

# Fiscal Years 2006 & 2007 BUDGET PLANNING



GEORGIA DEPARTMENT OF  
COMMUNITY HEALTH

Presentation to  
Board of Community Health  
August 25, 2005



# Agenda

## I. MEDICAID

### A. Drivers of State Fund Needs

- Continuation; Additional Costs, Offsets

### B. Needs Compared to Budget Instructions

### C. Proposals to meet Budget Instructions

## II. PEACHCARE FOR KIDS

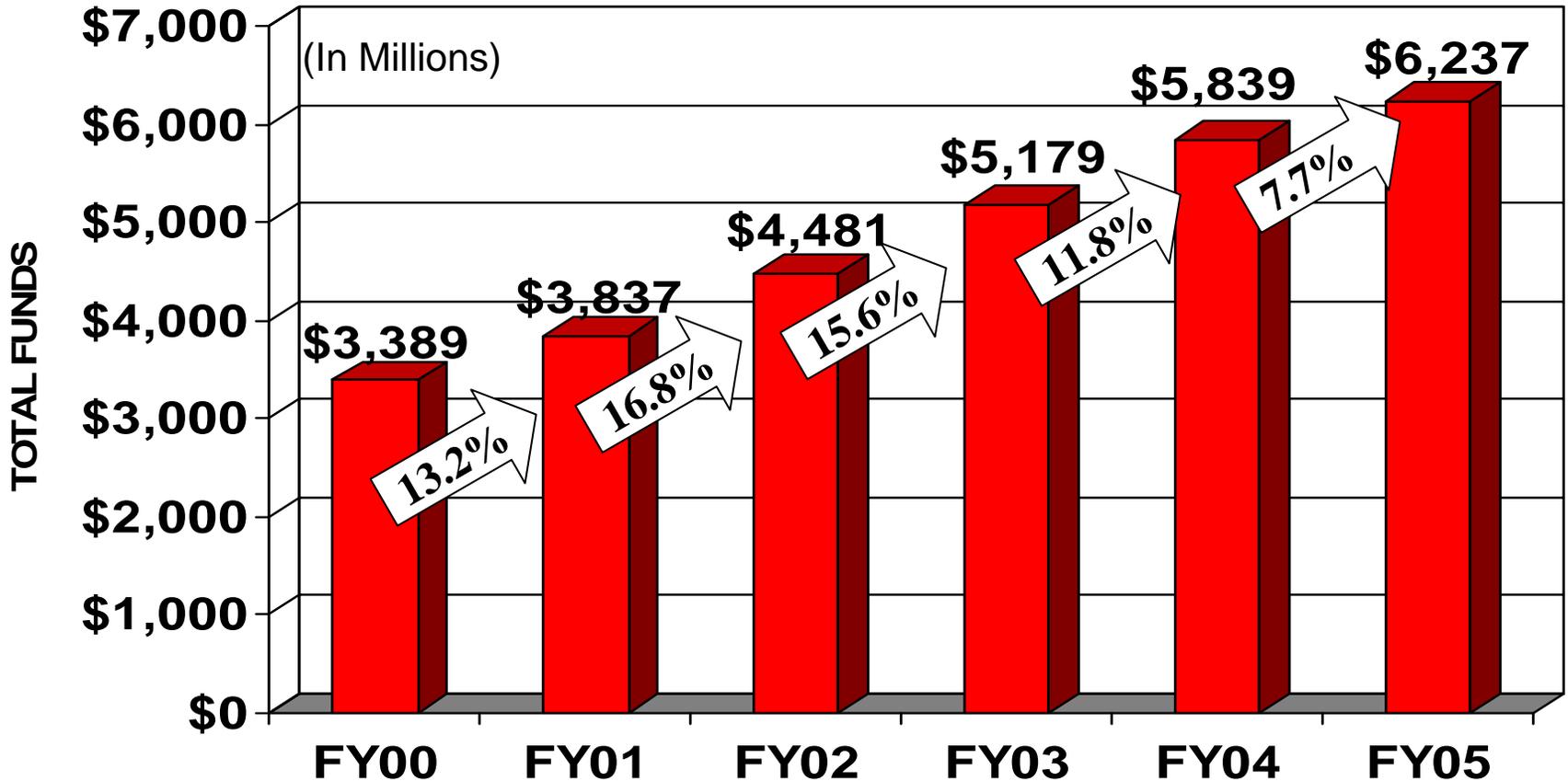
