

# Amended FY 2009 and FY 2010 Agency Budget Request

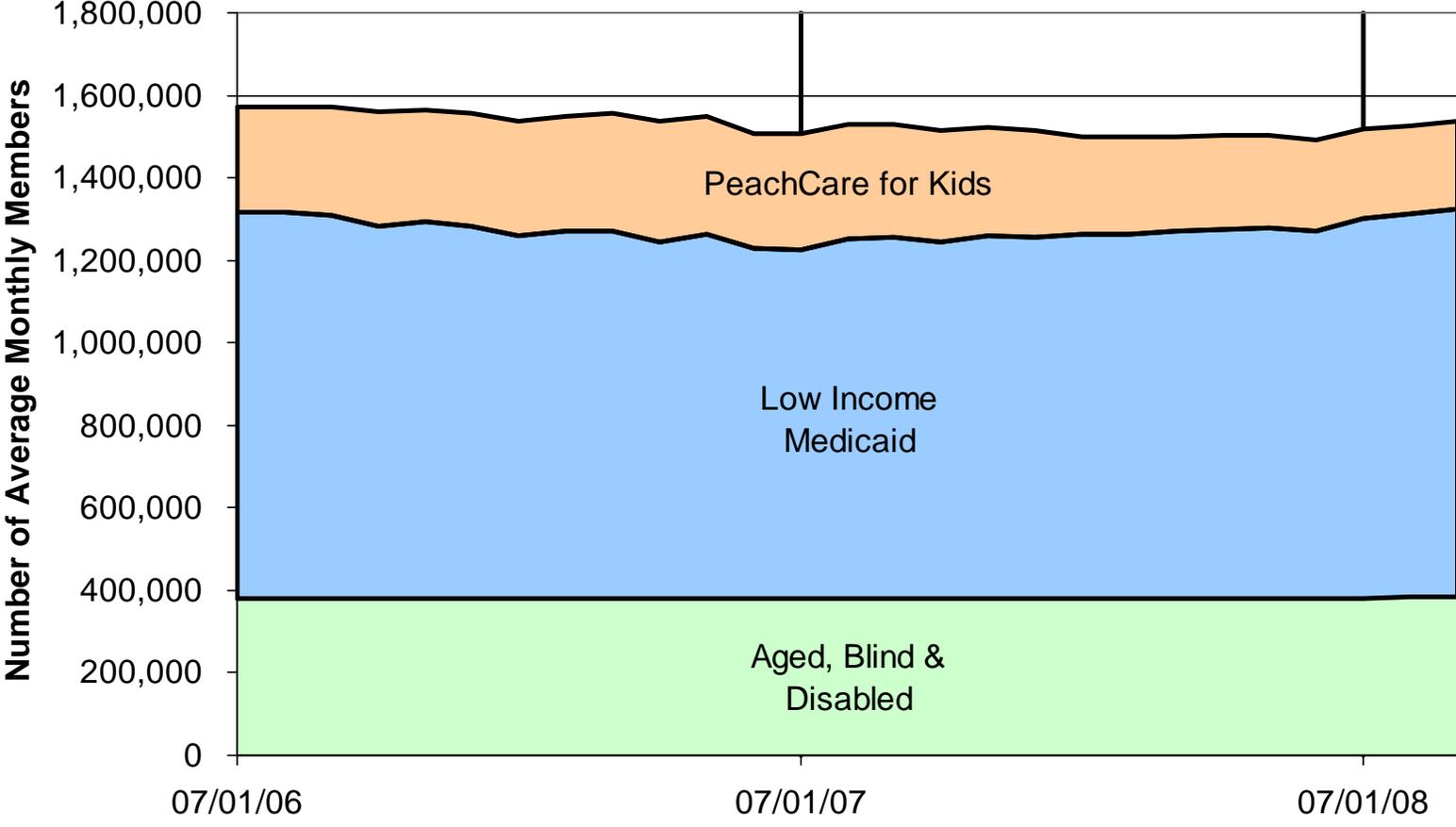
Presentation to  
Senate Appropriations Health Subcommittee  
November 14, 2008



# Medicaid & Peach Care for Kids

- Snapshot Of Enrollment
- Expenditures By Program Area
- Expenditures By Provider Type
- Enrollment Trends
- Cost Management Initiatives
- FY2008 Year End Financial Status

# Historical Member Enrollment



**Sept '08**  
**PCK:**  
**212,983**  
  
**LIM:**  
**940,013**  
  
**ABD:**  
**383,142**  
  
**Total:**  
**1.5 M**

# FY 2008 Expenditures: Medicaid and PeachCare

## The Aged, Blind & Disabled Populations represent:

- 25% of enrollment
- 56% of expenditures

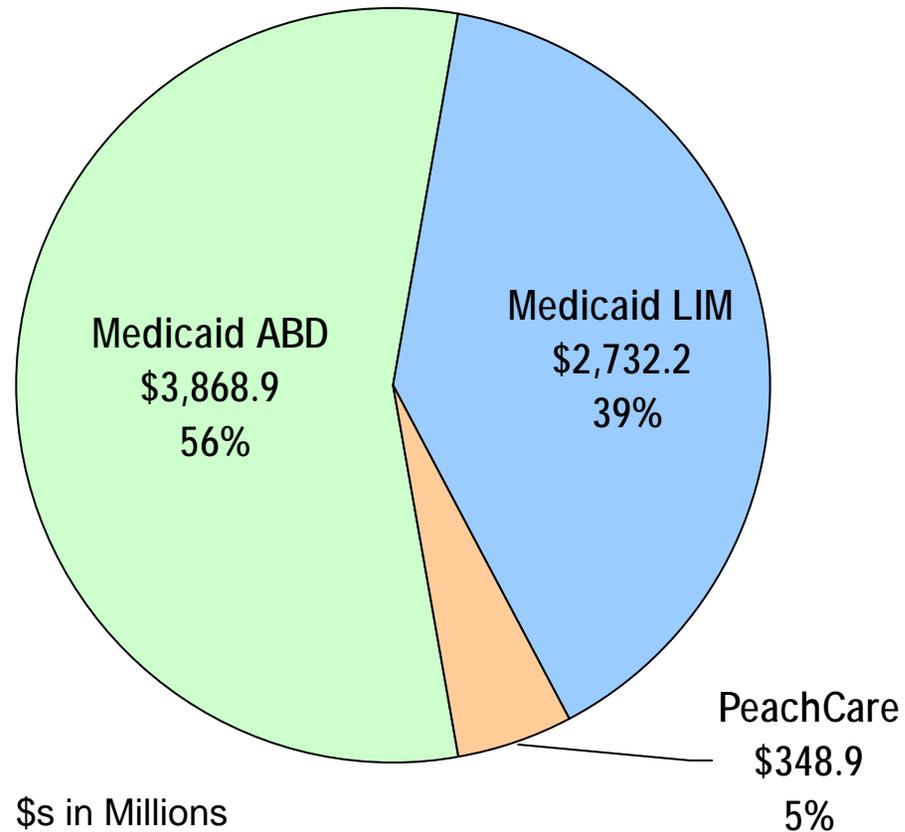
## The Low Income Medicaid Population represents:

- 61% of Enrollment
- 39% of expenditures

## PeachCare represents:

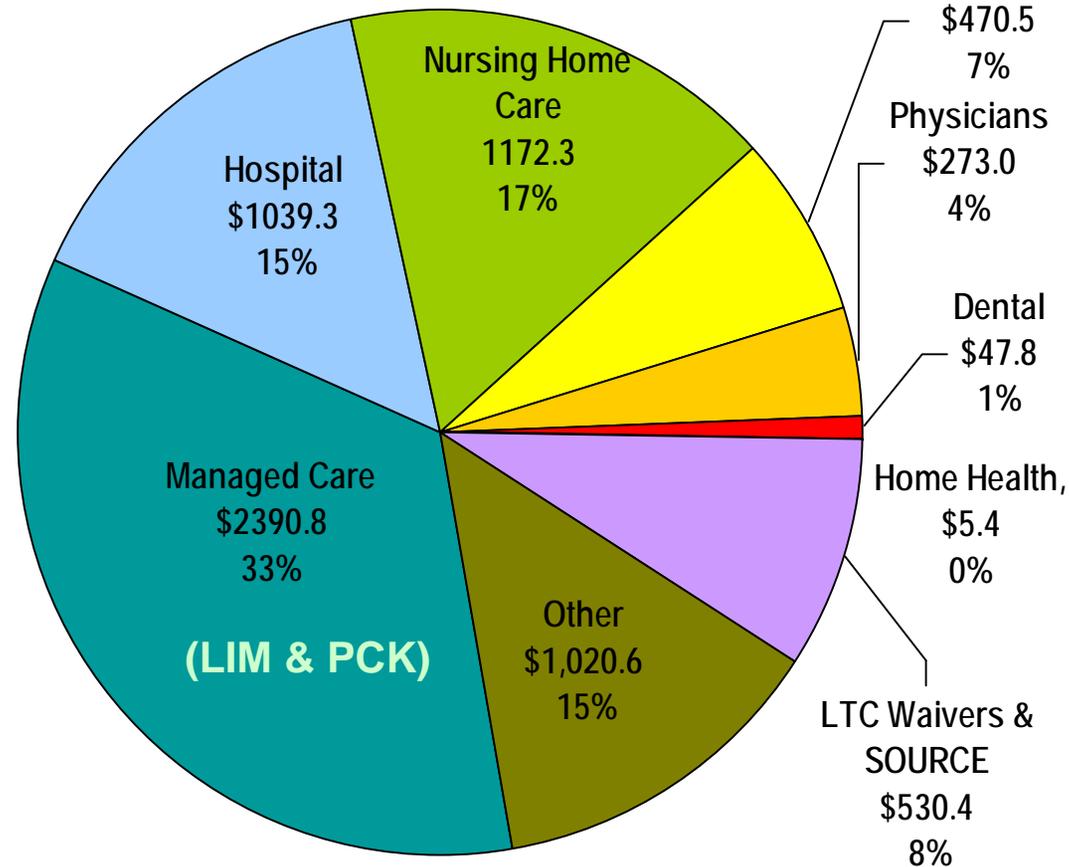
- 14% of Enrollment
- 5% of expenditures

FY 2008 Total Expenditures: \$6,950.1 Million



# FY 2008 Medicaid and PeachCare Expenditures by Provider Type

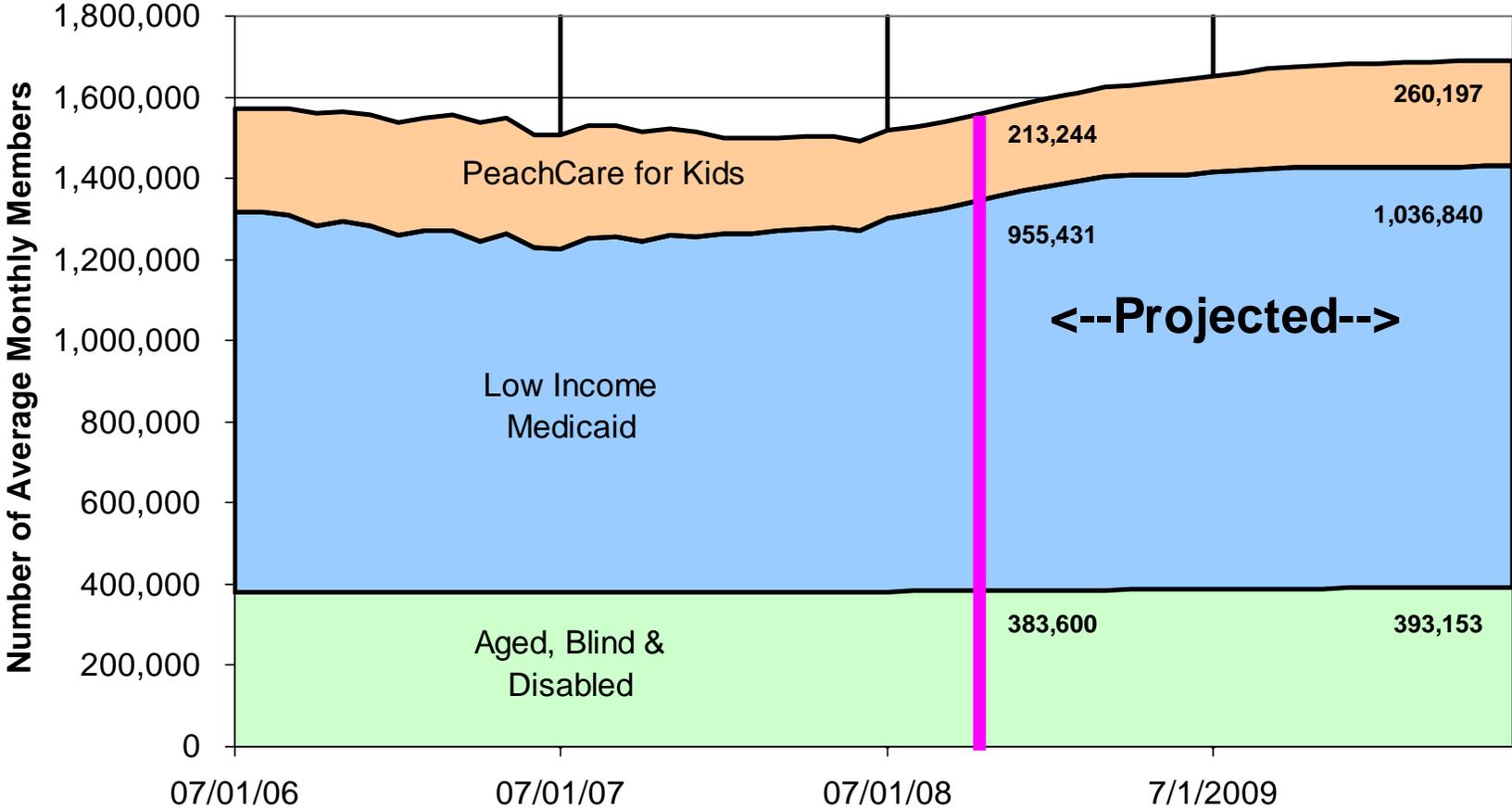
FY 2008 Total Incurred Expenditures: \$6,950.1 Million



