Impact on Montana of the AHCA's Medicaid Provisions

June 13, 2017

Prepared by Manatt Health for:

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Overview of Findings

The Stakes for Montana

- Montana is expected to lose $4.8 billion in federal Medicaid funds between federal FY* 2020 and 2026 due to the AHCA's elimination of enhanced match for expansion and its per capita cap provision, reflecting 35% of Montana's current law federal Medicaid funding
- Coverage at risk for 79,000 expansion adults, with more than 95% expected to lose coverage by 2026 if the AHCA is enacted
- To stay under a per capita cap Montana would be required to cut its Medicaid program spending by a total of $888 million in federal and State dollars between FY 2020 and 2026, with a federal funds loss of $599 million
- Cuts are larger if medical consumer price index (medical CPI) growth turns out to be half a percentage point lower than projected, with the federal funds loss from the per capita cap increasing to $884 million
- Because the actual trend rate will not be known until after each year ends, Montana would face substantial uncertainty when it makes key Medicaid and budget decisions
- 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

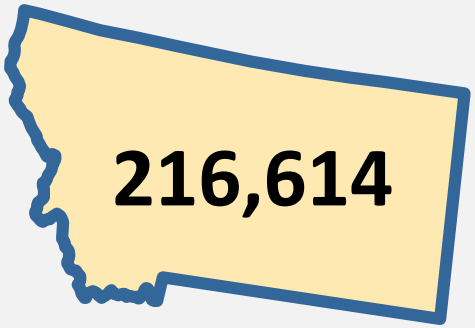
*References to FY throughout this document are federal fiscal years unless noted otherwise.

Role of Medicaid in Montana

Montana: Medicaid Enrollment

Children represent the single largest group of Medicaid beneficiaries in Montana

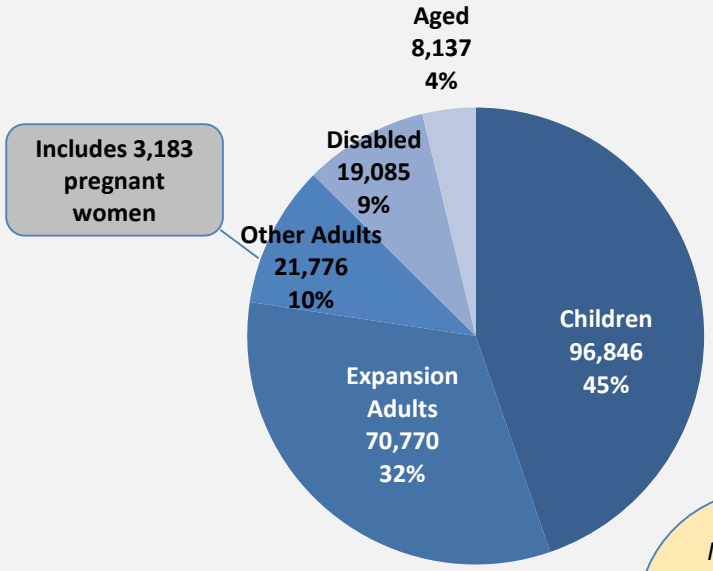
Total Medicaid Enrollment, Dec. 2016



Share of Montana Medicaid Enrollees in Working Households, 2015

Eight in Ten

Medicaid Enrollment by Eligibility Category, Dec. 2016



Total Medicaid Enrollment: 216,614

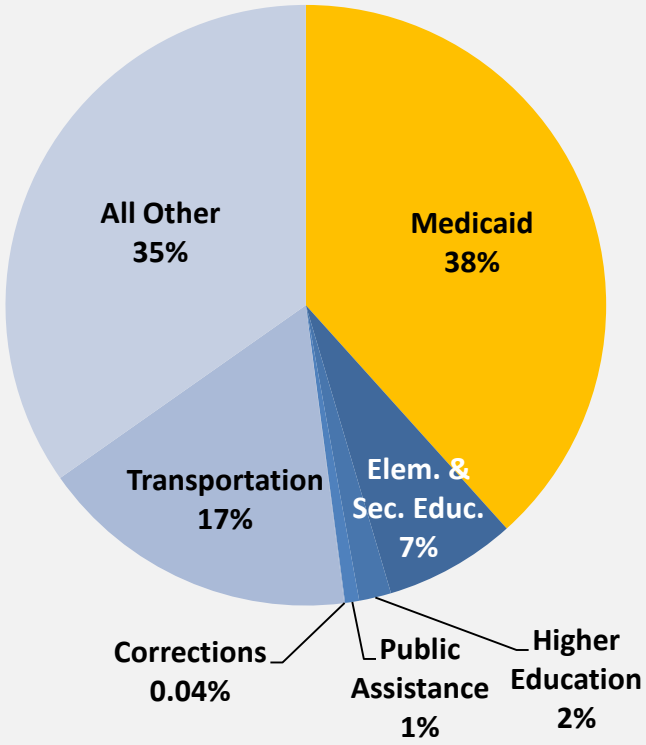
*In addition, Montana enrolls **23,614 children** in its separate CHIP program*

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

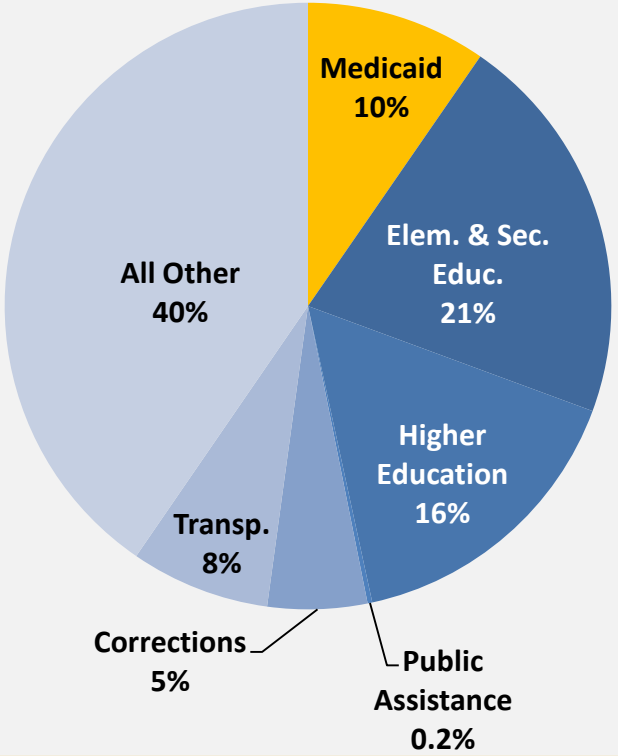
Montana: Medicaid Funding

- 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)



Source: https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/SER%20Archive/State%20Expenditure%20Report%20(Fiscal%202014-2016)%20-%20S.pdf

