



N.C. Department of Health  
and Human Services

## Division of Medical Assistance

# Budget Bill Adjustment Savings Summary

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## Overview of Required Budget Reductions

- DMA's budget included twenty-eight initiatives designed to reduce Medicaid (11) and Health Choice (6) spending in SFY14 and SFY15
- Initiatives were originally projected to lower DMA's budget by \$165.7M and \$255.2M in 2014 and 2015, respectively

| Required Budget Reductions                  | FY14                    | FY15                    |
|---|-------------------------|-------------------------|
| Medicaid Required Budget Reductions         | (147,320,146)           | (221,656,839)           |
| NC Health Choice Required Budget Reductions | (18,358,388)            | (33,562,023)            |
| <b>Total</b>                                | <b>\$ (165,678,534)</b> | <b>\$ (255,218,862)</b> |



## Update on DMA's Implementation

- DMA has taken steps to internally prepare for the impact of the budget reduction initiatives for SFY14 and SFY15
- To date, DMA has submitted in excess of 90 State Plan Amendments (SPA), as well as submitted required public notices and fiscal analyses
  - This has occurred in 9 month period (July 1 – March 31)
  - Historically, the average SPAs processed per year has averaged 20-25
  - Approximately 45 were associated with the Affordable Care Act (ACA)
- DMA has met all deadlines for SPA submissions and has been late with only 1 public notice
- A number of SPA submissions resulted in Request for Additional Information (RAI) from the federal government



## Detailed Update: Health Homes for the Chronically III

### 52. Health Homes for the Chronically III

Reflects the last quarter of increased federal match under the Health Homes for the Chronically III program for qualified care management per member per month expenditures. Includes an enhanced federal match for all Medicaid care management payments for recipients with comorbid conditions including a chronic health condition and severe and persistent mental health conditions paid through September 30, 2013.

#### Implementation Status

On Target

#### Ending Date:

9/30/2013

### Financial Assessment

| Original Budget |       | Estimated Savings |       | Budget vs. Est. Savings |       |
|-----------------|-------|-------------------|-------|-------------------------|-------|
| SFY14           | SFY15 | SFY14             | SFY15 | SFY14                   | SFY15 |
| \$(3,757,682)   | \$ -  | \$(3,757,682)     | \$ -  | \$ -                    | \$ -  |

#### Analysis

- Last quarter of increased federal match savings were realized

#### Other Considerations



## Detailed Update: Hospital Provider Assessment

### 55. Hospital Provider Assessment

Effective July 1, 2013 the hospital provider assessment plan will be modified so the State's retention will be 25.9% of the total assessment paid by hospitals instead of a stated amount of \$43,000,000.

### Implementation Status

On Target

Effective Date: 7/1/2013

### Financial Assessment

| Original Budget |                 | Estimated Savings |                 | Budget vs. Est. Savings |       |
|-----------------|-----------------|-------------------|-----------------|-------------------------|-------|
| SFY14           | SFY15           | SFY14             | SFY15           | SFY14                   | SFY15 |
| \$ (52,000,000) | \$ (52,000,000) | \$ (52,000,000)   | \$ (52,000,000) | \$ -                    | \$ -  |

### Analysis

- Collected one quarter worth of payments
- Finalizing payment plan for remaining quarters
- Must be submitted to federal government (CMS) for approval with a submission target date of April 1, 2014

### Other Considerations

- Federal government (CMS) approval expected
- Submission of Upper Payment Limit (UPL) plan to federal government (CMS) for approval is required annually



## Detailed Update: Medicaid Copays

### 57. Medicaid Copays

Increases nominal copays for eligible Medicaid services to the maximum allowed by the Centers for Medicare and Medicaid Services (CMS) effective November 1, 2013. Services that are excluded from copays by CMS are medical emergency services, family planning services, “preventive” services for children and pregnancy-related services. All nominal copays will be capped at the maximum allowed by CMS at June 30, 2013.

