

Impact on Montana of Medicaid Provisions in the BCRA (June 26 Discussion Draft): Preliminary Analysis

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Prepared by Manatt Health for:



manatt

- **Overview of Findings**
- **Role of Medicaid in Montana**
- **Major Medicaid Provisions in the Better Care Reconciliation Act (BCRA)**
- **Estimated Impact of Changes**
 - Key Assumptions
 - Impact of the BCRA
- **Key Implications**
- **Appendix**

Overview of Findings

The Stakes for Montana

- Medicaid covers one in four people in Montana—more than 216,000 individuals, nearly half of whom are children.
- Under the Senate’s proposed Better Care Reconciliation Act (BCRA), Montana is expected to lose \$5.3 billion in federal Medicaid funds between federal FY* 2020 and 2026 due to changes to expansion financing and the per capita cap.
 - This represents 39.6% of Montana’s current law federal Medicaid funding.
- Now numbering more than 75,000, Montana’s expansion adults would lose coverage entirely, likely starting in 2021, and the remaining children, seniors, people with disabilities, and other adults covered by Medicaid are at increased risk for cuts.
- To stay under the cap, Montana will need to cut Medicaid spending by \$892 million (federal and state dollars) between FY 2020 and 2026. Reductions nearly double between 2024 and 2026 – and would continue to deepen – as a result of use of CPI as the trend rate beginning in 2025.
- The magnitude of the federal cuts are such that they may well affect Montana’s ability to finance other State priorities such as education and infrastructure.

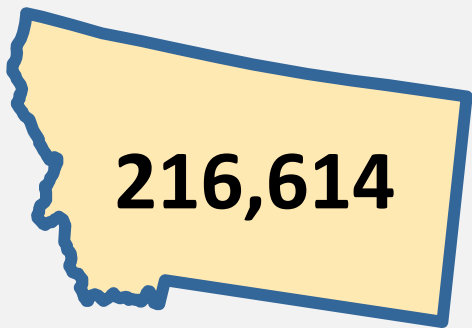
*References to FY throughout this document are federal fiscal years unless noted otherwise.