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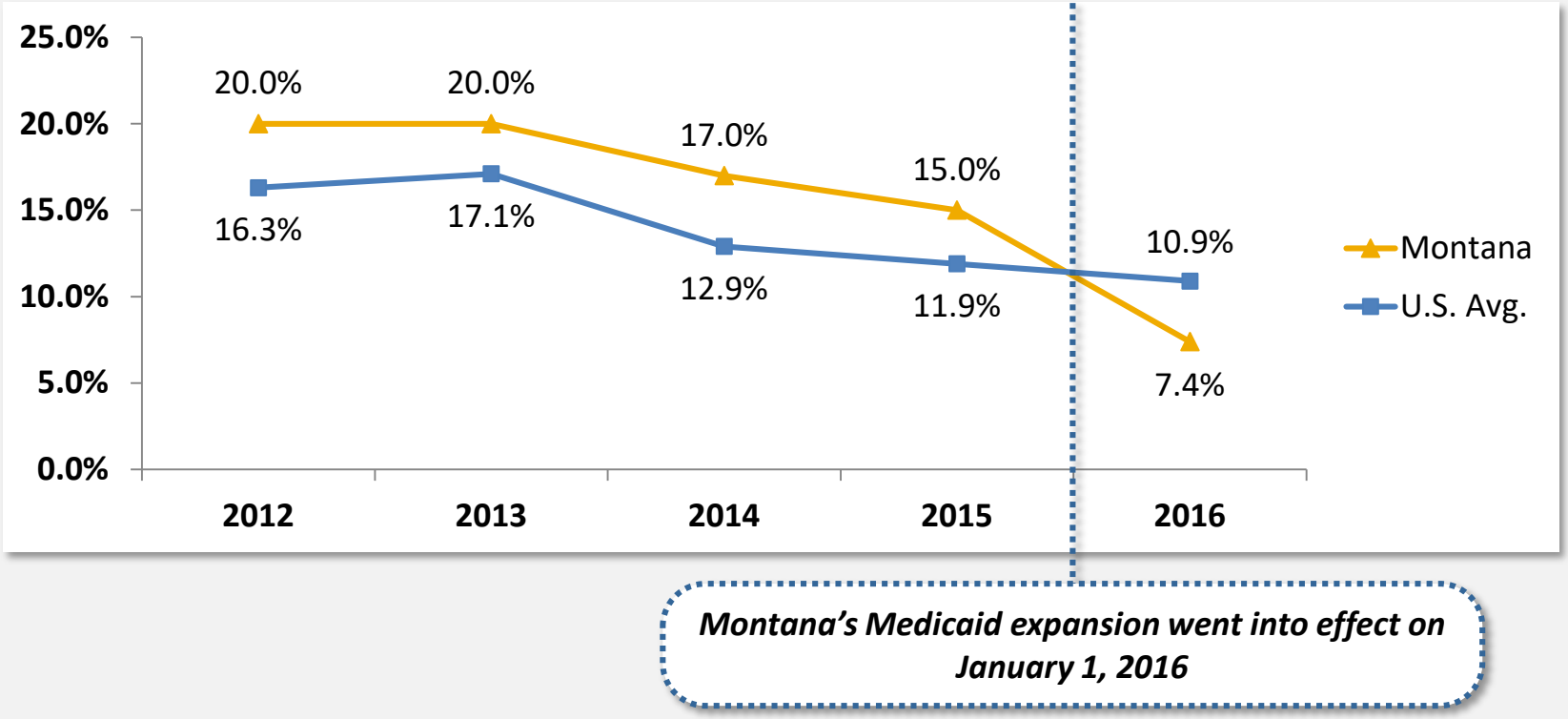
Montana's Uninsured Rate Dropped After Expansion

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

Uninsured Rate, 2012-2016



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 most beneficiary groups and services, matching rate in FY 2017 = 65.56%
  - Matching rate for expansion adults = 95% in 2017; 90% in 2020 and beyond
- **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

Source: Federal Medical Assistance Percentage (FMAP), http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/

Major Medicaid Provisions in the AHCA

Federal/State Medicaid Context

The House-passed AHCA includes major changes to Medicaid

- Converting Medicaid to a per capita cap with state option for block grant for children and adults
- Elimination of enhanced federal funding for Medicaid expansion after 2019, with the exception of "grandfathered" enrollees
- $834 billion in cuts to federal Medicaid funding between FY 2017-2026

The FY 2018 President's Budget proposes additional Medicaid cuts on top of those included in "repeal and replace" efforts, but they are not specified

"…the Budget includes a net savings to Medicaid of $627 billion over 10 years, not including additional savings to Medicaid as a result of the Administration's plan to repeal and replace Obamacare…" – FY 2018 HHS Budget in Brief

The Senate is developing its own approach to repeal and replace that may also include cuts to expansion funding and a per capita cap

Source: https://www.cbo.gov/publication/52752
https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/hhs.pdf
https://www.hhs.gov/sites/default/files/Consolidated%20BIB_ONLINE_remediated.pdf

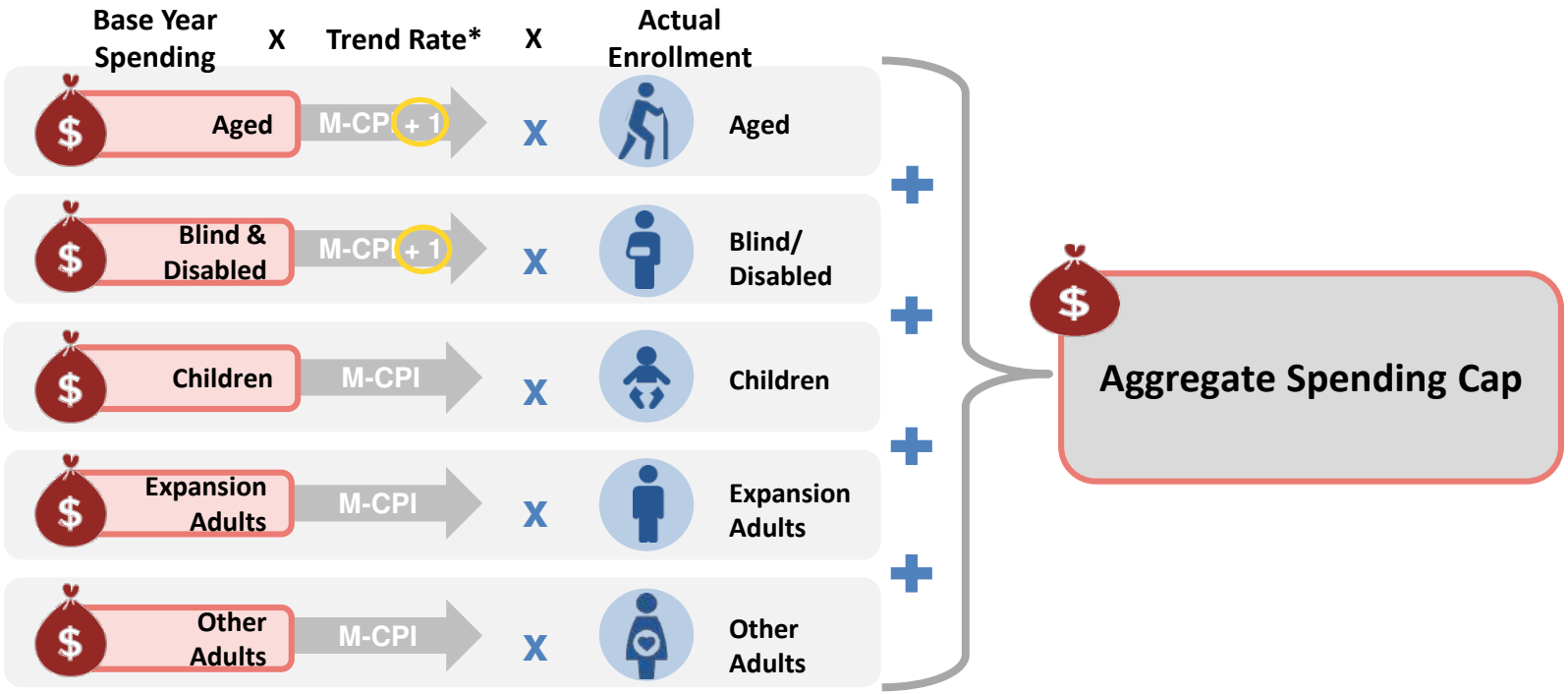
Under Per Capita Cap, Montana at Risk for Spending Above Cap