### A. Federal Deficit

## III. STATE HEALTH BENEFIT PLAN

### A. FY 2007 Projection



# I - Medicaid Accrual Expense And Growth by Fiscal Year

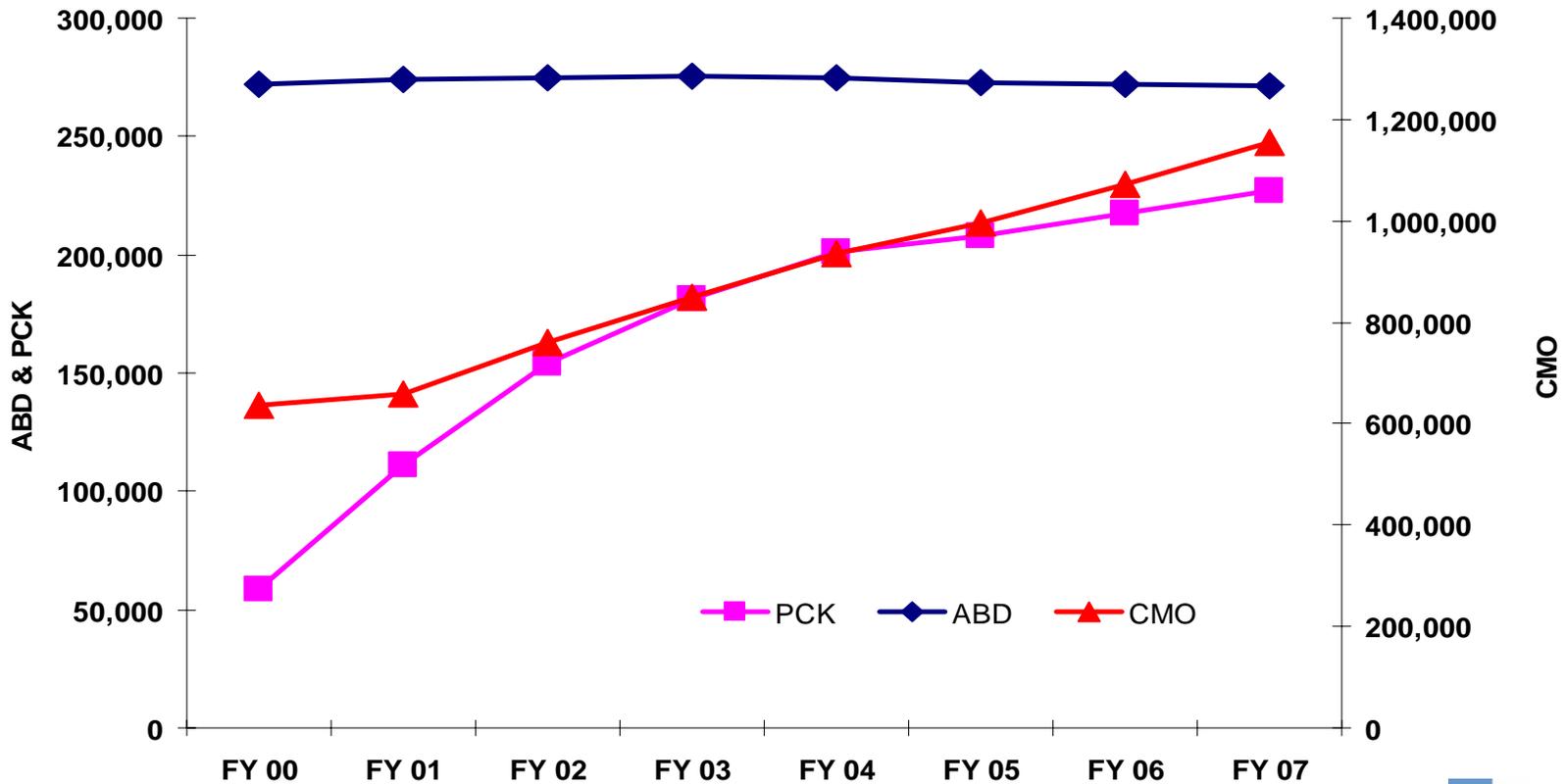


Note: Expenditure projection does not account for non claims based offsets, adjustments, or other expenditures. Reflective of claims based expenses only.



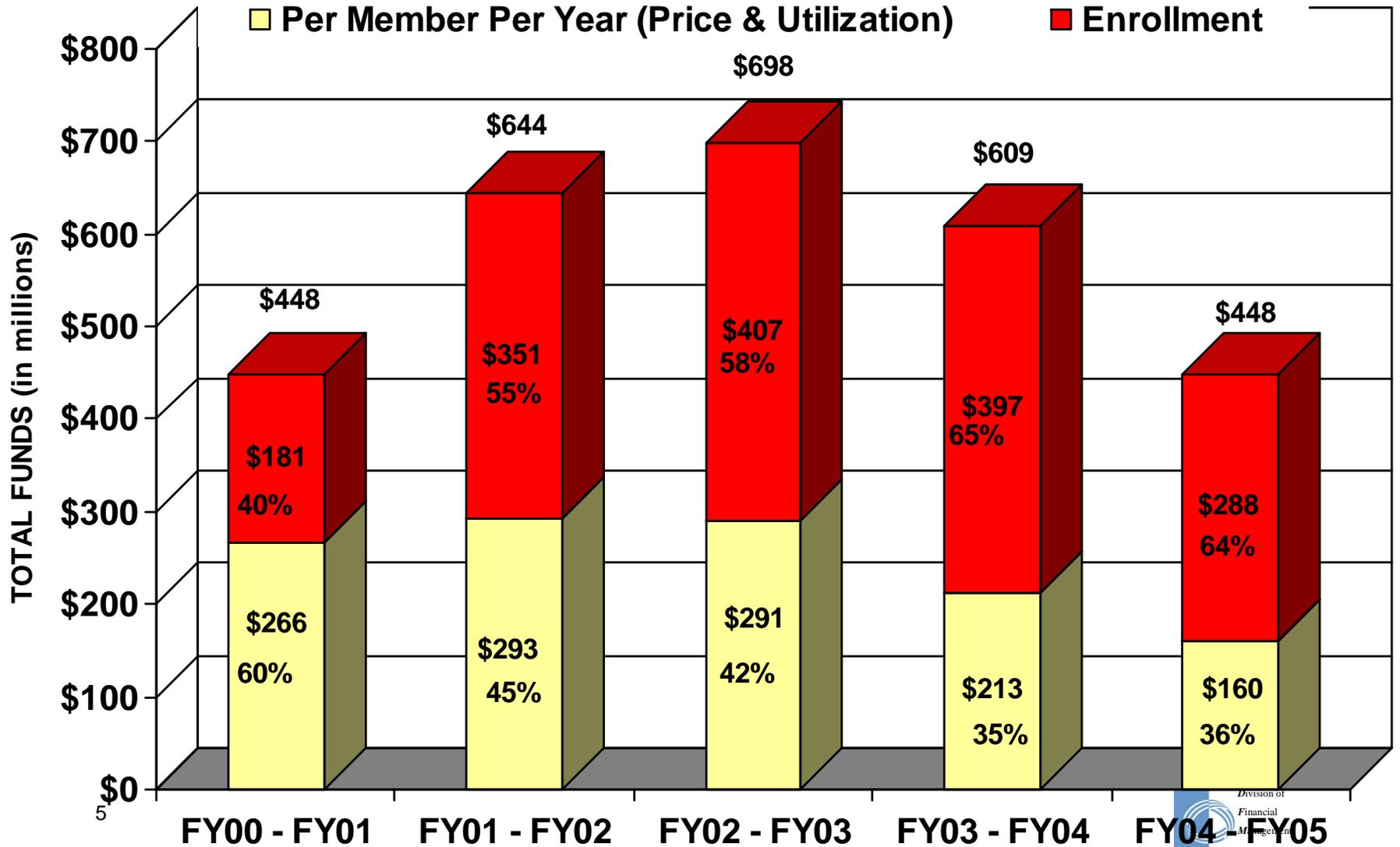
# I – Medicaid FY 00–05 Enrollment Growth