\$s in Millions



# Member Enrollment Future Trends



# Previous Medicaid Cost Control Initiatives

## FY 2004 - 2005

- Pharmacy Program Management
  - Preferred Drug List
  - Supplemental Rebates
  - Quantity Limits
- Outpatient hospital reimbursement reduced

## FY 2006

- Care Management Organizations  
Statewide capitated program for Low Income Medicaid and PeachCare for Kids - June 2006
- Disease Management for select Aged, Blind, and Disabled members

## FY 2006 (continued)

- Eligibility Criteria more stringently applied
  - Emergency Medical Assistance
  - Katie Beckett (FY 2005)
  - Proof of Citizenship and Income
  - Asset Transfer for Long Term Care
- Medicare Part D implementation

## FY 2007

- Administrative Services for non-CMO members
  - Level of Care Determination
  - Clinical Reviews
  - Fraud and Abuse

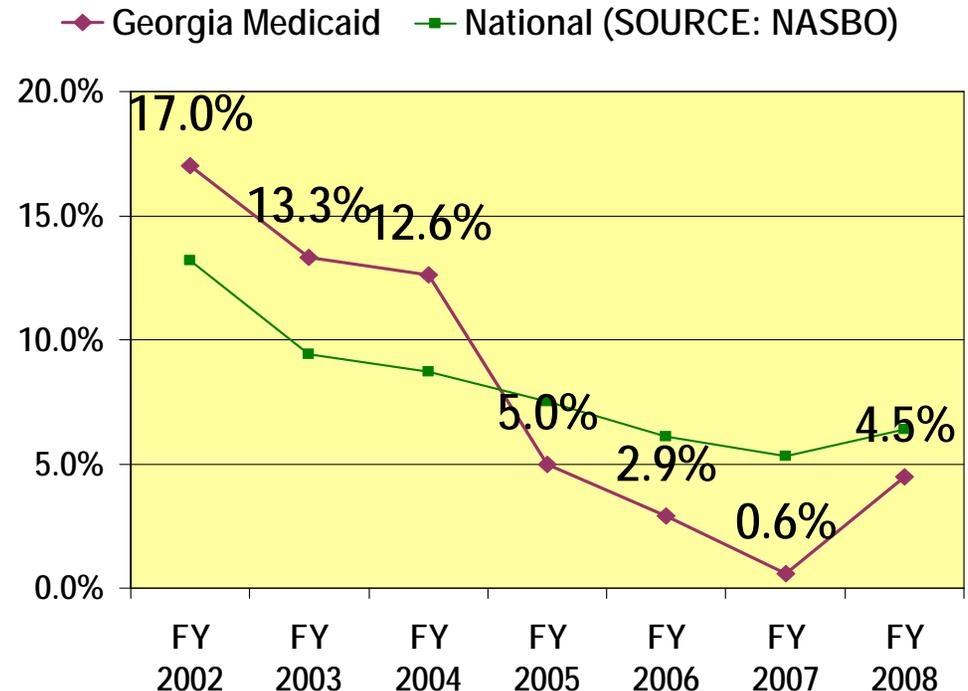


# Medicaid Cost Management in FY 2008

## Factors influencing Medicaid expenditures in 2008:

1. Review and Removal of duplicate **Medicaid ID's**
2. Focus on community-based long term care services to delay or avoid **institutional care**
3. Impact of **Disease Management** for select Aged, Blind, and Disabled members
4. Medicaid **Program Integrity**
  - Fraud and Abuse Detection
  - False Claims Act

## Percentage Change in Annual Medicaid Benefit Expenditures



# PeachCare for Kids Cost Management in FY 2008

## Factors influencing PCK expenditures in 2008

- Eligibility Criteria more stringently applied (e.g., required proof of income and citizenship instead of self-attestation)
  - Enrollment **declined by 22%** or 60,981 members between July 2007 and June 2008;
- Renegotiation of CMO cap rates for July 2007 resulted in 15% reduction in PMPM



# FY 2008 Year End Balances

Program	Return To Treasury
Low Income Medicaid	\$52,394,074
Aged, Blind, and Disabled	43,808,717
PeachCare for Kids	12,465,827
Indigent Care Trust Fund	0
Health Care Access and Improvement	872,938
Administration and Program Support	16,649,315
Attached Agencies	242,141
<b>Total</b>	<b>\$126,433,012</b>

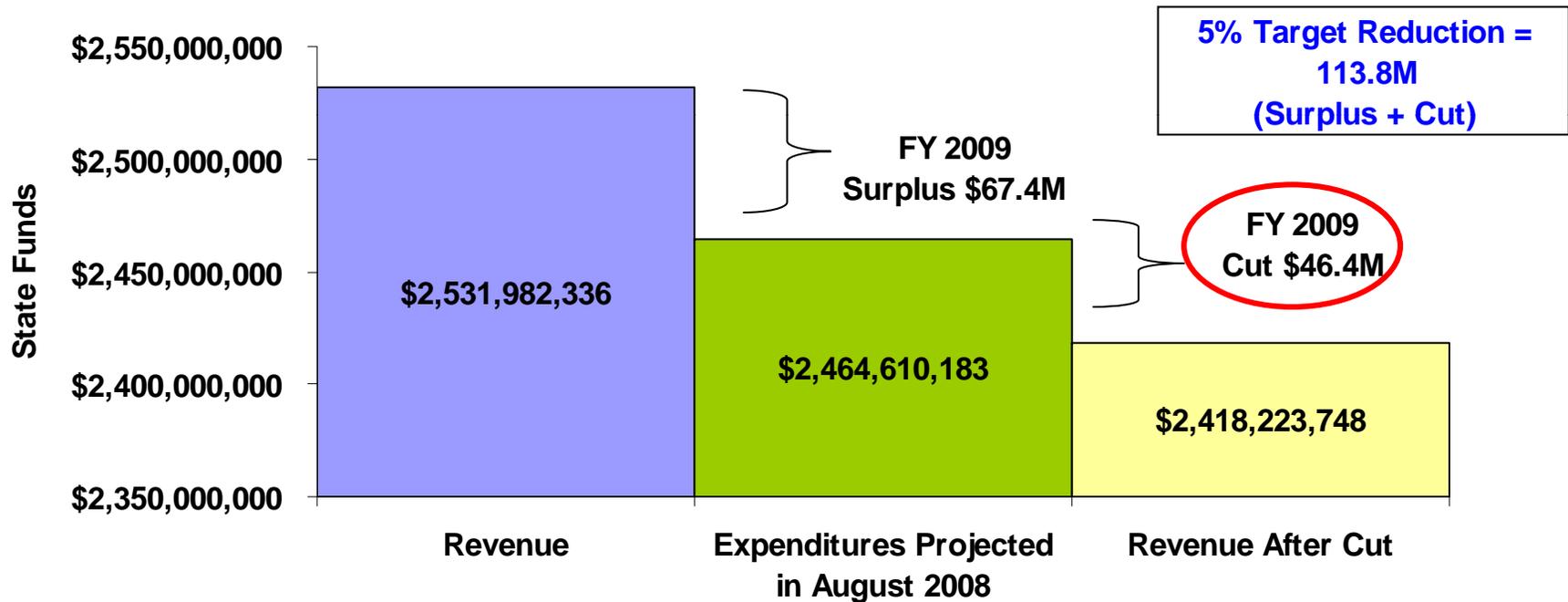
Note: Unaudited figures

# Budget Parameters

- FY 2008 Surplus
- FY 2009 Budget (Before and After Cuts)
- FY 2010 Budget (Before and After Cuts)
  - FY 2010 Base Deficit
- Possible Impact of Enrollment Surge on Budget Request
  - Consideration of Unemployment Rates



# FY 2009 Medicaid and PeachCare State Fund Target for Benefits Reduction



# FY 2010 Base Deficit

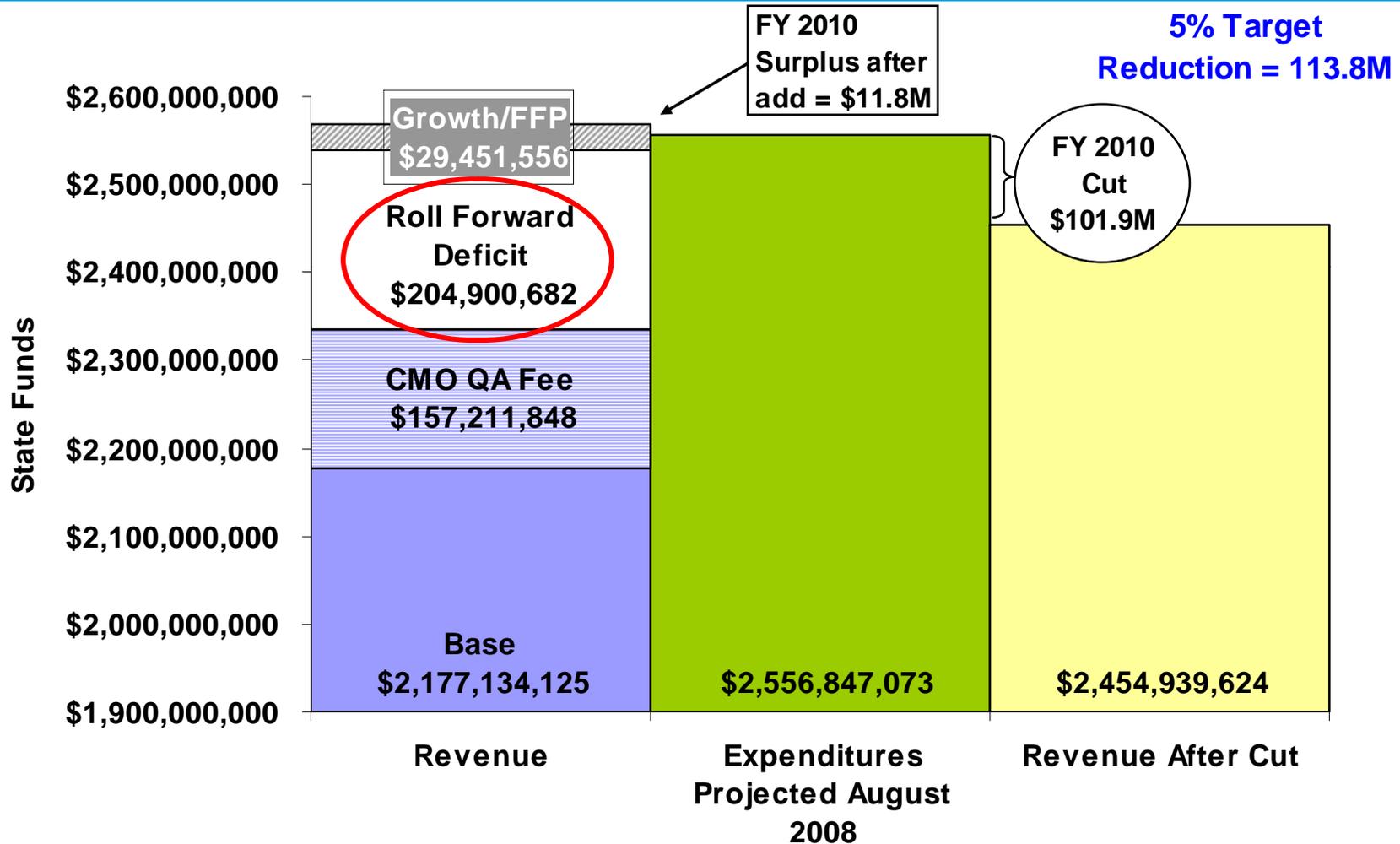
From the Department's 12/18/07 Senate Appropriation Health Subcommittee Budget Presentation:

## Medicaid Financing

FY2007 Year End	FY2008 Projected Use of Funds	FY2009 Projected Use of Funds
Revenue	Revenue	Revenue
\$2,638M	\$2,434	\$2,214
Expense	FY07 IBNR	FY08 IBNR
-\$2,141M	\$236	\$276
Surplus	Expense	Expense
\$497M	(\$2,394)	(\$2,405)
Reserve FY08 Prefund	FY 2008 IBNR	FY 2009 IBNR
\$225M	\$276	\$85
Reserve Against FY07 IBNR		
\$236M		
Surplus to Treasury		
\$36M		

NOTE: Creates hole in FY 2010 Base due to FY 2009 cash deficit covered by prior year funding that will not be available in FY 2010.