- **The AHCA establishes an aggregate cap on federal Medicaid expenditures beginning in FY 2020**
- **The cap is "built up" from per capita limits on five different eligibility groups**
- **The per capita limit for each eligibility group will be set based on the State's historic spending per enrollee increased by a national trend rate**
  - Medical CPI for children, expansion adults and other adults
  - Medical CPI + 1 percentage point for seniors and people with disabilities
- **If Montana spends in excess of its cap, the federal government will "claw back" its share of any overpayments in the following year; i.e., the State's aggregate cap will be reduced the following year**
  - If Montana spends below the cap, the "savings" are not rolled over to the following year
- **To live within reduced federal funding, Montana will either have to increase State expenditures or reduce Medicaid spending by cutting benefits, reimbursements or eligibility**

Sources: Congressional Budget Office (CBO), 10-year Budget Projections, https://www.cbo.gov/about/products/budget-economic-data; Social Services Estimating Conference, Office of Economic & Demographic Research (EDR); Federal Medical Assistance Percentage (FMAP), http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/

AHCA: Per Capita Cap Formula

Aggregate cap on Medicaid funding is built up from **per capita caps** for five different eligibility groups

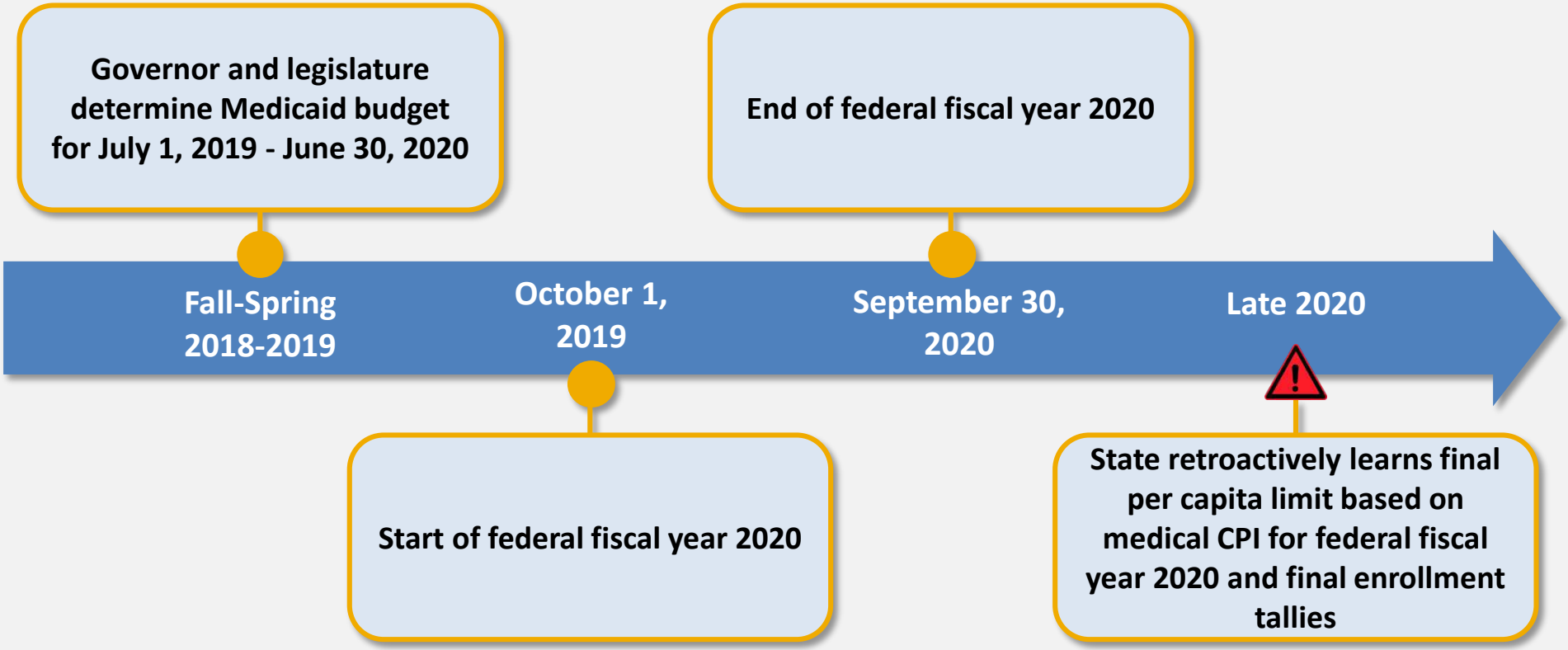


Certain enrollees are excluded from the cap calculation, such as those receiving any Medicaid-funded services through an Indian Health Service or Tribal facility, CHIP-financed children, and partial benefit enrollees. The cap also excludes certain types of payments, including administrative funds and disproportionate share hospital (DSH) payments.