- ✓ 500,000 new members between FY 00 & FY 05 = 50% enrollment growth
- ✓ Average of 100,000 new members per year





# I - Medicaid Incremental Annual Growth

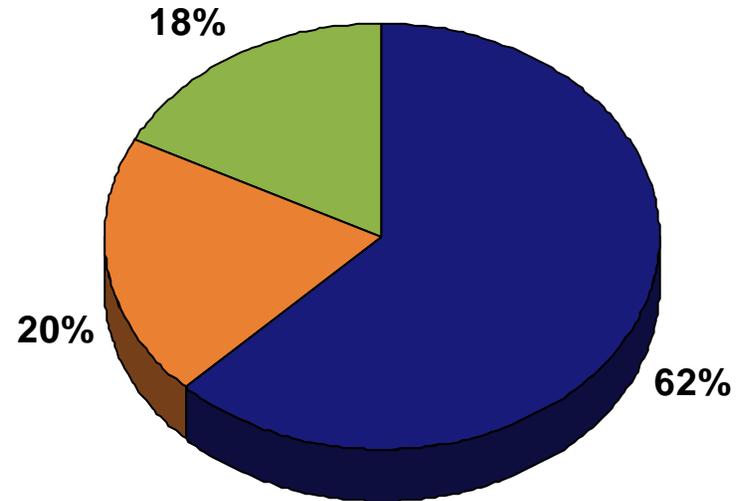




# I – Medicaid Continuation Growth

- **Expect Accrual Expense to be 9.1% or \$615.8 million higher in FY 2007 than in FY 2006**
- **62% or \$381.8 million of increase driven by enrollment**
  - LIM and RSM biggest increase
  - Expect enrollment to continue growing by 5.7% in FY 2007
- **Utilization and Price growth smaller components**
  - Rate cuts or no rate increases to providers
  - Acuity Levels driving some utilization

## Cost Drivers - FY 2007 Medicaid Benefits (Growth = \$616M\*)



\* TOTAL FUNDS

■ Enrollment ■ Utilization ■ Price



# I – Medicaid Other State Fund Drivers

<b>State Fund Need:</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Cash to Accrual Cost to make CMO Capitation Payments</b>	<b>\$ 37.7</b>	<b>\$ 92.7</b>
<b>Right from the Start Medicaid Expansion Previously Funded by ICTF</b>	<b>\$ 22.0</b>	<b>\$ 22.0</b>
<b>Medicare Clawback</b>	<b>\$ 13.0</b>	<b>\$ 21.0</b>
<b>FY 2006 Legislative Budget Cuts Not Realized</b>	<b>\$ 6.2</b>	<b>\$ 9.2</b>
<b>Loss of UPL Proceeds</b>	<b>\$147.0</b>	<b>\$147.0</b>
<b>Administrative Costs Not Previously Budgeted</b>	<b>\$ 12.7</b>	<b>\$ 14.1</b>
<b>Total</b>	<b>\$238.5</b>	<b>\$306.0</b>



# I – Medicaid Cash to Accrual

(FY 2006 - \$37.7 M

FY 2007 - \$92.7 M)

## **DCH Medicaid Benefits Budget on a cash basis since FY 2002**

- Incurred But Not Reported (IBNR) Claims Not Funded but are a DCH Liability
  - 87 – 90 % of claims paid in the year incurred; remaining are paid in subsequent years
  - Example: Doctor's visit in May 2005 (FY 2005) may not be presented for payment until July 2005 (FY 2006)
- **Accrual = Cash Needs + IBNR**
  - **Beginning January 1, 2006, capitation payments will be made to CMO's in lieu of fee-for-service payments to providers**
  - **Capitation payments = Accrual**



# I – Medicaid RSM Expansion

(FY 2006 - \$22.0 M

FY 2007 - \$22.0 M)

- **Indigent Care Trust Fund historically funded Right From The Start Medicaid Expansion since early 1990's**
  - Pregnant Women and Children between 150% and 185% of the Federal Poverty Level
- **Source of ICTF being eliminated in FY 2006 per CMS requirement**
  - Extra Intergovernmental Transfers (IGTs) sent to the ICTF by hospitals participating in the Disproportionate Share (DSH) program
  - Hospitals supported this because it reduced the number of uninsured seeking hospital care
  - CMS says extra IGT's no longer allowed as part of our agreement with them