Role of Medicaid in Montana

Montana: Medicaid Enrollment

Children represent the single largest group of Medicaid beneficiaries in Montana

Total Medicaid Enrollment,
Dec. 2016

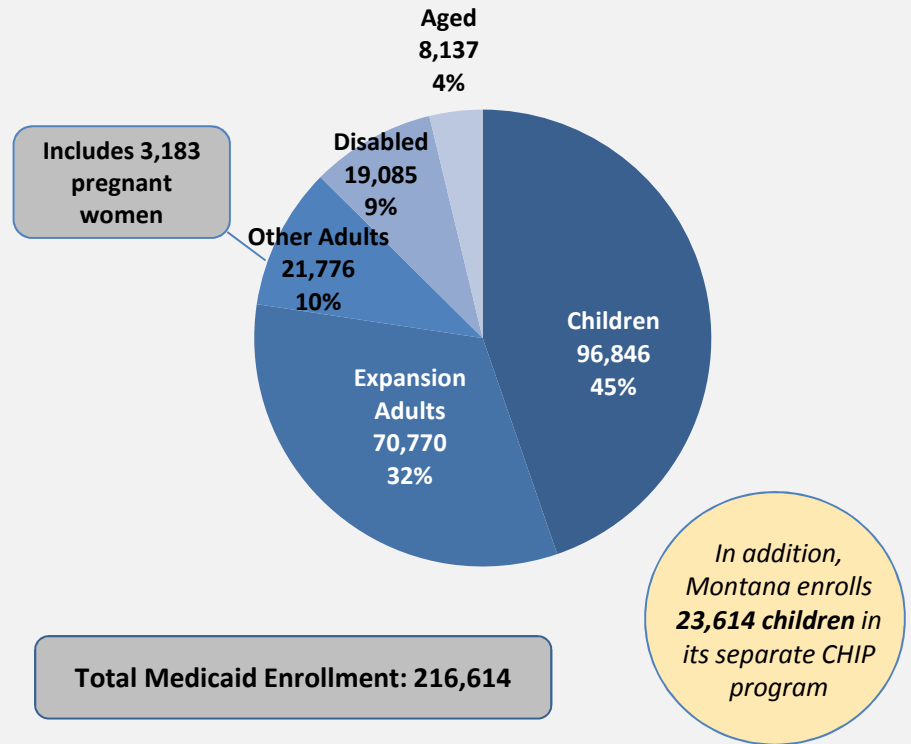


Share of Montana Medicaid Enrollees in
Working Households, 2015



Eight in Ten

Medicaid Enrollment by Eligibility
Category, Dec. 2016

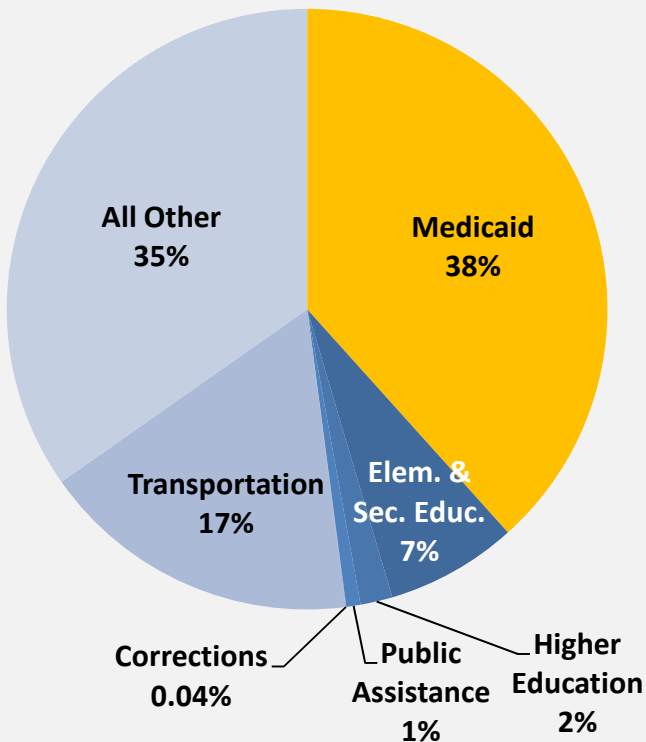


Note: Medicaid includes CHIP-funded children (7,433); excludes limited-benefit Medicaid enrollees who receive only Medicare premium and cost sharing assistance (9,272) or family planning services (1,990).
Sources: <https://web.archive.org/web/20170314035830/http://dphhs.mt.gov/Portals/85/Statistics/documents/Enrollments-Monthly.pdf>
<http://kff.org/medicaid/state-indicator/distribution-by-employment-status-4/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>

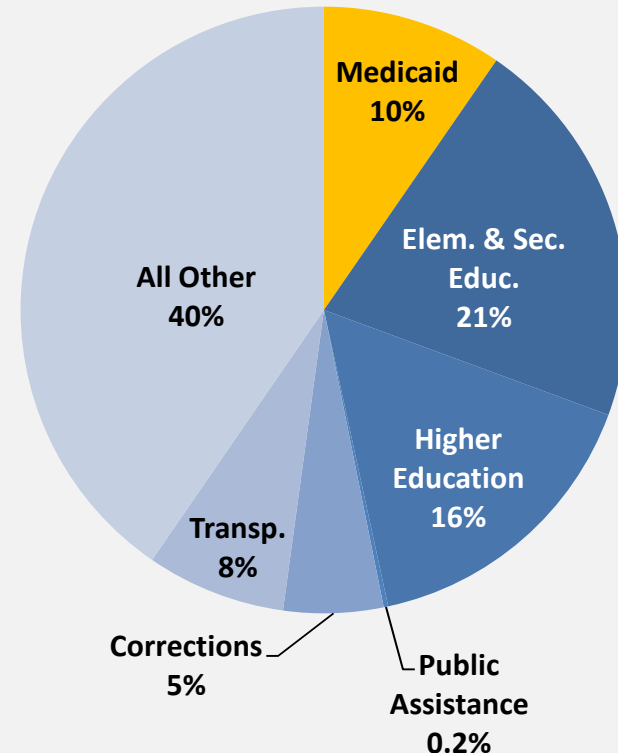
Montana: Medicaid Funding

- Medicaid represents 38% of federal funds coming into Montana
- State spending on Medicaid is 10% of total State spending

Share of Total Federal Funding by Program Area, State FY 2016 (Projected)