*To calculate a state's starting caps in 2020, 2016 spending is trended by M-CPI; starting in 2020, M-CPI+1 is used to trend and calculate the aged and disabled spending caps, while M-CPI continues to apply to children, expansion adults, and other adults

A Per Capita Cap is Retrospective

Each year, Montana will have to establish its Medicaid budget almost *two years before* it knows the amount of federal Medicaid funding available for that budget year



Source: American Health Care Act (H.R. 1628)
http://leg.mt.gov/content/Publications/fiscal/interim/financecmty_oct2003/State_Budget_Process.pdf

AHCA: Medicaid Expansion

AHCA Medicaid Expansion Provisions

- **Eliminates opportunity for non-expansion states to receive enhanced federal funding for expansion effective March 1, 2017**
- **Maintains enhanced federal Medicaid funding for existing expansion states through 2019, but eliminates enhanced funding in 2020 except for "grandfathered" adults:**
  - "Grandfathered" adults are those enrolled on December 31, 2019 who do not have a break in eligibility of more than a month thereafter
  - AHCA would require redetermination of eligibility for expansion adults every six months
- **Reduces enhanced federal Medicaid funding for "leader states" (those that had expanded coverage to adults prior to the ACA) after 2017**

Based on states' experiences with enrollment freezes and more frequent re-determinations, the number of expansion adults for whom a state can receive enhanced funds can be expected to dwindle rapidly. Within a year, up to half or more of grandfathered beneficiaries are likely to have left Medicaid.*

Source: American Health Care Act (H.R. 1628)
* Based on CBO assumptions and earlier experiences in three states that capped enrollment of low-income adults in Medicaid. See http://www.statenetwork.org/wp-content/uploads/2017/03/State-Network-Grandfathered-Medicaid-Enhanced-Match-March-2017.pdf

Estimated Impact of Changes

Overview of Manatt Medicaid Financing Model

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

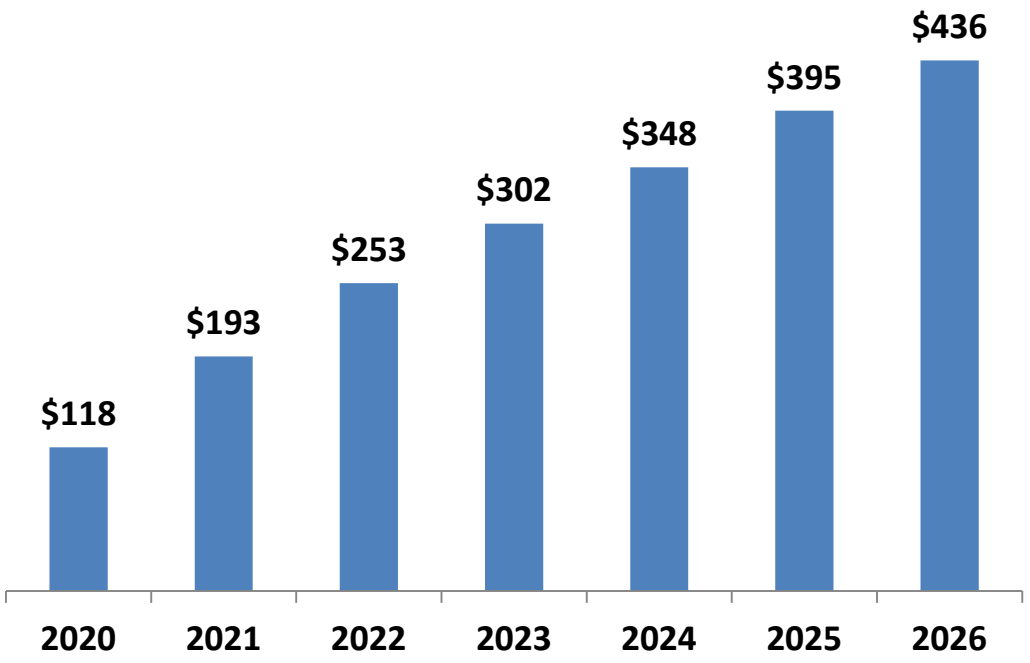
- Alternative inputs
- Diversion from projections
- State behavioral response

Key Assumptions

Maintaining Current Medicaid Program Likely Not Feasible

Montana would have to increase State General Fund spending to unsustainable levels to maintain current Medicaid program spending under the AHCA

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 **over $2 billion**, or about **42%,** to replace lost federal funds from expansion financing changes and the per capita cap

The remainder of this analysis **assumes that Montana *does not* maintain expansion coverage** except for grandfathered individuals **and cuts overall Medicaid spending to stay under the AHCA 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 ($2 billion) is *not* equal to the federal cut that Montana would face under these provisions ($4.8 billion) if it maintains coverage only for grandfathered enrollees. If Montana eliminates expansion coverage for all but grandfathered enrollees, as modeled in subsequent slides, it will lose enhanced federal match *and* forego regular federal matching funds for these individuals.

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Key Assumptions for Montana Modeling

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%, based on Congressional Budget Office (CBO) national projections
- **Montana's response to policy changes**
  - Maintains expansion only for grandfathered enrollees receiving enhanced federal match, with rate at which individuals churn off the program based on CBO assumptions
  - 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

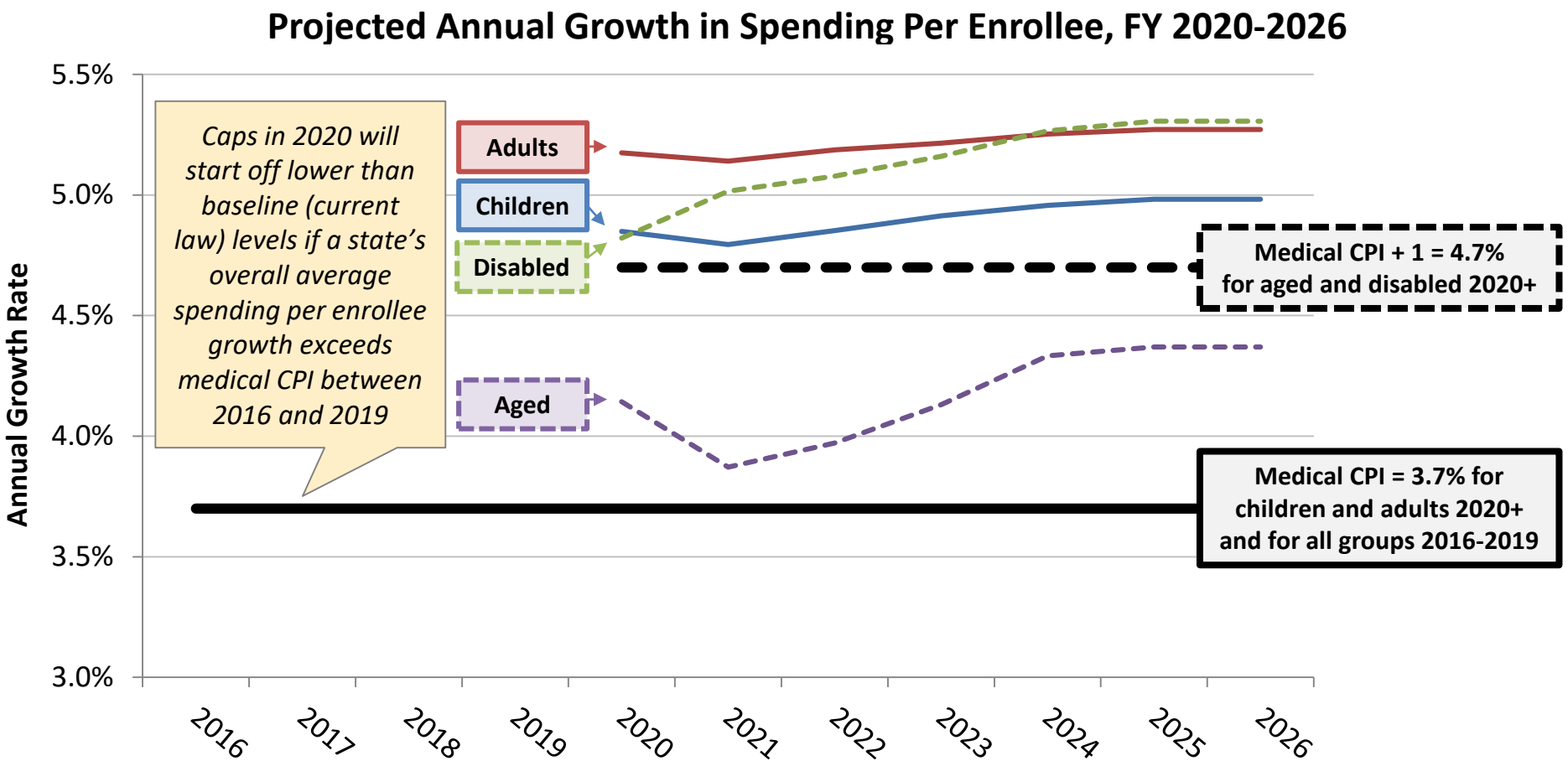
Additional notes:

- 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

Estimated Impact of Per Capita Cap

Projected Spending Growth Relative to Caps

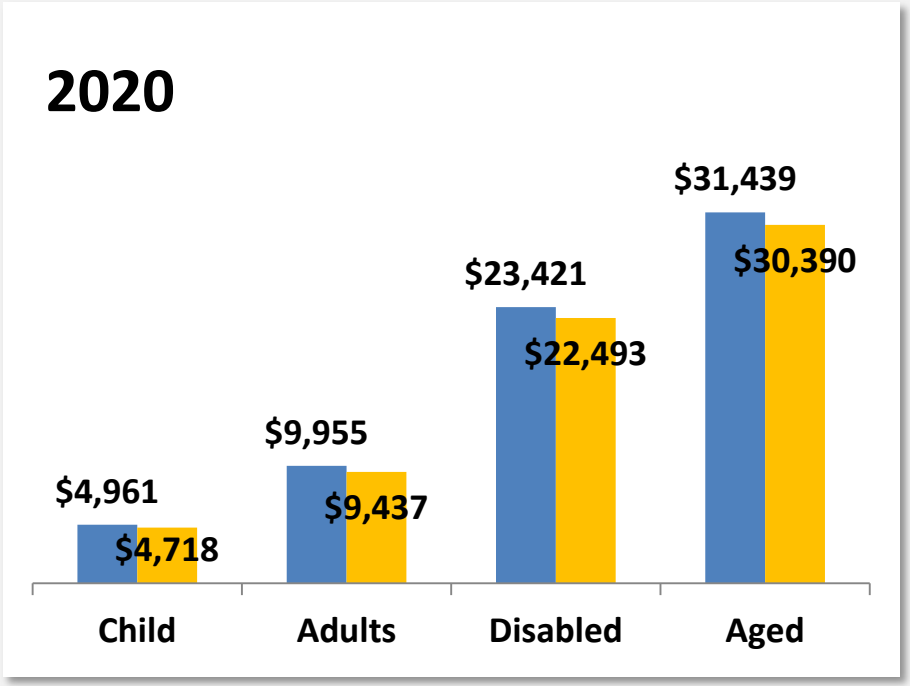
Per enrollee spending is projected to grow more quickly than the trend rates established in the AHCA for all eligibility groups except aged

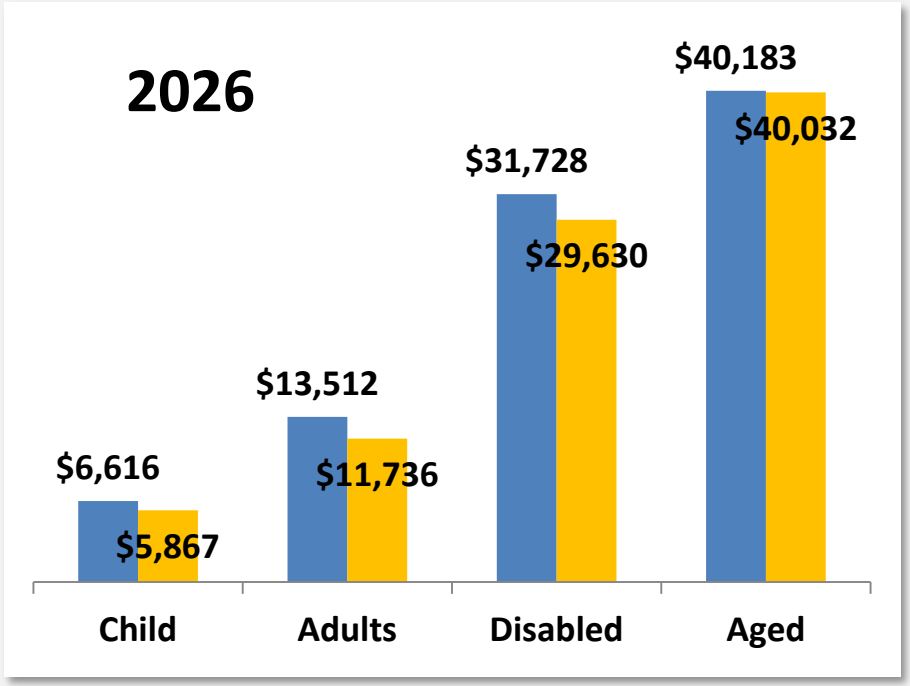


Note: For all groups, the FY 2019 amounts used to calculate FY 2020 caps are adjusted up or down based on FY 2016 average spending per enrollee trended forward by medical CPI.

