

STUDY MEDICAID COVERAGE FOR VISUAL AIDS

Session Law 2015-241, Section 12H.6A



Report to the

**Joint Legislative Oversight Committee on Health and
Human Services**

and

The Fiscal Research Division

by

North Carolina Department of Health and Human Services

March 1, 2016

Authorizing Authority

S.L. 2015-241

STUDY MEDICAID COVERAGE FOR VISUAL AIDS

SECTION 12H.6A. The Department of Health and Human Services, Division of Medical Assistance, in consultation with the Department of Public Safety, shall submit a report to the Joint Legislative Oversight Committee on Health and Human Services and the Fiscal Research Division by March 1, 2016, containing an analysis of the fiscal impact to the State of reinstating Medicaid coverage for visual aids for adults utilizing a contract with the Department of Public Safety for fabrication of the eyeglasses at Nash Optical Plant Optical Laboratory. The report shall also analyze the cost of reinstating Medicaid coverage for routine eye examinations for adults in addition to the coverage for visual aids.

Executive Summary

A routine eye examination (exam) is an examination of the eyes in the absence of disease or symptoms to determine the health of the organs and visual acuity. Visual aids are the manual correction of diminished eyesight, by way of lenses (ophthalmic eyeglasses frames and lenses and medically necessary contact lenses). Routine eye exams and visual aids are optional Medicaid services for adults under Title XIX of the Social Security Act and the NC Medicaid State Plan. The optional services were covered Medicaid services until October 1, 2011, when Session Law 2011-145, Section 10.37.(a)(11)(a) eliminated adult routine eye exams and visual aids. In Session Law 2015-241, Section 12H.6A, the General Assembly authorized the Division of Medical Assistance, in consultation with the Department of Public Safety, to study the fiscal impact to the State for reinstating Medicaid coverage for routine eye exams and visual aids for adults. This report discusses the numerous factors that affect the fiscal impact.

Unless otherwise noted, data included in this report were provided by the North Carolina Division of Medical Assistance.

Quantifiable Fiscal Impact: Reinstating Routine Eye Exams

There are two types of eye exams that must be considered when evaluating the quantifiable impact associated with reinstating Medicaid coverage for routine eye exams – medical exams and routine exams. While routine eye exams are performed in the absence of disease or symptoms, medical eye exams are performed for disease and symptoms with the initiation or continuation of a diagnostic and treatment program. Medical eye exams are mandatory services covered by Medicare and Medicaid for child and adult beneficiaries.

When routine eye exam coverage was eliminated effective October 1, 2011, it was anticipated that some exams previously billed as routine would be appropriately billed as medical using a medical diagnosis. Additionally, when claims processing system changes were initially made for the elimination of adult optical services, some claims paid incorrectly. The system problem was discovered and corrected during SFY 2012 and claims paid correctly in SFY 2013. Therefore, a comparison between SFY 2011 (comprehensive, intermediate, and routine exams covered for child and adult beneficiaries) and SFY 2013 (comprehensive and intermediate eye exams

covered for child and adult beneficiaries but routine eye exams covered only for children) is necessary to determine fiscal impact for reinstating routine eye exams for adults.

Chart 1 displays all historical costs for child and adult beneficiaries receiving medical and routine eye exams from SFY 2009 through SFY 2011 and accurate data from SFY 2013 when adult routine eye exams were eliminated and claims processed correctly.

Chart 1: Historical Costs for Comprehensive, Intermediate, and Routine Eye Exams

SFY	11	12	13
Total Dollars	\$22,177,045	\$17,875,810	\$16,013,558
State Dollars	\$7,648,863	\$6,165,367	\$5,523,076

In SFY 2011, the State spent \$7,648,863 in State dollars for comprehensive, intermediate, and routine eye exams for child and adult beneficiaries as compared to \$5,523,076 in State dollars in SFY 2013 when only children were covered for routine eye exams and claims paid correctly. The difference in expenditures exceeded \$2 million. The projected cost of adult routine eye exams in SFY 2013, had this service not been eliminated, is derived by looking at the historical rates for codes, then changing those code rates to SFY 2013 rates, and finally multiplying by general enrollment changes.

Chart 2 provides an estimated base cost for routine eye exams in 2013 were adult routine eye exams not eliminated.

Chart 2: Estimated Base Cost for SFY 2013 in State Dollars were Adult Routine Eye Exams not Eliminated

SFY	11	12	13	Difference
Total Dollars	\$22,177,045	N/A	\$ 16,013,558	
Enrollment Change	N/A	4.6%	3.4%	
Rate Change	N/A	-3.0%	1%	
Calculated	N/A	\$ 22,490,705	\$23,480,549	\$ 7,466,991
			State Dollars	\$2,579,659

Due to the absence of adult routine eye exam coverage for four years, adult beneficiaries would likely respond quickly to service reinstatement. Therefore, if the previous coverage policy of every two years is reinstated, it is anticipated that 70% of participating adults will receive a routine eye exam during the first year and 30% will do the same during the second year. Data in **Chart 3** reflects this yearly adjustment in visit frequency patterns.