#### Implementation Status

Slight Delay

#### Effective Date:

11/1/2013

### Financial Assessment

| Original Budget |                | Estimated Savings |                | Budget vs. Est. Savings |                |
|-----------------|----------------|-------------------|----------------|-------------------------|----------------|
| SFY14           | SFY15          | SFY14             | SFY15          | SFY14                   | SFY15          |
| \$ (3,308,100)  | \$ (4,962,150) | \$ (1,654,050)    | \$ (2,481,075) | \$ (1,654,050)          | \$ (2,481,075) |

### Analysis

- Financial estimates included certain categories of services, which were exempt under the Bill (emergency, family planning, etc.)
- Overstated the allowable co-pays for other items (e.g. Optical, Chiropractic)
- Increase in co-pays and physician limits could lead to higher demand for ER visits
- Realized savings may not occur in this fiscal year

### Other Considerations

- Request for Information (RAI) from federal government (CMS) was received on March 10, 2014
  - Subject to 5% income limitations
  - New requirements for Native Americans
  - Significant programming changes to NCTracks and NCFast required
- Implementation complexities with federal government (CMS) may delay savings realization**



## Detailed Update: Hospital Outpatient Payments at 70% of Costs

### 59. Hospital Outpatient Payments at 70% of Costs

Reduces interim outpatient payments to hospitals to reflect the impact of reducing the settlement to 70% of costs effective January 1, 2014. Hospitals are currently paid for outpatient services at 80% of costs.

### Implementation Status

On Target

Effective Date: 1/1/2014

### Financial Assessment

| Original Budget |                 | Estimated Savings |                 | Budget vs. Est. Savings |                 |
|-----------------|-----------------|-------------------|-----------------|-------------------------|-----------------|
| SFY14           | SFY15           | SFY14             | SFY15           | SFY14                   | SFY15           |
| \$ (23,122,268) | \$ (48,002,826) | \$ (12,960,790)   | \$ (25,747,356) | \$ (10,161,478)         | \$ (22,255,470) |

### Analysis

- Original estimates included lab expenditures, which are not cost settled
- Original numbers included critical access hospitals and the state institutions of Pitt and UNC, which are all settled at 100%

### Other Considerations

- DMA estimate is based on 2012 actual cost reports and adjusted appropriate line items





## Detailed Update: Cost Savings Through Drug Adjustments

### 60. Cost Savings Through Drug Adjustments

Requires Department to implement payment reforms to achieve savings, with changes to be effective January 1, 2014. Currently, brand drugs are paid at Wholesale Acquisition Cost (WAC) plus 6% and Generic drugs are paid at 195% of the State Medicaid Average Costs (SMAC). WAC mark up will be adjusted 1% and SMAC mark up to 150%. Dispensing fees for brand drugs will be reduced to \$2.

#### Implementation Status

On Target

#### Effective Date:

1/1/2014

### Financial Assessment

| Original Budget |                 | Estimated Savings |                 | Budget vs. Est. Savings |                |
|-----------------|-----------------|-------------------|-----------------|-------------------------|----------------|
| SFY14           | SFY15           | SFY14             | SFY15           | SFY14                   | SFY15          |
| \$ (14,616,627) | \$ (30,185,714) | \$ (10,973,304)   | \$ (27,295,701) | \$ (3,643,323)          | \$ (2,890,013) |

### Analysis

- Revised estimate incorporate the latest drug pricing and drug costs
- Incremental loss due to the delayed public notice on WAC portion (Published: 2/26/14 | Effective 2/27/14)
- Delay resulted in approximately \$1.2 million in lost savings

### Other Considerations

- FY2015 anticipated savings could be compressed between brand and generic drugs
- A shift to generics will reduce rebates



## Detailed Update: Shared Savings Plan

### 61. Shared Savings Plan

Establishes a 3% withhold on selective services effective January 1, 2014. Services subject to the withhold include inpatient hospital, physician (excluding primary care physicians until January 1, 2015), dental, optical services and supplies, podiatry, chiropractors, hearing aids, personal care services, nursing homes, adult care homes and drugs. DHHS will work with providers to develop a shared savings plan that will be implemented by January 1, 2015 that will include incentives to provide effective and efficient care that results in positive outcomes for Medicaid recipients.