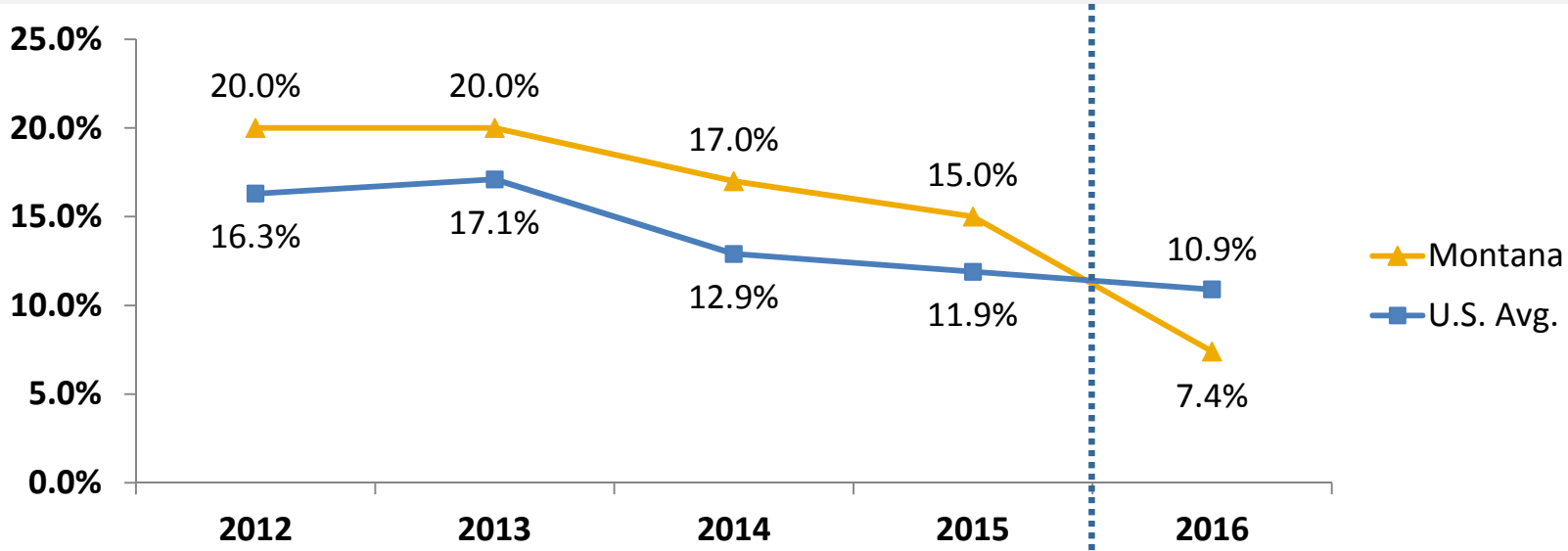
Share of Total State Funding by Program Area, State FY 2016 (Projected)



Montana's Uninsured Rate Dropped After Expansion

Montana's uninsured rate historically exceeded the national average; it now falls below due to Medicaid expansion

Uninsured Rate, 2012-2016



Montana's Medicaid expansion went into effect on January 1, 2016

Sources: <http://csimt.gov/wp-content/uploads/Enrollment-One-Pager.pdf>; includes all non-institutionalized citizens.
<http://www.gallup.com/poll/201641/uninsured-rate-holds-low-fourth-quarter.aspx>; includes all adults over age 18.

Medicaid's Financing Structure Today

Montana receives federal funding for all allowable program costs

Federal dollars guaranteed as match to Montana spending

Matching rates vary by population and service

- For many beneficiary groups and services, matching rate in FY 2017 = 65.56%
- Matching rate for expansion adults = 95% in 2017; 90% in 2020 and beyond
- Indian Health Service and Tribal Facility services matching rate = 100%

The federal government and Montana share in the risk if there are higher than expected health care costs, for example:

- Higher than expected enrollment
- Public health epidemics (e.g., the substance use epidemic)
- Breakthrough treatments or medications
- New initiatives related to delivery system reform or access
- Economic downturn

Major Medicaid Provisions in the BCRA

Federal/State Medicaid Context

11

Like the House-passed American Health Care Act (AHCA), the Senate-proposed Better Care Reconciliation Act (BCRA) includes major changes to Medicaid:

- Converts Medicaid to a per capita cap with state option for block grant for certain adults
- Phases out, before entirely eliminating, enhanced federal funding for Medicaid expansion beginning in 2021:
 - 2021: 85% eFMAP
 - 2022: 80% eFMAP
 - 2023: 75% eFMAP
 - 2024+: State's regular FMAP

BCRA makes additional cuts to Medicaid over and above the AHCA, including:

- Reducing the per capita cap trend rate to CPI in 2025 and beyond
- Maintaining DSH cuts for Medicaid expansion states

CBO projects that the BCRA would cut federal Medicaid spending by \$772 billion over 10 years (2017-2026) and reduce Medicaid coverage by 15 million in 2026

Montana legislation requires the State to seek an additional appropriation to continue expansion if enhanced funding is reduced.

BCRA Per Capita Cap Provisions

12

BCRA Per Capita Cap Provisions

- **BCRA establishes a cap on federal Medicaid expenditures beginning in FY 2020**
- **Cap is “built up” from per capita limits on five different eligibility groups**
 - Per capita limit for each group is based on historic spending increased by a national trend rate
 - Through 2024, medical CPI for children and adults; medical CPI + 1 percentage point for seniors and people with disabilities
 - Starting in 2025, CPI for all groups
 - States significantly above/below mean in spending for a year may receive an increase or decrease in cap for subsequent year
- **All spending over the cap would be fully at state cost. If Montana spends in excess of cap, federal government will “claw back” overpayments in the next year**
- **To keep spending under the cap, Montana will either have to increase state spending or reduce Medicaid spending by cutting benefits, reimbursements or eligibility**