The 'State Cost' in **Chart 3** represents the amount to be added to the Department of Health and Human Services' budget in the Appropriations Bill for the reinstatement of adult routine eye exams.

Chart 3 provides a five year projection of the quantifiable State dollar fiscal impact to reinstate routine eye exams for adult Medicaid beneficiaries. The calculations below include the SFY 2014 legislated 3% provider reimbursement rate reduction, the total cost for eye exams, and the cost per adult beneficiary based on expected visit frequency patterns.

Chart 3: Estimated Total Cost and Cost per Beneficiary to Reinstate Adult Routine Eye Exams

SFY	13	14*	15	16	17	18	19	20
Projected Enrollment Growth	Base year	2.19%	8.61%	6.87%	4.80%	3.41%	3.41%	3.41%
Yearly Adjustment for Visit Frequency Patterns	100%	100%	100%	140%	60%	140%	60%	140%
Number of Beneficiaries**	150,209	153,496	166,712	249,433	112,029	270,315	119,800	289,068
State Cost***	\$2,579,659	\$2,557,040	\$2,777,190	\$4,155,217	\$1,866,245	\$4,503,082	\$1,995,710	\$4,815,471
Per Capita Cost	\$17.17	\$16.66	\$16.66	\$16.66	\$16.66	\$16.66	\$16.66	\$16.66

**Includes 3% reduction in provider reimbursement rates for SFY14*

*** Based on a base enrollment of 145,447 adult Medicaid beneficiaries in SFY 2011*

**** Derived from the 2013 State Cost, the True Cost may be slightly lower due to federal medical assistance percentages that may incrementally increase in later years*

Quantifiable Costs: Reinstating Visual Aids

When NC Medicaid pays claims for visual eyeglasses services, it pays two entities: 1) the provider is paid for the service of dispensing and fitting eyeglasses; and 2) the North Carolina Department of Public Safety, Correction Enterprises is paid for eyeglasses fabrication. While provider rates were reduced by 3% in SFY 2014, rates paid to the Department of Public Safety's, Correction Enterprises have not changed since 1998.

Due to the absence of visual aid coverage for four years, adult beneficiaries would likely respond quickly to the service reinstatement. Therefore, if the previous coverage policy of every two years is reinstated, it is anticipated that 70% of adult who would need eyeglasses will receive them during the first year and 30% will do the same during the second year. An estimated 70% of adults receiving routine eye exams will also receive eyeglasses. Data in **Chart 4** reflects this yearly adjustment in visit frequency patterns.

Additionally, the ‘State Cost’ in **Chart 4** represents the amount to be added to the Department of Health and Human Services budget in the Appropriations Act for the reinstatement of visual aids. Subsequent data in this report demonstrates a reduction in the costs to the State when looking beyond the Department of Health and Human Services budget and evaluating the impact to the overall State budget.

Chart 4 displays the expected frequency patterns and fiscal impact over the first five years.

Chart 4: Estimated Total Federal and State Dollars to Reinstate Adult Visual Aids

SFY	16	17	18	19	20
Projected Enrollment Growth	6.87%	4.80%	3.41%	3.41%	3.41%
Yearly Adjustment for Visit Frequency Patterns	140%	60%	140%	60%	140%
Total (Fed & State)	\$8,532,641	\$3,832,290	\$9,246,974	\$4,098,145	\$9,888,458
Federal	\$5,644,342	\$2,555,179	\$6,165,420	\$2,732,438	\$6,593,129
State	\$2,888,299	\$1,277,111	\$3,081,554	\$1,365,707	\$3,295,329

Quantifiable Fiscal Benefit to the State through the Department of Health and Human Services’ Partnership with the Department of Public Safety

A unique partnership between the North Carolina Department of Health and Human Services and the North Carolina Department of Public Safety maximizes the availability of the federal match received for Medicaid paid claims, thereby offsetting the cost to the State for eyeglasses coverage for Medicaid beneficiaries.

Medicaid eyeglasses have been made by Correction Enterprises, Nash Optical Plant since 1998, when the Department of Health and Human Services, Division of Medical Assistance established a contract with the Department of Corrections (now the Department of Public Safety), Correction Enterprises, and Nash Optical Plant for the fabrication of eyeglasses for Medicaid child and adult beneficiaries. Prior to the Nash Optical Plant contract, Medicaid eyeglasses were fabricated by a private optical laboratory in Ohio. According to the Department of Public Safety, the establishment of Nash Optical Plant was supported to provide significant savings for the State, ensure quality control of the product, offer marketable training for inmates, enhance inmate and staff safety within the prison, and maximize the availability of the federal match received for Medicaid paid claims.