# I – Medicaid Medicare Part D Clawback

(FY 2006 - \$13.0 M

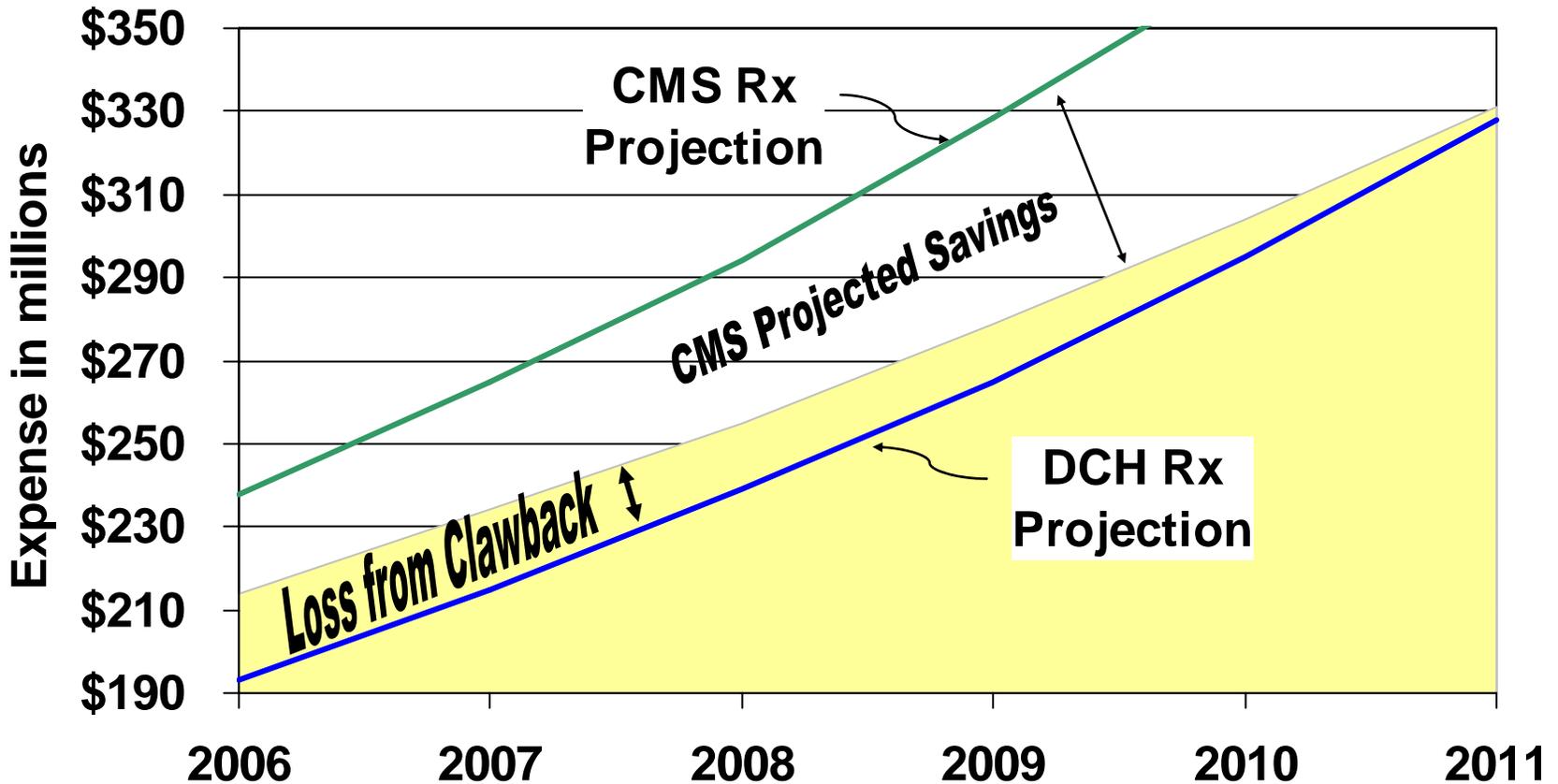
FY 2007 - \$21.0 M)

- Medicare Part D starts Jan 2006
  - Implementation plans in progress
- Clawback payments
  - Should begin in February of 2006
  - Payments to CMS estimated at \$106.8 million for FY 2006 and \$223.8 million for FY 2007
  - DCH will write a monthly check to CMS for \$17.8 million
  - Payments are \$2.2 million more per month than we would have paid had Medicare Part D not been implemented
    - EQUATES to \$13 million cost to Georgia in FY 2006 and \$21 million cost in FY 2007



# Demonstration of Part D Clawback Calculation

■ Clawback Payment — CMS Rx Projection — DCH Rx Projection





# I – Medicaid FY 2006 Budget Cuts

(FY 2006 - \$6.2 M)

FY 2007 - \$9.2 M)

## FY 2006 Budget Cuts with Savings Estimates Different than Appropriated

(in millions)	FY 2006 Appropriation	FY 2006 Estimate	FY 2007 Estimate*
<b>Disease Management</b>	<b>\$23.3</b>	<b>\$10.9</b>	<b>\$20.0</b>
<b>ER Pilot Expansion</b>	<b>\$3.1</b>	<b>-</b>	<b>-</b>
<b>Transfer NH residents to SOURCE</b>	<b>\$0.8</b>	<b>-</b>	<b>-</b>
<b>Hospital Cost Settlements</b>	<b>\$39.2</b>	<b>\$49.2</b>	<b>n/a</b>

\* Compare to FY 2006 appropriation annualized



# I – Medicaid

## Loss of UPL Proceeds

(FY 2006 - \$147.0 M

FY 2007 - \$147.0 M)

- Prior to FY 2006, UPL proceeds used by DCH as a state matching fund source for regular Medicaid payments
- Proceeds created by participating facilities transferring intergovernmental transfers in addition to that necessary to make UPL payments (i.e., “overmatching”)
- Per agreement with CMS about the state’s continuation of the UPL program, practice of overmatching to end July 1, 2005
- Hospitals and nursing homes participating in the UPL program will now net about 60 cents on the dollar versus previously netting 17 cents on the dollar.