Estimated Impact of the BCRA

Overview of Manatt Medicaid Financing Model

14

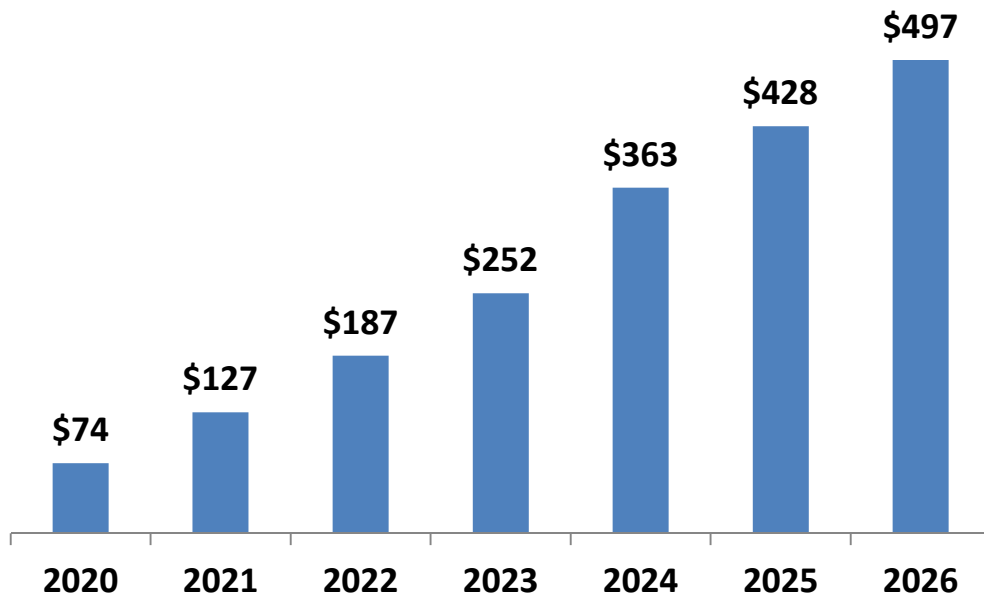
- **Designed to assess state-by-state impact of Medicaid financing changes**
 - Per capita cap
 - Block grant
 - Reductions in federal funding for expansion
- **Uses publicly-available data to establish baseline for each state, for example:**
 - CMS-64 data on total Medicaid expenditures and expansion adult and total enrollment
 - MSIS/MAX data on expenditures by eligibility group
 - State-specific population growth projections from the Census Bureau
 - CMS and CBO national growth projections by eligibility group
 - CMS and CBO projections of medical CPI
- **Allows for sensitivity analysis**
 - Alternative inputs
 - Diversion from projections
 - State behavioral response

Key Assumptions

Maintaining Current Medicaid Program May Not Be Feasible

Montana would have to substantially increase State General Fund spending to maintain current Medicaid program spending under the BCRA

Additional State Funds Required to Maintain Montana's Current Medicaid Program, FY 2020-2026 (millions)



During FY 2020-2026, Montana would have to increase its own spending by **\$1.9 billion**, or about **40%**, to replace lost federal funds from expansion financing changes and the per capita cap

The remainder of this analysis assumes that Montana maintains expansion coverage only through the end of 2020 and cuts overall Medicaid spending to stay under the BCRA aggregate cap

Source: Manatt Medicaid Financing Model

Note: Additional State funds required to replace federal cuts due to the loss of enhanced expansion funding and the per capita cap (\$1.9 billion) is *not* equal to the federal cut that Montana would face under these provisions (\$5.3 billion) if Montana drops expansion coverage in 2021. If Montana eliminates expansion coverage in 2021, as modeled in subsequent slides, it will lose enhanced federal match *and* forego regular federal matching funds for these individuals.

Key Assumptions for Montana Modeling

17

Unless otherwise noted, estimates assume the following:

- **Baseline (current law) spending per enrollee growth** based on Centers for Medicare & Medicaid Services (CMS) Office of the Actuary national projections
- **Medical CPI growth** at 3.7% and **CPI growth** at 2.4%, based on Congressional Budget Office (CBO) national projections
- **Montana's response to policy changes**
 - Maintains expansion only through the end of 2020; eliminates expansion in 2021
 - In response to per capita cap, reduces provider payments, eliminates benefits, or otherwise takes steps to ensure spending is below aggregate cap
 - Although not modeled here, Montana, in practice, might also reduce enrollment of additional beneficiaries in response to the per capita cap