Medicaid Spending in Montana Projected to Exceed Caps

Montana Baseline Spending Per Enrollee and Estimated Caps, FYs 2020 and 2026



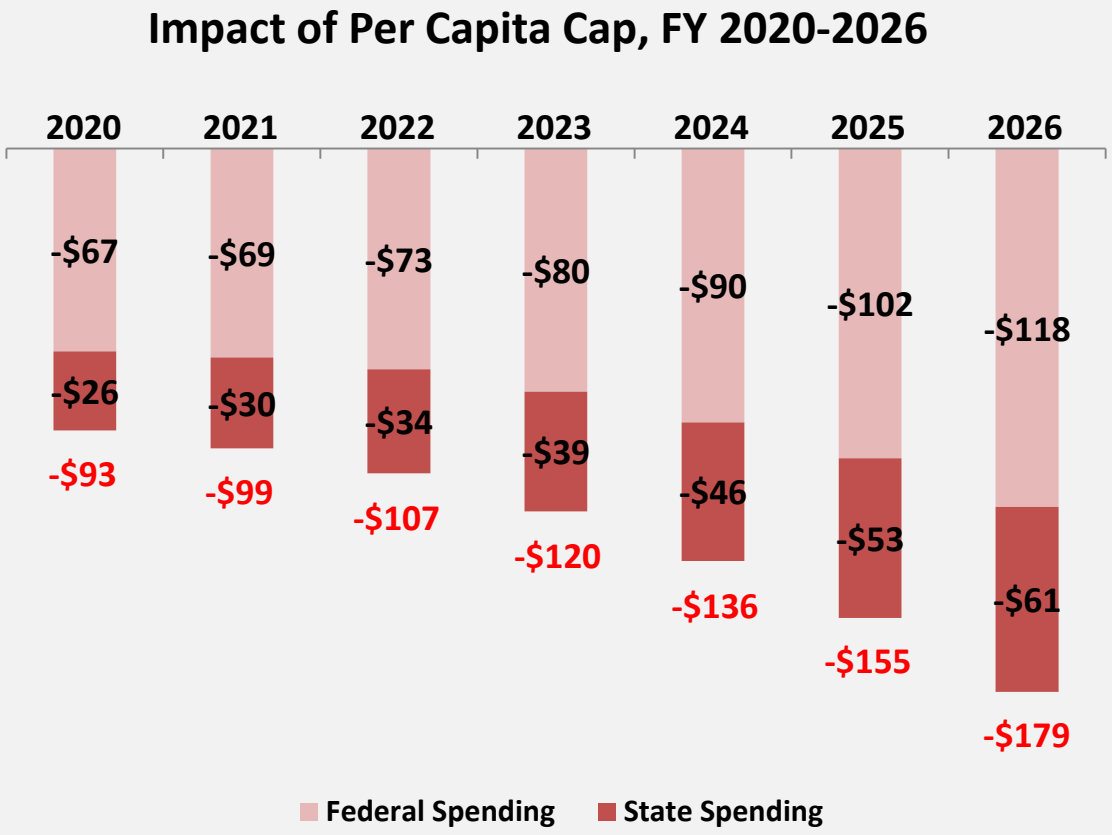


Baseline spending in Montana Estimated caps

Source: Manatt Medicaid Financing Model
Note: Includes federal and State funding.

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 close to $900 million by FY 2026



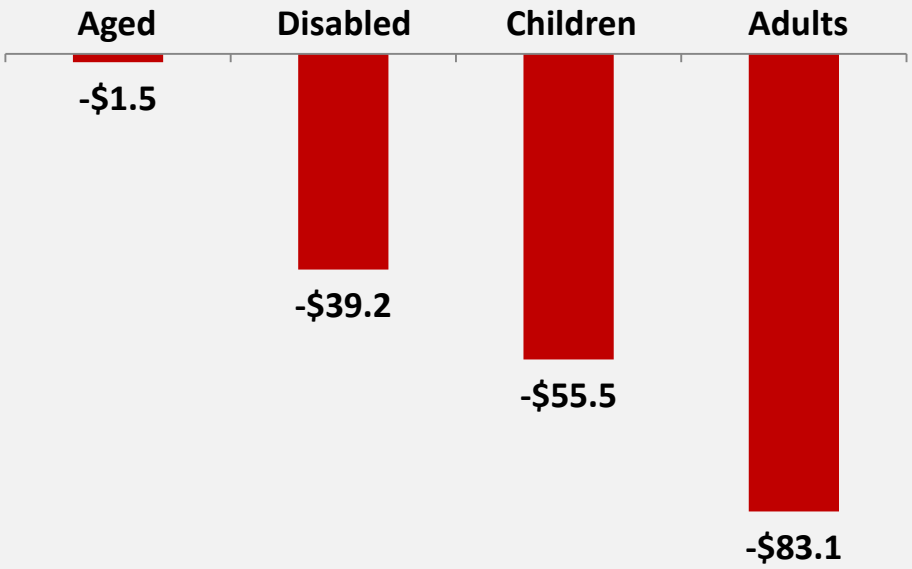
- During FY 2020-2026, total spending (federal and State) on Medicaid in Montana is estimated to decrease by **$888 million** as a result of the per capita cap
- Federal spending is expected to drop by **$599 million**

Source: Manatt Medicaid Financing Model

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

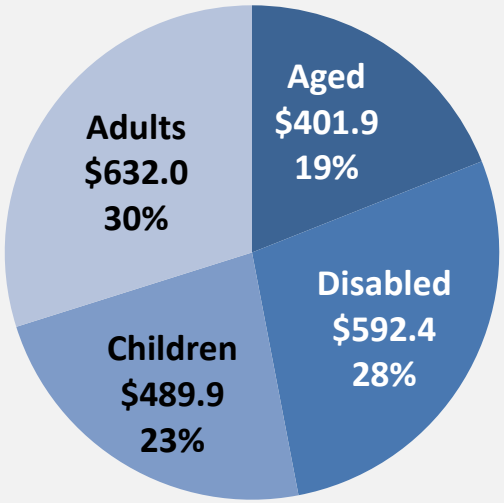
- Estimated FY 2026 spending of $2.1 billion would leave Montana $179 million over its projected cap
- State would need to cut spending by $179 million in FY 2026, or face a clawback the following year

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



Total: $179 million

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



Total: $2.1 billion

Source: Manatt Medicaid Financing Model
Note: Includes federal and State funding.