# FY 2010 Medicaid and PeachCare State Fund Target for Benefits Reduction

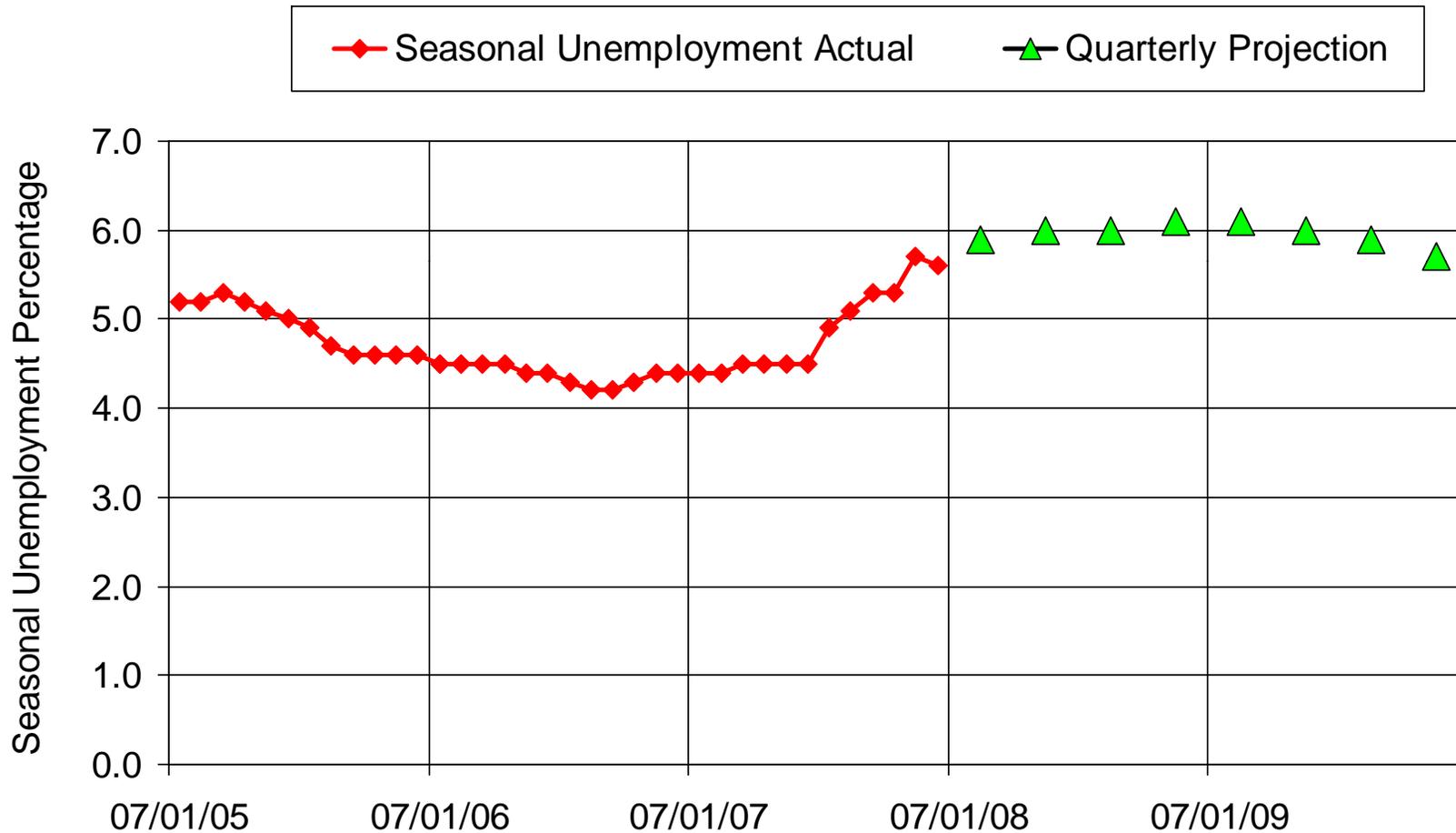


# Changing Enrollment Projections

- Enrollment Projections
  - Driven by:
    - Most Recent Medicaid and PCK Enrollment Trends since July
    - Revised Unemployment Rates by Dr. Heaghney and other sources
  - Increased state fund expenditures assuming worst case scenario (i.e., UE projections are accurate)
    - primarily in Low Income Medicaid
    - by \$42.7 million in FY 2009
    - by \$121.3 million in FY 2010

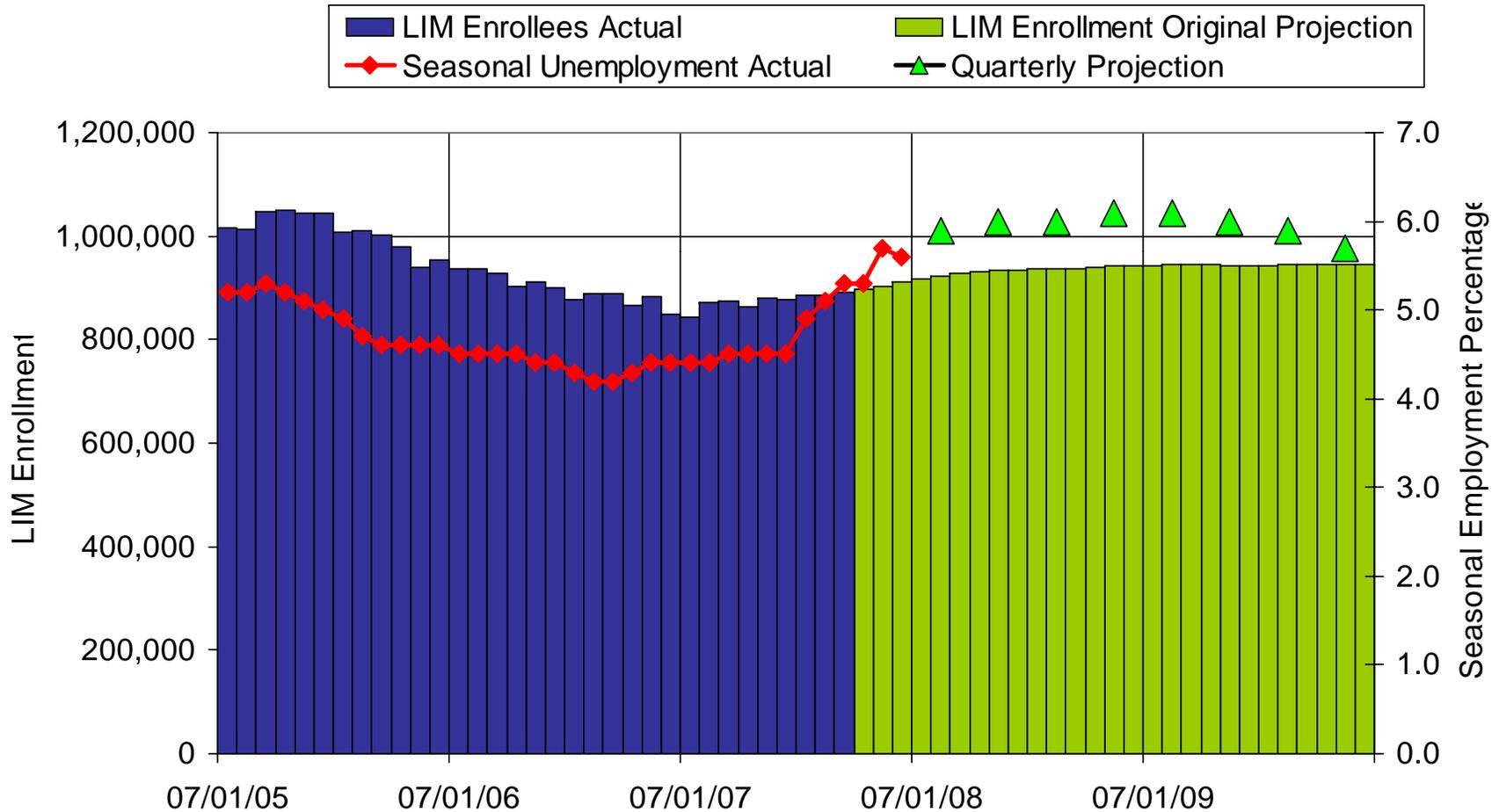


# Original Unemployment Projections



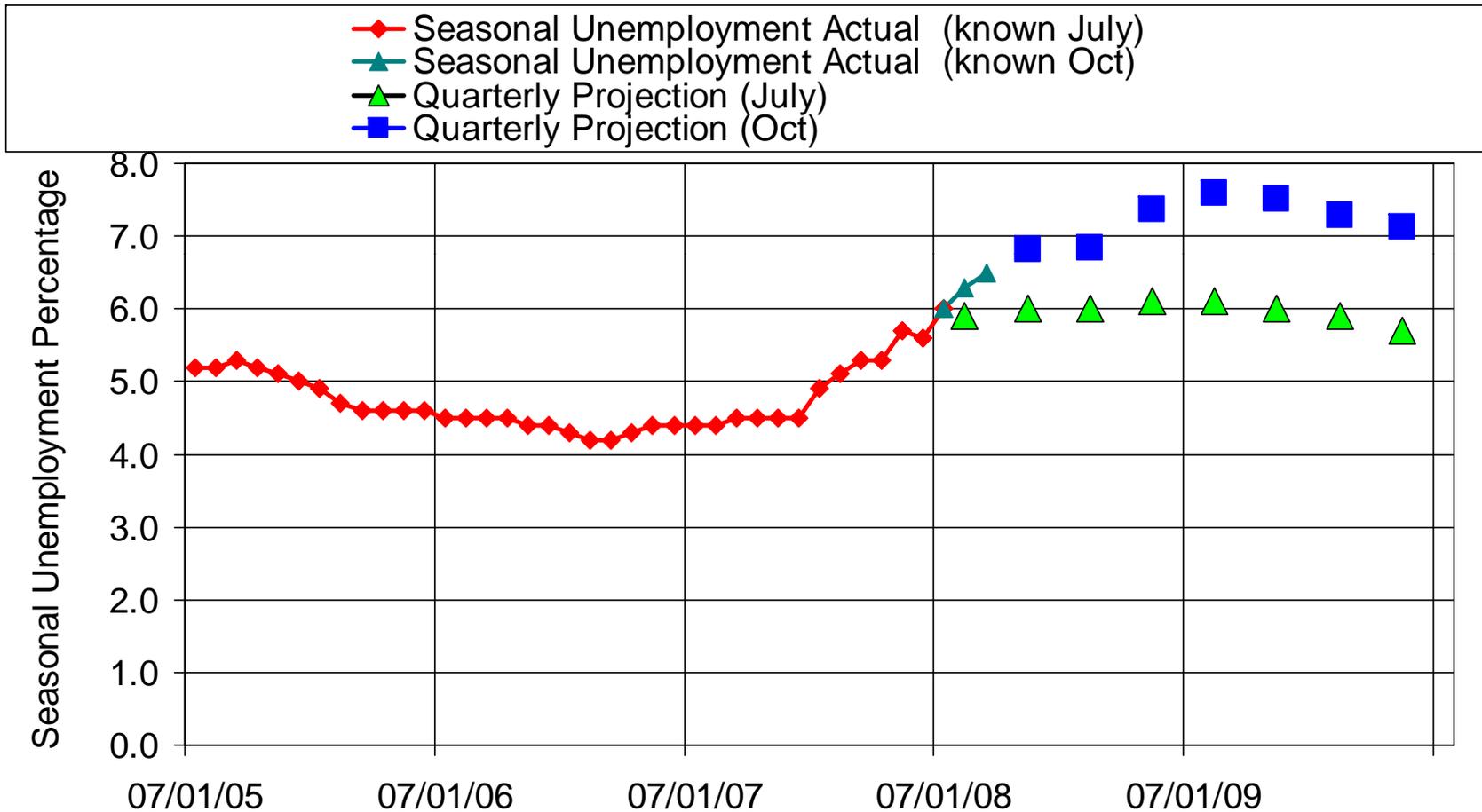
Projections from State Economist July 2008