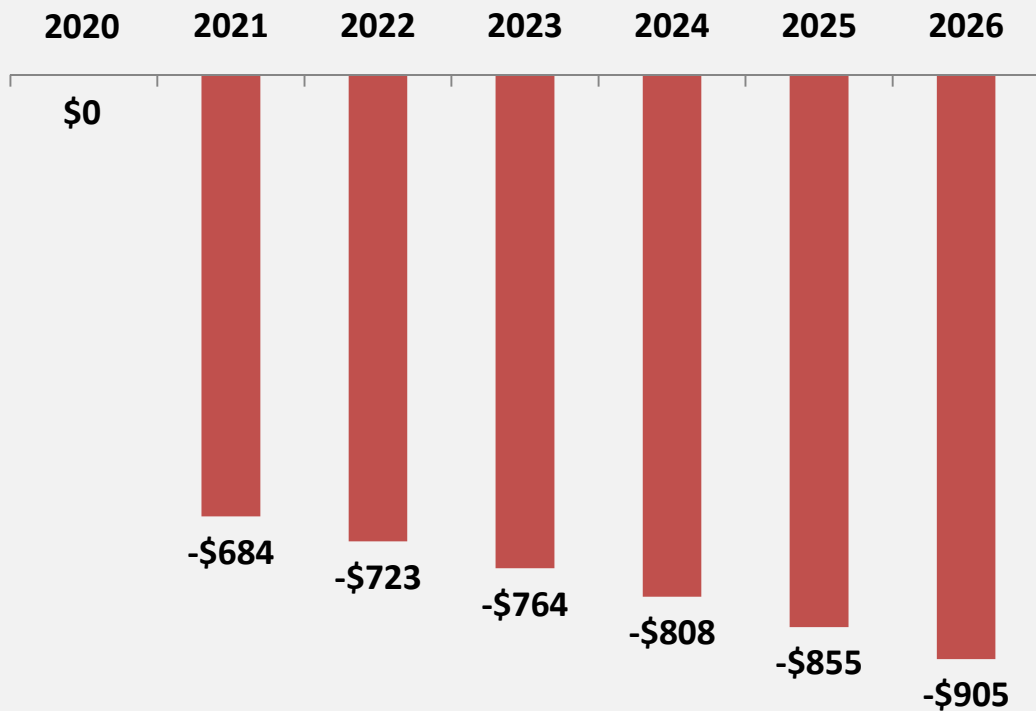
Additional notes:

- The analysis does not take into account Medicare cost-sharing payments that are excluded from the per capita cap nor Indian Health Service users who are also excluded
- In addition, it does not reflect sizeable growth in expansion enrollment after Dec. 2016, which would increase impacts beyond what is shown here
- Estimates are federal FY values
- Aggregate estimates reflect the FY 2020-2026 budget window

Impact of the BCRA on Montana Medicaid

Estimated Impact of Expansion Changes

Reduction in Federal Funding Due to Expansion Cuts,
FY 2020-2026 (millions)



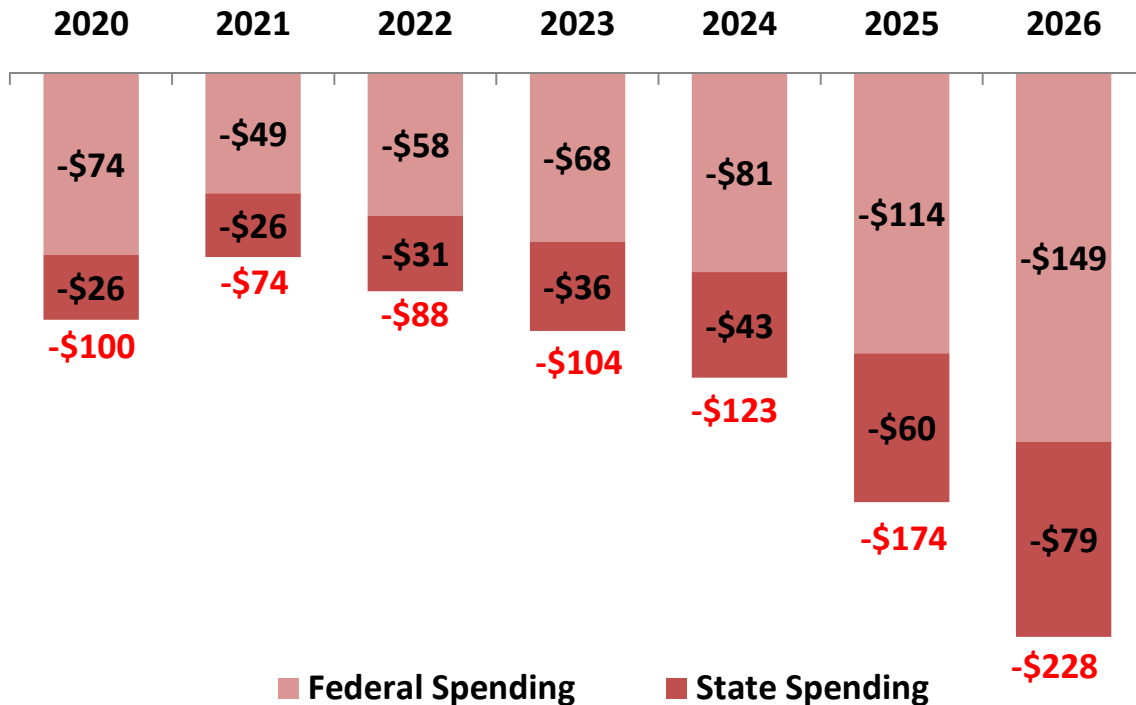
During FY 2020-2026, Montana would lose **\$4.7 billion** in federal funds as result of expansion financing changes