# I – Medicaid Administrative Needs

(FY 2006 - \$12.7 M

FY 2007 - \$14.1 M)

<b>Additional Administrative Costs for Benefits Administration</b>	<b>FY 2006</b>	<b>FY 2007</b>
Enrollment Broker Contract	\$7.0	\$8.7
RSM Eligibility Expansion Workers (previously ICTF Funded)	\$3.8	\$3.8
Eligibility Review	\$1.9	\$1.6
<b>Total Administrative Needs</b>	<b>\$12.7</b>	<b>\$14.1</b>



# I – Medicaid State Fund Offsets

<b>State Fund Offsets: (in millions)</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Prior Year UPL Proceeds</b>	<b>\$116.3</b>	<b>N/A</b>
<b>Prior Year Surplus</b>	<b>\$201.6</b>	<b>\$162.5</b>
<b>CMO Quality Assessment Fee</b>	<b>\$ 43.1</b>	<b>\$145.5</b>
<b>Managed Care Savings</b>	<b>\$ 23.2</b>	<b>\$ 78.5</b>
<b>FFP Change</b>	<b>N/A</b>	<b>\$ 66.6</b>
<b>Total</b>	<b>\$384.2</b>	<b>\$453.1</b>

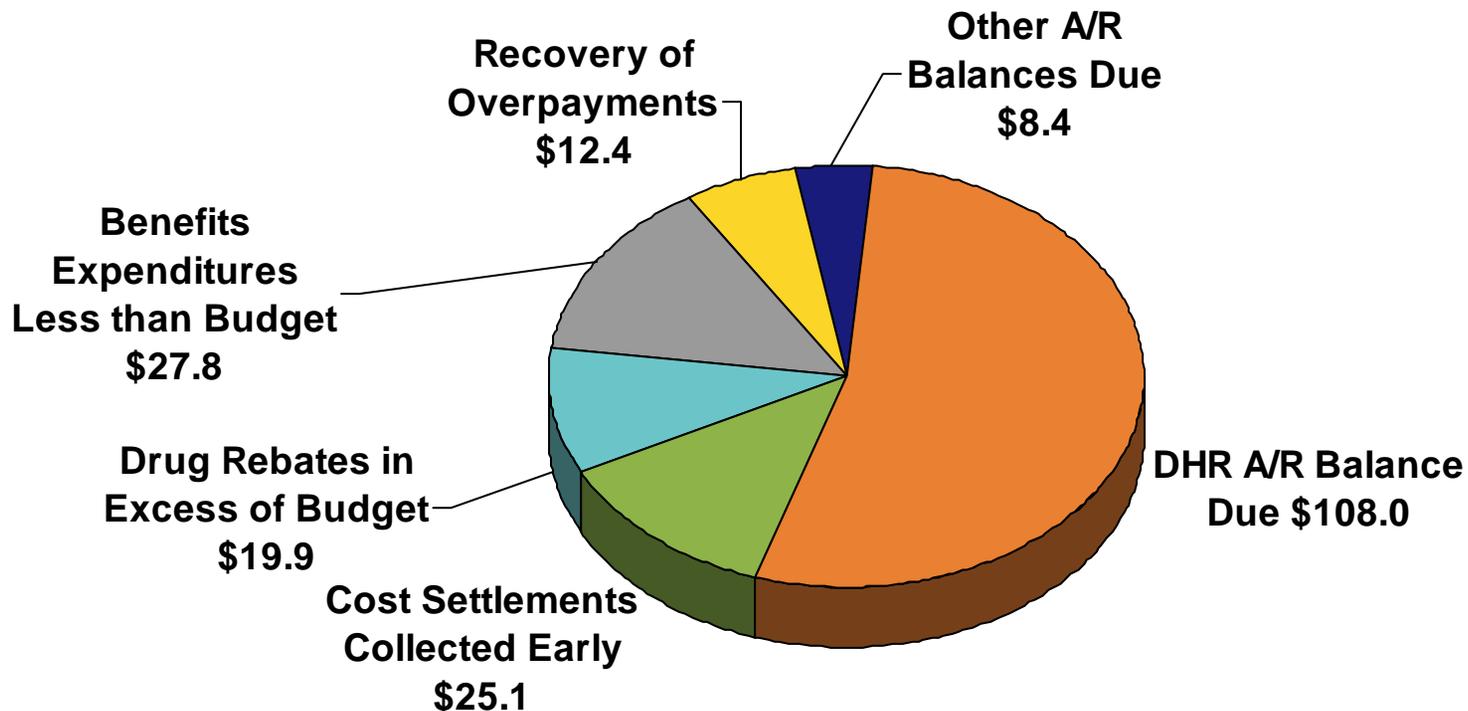


# I – Medicaid Prior Year Surplus

(FY 2006 - \$201.6 M

FY 2007 - \$162.5 M)

- Project \$162.5 M remaining at the end of FY 2006 (estimated based on projections) to be used as state fund source in FY 2007





# I – Medicaid CMO Quality Assessment Fee

(FY 2006 - \$43.1 M

FY 2007 - \$145.5 M)

- Beginning January 2006, participating CMO's will be assessed a fee based on 6% of their revenue
- Similar to the Nursing Home Provider Fee
- Used to match Federal Funds for Medicaid Benefits
- Deposited to the Indigent Care Trust Fund



# I – Medicaid Managed Care Savings

(FY 2006 - \$23.2 M – state funds; FY 2007 - \$78.5 M – state funds)

- Managed Care expected to save 8 percent over traditional fee-for-service payments

- FY 2006

Fee-For-Service:	\$736.1M (Total Funds)
Capitation:	\$677.2M (Total Funds)
Savings:	\$ 58.9M

- FY 2007

Fee-For-Service	\$2,486.7M (Total Funds)
Capitation	\$2,287.7M (Total Funds)
Savings:	\$ 198.9M*