### Implementation Status

On Target

### Effective Date:

1/1/2014

### Financial Assessment

| Original Budget |                 | Estimated Savings |                 | Budget vs. Est. Savings |                 |
|-----------------|-----------------|-------------------|-----------------|-------------------------|-----------------|
| SFY14           | SFY15           | SFY14             | SFY15           | SFY14                   | SFY15           |
| \$ (26,924,941) | \$ (44,710,352) | \$ (18,178,369)   | \$ (30,106,071) | \$ (8,746,572)          | \$ (14,604,281) |

### Analysis

- Revised estimate is based on actual claims data for SFY13

### Other Considerations

- Programming is complete except for physicians due to the exclusion of primary care
- Required report submitted to legislature
- Physician services will include non-physician provider (i.e. Physician Assistants, Nurse Practitioners, Midwives)
- State Plan Amendment (SPA) for 3% rate cut submitted, but has not been approved



## Detailed Update: Rehabilitation Services Limitation

### 62. Rehabilitation Services Limitation

Limits adult rehabilitative services for set up and training to three visits per year, effective January 1, 2014.

#### Implementation Status

Delayed

#### Effective Date:

6/1/2014

### Financial Assessment

| Original Budget |                | Estimated Savings |              | Budget vs. Est. Savings |                |
|-----------------|----------------|-------------------|--------------|-------------------------|----------------|
| SFY14           | SFY15          | SFY14             | SFY15        | SFY14                   | SFY15          |
| \$ (2,748,350)  | \$ (5,651,495) | \$ (38,337)       | \$ (474,701) | \$ (2,710,013)          | \$ (5,176,794) |

### Analysis

- This is a policy change and not a State Plan Amendment (SPA)
- In 2012 a three visit limit was implemented with certain exclusions:
  - 10 visits for joint replacement, amputation, or post operation hip fracture
  - 30 visits for traumatic brain injury, stroke, spinal cord injury
- Total savings from the 2012 implementation was \$3.2 million state dollars
- Current savings projections appear to replicate savings previously achieved

### Other Considerations

- In light of previous reductions, worked with provider groups to implement an acceptable saving proposal without eliminating the program
- Revised savings based on:
  - 3 visits for neurodegenerative or lymphodema diagnoses or post musculoskeletal or neurological surgical procedures
  - 8 visits for joint replacement, amputation, or post operation hip fracture
  - 24 visits for traumatic brain injury, stroke, spinal cord injury



## Detailed Update: Physician Office Visits Limitation

### 63. Physician Office Visits Limitation

Reduces the limit on office visits for adults from 22 visits a year to 10 visits a year effective January 1, 2014. Prior authorization will be required for medically necessary visits in excess of 10 per year. Recipients with chronic conditions will be exempted from this limitation.

#### Implementation Status

On Target

Effective Date: 1/1/2014

### Financial Assessment

| Original Budget |                | Estimated Savings |              | Budget vs. Est. Savings |                |
|-----------------|----------------|-------------------|--------------|-------------------------|----------------|
| SFY14           | SFY15          | SFY14             | SFY15        | SFY14                   | SFY15          |
| \$ (3,676,525)  | \$ (7,560,122) | \$ (197,664)      | \$ (414,802) | \$ (3,478,861)          | \$ (7,145,320) |

#### Analysis

- Projection was based on all physician visits
- Definition of chronic conditions was not included
- Saving target will not be achieved

#### Other Considerations

- Increasing ER visits
- Expectation of federal government (CMS) access concerns
- Results are inter-related with co-pays (#57) savings and 3% shared savings (#61) bills