If the State did not maintain expansion coverage, over 70,000 Montanans would lose coverage in 2021

Estimated Impact of Per Capita Cap

The per capita cap alone (i.e., without factoring in reduced funding for expansion) is estimated to result in total cuts of nearly \$900 million during FY 2020-2026

Impact of Per Capita Cap, FY 2020-2026 (millions)

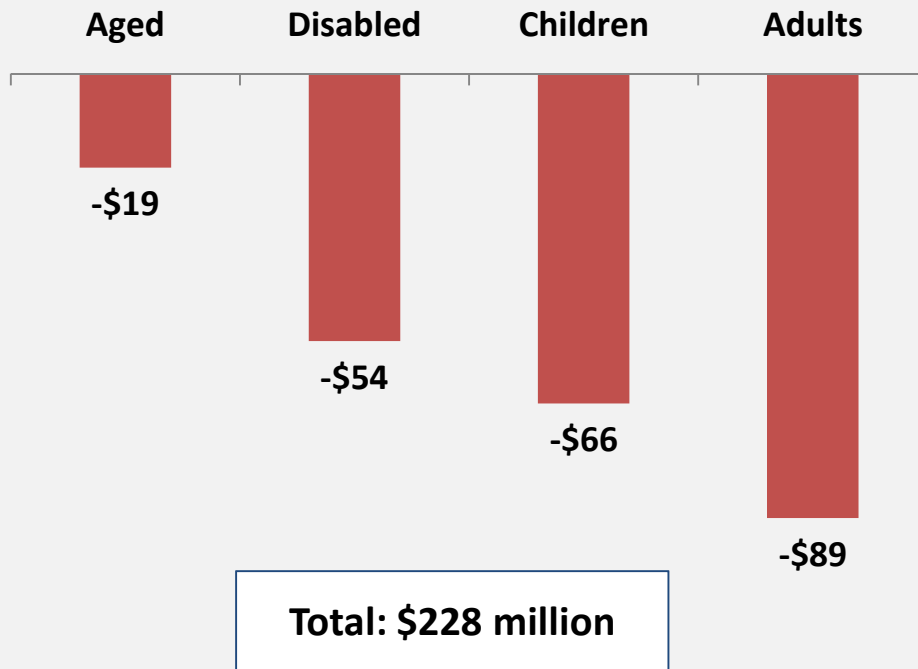


- During FY 2020-2026, total spending (federal and State) on Medicaid in Montana is estimated to decrease by **\$892 million** as a result of the per capita cap
- Federal spending is expected to drop by **\$592 million**

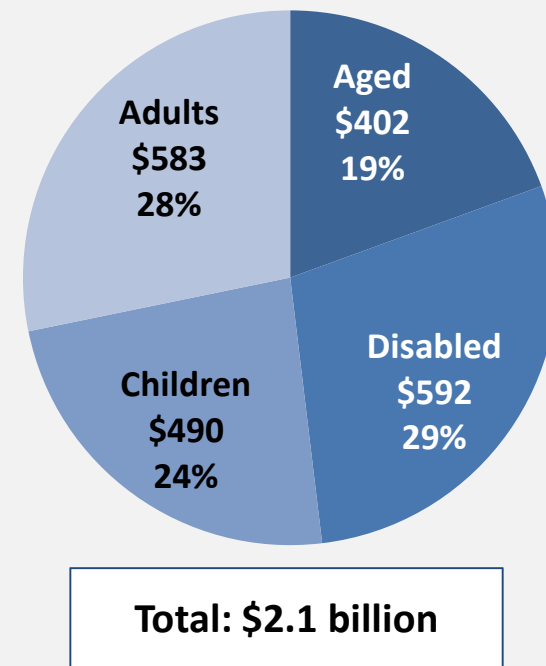
Contribution to Impact of Per Capita Cap Varies by Group, but Resulting Cuts Could Be Applied to Any Group

- Estimated FY 2026 spending of \$2.1 billion would leave Montana \$228 million over its projected cap
- State would need to cut spending by \$228 million in FY 2026, or face a clawback the following year

Estimated Contribution to Impact of the Cap, FY 2026 (millions)



Estimated Spending Prior to Per Capita Cap Cuts, FY 2026 (millions)