The FFY 2016 federal match for Medicaid optical services is 66.24% of every dollar. Due to the partnership between the Department of Health and Human Services and the Department of Public Safety’s Correction Enterprises, approximately 74% of the federal match is paid from one State account (Department of Health and Human Services) to another State account (Department of Public Safety) for eyeglasses fabrication. As seen in the SFY 2011 data below, the State retains more Federal dollars (\$2,421,500) than it spends in State dollars (\$1,707,000) for

Medicaid eyeglasses. If the Medicaid visual aid benefit is reinstated for adults, the federal match will offset the overall costs to the State to provide eyeglasses for adult Medicaid beneficiaries.

The following data is applicable to SFY2011 **ADULT** Medicaid eyeglasses:

- Nash Optical Plant made approximately 100,000 pairs of eyeglasses for adult beneficiaries
- The average cost of a pair of adult eyeglasses was \$49.89 (with \$25.675 paid to the providers for fitting and dispensing fees and \$24.215 paid to Correction Enterprises for eyeglasses fabrication)
- The estimated total cost of eyeglasses for adult beneficiaries for SFY 2011 was \$4,989,000
- The \$4,989,000 overall cost was comprised of \$3,282,000 in federal match and \$1,707,000 in State funds
- \$2,567,500 of the \$4,989,000 was paid to the providers for fitting and dispensing
- \$2,421,500 of the \$4,989,000 was paid to Nash Optical Plant for making eyeglasses

The federal match that is paid from the Department of Health and Human Services account to the Department of Public Safety, Correction Enterprises Fund must be considered when evaluating the impact to the overall State budget if visual aid coverage is reinstated for adults.

Table 5 illustrates the maximization of the federal match based on enrollment and subsequent service utilization increases.

Chart 5: Estimated Federal Dollars Allocated to Correction Enterprise Fund from Federal Dollars Paid by the Division of Medical Assistance to the Department of Public Safety, Correction Enterprise Fund after State Share is Paid to Providers for Fitting and Dispensing Adult Eyeglasses

	Historical	Future Projection				
SFY	11 (Page 6)	16	17	18	19	20
Cumulative Enrollment (from 2015 forward)		106.87%	112.00%	115.82%	119.77%	123.85%
Yearly Adjustment for Visit Frequency Patterns		140%	60%	140%	60%	140%
Costs						
Total (Fed & State)	\$4,989,000	\$8,532,641	\$3,832,290	\$9,246,974	\$4,098,145	\$9,888,458
Federal	\$3,282,000	\$5,644,342	\$2,555,179	\$6,165,420	\$2,732,438	\$6,593,129
State	\$1,707,000	\$2,888,299	\$1,277,111	\$3,081,554	\$1,365,707	\$3,295,329

**SFY 2011 was the last period in which adult optical services were covered and 2016 is the earliest year for future projections.*

The Department of Public Safety, Correction Enterprises reports the following expenses that must be considered when evaluating the overall cost of eyeglasses fabrication for the State, should adult eyeglasses be reinstated:

- \$7.65 –average cost of raw material cost per pair of eyeglasses (paid by the Department of Public Safety to frame and lenses manufacturers)
- \$13,000 – 25 new inmates averaging \$.25 per hour/\$520 per year
- Shipping increases will be negligible since many providers who will order eyeglasses for adults will likely already be ordering eyeglasses for children. Nash Optical Plant already operates efficiently by shipping multiple pairs of eyeglasses in the same box.
- Supplies, such as boxes, rubber bands, blocking pads, and lens polish used for the fabrication of Medicaid eyeglasses cannot be isolated from the global procurement costs of these items that are already being used for eyeglasses fabrication for Medicaid and Health Choice children, Vocational Rehabilitation, Services for the Blind, inmate eyeglasses, safety glasses for State hospitals, and the North Carolina state employee eyeglasses benefit.

Chart 6 shows the estimated federal dollars paid by the Department of Health and Human Services to the Department of Public Safety, Correction Enterprise Fund, the estimated expenses incurred by the Department of Public Safety for the fabrication of adult eyeglasses (listed above), the estimated net cost to the State for all adult eyeglasses and per pair of eyeglasses per adult.