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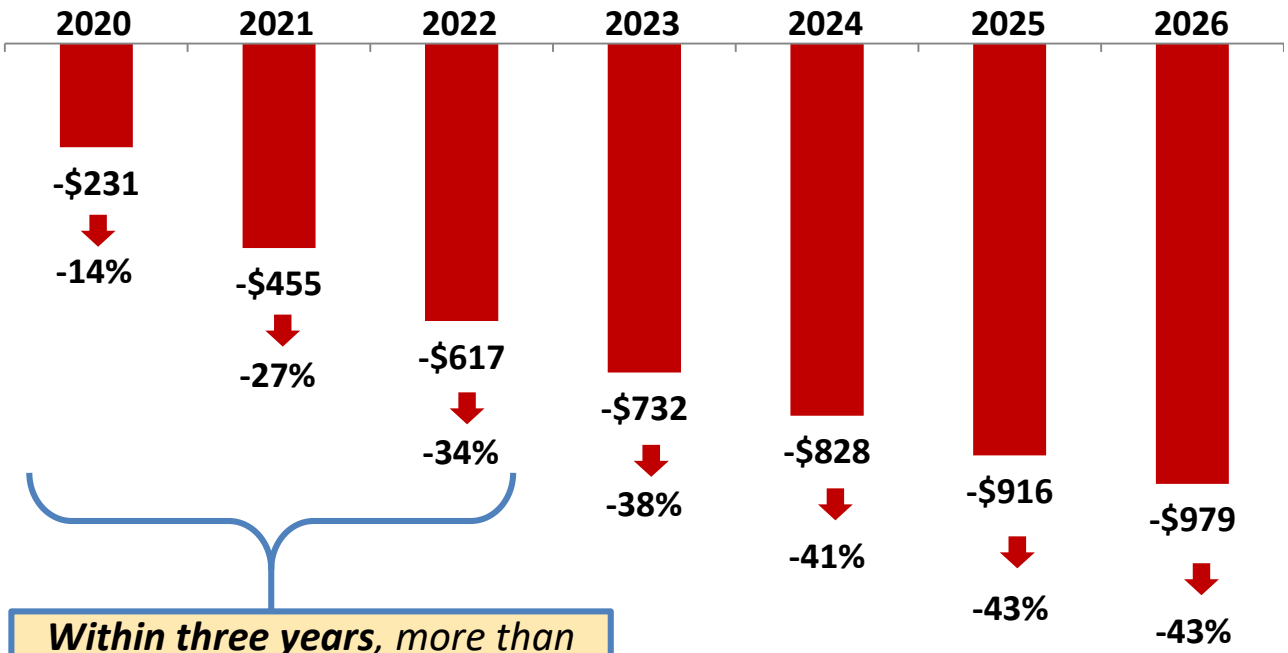
Estimated Impact of All AHCA Medicaid Cuts

Impact on Montana's Federal Medicaid Funding

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)



***Within three years**, more than **one third** of federal funding for Medicaid relative to baseline would be eliminated*

$4.8 billion (35.4%) reduction in federal funding for Montana's Medicaid program during FY 2020-2026

Source: Manatt Medicaid Financing Model
Note: Reflects CBO assumptions about the rate at which expansion adults enrolled on December 31, 2019 would churn off of the program.
Note: Additional State funds required to maintain expansion ($2 billion) is not equal to total federal cut ($4.8 billion), because the State would continue draw down its regular match rate for remaining expansion enrollees

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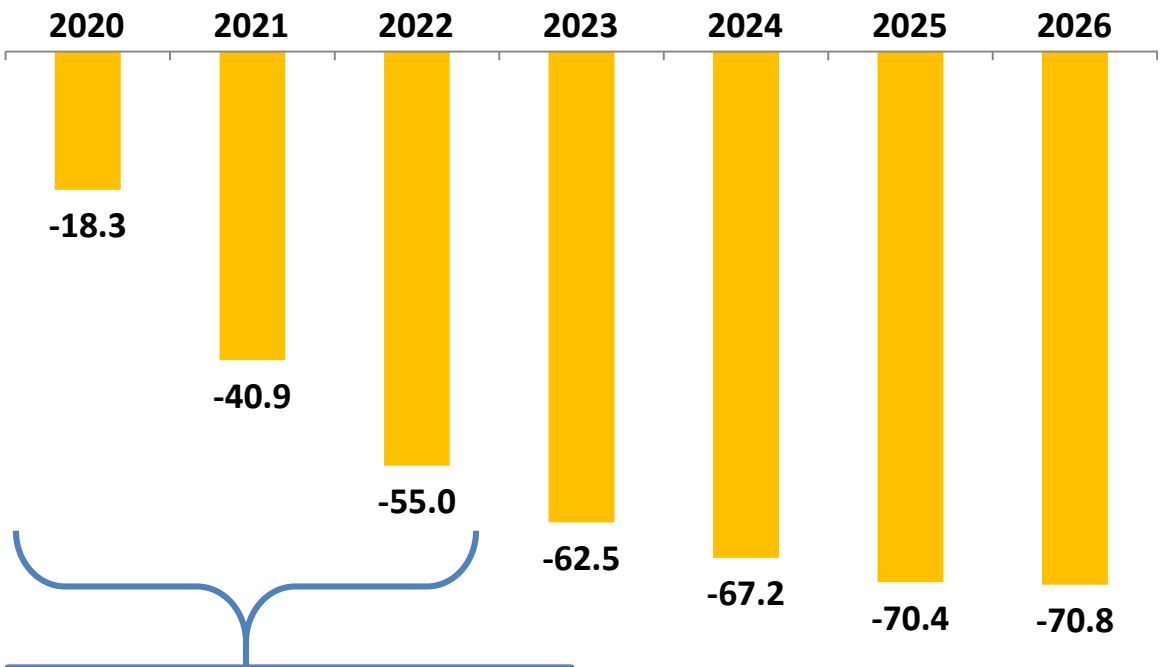
Montana Medicaid Enrollment Will Drop Substantially

Drop in Expansion Adult Enrollment in Montana, FY 2020-2026 (thousands)



Within three years, three out of four *"grandfathered" enrollees will have lost coverage*

- By 2022, **75%** of expansion enrollees will have lost coverage
- By 2026, **95%** of expansion enrollees will have lost coverage

Enrollment changes could be more significant than estimated here – and extend beyond expansion adults – if Montana responds to the per capita cap by scaling back coverage

Source: Manatt Medicaid Financing Model
Note: Based on CBO assumptions and earlier experiences in three states that capped enrollment of low-income adults in Medicaid. See http://www.statenetwork.org/wp-content/uploads/2017/03/State-Network-Grandfathered-Medicaid-Enhanced-Match-March-2017.pdf