# Original Unemployment & LIM Enrollment Projection

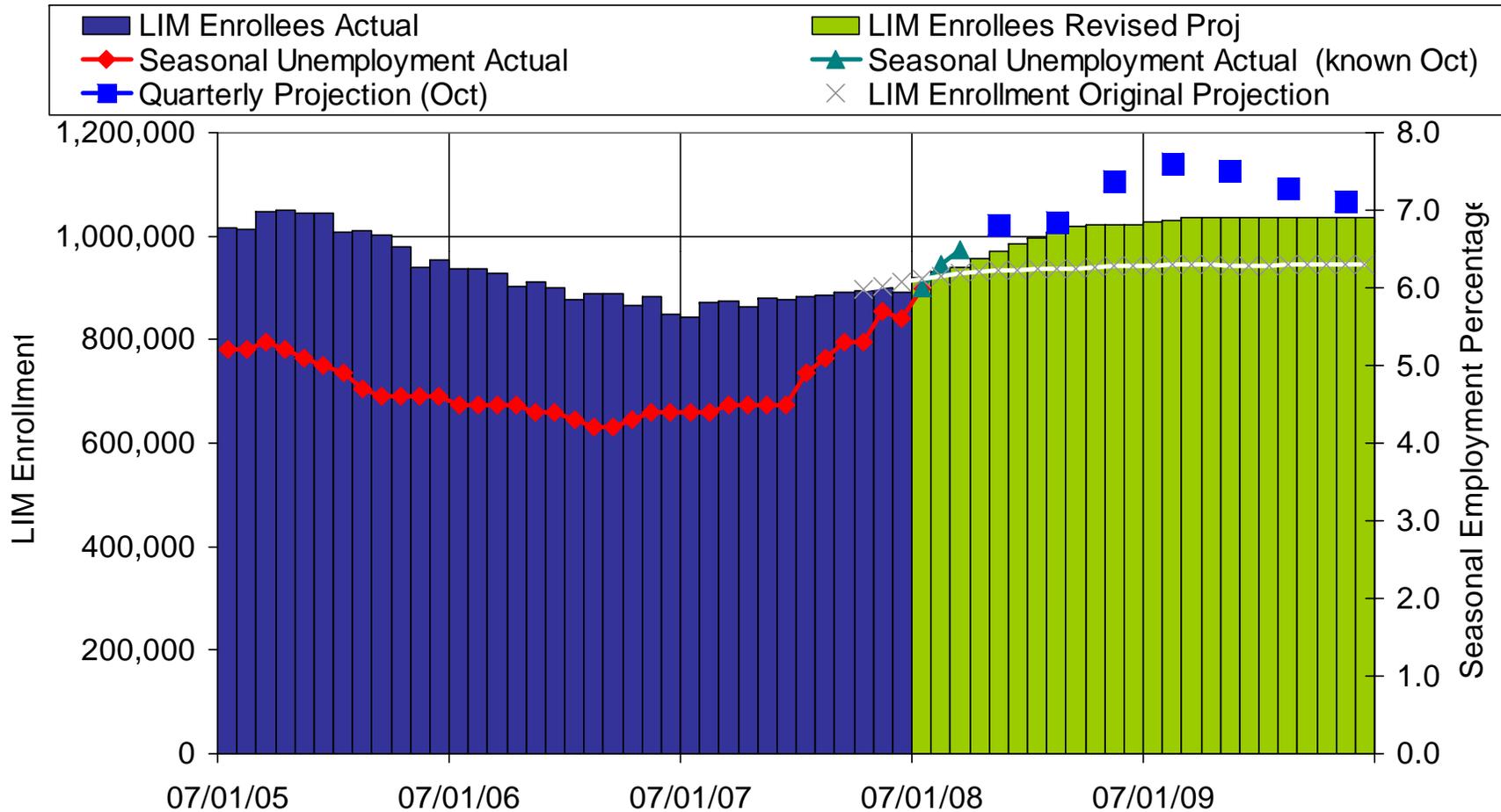


Projections from State Economist July 2008

# Revised Unemployment



# Revised Unemployment & LIM Enrollment Projection



Projections from State Economist October 2008



# DCH Proposals & Options

- Approach to Reductions
- FY 2009 Proposed Reductions
- FY 2010: Options & Recommendation
  - Use of Managed Care Fee vs Other Options



# Approach to Meet Reduction Requirements

## DCH Priorities:

(Listed in order of most important items to preserve and fund)

1. People in Need
2. Provider Payment for Care
3. CMO Health Plan Rates
4. Capital Expenditures for Providers

## Areas Reviewed for Opportunities to Meet Reductions:

- Current Year Projected Surplus
- Programmatic areas with FY 2008 surplus
- Medicaid Financial Integrity and Recovery
- Additional Initiatives to Ensure Integrity of Eligibility Determination Process
- CMO Provider Fees given federal statutory changes



# Medicaid & PeachCare for Kids

For Budget Reduction Options, Please See List



# AFY 2009 Original Budget Request

SUMMARY	Details	In State Funds
Target Reduction @ 5%		(\$113,758,588)
Apply Projected Surplus		(\$67,372,153)
Additions	1. Funds for Deemed Private Hospitals	\$7,000,000
Reductions	1. Delay HB 990 Rate Enhancements until FY 2010. 2. Utilize PARIS data matching 3. Reduce Peachstate CMO rates.	<u>(\$58,104,741)</u>
Total Net Change		(\$118,476,895)
Compared to Target Met & Exceeded		\$4,718,307



# For FY2010

- Target Budget Reductions: \$113 Million
- Possible Loss of CMO fees: \$104 Million

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**\$217 Million**

- Anticipated Enrollment Increases: \$121 Million?  
As working families find themselves
  - Suddenly unemployed
  - Uninsured
  - Underinsured



# FY 2010 Original Budget Request

SUMMARY	Details	In State Funds
Target Reduction @ 5%		(\$113,758,588)
Apply Projected Surplus		(\$11,851,138)
Additions	1. 100 New ICWP Waiver Slots	\$1,572,750
Policy Changes	1. Utilize PARIS data matching 2. Reduce Peachstate CMO rates. 3. Use 80% of 2007 Medicare fee schedule for office-based pharmacy and DME.	(\$11,405,371)
Fee expansion	1. CMO QA fee expansion to commercial HMO's at 3% annually	(\$112,173,839)
Total Net Change		(\$133,857,599)
	Compared to Target: Met/(Did Not Meet)	\$20,099,011



# Medicaid Managed Care Fee

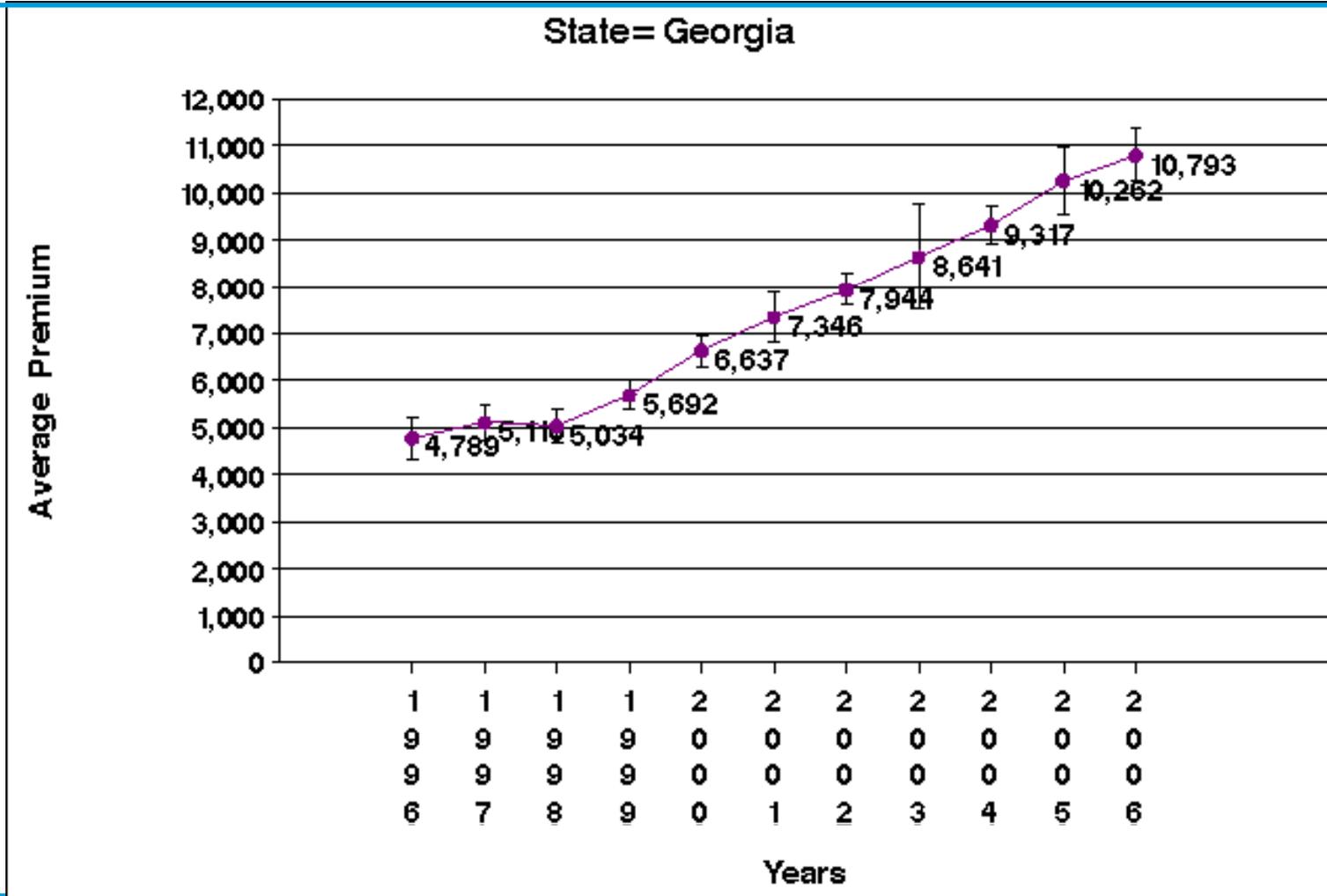
- Apply fee to 15 Health Insurance Companies certified under Georgia Code Chapter 21 beginning in October, 2009.
- Fee based on their premium revenue from fully insured managed care plans (HMO & PPO)
- Exclude Self Insured Plans (No premium revenue. Premiums funded by employer)
- Exemptions: Government Funded health plans (Medicare, FEP, SHBP)
- Assumptions:
  - Total managed care company premium revenues : **\$5.5 Billion**
  - Projections for employer conversion to self insurance
  - Commercial Insurance Company Fess: \$112 Million
  - Annualized 3% fee: 4.5% for the 9 months in FY2010
- Already in use in TX, TN, AZ, MD, MN, NJ, and NM



# Health Care Coverage in Georgia



# Georgia Family Health Insurance Premium Increases 1996-2006

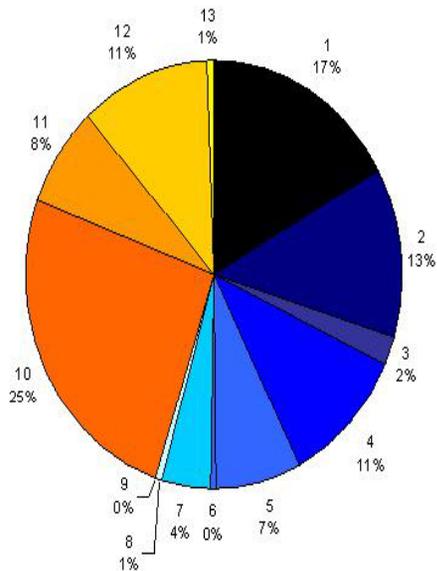


Source: Agency for Healthcare Quality & Research (AHQR) Medical Expenditure Survey  
Average total family premium in dollars) per enrolled employee at private-sector establishments that offer health insurance by firm size and State (Table II.D.1), years 1996-2006



# Georgia Health Care Coverage

Georgia Health Coverage '08 mm



	Health Coverage	Enrollment	% of Pop	Source	Date
1	Uninsured	1660156	17%	US Census	2007
2	Medicaid	1235770	13%	DCH	2008
3	PeachCare	212983	2%	DCH	2008
4	Medicare	1055821	11%	CMS	2008
5	State Health Plan	693601	7%	DCH	2008
6	Federal Employee Plan	43779	<1%	FEHP	2008
7	Military Health Programs	423961	4%	Tricare	2008
8	DOC	48991	1%	DOC:OHS	FY2008
9	DJJ	19,326	<1%	DJJ	FY2008
10	Employer /Self Insured	2498161	25%	Health L.	Jan-08
11	HMO	767087	8%	Health L.	Jan-08
12	PPO	1077072	11%	Health L.	Jan-08
13	POS	49389	1%	Health L.	Jan-08
	* Total Population	9769471	100%		

\* Uninsured are individuals without medical coverage/pharmacy coverage  
 \* Medicaid beneficiaries do not include Medicare Dual Eligibles  
 \* DOC enrollment does not include county and private prisons  
 \* FEP data from Federal Office of Personnel Management  
 \*\* Military Health information from Tricare Administrator for the South Region

**Note:**

- Total Georgia Population as per the US Census 2007: 9,544,750
- Some individuals have been enrolled in both government funded coverage and commercial insurance at times. For example:
  - Commercial insurance members with chronic illnesses who exhaust their medical benefits and apply for Medicaid
  - Commercially insured children with costly chronic conditions enrolled in special needs Medicaid waiver services
  - Medicare members who purchase Medigap coverage to help reduce out of pocket expenses
  - Tricare members who purchase Tricare Supplemental Insurance
- Not included above: Direct government subsidies paid to safety net providers (FQHCs, Rural Clinics, and Community Centers)

# Other Options

Menu of Options Impacting PeachCare for Kids	FY 2010
OPTIONS ↓	
Reduce the enrollment cap for PeachCare for Kids (PCK).	(3,768,159)
Freeze enrollment in PCK (would replace the cap).	(10,683,145)
Increase premiums for PCK members by 10%.	(527,947)
Implement PCK premiums for children between the ages of 2 and 5.	(1,314,538)
Eliminate dental benefits for PCK.	(14,836,414)



# Other Options

The following menu of options include reductions in eligibility and **disenrollment** of people currently receiving care.