Chart 6: Estimated Federal Dollars Allocated to Correction Enterprise Fund less Correction Enterprises Expenses and the Resulting Net State Cost for All Eyeglasses and Net State Cost per Pair of Eyeglasses, per Adult Beneficiary

	Historical	Future Projection				
SFY	11(Page 6)	16	17	18	19	20
Cumulative Enrollment (from 2015)		106.87%	112.00%	115.82%	119.77%	123.85%
Yearly Adjustment for Visit Frequency Patterns		140%	60%	140%	60%	140%
Federal Dollars Allocated to Correction Enterprise Fund (before expenses)	(\$714,500)	(\$1,264,447)	(\$588,024)	(\$1,418,850)	(\$628,817)	(\$1,517,279)
Correction Enterprises Expenses	\$777,500	\$1,355,445	\$615,661	\$1,467,873	\$657,503	\$1,568,835
Net State Cost (all glasses)	\$63,000	\$90,998	\$27,636	\$49,023	\$28,686	\$51,557
Net State Cost (per pair)	\$0.63	\$0.52	\$0.35	\$0.26	\$0.34	\$0.25

**SFY 2011 was the last period in which adult optical services were covered and 2016 is the earliest year for future projections.*

Fiscal Impact

This report provides data regarding quantifiable and non-quantifiable fiscal impacts to the State for reinstating adult Medicaid coverage for routine eye exams and visual aids.

Quantifiable Impacts

Quantifiable impacts include payments made by the Department of Health and Human Services to the following:

- ophthalmologists and optometrists for routine eye exams
- ophthalmologists, optometrists, and opticians for fitting and dispensing eyeglasses
- the Department of Public Safety for the fabrication of eyeglasses

Chart 14 summarizes the estimated quantifiable fiscal impact to the **overall** State budget if adult routine eye exams and visual aids are reinstated. This table includes the total amount per beneficiary who receives an eye exam and/or eyeglasses.

Chart 14: Quantifiable Fiscal Impacts to the State, Including Total Net Cost for All Routine Eye Exams and Visual Aids and Net State Cost for Both, per Adult Beneficiary

SFY	16	17	18	19	20
Cumulative Enrollment	106.87%	112.00%	115.82%	119.77%	123.85%
Yearly Adjustment for Visit Frequency Patterns	140.00%	60.00%	140.00%	60.00%	140.00%
State Cost for Eye Exams	\$4,155,217	\$1,866,245	\$4,503,082	\$1,995,710	\$4,815,471
State Cost for Visual Aid	\$2,888,299	\$1,277,111	\$3,081,554	\$1,365,707	\$3,295,329
Appropriations Needed for DHHS Budget (State costs above) for Eye Exams and Visual Aids	\$7,043,516	\$3,143,356	\$7,585,356	\$3,361,417	\$8,110,800
DMA Payment to Correction Enterprises (before expenses)	(\$4,152,746)	(\$1,865,135)	(\$4,500,404)	(\$1,994,524)	(\$4,812,608)
Correction Enterprises Expenses *	\$1,355,445	\$615,661	\$1,467,873	\$657,503	\$1,568,835
Net State Cost for Eyeglasses & Exams (total)	\$4,246,215	\$1,893,881	\$4,552,104	\$2,024,397	\$4,867,027
Net State Cost for Eyeglasses & Exams (per capita cost)	\$17.02	\$16.91	\$16.84	\$16.90	\$16.84

**Correction Enterprises' raw materials cost and wages for new inmates*

Chart 15 summarizes the estimated quantifiable fiscal impact to the overall State budget if adult routine eye exams and visual aids are reinstated. This table also includes the total amount and per beneficiary who receives an eye exam and/or eyeglasses.

Chart 15: Estimated Quantifiable Fiscal Impacts to the State, Including Total Net Cost for All Routine Eye Exams and Visual Aids and Net State Cost for Both, per Adult Beneficiary

SFY	16	17	18	19	20
Cumulative Enrollment	106.87%	112.00%	115.82%	119.77%	123.85%
Yearly Adjustment for Visit Frequency Patterns	140.00%	60.00%	140.00%	60.00%	140.00%
State Cost for Eye Exams	\$4,155,217	\$1,866,245	\$4,503,082	\$1,995,710	\$4,815,471
State Cost for Visual Aid	\$2,888,299	\$1,277,111	\$3,081,554	\$1,365,707	\$3,295,329
Appropriations Needed for DHHS Budget (State costs above) for Eye Exams and Visual Aids	\$7,043,516	\$3,143,356	\$7,585,356	\$3,361,417	\$8,110,800

Conclusion

When considering quantifiable costs only, the estimated **cost** to the State to reinstate adult routine eye exams and visual aids for adult Medicaid beneficiaries is as follows:

- \$16.90 - average cost per beneficiary for a routine eye exam and visual aids
- \$6.4 million average State dollars spent biannually or an average of \$3.2 million annually. *\$6.4 million derived by adding Chart 14 columns 16, 17, 18, and 19 together and dividing by two*