\* Difference due to rounding



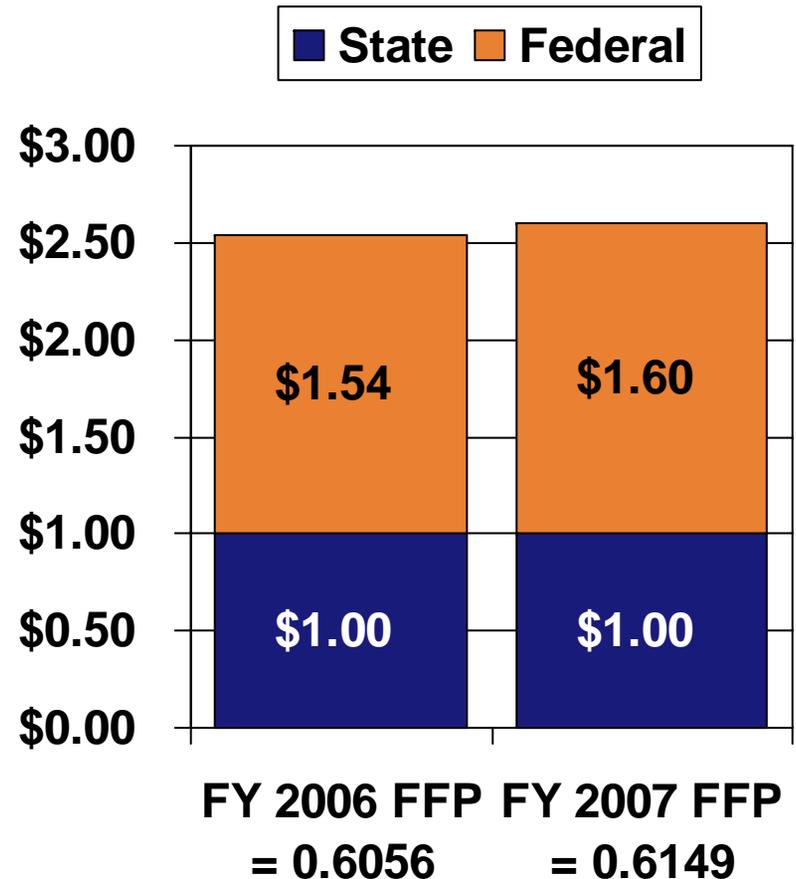
# I – Medicaid Federal Financial Participation

(FY 2007 - \$66.6 M)

Federal Financial Participation rate (i.e., amount CMS reimburses the state for every dollar spent) based on last three years of per capita income

For FY 2007, expect FFP to increase from 0.6056 to 0.6149

Means one dollar of state funds will earn more federal funds.