In the event Congress provides enhanced FMAP in an economic stimulus package; we expect that states would be ineligible to receive the enhanced FMAP if they eliminate categories of optional eligibility.

	FY 2010
<b>OPTIONS ↓</b>	
Eliminate Medicaid coverage for Foster Care Children ages 19-20 (i.e. Chafee Option) (~650 average monthly enrollment projected in FY 2010)	(\$1,143,844)
Eliminate the medically needy category of eligibility. (~7,100 members covered in FY 2008)	(\$15,070,920)
Eliminate the Katie Beckett category of eligibility. (~3,100 average monthly enrollment projected in FY 2010)	(7,927,920)
Eliminate dental benefits for pregnant women. (~60,000 pregnant women covered in FY 2008)	(1,911,841)

# State Health Benefit Plan Financial Status

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# Discussion Points

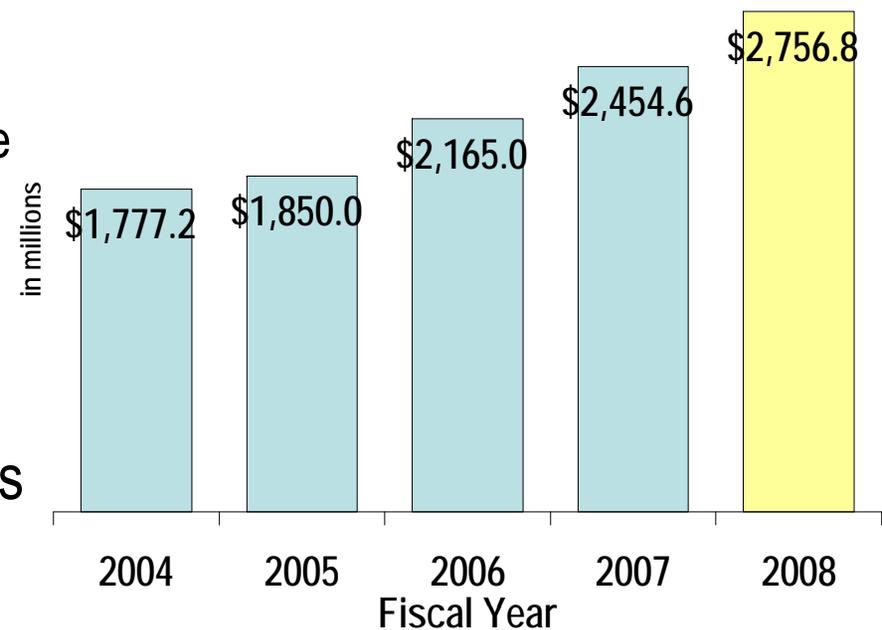
- FY 2008
  - Revenue Collections
  - Expense
  - Revenue/Expense Statement
- FY 2009 – FY 2010
  - Revenue Assumptions
  - Expense Projections
  - Revenue/Expense Statement
  - Fund Balance
- FY 2009 Budget Distribution
- Other Post Employment Benefits (OPEB)



# Historical Revenue

- **\$302.2 million or 12.3% growth** in revenues collected in FY 2008 as compared to FY 2007\*
- 14.5% increase in employer revenue\* as collection methods changed in FY 2008:
  - Percent of Payroll for teachers and state employees increased from 16.713% to 18.534%
  - DOE contributions on behalf of school personnel increased from \$242.5 m to \$279.2 m
- 6.2% increase in employee premiums due to higher membership and CY 2008 premium increase

Revenues Collected by Fiscal Year



NOTE: FY 2008 Unaudited

\* Does not include OPEB contributions for state employees



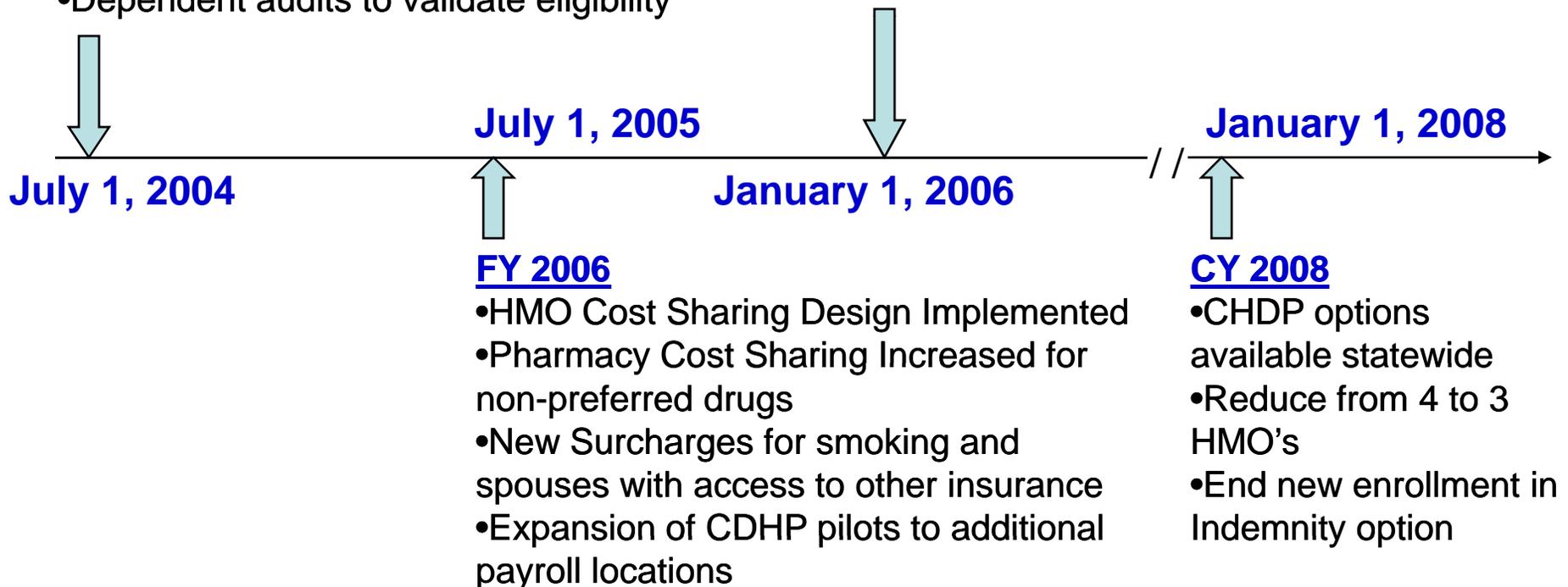
# Milestones of SHBP Reform

## FY 2005

- Rx Design Plan Change
- Additional Co-Pays
- New Consumer Directed Health Plans (CDHP) as Pilot Program
- Dependent audits to validate eligibility

## CY 2006

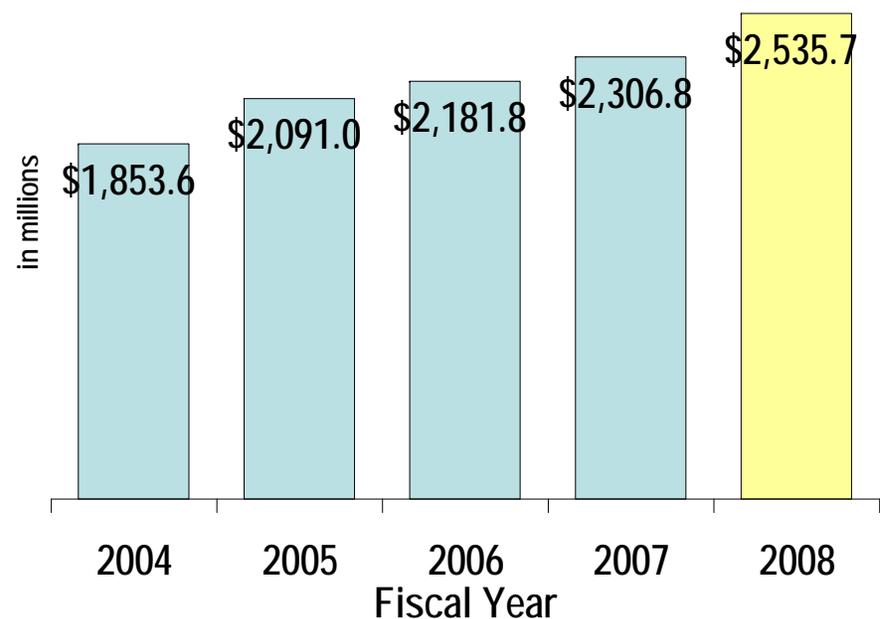
- United Healthcare administering PPO and TPA
- Medicare Part D implementation
- Administrative contract consolidation



# Historical Expense

- **\$228.9 million or 9.9% growth** in expenditures in FY 2008 as compared to FY 2007
- Comparing most recent plan years' self-insured options:
  - **3.6% growth in enrollment**
    - Primarily New Teachers
  - **6.5% growth in PMPM growth**
    - Comparable to national averages for self-insured and gov't plans
    - Aligned with financial goals set by Governor