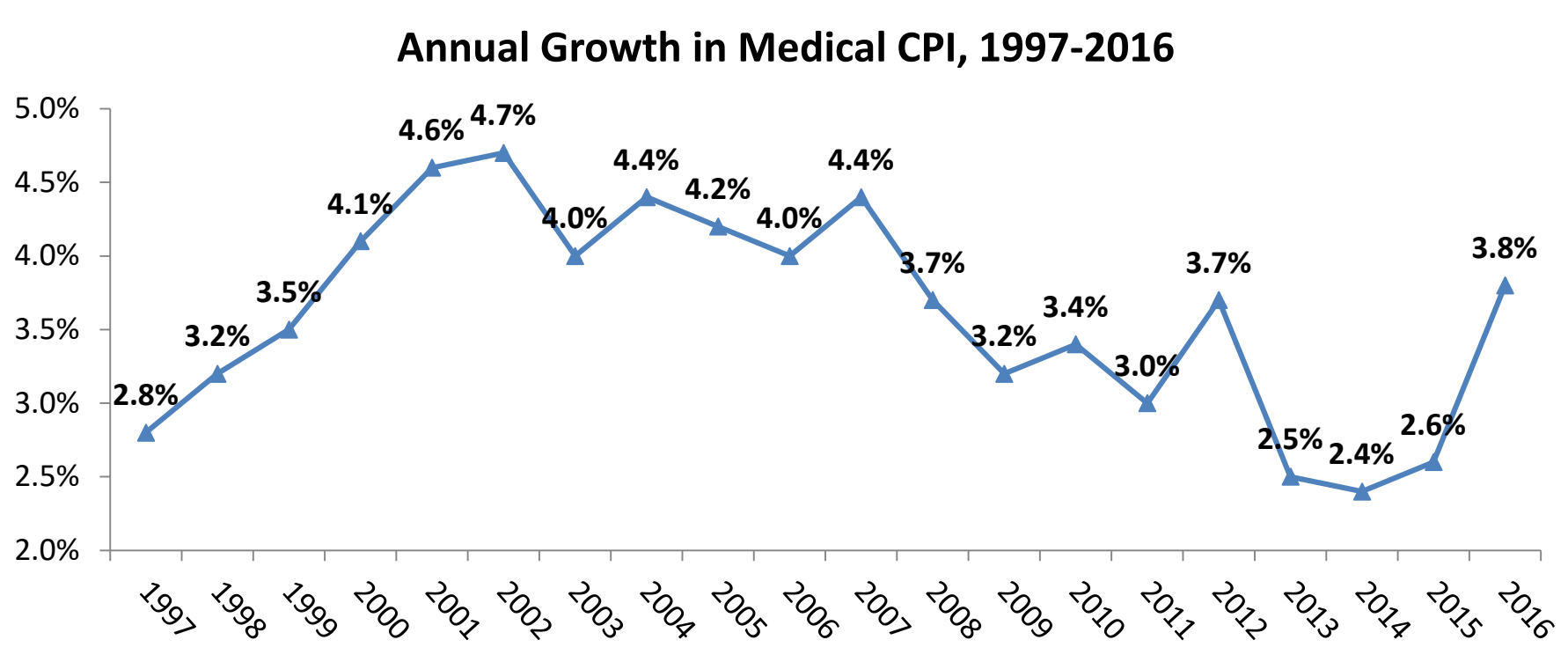
Uncertainty and Risk Under Per Capita Cap

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
- **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 than projected
    - Further legislative changes to the trend rate

Actual Medical CPI Will Determine Impact on Montana

- **Medical CPI has ranged from 2.4% to 4.7% since 1997**
- **Montana is even more at risk if medical CPI is low or dips unexpectedly**
- **If medical CPI is high in a given year, it eases impact of the cap, but the extra "room" cannot be carried over to future years**



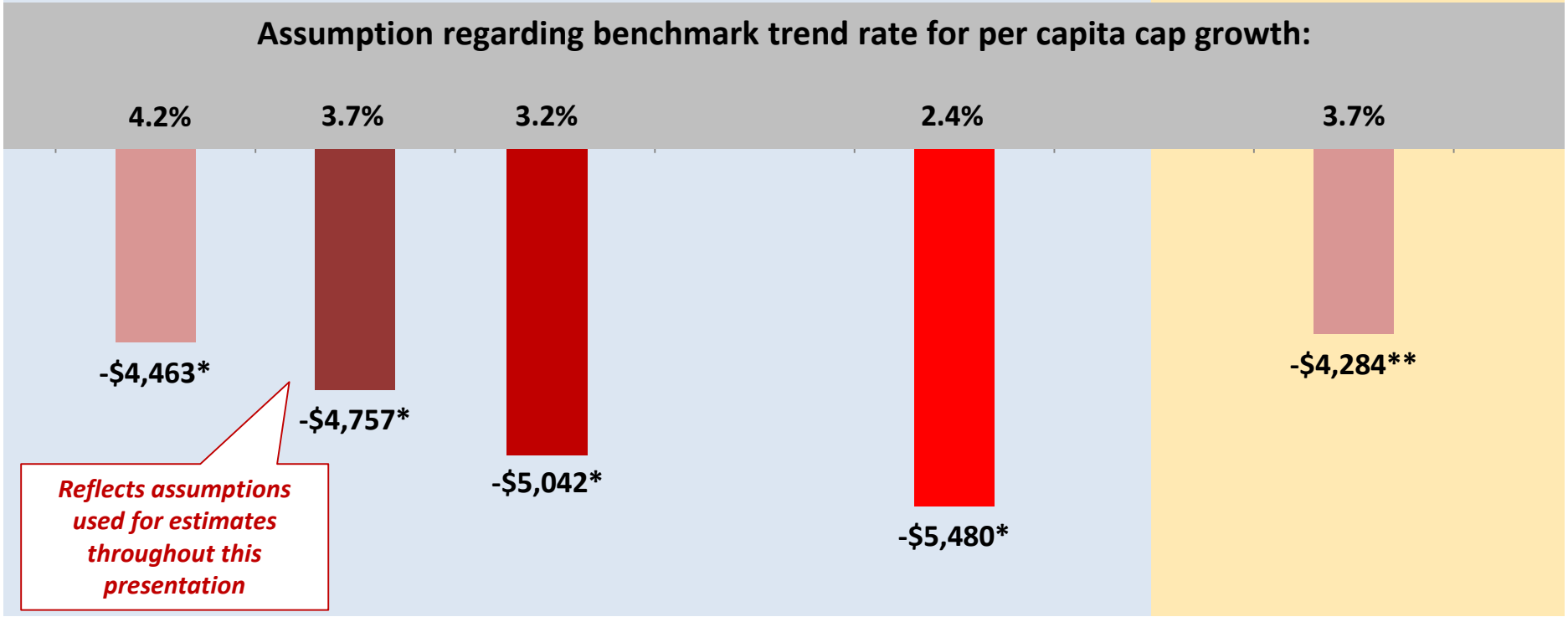
Source: https://data.bls.gov/timeseries/CUUR0000SAM?output_view=pct_12mths

Montana's Federal Cuts Vary Considerably Based on Growth Rate Assumptions (FY 2020-2026, millions)

Lower medical CPI growth rate means larger cuts

If Congress ties caps to overall (rather than medical) CPI, cuts are larger

For a given trend rate, lower baseline growth would result in smaller cuts



Source: Manatt Medicaid Financing Model | Note: 4.2% medical CPI based on CMS projection; 3.7% medical CPI and 2.4% overall CPI based on CBO projection. *Assumes CMS baseline spending per enrollee growth rates. **Assumes CBO baseline spending per enrollee growth rates.

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Key Implications

The Stakes for Montana

- Montana is expected to lose $4.8 billion in federal Medicaid funds between FY 2020 and 2026 due to the AHCA's elimination of enhanced match for expansion and its per capita cap provision, reflecting 35% of Montana's current law federal Medicaid funding
- Coverage at risk for 79,000 expansion adults, with more than 95% expected to lose coverage by 2026 if the AHCA is enacted
- To stay under a per capita cap Montana would be required to cut its Medicaid program spending by a total of $888 million in federal and State dollars between FY 2020 and 2026, with a federal funds loss of $599 million
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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

Source: http://www.statenetwork.org/resource/data-points-to-consider-when-assessing-proposals-to-cap-federal-medicaid-funding-a-toolkit-for-states/