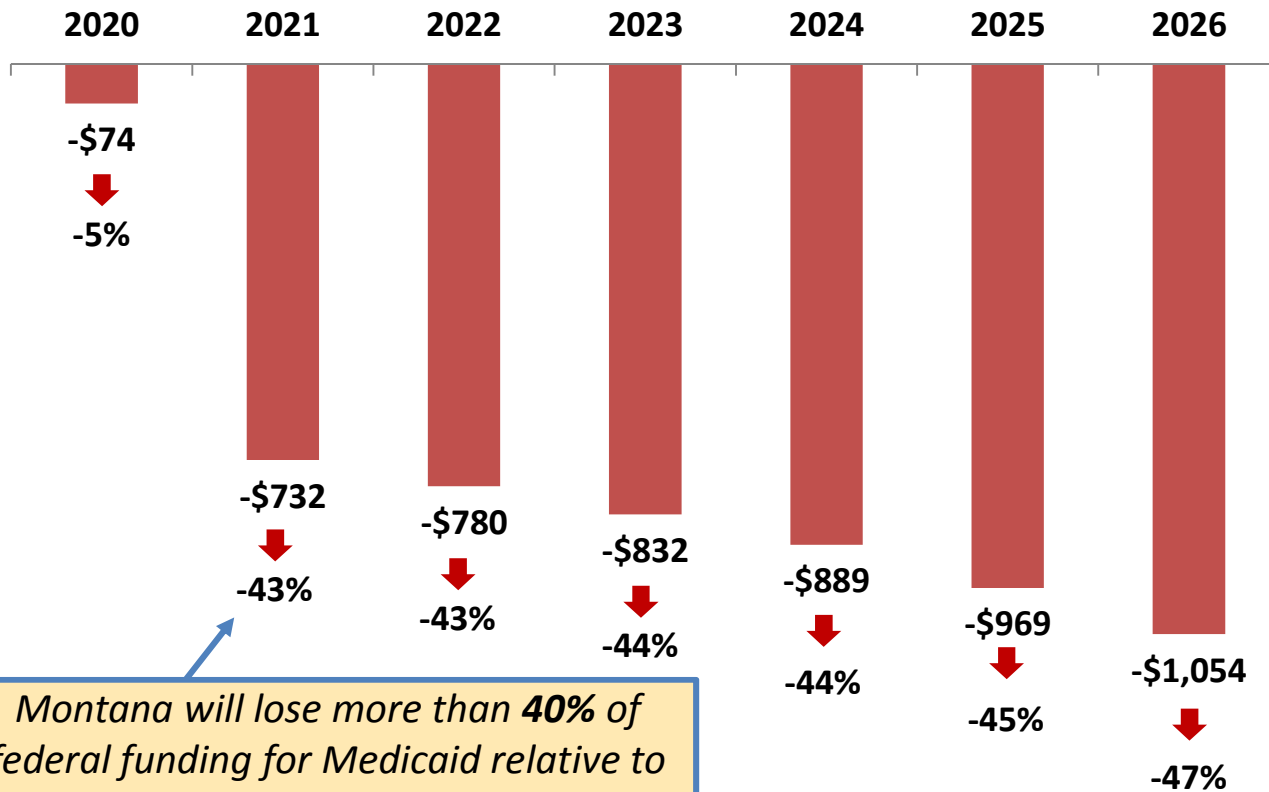


Individuals exempt from the cap – users of IHS and Tribal health facilities and children enrolled based on disability – could be affected by the cuts necessary to stay below the cap

Estimated Impact of Per Capita Cap *and* Expansion

The per capita cap and elimination of enhanced funding for expansion would result in substantial federal funding reductions for Montana

Estimated Cuts to Federal Medicaid Funding, FY 2020-2026
(millions and share of baseline)



\$5.3 billion (39.6%) reduction in federal funding for Montana's Medicaid program during FY 2020-2026

Montana will lose more than **40%** of federal funding for Medicaid relative to baseline **in the second year**

Uncertainty and Risk Under Per Capita Cap

Estimates of the impact of a per capita cap are highly sensitive to key assumptions, including:

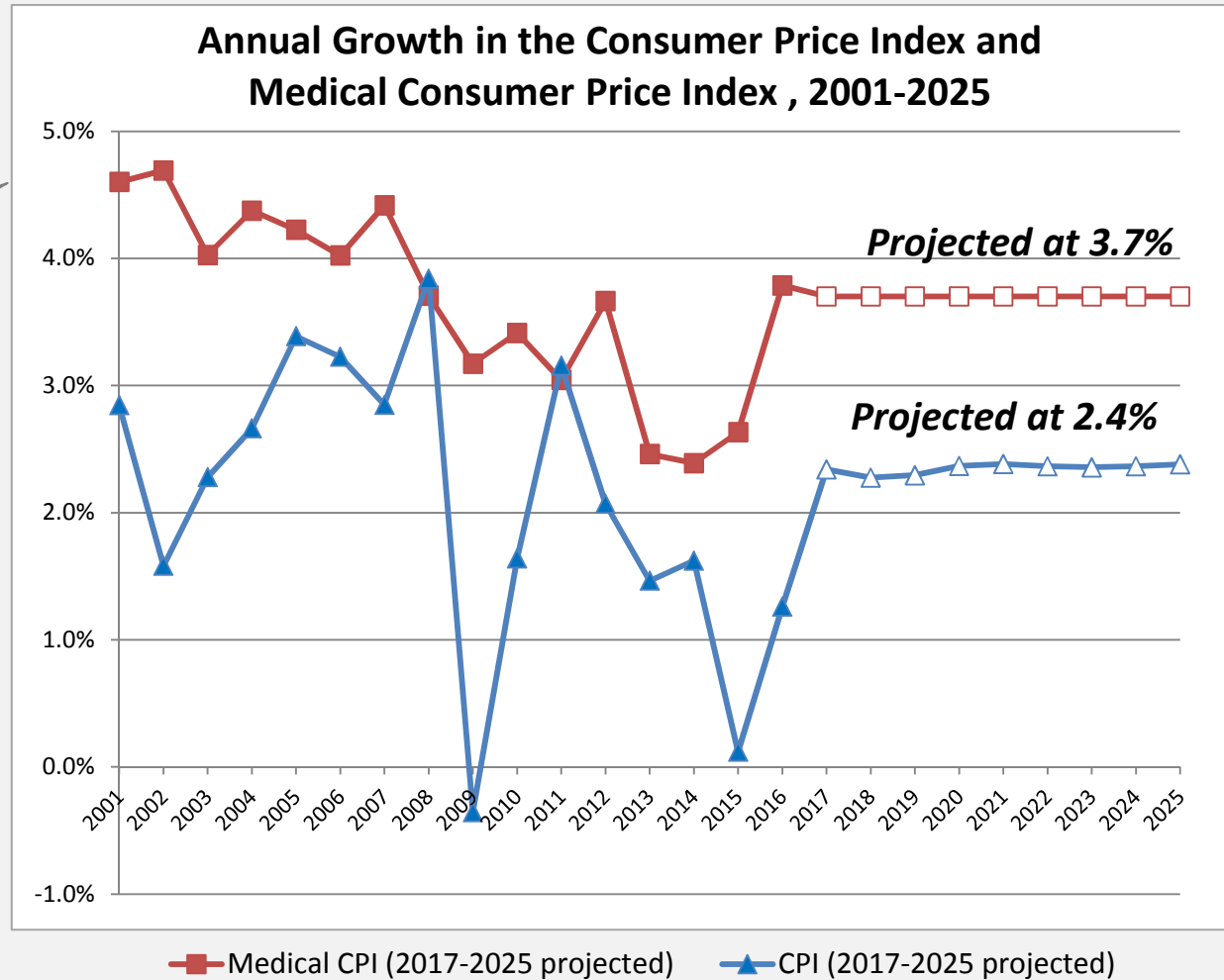
- Baseline spending growth
- Projections of medical CPI and CPI

Montana's financial exposure may be even greater if reality differs from key assumptions and projections

- Unanticipated spending pressures:
 - Continued worsening of substance use epidemic or other public health crisis
 - Breakthrough treatments or medications
 - Increase in pre-term births that drives up per capita cost of serving children
- Trend rate diverges from expectations:
 - Higher or lower medical CPI/CPI than projected
 - Further legislative changes to the trend rate

Actual Trend Rates Will Determine Impact on Montana

CPI has historically trended well below Medicaid CPI; as a result, states will almost certainly see a dramatic drop in their per capita cap in 2025



Key Implications

The Stakes for Montana: Recap

- Medicaid covers one in four people in Montana—more than 216,000 individuals, nearly half of whom are children.
- Under the BCRA, Montana is expected to lose \$5.3 billion in federal Medicaid funds between FY 2020 and 2026 due to changes to expansion financing and the per capita cap.
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- The magnitude of the federal cuts are such that they may well affect Montana’s ability to finance other State priorities such as education and infrastructure.

Appendix

Growth in Medicaid Spending Per Full Benefit Enrollee, FY 2000-2011

Rank	Children		Adults		Disabled		Aged	
1	NM	11.6%	NM	14.4%	HI	15.5%	TN	13.3%
2	VT	10.2%	AR	12.1%	AZ	8.1%	MS	10.8%
3	RI	9.4%	VT	12.0%	MS	6.9%	AK	8.3%
4	VA	8.9%	MO	11.7%	TN	6.8%	AR	8.3%
5	TX	8.4%	PA	10.9%	CA	6.6%	FL	7.3%
11	ID	6.7%	MT	9.1%	LA	5.6%	HI	6.5%
14	WV	6.4%	OR	8.5%	AK	5.4%	MT	5.9%
18	OK	6.2%	ID	7.8%	MT	4.9%	ND	5.2%
20	MT	6.0%	KY	7.6%	KY	4.8%	AL	4.8%
U.S. Avg.	5.3%		5.6%		4.5%		3.7%	
47	OR	1.8%	NY	2.9%	ME	2.1%	MI	-0.3%
48	CO	1.7%	IL	2.5%	RI	2.0%	NE	-0.5%
49	UT	1.6%	ME	1.8%	IL	1.5%	IL	-0.7%
50	HI	1.1%	TN	1.5%	KS	1.4%	WA	-1.4%
51	ME	0.4%	IA	0.3%	NH	0.5%	NM	N/A