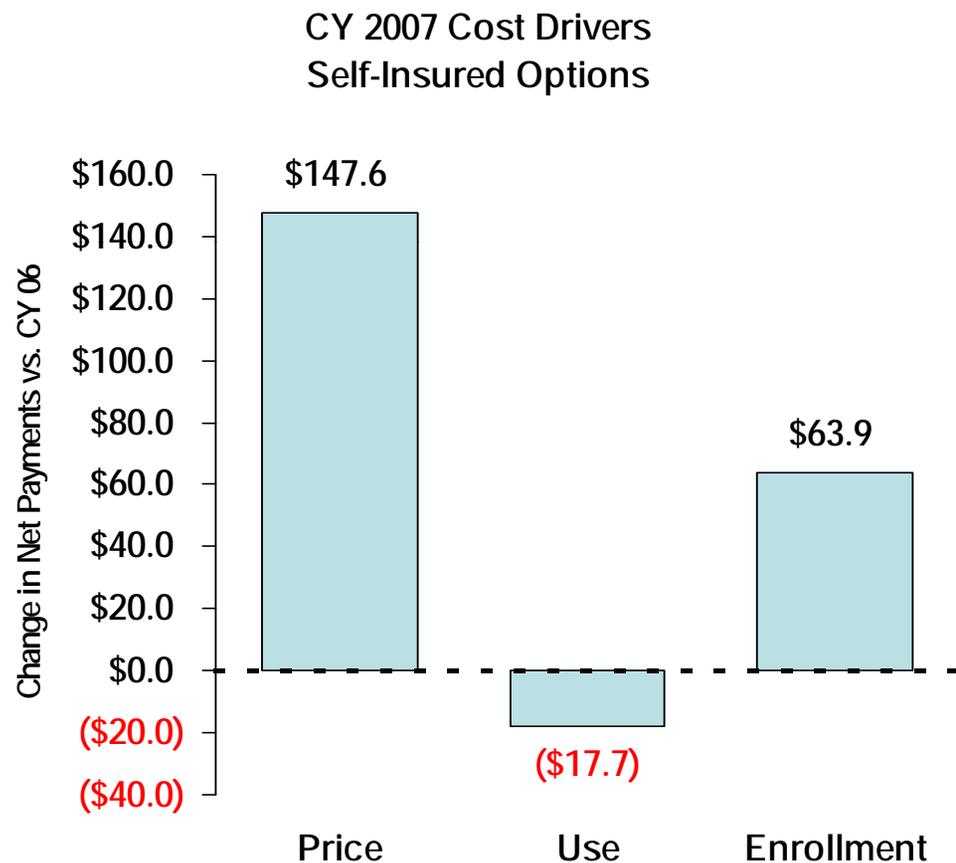
Cash-Based Expenditures by Fiscal Year



NOTE: FY 2008 Unaudited  
Source for plan comparisons: Thomson Reuters, 9/4/08

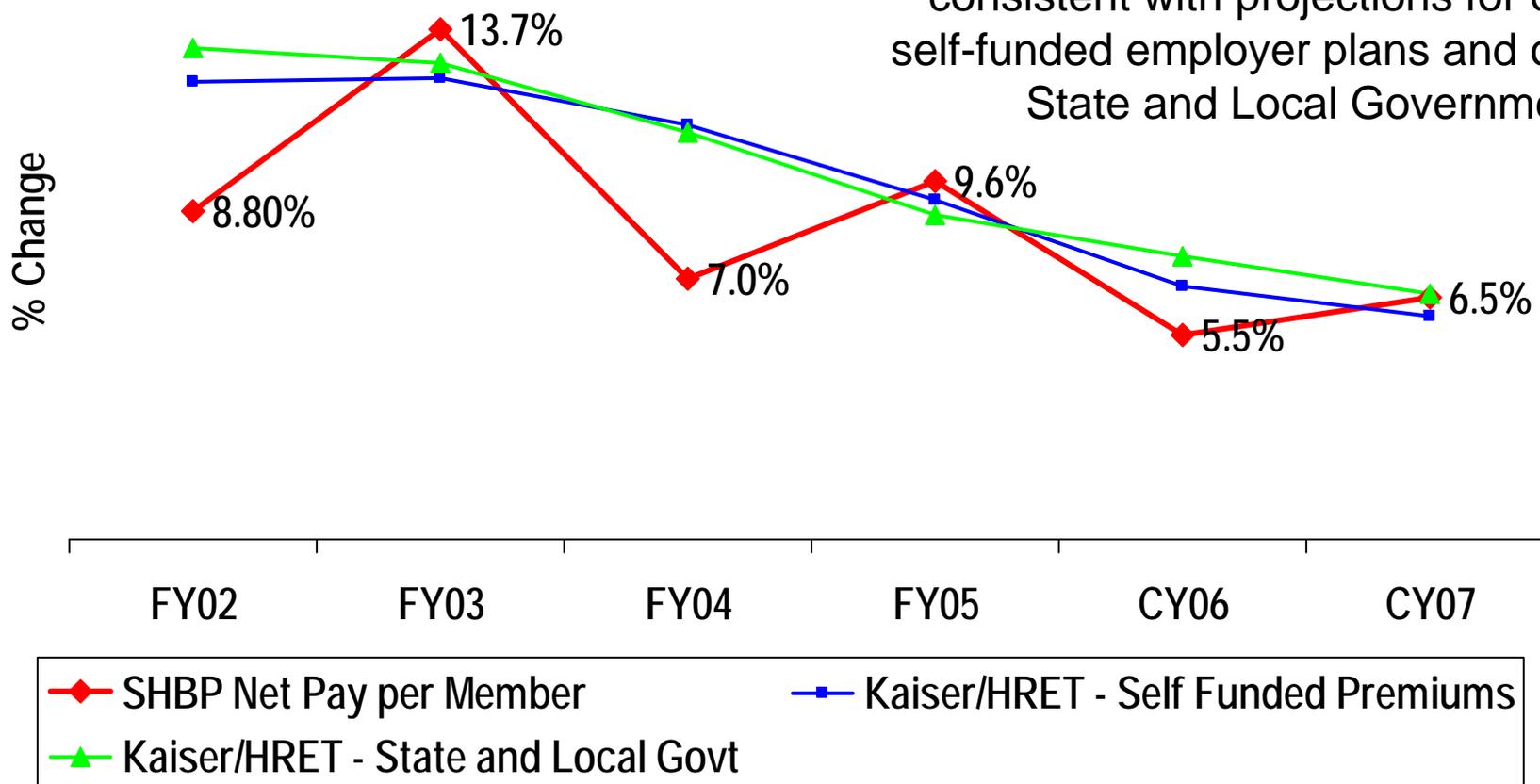
# Contributions to Net Payment Increase

- Price Up and Use Down
- Combination suggests:
  - a more intense mix of services being provided resulting in higher average costs
  - cost-sharing and plan design strategies are working to control utilization



# Annual Changes in Net Payments Per Member

The CY 2007 PMPY increase is consistent with projections for other self-funded employer plans and other State and Local Governments.



# FY 2008 Revenue/Expense Statement

(in millions)	FY 2008
Employer Contributions	\$2,111.4
Member Premiums	624.2
Other Revenue	21.2
Contributions Earmarked for OPEB	<u>184.9</u>
<b>Total Revenue</b>	<b>\$2,941.7</b>
Pay As You Go Expense	\$2,535.7
Transfer to OPEB Fund	<u>184.9</u>
<b>Total Expense</b>	<b>\$2,720.6</b>
<b>Surplus/Deficit</b>	<b>\$221.1</b>

NOTE: FY 2008 Unaudited

# Future Revenue\*

## FY 2009

- **\$148.0 million or 5.4% growth** in revenues collected in FY 2009 as compared to FY 2008\*
- 4.0% increase in employer revenue considering:
  - State employee hiring freeze and impact of agency budget cuts in personal services
  - No Pay raise for state employees on January 1, 2009
- 10.2% increase in member premiums due to expected increase in the number of members (teachers and school employees) and CY 2009 premium increase

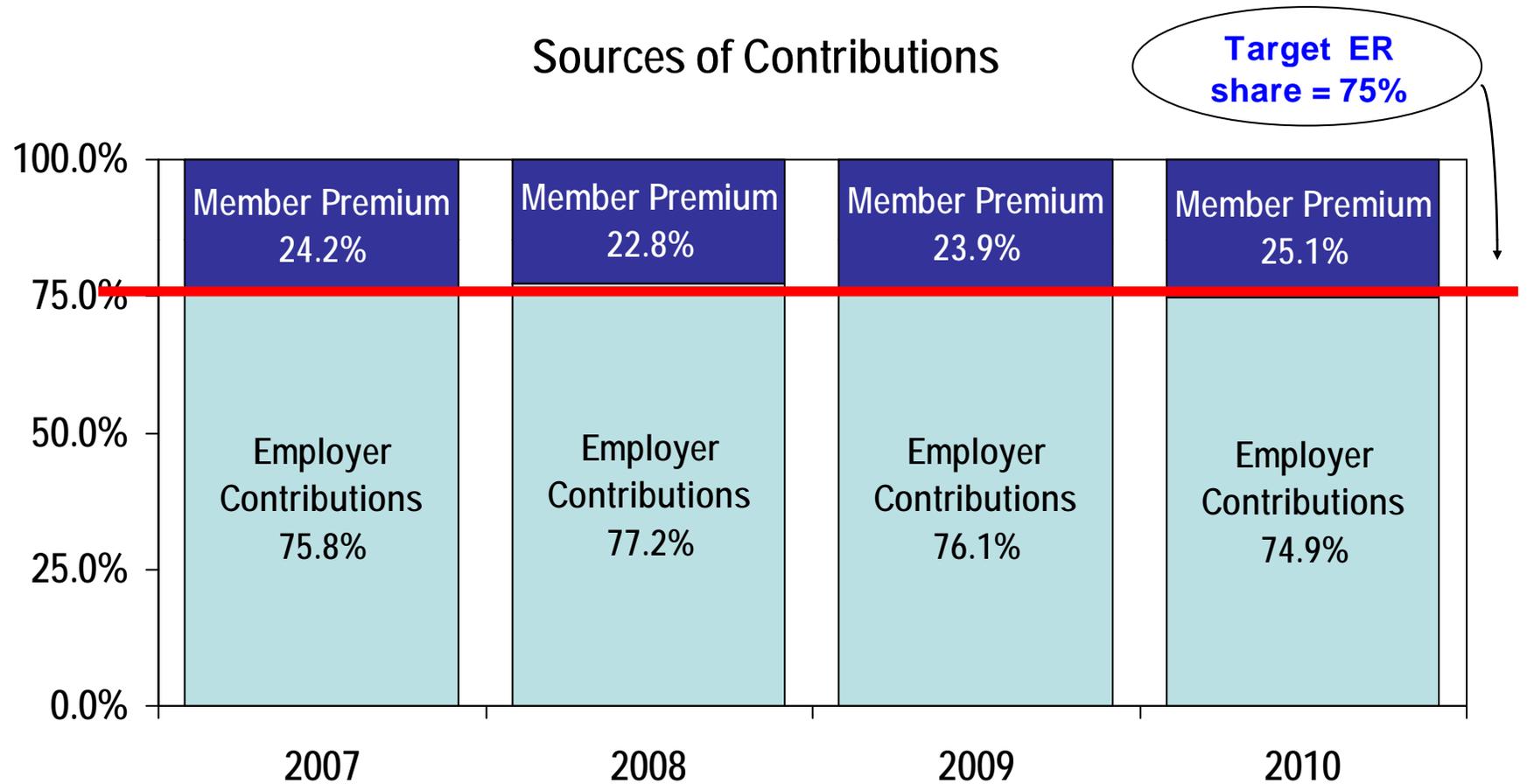
## FY 2010

- **(\$12.9 million) or 0.4% decrease** in revenues collected in FY 2010 as compared to FY 2009
- 2.0% reduction in employer revenue:
  - Assumes no pay raise for teachers on September 1, 2009 or for state employees on January 1, 2010
  - Assumes budget cuts to local boards of education who may reduce payroll
- 4.5% increase in the collection of member premiums due to CY 2009 premium increase (impacts the first half of FY 2010)
  - No assumption about a change in member premiums for CY 2010
  - Will require premium differential to continue incentives for members to select a CDHP option; can be budget neutral

\* Based on DCH projections as of 10/26/08 and does not reflect OPEB contributions for state employees



# Revenue Sources



Does not include co-insurance paid by employee when utilizing healthcare services.

# Future Expense

FY 2009 – \$169.5 m or 6.7% growth

FY 2010 – \$127.1 m or 4.7% growth

## Assumptions for FY 2009 and FY 2010

- Pricing, Benefit Design and Marketing of CDHP plans moves 6% of HMO membership and 3% of PPO membership to a CDHP plan option every year
- 25% enrollment in Medicare Advantage plans in CY 2009
- Membership growth for teachers, school employees, and retirees through FY 2009; however, no growth for active state employees
- Nominal net growth in active membership in FY 2010 due to budget restrictions; assume continued growth in retiree membership

# Future Reform with Impact on Expense

## CDHP Strategies

- Enrollment options for new SHBP entrants after January 1, 2009 will be limited to CDHP options during the first plan year after enrollment.
  - At the next open enrollment period, a new entrant will then have all plan designs available for selection in the event they want to change.
- New Entrant policy saves \$5.8 million in FY 2009 and \$22.8 million in FY 2010



# Future Reform with Impact on Expense

## Medicare Strategies for Retirees Age 65 and Older

- Beginning July 1, 2009, retirees who do not participate in Medicare Part B will pay higher premiums to offset the loss of Medicare cost avoidance.
  - The SHBP will pay any late entrant penalties for members who are not already in Medicare Part B.
  - Retirees can sign up for Medicare Part B between January and March 2009.
- Beginning January 1, 2010, retirees will be required to enroll in a Medicare Advantage plan to continue to receive the state subsidy toward the cost of SHBP premiums.
  - Retirees not participating in a Medicare Advantage plan can continue to participate in the other SHBP plan options, but will not receive a state subsidy.
  - The member must be in at least Part B to qualify for Medicare Advantage Plan participation.
- Medicare strategies save \$58.5 million in expense in FY 2010



# Future SHBP Reform

## CY 2009

- Consolidation of Plan Options and Administrators (5 Designs; 2 Vendors)
- Premium pricing in support of CDHP enrollment
- New Entrants must enroll in CDHP option for 1<sup>st</sup> year of enrollment



**January 1, 2009**

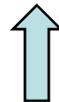
## CY 2010

- Mandatory Medicare Advantage Plan enrollment for retirees over age 65
- Continued premium pricing in support of CDHP enrollment



**January 1, 2010**

**July 1, 2009**



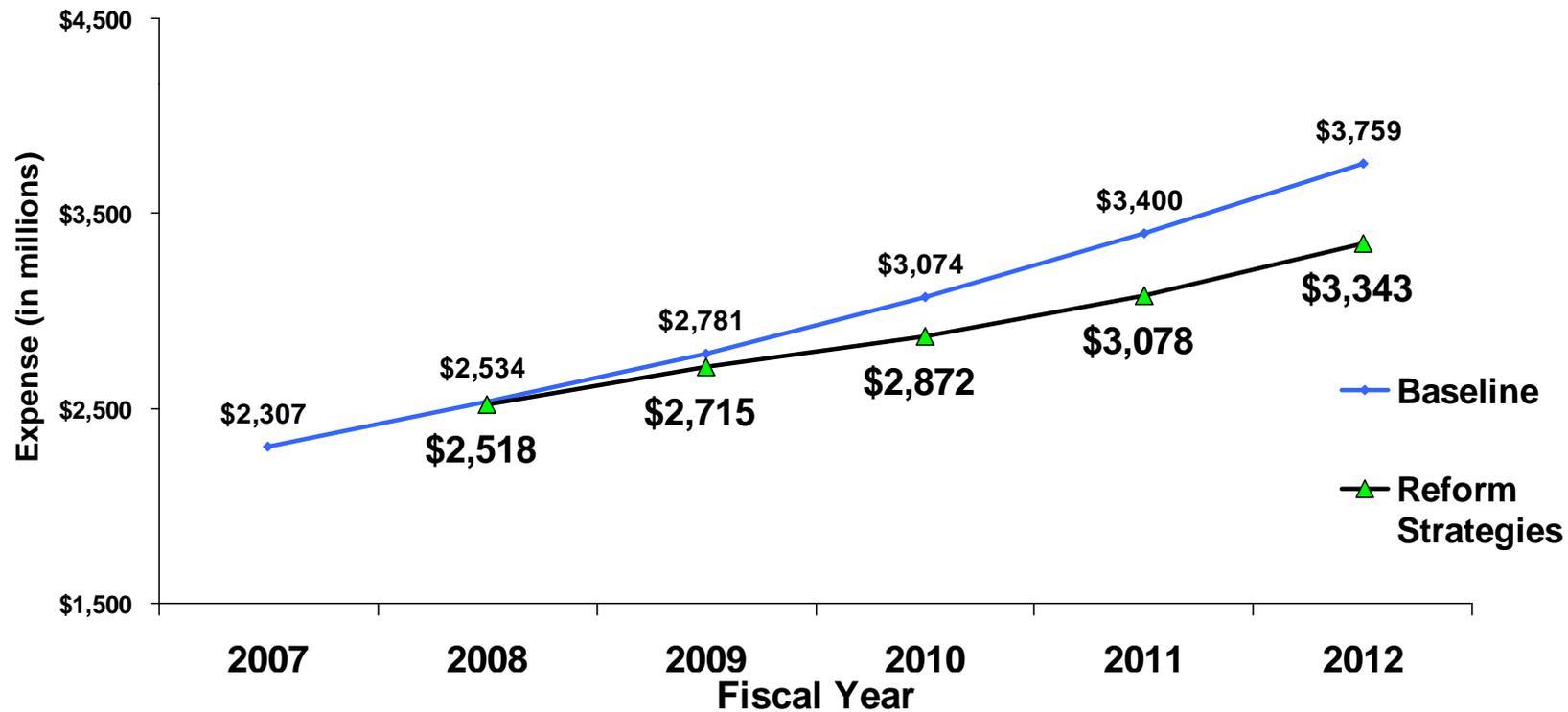
## FY 2010

- Move to direct bill for premium payments
- Increase in premiums for retirees over age 65 who do not enroll in Medicare Part B -> increase will cover lost cost avoidance to Medicare



# SHBP Multi-Year Strategy

The CY 2008 implementation of the CDHP strategy and the CY2009 and CY 2010 implementation of future strategies are expected to reduce annual expenditures by ~\$1.0 billion between FY 2009 and FY 2012.