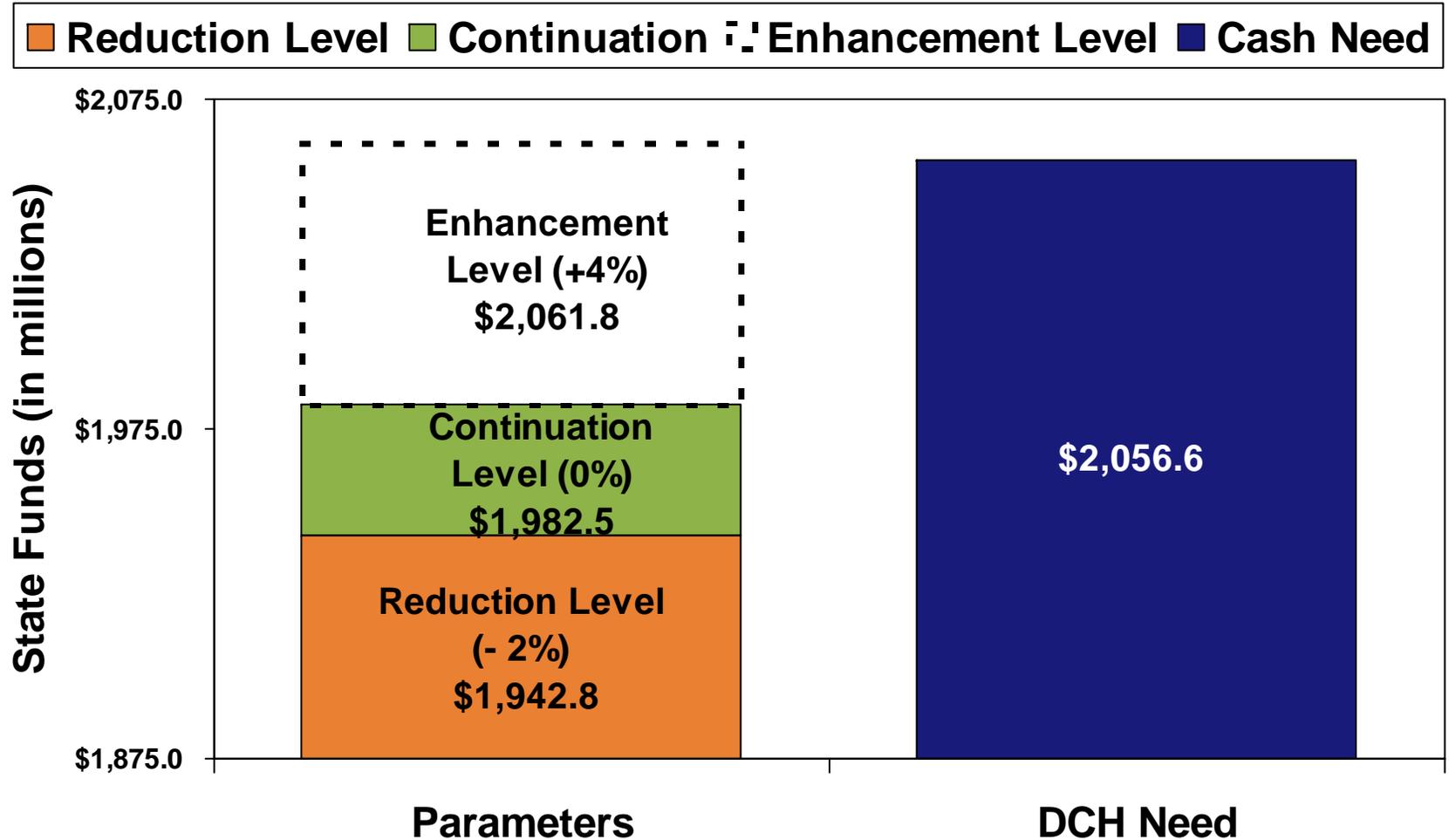


# I – Medicaid Summary

<b>Medicaid Benefits</b>	<b>FY 2007</b>
<b>FY 2006 Continuation Level (Base)</b>	<b>\$1,965.7</b>
<b>Benefits Growth (DCH State Fund Need only)</b>	<b>\$238.0</b>
<b>Additional Costs</b>	<b>\$306.0</b>
<b>Offsets</b>	<b>(\$453.1)</b>
<b>Total Cash Need for Medicaid Benefits</b>	<b>\$2,056.6</b>



# I – Medicaid Benefit Projections Need versus Parameters





# I – Medicaid Benefit Projections Need versus Parameters

In millions	Reduction Level (98%)	Continuation Level (100%)	Enhancement Level (104%)
Allowed	\$1,942.8	\$1,982.5	\$2,061.8
DCH Need	\$2,056.6	\$2,056.6	\$2,056.6
Add/(Cut)	*( <b>\$113.7</b> )	( <b>\$74.1</b> )	<b>\$5.2</b>
* Difference due to rounding			



# I – Medicaid Options Proposed

1. Eligibility Administration
2. Administrative Services Organization
3. Pharmacy Pricing
4. Hospital Cost Settlements



# I – Medicaid Eligibility - Background

- Concerns about Abuse and Error
- PERM
  - Federally mandated effort to assure payment accuracy
- GHT Development Corporation
  - Fall 2004 Process & Systems Review
    - Report February 2005
      - “...does not take advantage of the modern business process, policies and technologies that could make the system more flexible and efficient.”



# I – Medicaid Eligibility - GHT Findings

- Cumbersome dual governance structure
- Failure to independently verify income
- Inadequate business processes
- IT infrastructure is antiquated



# I – Medicaid Eligibility – Initiatives

## NOW

- Fall 2005 Record Audit

## FOR FY 2007

- Reconfigure QA & QC
- Validate Income
- Enhance Fraud and Abuse Control
- Add Decision Support and Business Intelligence
- Enhance Eligibility Technology
- Policy Changes

**NOTE: IMPLEMENTATION OF THESE INITIATIVES DOES NOT REQUIRE REPLACEMENT OF THE DHR SUCCESS SYSTEM...**



# I – Medicaid Eligibility – Savings

## **FY 2007 Savings Projection**

- \$64 million in Total Funds; \$25 million in State Funds
- Assumes initiatives would reduce expenditures by ~1%
  - Based on GHT Review
  - In line with experience of other states with comparable improvement initiatives
- Savings to be validated by sampling to be completed in Fall 2005



# I – Medicaid Administrative Service Organization

- Typically used when full risk-based not feasible
- Could include performance requirements
  - Health outcomes or cost savings
- Services can include most of what CMO's do
  - Claims processing and financial management
  - Network management and provider services
  - Member services
  - Grievances and appeals
  - Disease and care management



# I – Medicaid

## ASO - Currently in Georgia

- ASO functions already in place
  - Claims payment: ACS
    - Medical edits and audits: McKesson
  - Prospective medical review: GMCF
  - Prospective behavioral health review: APS
  - Eligibility: DFCS and PSI
  - Third party and casualty recovery: PCG
- New – Disease State Management
  - Vendor selection recently made: APS, United Healthcare



# I – Medicaid ASO - Proposal

## **Add new functions:**

- Provider and member profiling
- Case management
- Nurse call line
- Enhanced prospective medical review
- Added fraud and abuse detection
- Certain eligibility functions
- Level of Care determination

## **Functions may be performed by:**

- Multiple Vendors
- New or Existing Vendors



# I – Medicaid ASO – Savings

## **FY 2007 Savings Projection**

- \$51 million in Total Funds; \$20 million in State Funds
- Population to target: ALL members not currently in risk-based programs
  - Aged
  - Blind and Disabled
  - Medically Fragile Children
  - Foster Children
  - Dual Eligibles
- Assumes added functions would reduce expenditures by ~8% (before consideration of administrative cost)
- Savings to be validated by considering the outcome of the cost-benefit analysis for the SOURCE program



# I – Medicaid Pharmacy Pricing

## Pharmacy Pricing

- Base payment on Wholesale Acquisition Cost (WAC) instead of Average Wholesale Price (AWP)
- Increase dispensing fee

### FY 2007 Savings Projection

- \$13 million in Total Funds; \$5 million in State Funds

	Current	Proposed
Drug Cost Based on:	Average Wholesale Price (AWP)	Wholesale Acquisition Cost (WAC)
Discount on Drug Cost:	11%	0%
Dispensing Fee (For Profit):	\$4.63	\$6.00
Dispensing Fee (Not For Profit):	\$4.33	\$5.75



# I – Medicaid

## Hospital Cost Settlements

### **Background**

- Department makes interim payments to hospitals for outpatient services based on cost-to-charge ratios that approximate cost
- After year end, hospitals complete cost reports and submit to the Medicare intermediary for audit
- DCH uses Medicare audited cost reports to determine amounts of overpayment or underpayment when comparing interim payments to final audited cost
- Cost settlements still to be done for FY 2002 through current, as audited cost reports become available