## Detailed Update: Rate Freeze for Services Subject to Automatic Increases

### 65. Rate Freeze for Services Subject to Auto Increases

Freeze rates for hospital outpatient services and other rates that contain an inflation or increase factor not specifically approved by the General Assembly at the rate in effect June 30, 2013. Interim hospital outpatient services percentage of cost will be adjusted to compensate for expected inflation for which hospitals would be eligible. The cost settlement will be limited to that percentage. Nursing direct care services will continue to receive case mix index increases after June 30, 2013. Federally qualified Health Center, Rural Health Centers, State Operated services, Hospice, Part B and D premiums, third party and HMO premiums, drugs, Critical Access Hospitals and MCO capitation payments are excluded.

### Implementation Status

On Target

### Effective Date:

6/30/2013

### Financial Assessment

| Original Budget |                 | Estimated Savings |       | Budget vs. Est. Savings |                 |
|-----------------|-----------------|-------------------|-------|-------------------------|-----------------|
| SFY14           | SFY15           | SFY14             | SFY15 | SFY14                   | SFY15           |
| \$ (17,165,653) | \$ (26,567,409) | \$ -              | \$ -  | \$ (17,165,653)         | \$ (26,567,409) |

### Analysis

- Rates for all services, except those that are federally mandated to increase or exempted by the budget bill, have been frozen since 2009
- SFY2014 Budget was based on SFY2013 actuals, which already reflected the rate freeze

### Other Considerations

- Saving item #75 is also impacted by these issues



## Summary of Medicaid Budget Reductions

| Medical Assistance                        | Original Budget         |                         | Estimated Savings     |                        | Budget vs. Est. Savings |                       |
|---|-------------------------|-------------------------|-----------------------|------------------------|-------------------------|-----------------------|
|   | FY14                    | FY15                    | FY14                  | FY15                   | FY14                    | FY15                  |
| 52 Health Homes for the Chronically Ill   | \$ (3,757,682)          | \$ -                    | \$ (3,757,682)        | \$ -                   | \$ -                    | \$ -                  |
| 55 Hospital Provider Assessment           | (52,000,000)            | (52,000,000)            | (52,000,000)          | (52,000,000)           | -                       | -                     |
| 56 Hospital Base Rates                    | -                       | -                       | -                     | -                      | -                       | -                     |
| 57 Medicaid Copays                        | (3,308,100)             | (4,962,150)             | (1,654,050)           | (2,481,075)            | (1,654,050)             | (2,481,075)           |
| 58 Medicaid Contract Reductions           | -                       | (2,016,771)             | -                     | (1,008,386)            | -                       | (1,008,385)           |
| 59 Hosp. Outpatient Paymts @ 70% of Costs | (23,122,268)            | (48,002,826)            | (12,960,790)          | (25,747,356)           | (10,161,478)            | (22,255,470)          |
| 60 Cost Savings Through Drug Adjustments  | (14,616,627)            | (30,185,714)            | (10,973,304)          | (27,295,701)           | (3,643,323)             | (2,890,013)           |
| 61 Shared Savings Plan                    | (26,924,941)            | (44,710,352)            | (18,178,369)          | (30,106,071)           | (8,746,572)             | (14,604,281)          |
| 62 Rehabilitation Services Limitation     | (2,748,350)             | (5,651,495)             | (38,337)              | (474,701)              | (2,710,013)             | (5,176,794)           |
| 63 Physician Office Visits Limitation     | (3,676,525)             | (7,560,122)             | (197,664)             | (414,802)              | (3,478,861)             | (7,145,320)           |
| 65 Rate Freeze for Svcs Auto Increases    | (17,165,653)            | (26,567,409)            | -                     | -                      | (17,165,653)            | (26,567,409)          |
| <b>Subtotal</b>                           | <b>\$ (147,320,146)</b> | <b>\$ (221,656,839)</b> | <b>\$(99,760,196)</b> | <b>\$(139,528,092)</b> | <b>\$(47,559,950)</b>   | <b>\$(82,128,747)</b> |



## Detailed Update: Transfer of Health Choice Children

### 73. Transfer of Health Choice Children

Reduces funds by transferring children to Medicaid. Beginning January 1, 2014 the Affordable Care Act requires all children under 133% of the Federal Poverty Level be covered under Medicaid instead of Health Choice. In FY 2013-14 there will be about 51,000 recipients impacted and the State will retain the State Children's Health Insurance Plan federal match instead of the traditional Medicaid federal match.