SOURCE: Aon Projections, Oct 2008

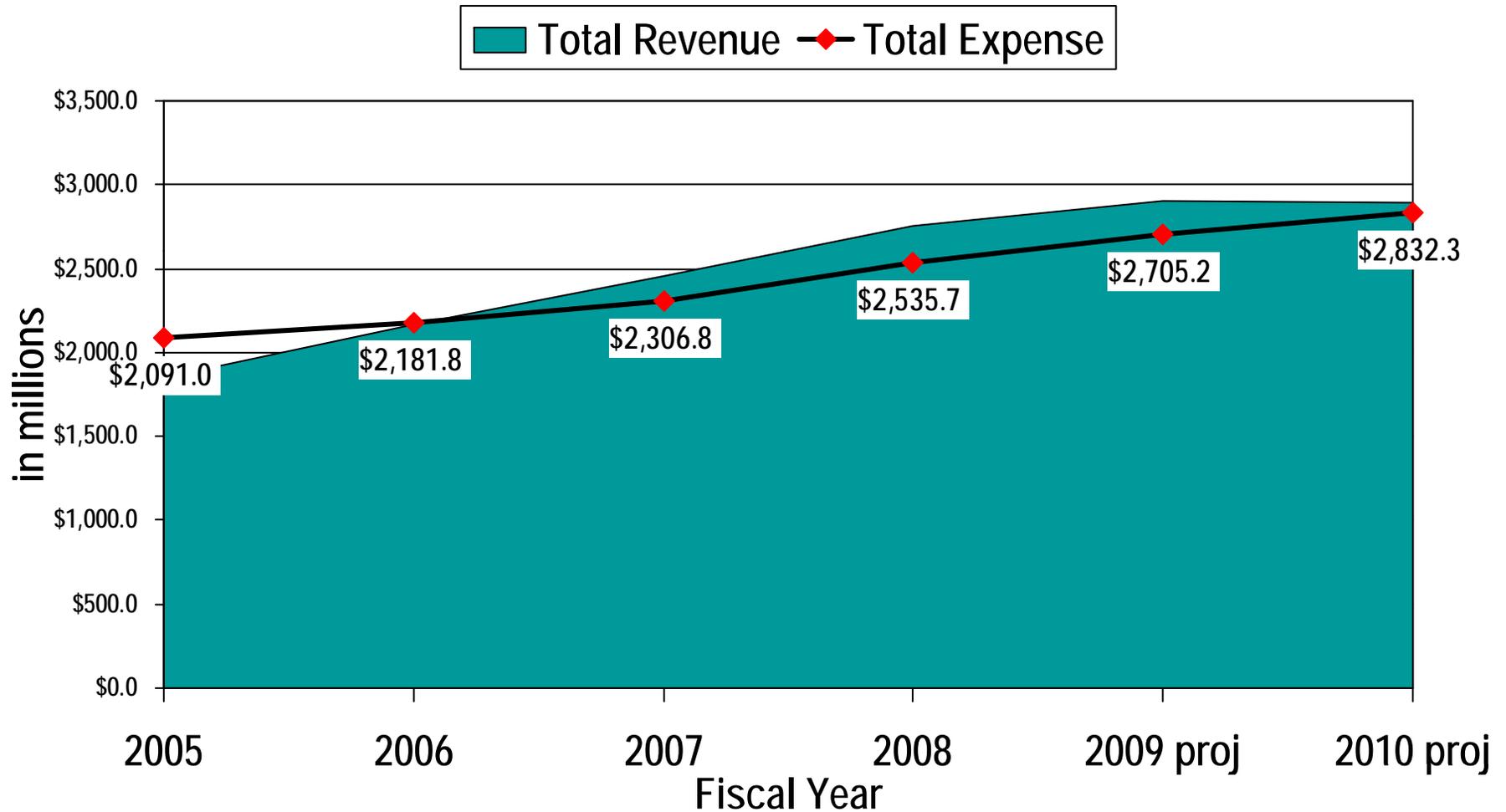


# FY 2009-10 Revenue/Expense Statement

(in millions)	FY 2009	FY 2010	% change
Employer Contributions	\$2,195.4	\$2,151.5	-2.0%
Employee Premiums	688.2	719.2	4.5%
Other Revenue	21.2	21.2	-
<b>Total Revenue</b>	<b>\$2,904.8</b>	<b>\$2,891.9</b>	<b>-0.4%</b>
Cash Expense	\$2,705.2	2,832.3	4.7%
<b>Total Expense</b>	<b>\$2,705.2</b>	<b>\$2,832.3</b>	<b>4.7%</b>
<b>Surplus/Deficit</b>	<b>\$199.6</b>	<b>\$59.6</b>	



# Revenue vs. Expense

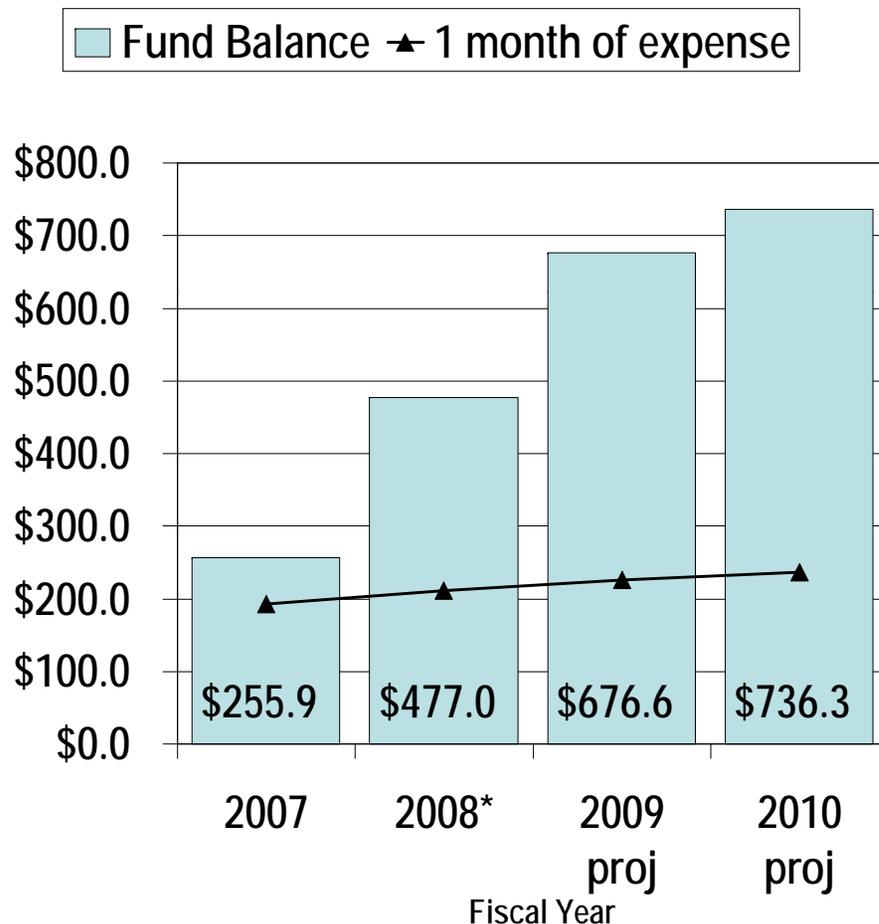


NOTE: FY 2008 Unaudited and does not include OPEB contributions for future liabilities of state employees.



# Fund Balance

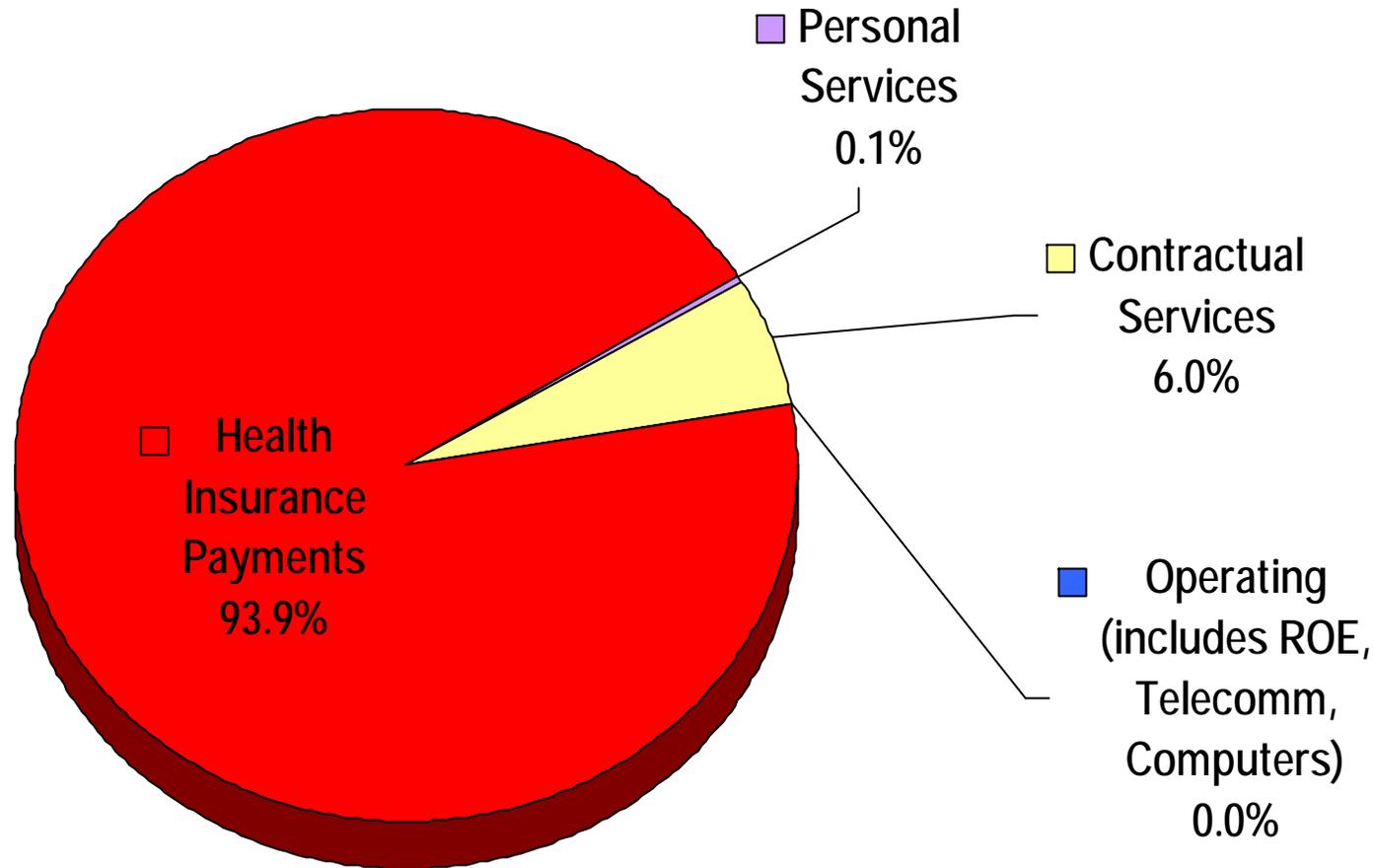
- The Fund Balance is increased when annual revenues exceed annual expenses.
- The Fund Balance currently exceeds the recommended level of 1 month's worth of SHBP expenditures.