### **Proposal**

- Conduct interim hospital cost settlements on 'as-filed' cost reports for years of service between FY 2002 and FY 2005
- Voluntary

### **FY 2007 Savings Projection**

- \$162 million in Total Funds; \$64 million in State Funds



# I – Medicaid Summary - Options

<b>State Funds (In millions)</b>	<b>Reduction Level (98%)</b>	<b>Continuation Level (100%)</b>	<b>Enhancement Level (104%)</b>
<b>Add/(Cut)</b>	<b>(\$113.7)</b>	<b>(\$74.1)</b>	<b>\$5.2</b>
<b>Eligibility</b>	\$25.0	\$25.0	\$25.0
<b>ASO</b>	\$20.0	\$20.0	\$20.0
<b>Pharmacy</b>	\$5.0	\$5.0	\$5.0
<b>Cost Settlements</b>	\$63.7	\$63.7	\$63.7
<b>Total</b>	<b>\$113.7</b>	<b>\$113.7</b>	<b>\$113.7</b>
<b>Surplus/(Deficit)</b>	<b>\$0</b>	<b>\$39.6</b>	<b>\$118.9</b>



## II – PeachCare for Kids



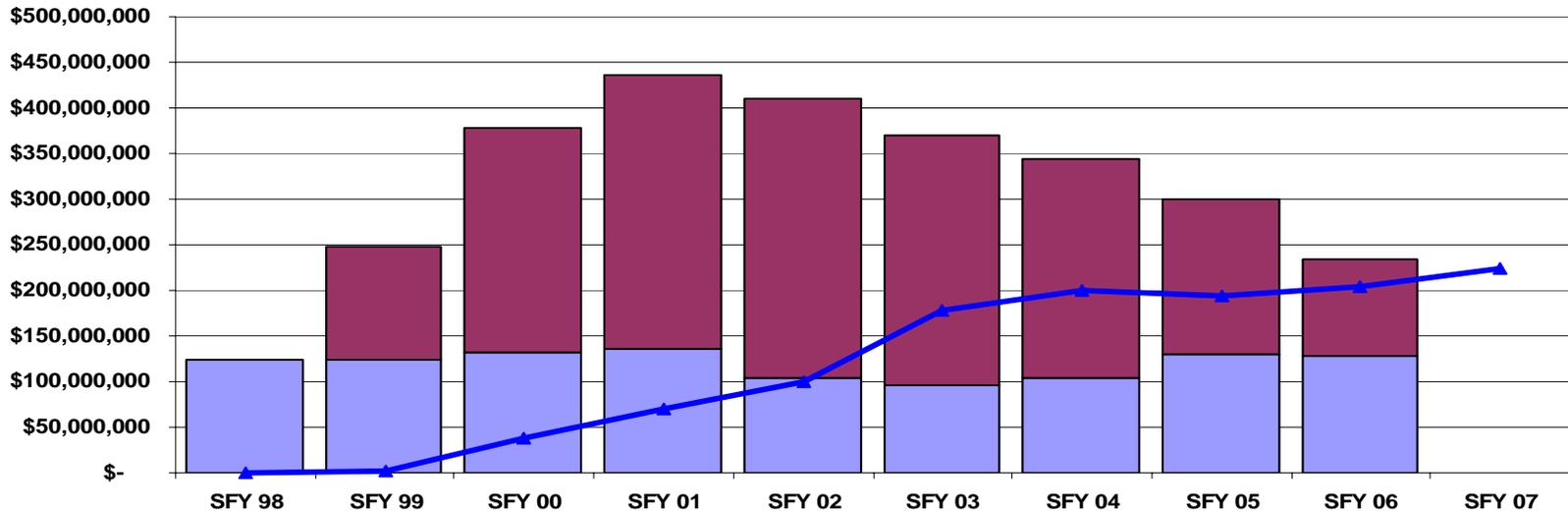
## II – PeachCare for Kids Federal Deficit

- SCHIP Authorized Only Through FFY 2006
- Annual Federal Funding utilized-to-date is a combination of current year allotment and prior year surplus
- The state now has annual federal expenses greater than the annual allotment
- Prior Year Surplus is Running Out
- Reauthorization Necessary and state Allocation Formula should consider current enrollment, not just the uninsured
- No need for new state funds if additional federal funds are available



# II – PeachCare for Kids Federal Deficit

■ Allotment   
 ■ Prior Year Roll-Forward   
 —▲— Expenditures



SFY	Allotment	Prior Year Roll-Forward	Expenditures	Deficit
SFY 03	\$ 96,976,597	\$ 272,411,916	\$ 178,491,768	\$ 190,896,745
SFY 04	\$ 103,892,954	\$ 240,977,573	\$ 199,362,901	\$ 145,507,626
SFY 05	\$ 130,915,014	\$ 169,149,397	\$ 194,665,784	\$ 105,398,627
SFY 06	\$ 129,000,000	\$ 105,398,627	\$ 203,115,555	\$ 31,283,073
SFY 07	Unknown	\$ 31,283,073	\$ 223,172,972	Unknown



## III – State Health Benefit Plan



## III – SHBP FY 2007 Projection

### **For FY 2007 –**

Revenue Growth Projected at **3.8%** with \$2.2 billion in collections

Expenditure Growth Projected at **10.6%** with \$2.42 billion in expenditures

- Savings initiatives beginning in January 2006 are annualized for FY 2007, reducing typical, status quo growth of 12 – 15%

**Annual Deficit - \$222 million**



# III – SHBP Fiscal Outlook

State Health Benefit Plan  
FY 1999 - 2007 (proj)

