for a savings of \$1.9 million.
- g. Preferred Drug List additional projected savings of \$1.5 million.
- h. A 2% State-funded increase in physician rates now to be paid by the federal government for a savings of \$0.2 million.
- i. Additional \$0.6 million in FY 2014 for funding of costs for the run out associated with change to capitated dental services in September 2013.
- j. Collections by the Office of the Inspector General and Medicaid Fraud Control Unit – the estimates assume that FY 2014 collections from these two entities will be \$15.3 million lower than FY 2013 collections.

2. **Costs to Medicaid from federal health care reform** – The consensus group estimates General Fund lower costs of \$5.6 million in FY 2014 and increased costs of \$17.8 million in FY 2015 for Medicaid. The Legislature had already provided \$15.6 million ongoing General Fund starting in FY 2014. The Analyst expected the increased costs for FY 2015, as the funding in FY 2014 only covered half a year of new costs that will start in January 2014. The following is a list of the areas with potential costs to the state in Medicaid from federal health care reform:

- a. Currently eligible but not enrolled individuals signing up for Medicaid – with changes to how some people apply for health insurance, this will likely increase the number of individuals who sign up for Medicaid. For example, all individuals who apply for tax credits to help pay for health insurance must first be determined ineligible for Medicaid.
- b. Income determination to be based on modified adjusted gross income – this may result in less people denied services and less incomplete applications for Medicaid.
- c. Asset Test Elimination for adults and pregnant clients.
- d. Medicaid must cover youth for whom foster care was discontinued at age 18 or older until they are age 26. Utah currently covers up to age 21. The Department of Human Services estimates that we have about 1,900 Utah foster care graduates under age 26. The Department of Workforce Services estimates about 400 of those are currently served by Medicaid.
- e. Children must be eligible to receive hospice services, which Utah Medicaid does not currently cover.

**Why Did FY 2013 Have \$38.0 Million in Unspent General Fund in Medicaid?**

Medicaid ended FY 2013 with \$38.0 million in unspent General Fund. The Department of Health provided an explanation to the September 2013 Executive Appropriations Committee regarding this \$38.0 million surplus (see <http://le.utah.gov/interim/2013/pdf/00003280.pdf>). The unexpected unspent balance was \$26.7 million or 7%. The \$11.3 million expected unspent balance included \$7.2 million in extra utilization and \$4.1 million was part of HB 272 (Menlove) *Pilot Program for Autism Spectrum Disorders Services* from the 2012 General Session. Of the \$26.7 million or 7% unexpected surplus, \$16.8 or 63% is due to higher collections than last year for the Medicaid Fraud Control Unit, Office of the Inspector General, and Office of Recovery Services. When you factor this out of the error rate for forecasting, the \$9.9 million remaining is a 2.6% error rate. This is better than the 5% error rate for FY 2012. The \$9.9 million is primarily from lower than forecasting enrollment and costs.

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) – What is Included in Consensus?**

The consensus team estimates a General Fund surplus of \$4.0 million in FY 2014 and a cost of \$0.5 million in FY 2015. The consensus for CHIP includes the following components:

1. **Baseline costs** – assumes a change in enrollment and a change in the cost per member per month. The consensus team estimates a 1.2% or 420 decrease in enrollment and a 1.4% increase in per member per month costs for FY 2014. For FY 2015 the forecast projects flat enrollment and a 3.1% increase in per member per month costs.
2. **Costs from federal health care reform** - The consensus group estimates General Fund lower costs of \$1.7 million in FY 2014 for CHIP. The Legislature had already provided \$2.3 million ongoing General Fund starting in FY 2014. The following is a list of the areas with costs to the state in the Children’s Health Insurance Program in FY 2015 (all covered by the \$2.3 million appropriation):
  - Shift of about 66% CHIP children onto Medicaid due to the elimination of the asset test for children ages 6 to 18. These children newly shifted onto Medicaid will cost the state \$1.0 million more General Fund in FY 2015 due to Medicaid’s richer benefit package.
  - 3,160 currently eligible but not enrolled individuals signing up for CHIP at a cost of \$1.3 million General Fund.

**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 2012 Interim <http://le.utah.gov/interim/2013/pdf/00000453.pdf>
- *Kaiser Summary of Federal Health Care Reform* <http://le.utah.gov/interim/2012/pdf/00002141.pdf>