### Implementation Status

On Target

### Effective Date:

1/1/2014

### Financial Assessment

|                   | Original Budget     |                      | Estimated Savings    |                      | Budget vs. Est. Savings |                       |
|-------------------|---------------------|----------------------|----------------------|----------------------|-------------------------|-----------------------|
|                   | SFY14               | SFY15                | SFY14                | SFY15                | SFY14                   | SFY15                 |
| Health Choice     | \$ (12,348,000)     | \$ (25,480,000)      | \$ (16,464,000)      | \$ (33,973,333)      | \$ 4,116,000            | \$ 8,493,333          |
| Medicaid          | 22,080,000          | 46,080,000           | 29,440,000           | 61,440,000           | (7,360,000)             | (15,360,000)          |
| <b>Net Impact</b> | <b>\$ 9,732,000</b> | <b>\$ 20,600,000</b> | <b>\$ 12,976,000</b> | <b>\$ 27,466,667</b> | <b>\$ (3,244,000)</b>   | <b>\$ (6,866,667)</b> |

### Analysis

- Original estimate of 51,000 has been adjusted to reflect the actual number of eligibles, which is 74,000
- Calculation was based on family income prior to MAGI; Individuals income is the basis for the calculation post MAGI
- Proportion of covered children under 133% FPL may have been understated

### Other Considerations

- Increase in Health Choice savings are more than offset by higher costs in the Medicaid expenditures



## Detailed Update: Rate Freeze for Services Subject to Automatic Increases

### 75. Rate Freezes for Services Subject to Auto Increases

Freeze rates for hospital outpatient services and other rates that contain an inflation or increase factor not specifically approved by the General Assembly at the rate in effect June 30, 2013. Hospital outpatient services percentage of cost will be adjusted to compensate for expected inflation for which hospitals would be eligible. Cost settlement will be limited to that percentage. Federally Qualified Health Centers, Rural Health Centers, State Operated services, Hospice, Part B and D Premiums, third party and HMO premiums, drugs, Critical Access Hospitals and MCO capitation payments are excluded.

### Implementation Status

On Target

### Effective Date:

6/30/2013

### Financial Assessment

| Original Budget |                | Estimated Savings |       | Budget vs. Est. Savings |                |
|-----------------|----------------|-------------------|-------|-------------------------|----------------|
| SFY14           | SFY15          | SFY14             | SFY15 | SFY14                   | SFY15          |
| \$ (1,265,912)  | \$ (1,405,614) | \$ -              | \$ -  | \$ (1,265,912)          | \$ (1,405,614) |

### Analysis

- Rates for all services, except those that are federally mandated to increase or exempted by the budget bill, have been frozen since 2009
- SFY2014 Budget was based on SFY2013 actuals, which already reflected the rate freeze

### Other Considerations

- Saving item #65 is also impacted by these issues





## Detailed Update: Shared Savings Plan

### 76. Shared Savings Plan

Establishes a 3% withhold on selective services effective January 1, 2014. Services subject to the withhold include inpatient hospital, physician (excluding primary care physicians until January 1, 2015), dental, optical services and supplies, podiatry, chiropractors, hearing aids, personal care services, nursing homes, adult care homes and drugs. DHHS will collaborate with providers to develop and implement a shared savings plan that will be implemented by January 1, 2015 to provide incentives for effective and efficient care that results in positive outcomes for Medicaid recipients.