NOTE: FY 2008 Unaudited



# FY 2009 State Health Benefit Plan Amended Budget Request by Object Class



# Other Post Employment Benefits



# OPEB Trust Fund

## Trust Fund Functions since FY 2007:

- Used to deposit employer revenues earmarked for retirees as well as retiree premiums and pay expenses for current retirees (assets=liabilities)
- Used to deposit contributions earmarked for Future OPEB liability for state employees (goes to Long-Term Investment)
  - FY 2007 year-end fund balance attributable to all retirees also deposited into Long Term Investment



# FY 2008 Statement Of Retiree Revenue And Expense

## REVENUE

Retiree Type:	Retiree Premiums	Earmarked for Retirees from Department of Education	From Active Employer Revenue for:		Subtotal Employer Share	Total
			Pay As You Go	Long-Term Investment		
State Employee	43,299,189.94		148,789,539.79	146,297,862.52	295,087,402.31	338,386,592.25
Teacher	61,134,024.26	9,700,000.00	196,186,885.96	28,913,027.41	234,799,913.37	295,933,937.63
School Service	20,618,273.21	500,000.00	69,131,685.81	9,622,771.48	79,254,457.29	99,872,730.50
Contract	13,139.39			88,855.38	88,855.38	101,994.77
<b>TOTAL REVENUE</b>	<b>125,064,626.80</b>	<b>10,200,000.00</b>	<b>414,108,111.56</b>	<b>184,922,516.79</b>	<b>609,230,628.35</b>	<b>734,295,255.15</b>

## EXPENSE

Retiree Type:	(a) Claims Payments	HMO Capitation	Other Premium Expense	Administration	Total
State Employee	173,847,123.95	7,329,045.16	133,807.00	10,778,765.96	192,088,742.07
Teacher	244,227,811.64	7,364,126.26	126,298.00	15,302,674.32	267,020,910.22
School Service	78,470,526.53	5,677,970.94	45,401.00	6,056,060.55	90,249,959.02
Contract	6,764.15	782.26		3,086.19	10,632.60
<b>TOTAL EXPENSE</b>	<b>496,552,226.27</b>	<b>20,371,924.62</b>	<b>305,506.00</b>	<b>32,140,587.02</b>	<b>549,370,243.91</b>

Surplus/(Deficit)

184,925,011.24

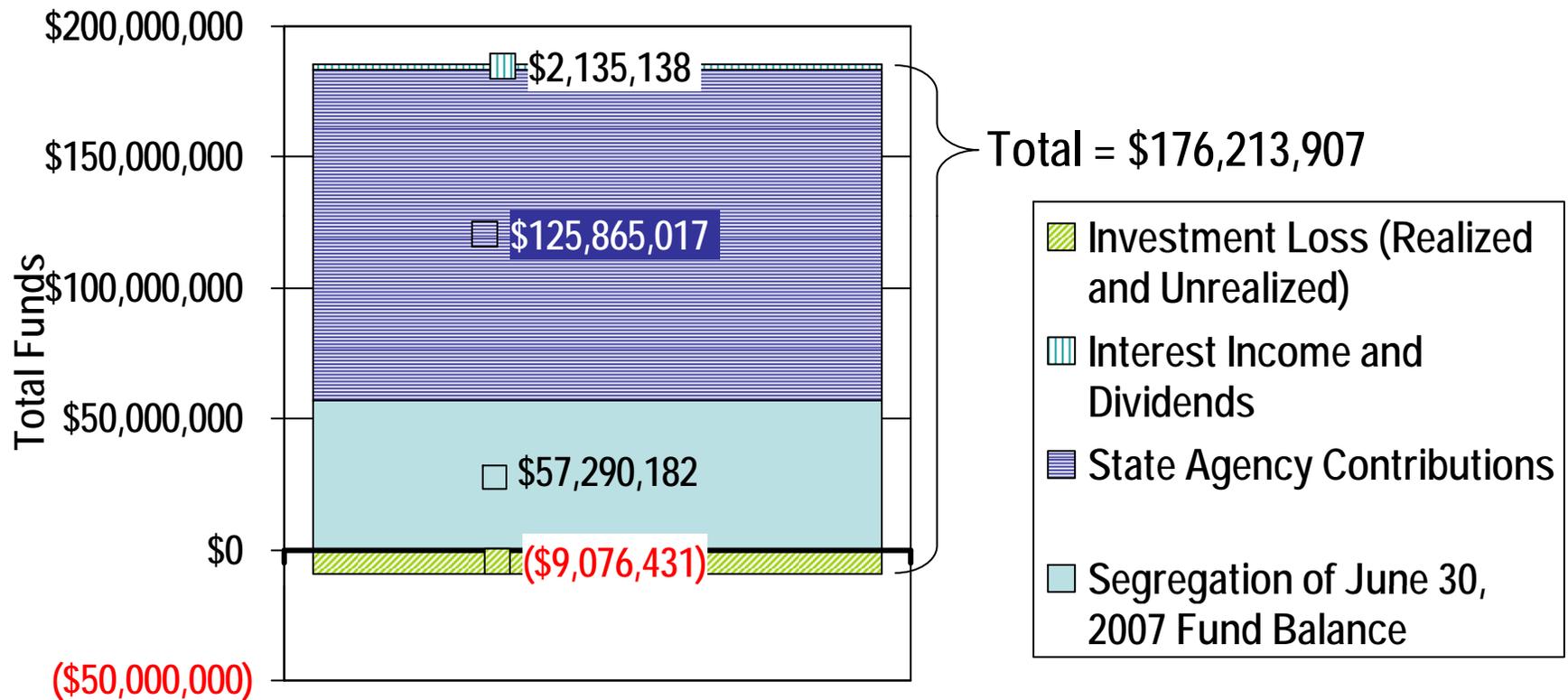
(a) Includes IBNR adjustment

Note: Schedule is unaudited and does not reflect net investment loss of \$6,941,292.89



# June 30, 2008

## OPEB Long Term Investment Fund Balance

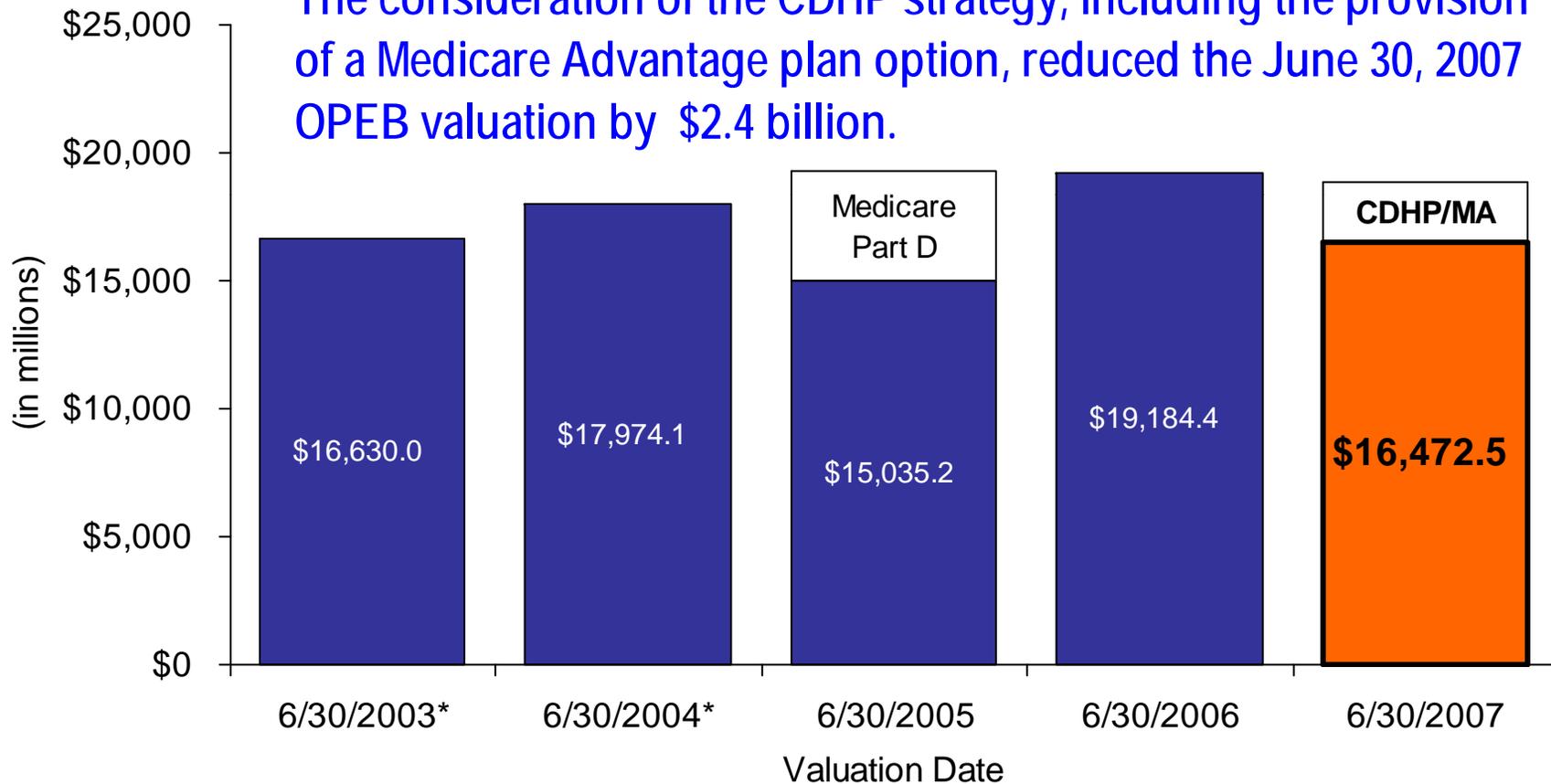


Components of Fund Balance

Does not include \$1,764,641.24 in June contributions and \$2,676.08 in related interest not transferred until 7/10/08.

# OPEB Valuations

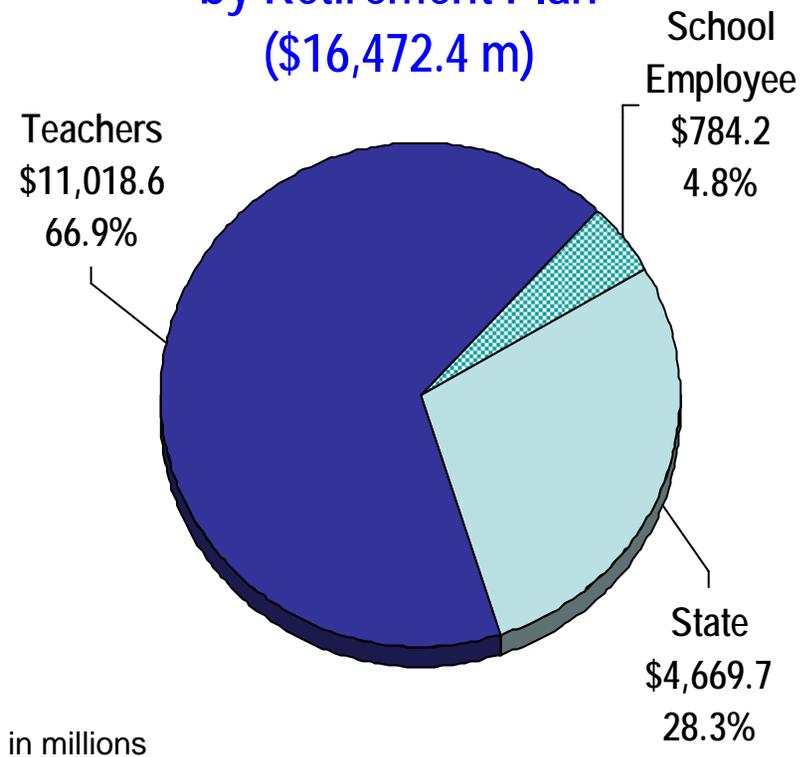
The consideration of the CDHP strategy, including the provision of a Medicare Advantage plan option, reduced the June 30, 2007 OPEB valuation by \$2.4 billion.



\* Estimates used for planning purposes only

# 2007 GASB 43 Valuation – SHBP

## TOTAL Accrued Liability by Retirement Plan (\$16,472.4 m)



## Annual Contribution Requirements (in millions)

Employee Type/ Retirement Plan	Annual Required Contribution	Equivalent Percent of Payroll
State/ERS	\$347.8	12.7%
Subtotal	\$347.8	12.7%
Teacher/TRS	\$992.7	10.5%
School Employee/ PSERS	\$87.3	9.5%
Subtotal	\$1,080.0	10.3%
Total	\$1,427.8	10.9%



# SHBP Future Strategies

Impact of EACH Future Strategy on OPEB				
		Future Strategy		
(in millions)	June 30, 2007 Baseline	New Entrants in CDHP	Part B Pricing	Mandatory MAP
Unfunded Accrued Liability	\$16,472.4	\$16,267.4	\$16,405.5	\$15,753.9
Change in UAL vs. Baseline		(\$205.0)	(\$66.9)	(\$718.6)

Source: Cavanaugh Macdonald Consulting, LLC

Combinations of strategies do not necessarily result in an additive impact.