#### Implementation Status

On Target

#### Effective Date:

1/1/2014

### Financial Assessment

| Original Budget |                | Estimated Savings |                | Budget vs. Est. Savings |       |
|-----------------|----------------|-------------------|----------------|-------------------------|-------|
| SFY14           | SFY15          | SFY14             | SFY15          | SFY14                   | SFY15 |
| \$ (881,640)    | \$ (1,787,957) | \$ (881,640)      | \$ (1,787,957) | \$ 0                    | \$ 0  |

#### Analysis

- Revised estimate is based on actual claims data for SFY13

#### Other Considerations

- Programming is complete except for physicians due to the exclusion of primary care
- Required report submitted to legislature
- Physician services will include non-physician provider (i.e. Physician Assistants, Nurse Practitioners, Midwives)
- State Plan Amendment (SPA) for 3% rate cut submitted, but has not been approved



## Detailed Update: Cost Settle Hospital Outpatient Services to 70% of Costs

### 81. Cost Settle Hospital Outpatient Services to 70% of Cost

Reduces interim outpatient payments to hospitals to reflect the impact of reducing the settlement to 70% of costs effective January 1, 2014. Hospitals are currently paid for outpatient services at 80% of costs.

### Implementation Status

On Target

Effective Date: 1/1/2014

### Financial Assessment

| Original Budget |              | Estimated Savings |       | Budget vs. Est. Savings |              |
|-----------------|--------------|-------------------|-------|-------------------------|--------------|
| SFY14           | SFY15        | SFY14             | SFY15 | SFY14                   | SFY15        |
| \$ (365,239)    | \$ (753,852) | \$ -              | \$ -  | \$ (365,239)            | \$ (753,852) |

### Analysis

- Health Choice services are not part of hospital cost settlements

### Other Considerations



## Summary of Health Choice Budget Reductions

| NC Health Choice                               | Original Budget     |                     | Estimated Savings   |                     | Budget vs. Est. Savings |                  |
|--|---------------------|---------------------|---------------------|---------------------|-------------------------|------------------|
|  | FY14                | FY15                | FY14                | FY15                | FY14                    | FY15             |
| 73 Transfer of Health Choice Children          | \$ (12,348,000)     | \$ (25,480,000)     | \$(16,464,000)      | \$ (33,973,333)     | \$ 4,116,000            | \$ 8,493,333     |
| 74 Contract Budget Adjustment                  | (2,800,000)         | (2,800,000)         | -                   | -                   | (2,800,000)             | (2,800,000)      |
| 75 Rate Freeze for Svcs Auto Increases         | (1,265,912)         | (1,405,614)         | -                   | -                   | (1,265,912)             | (1,405,614)      |
| 76 Shared Savings Plan                         | (881,640)           | (1,787,957)         | (881,640)           | (1,787,957)         | -                       | -                |
| 77 Cost Savings Through Drug Adjustments       | (697,597)           | (1,334,600)         | (647,357)           | (1,369,712)         | (50,240)                | 35,112           |
| 81 Cost Settle Hosp Outpat Svcs @ 70% of Costs | (365,239)           | (753,852)           | -                   | -                   | (365,239)               | (753,852)        |
| <b>Total</b>                                   | <b>(18,358,388)</b> | <b>(33,562,023)</b> | <b>(17,992,997)</b> | <b>(37,131,002)</b> | <b>(365,391)</b>        | <b>3,568,979</b> |



## Summary & Next Steps

### **Hospital Base Rates (Budget Bill #56)**

- Verify regional differences between hospitals
- DHHS will work with hospitals to identify appropriate regional differences and define regional definitions
- This bill requires actuarial and financial analysis expenditures and significant programming changes and costs

### **Cost Savings through Drug Adjustments (Budget Bill #77)**

- Further analysis required for impacts on Health Choice children

### **Contracts (Budget Bills #58, #74)**

- Based on internal estimates we anticipate savings to be achieved through NCTracks (estimated at 50% of original budget bill amount)
- DHHS will coordinate with OMMIS and CSC to coordinate contract budget analysis