

HHS Joint Appropriations Subcommittee

Implications of Possible Medicaid Block Grants and Per Capita Funding

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FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

Presentation Objectives

Federal Legislation to repeal and replace the ACA still being debated; information released provides a framework, but leaves much unanswered that will be needed to assess the implications for NC...therefore, the objective is:

NOT to explain all the details or speculate on any proposals that are being discussed or developed or the potential fiscal impact – there are too many unanswered questions.

TO explain the concept of a block grant/per capita rate and the factors or areas that the NC General Assembly will need to understand to make effective decisions should Medicaid funding change toward a block grant or per capita rate.

Presentation Objectives

- Understanding block grants and per capita federal funding
- Appreciation for complexity – not just a change in a formula, but a reform in a payment system
- Discussion on shifting the State's perspective to funding a delivery system from funding a collection of clinical policies and rates for the adjudication of claims

How Federal Funding Works Today

- Centers for Medicare and Medicaid Services (CMS) is the federal agency that oversees Medicaid.
- CMS defines what eligibility categories are mandatory and which ones are optional that states can cover.
- CMS defines what services are mandatory and which ones are optional that states can cover.
- CMS approves any change NC wants to make in eligibility, rates and policy that affects who is covered, what is covered, what is paid and the scope and duration of services.

How Federal Funds Work Today

- CMS provides federal funds to cover a portion of all expenditures in NC for Medicaid services and administration based on a percentage that is set annually.
- CMS and the NC share risk for enrollment, enrollment mix, utilization, price and consumption – what is *risk*?
- As an entitlement, there currently is no limit on what CMS will fund for an approved service provided to an eligible person using an approved methodology for payment.

How are Block Grants/Per Capita Different from Fee For Service (FFS)?

- Both are fixed payments that are either based on a CMS established rate per person or amount per year.
- CMS would establish a base rate for groups of eligibles, such as aged, blind, disabled, children, etc. or CMS can establish a base grant for the annual allotment to the State for the federal share of Medicaid services.
- The base rate (Per Capita Rate) or grant (Block Grant) could be inflated, or deflated, annually based on a index and frequency selected by CMS.

Current US House proposal based on a per capita rate

How are Block Grants/Per Capital Rates Different?

- With a per capita rate, the federal payment to the State would be calculated by each population group and will be adjusted to reflect the federal share based on the CMS determined match rate.
- With a block grant, the federal payment to the State would be the amount determined by CMS, which will reflect the federal share of the total cost that CMS has allotted to NC for Medicaid services.

Who Bears What Risk for Shortfalls**?

	<u>Possible Scenarios</u>		
	Current System	Per Capita	Block Grant
Enrollment	Shared	Shared	NC Only
Enrollment Mix	Shared	Shared	NC Only
Utilization	Shared	NC Only	NC Only
Price	Shared	NC Only	NC Only
Consumption	Shared	NC Only	NC Only

STATE'S POTENTIAL CONTROL POINTS

- Who is eligible
- How long they are eligible
- What services are covered
- Frequency, duration and level service provided
- What price is paid for services
- Who provides services
- Who and how services are approved
- Contract terms negotiated
- Who shares in funding and at what level
- Shifting or sharing risk

**** Shortfall refers to expenditures that exceed the amount budgeted**

How Block Grants/Per Capita Rates Change the Rules

- State's authority becomes critical – risk without authority to change the program can leave NC vulnerable.
- NC would be effectively capitated by CMS – implications for transformation.
- Shifts focus to overseeing a delivery system rather than a collection of clinical policies and rates, services, regulations for the adjudication of provider claims.

Areas that are Critical to Understand

- General Program Requirements
- Eligibility and Enrollment
- Funding Formula
- Changes to Funding Formula
- State's Authority
- Supplemental Items
- Transition
- Federal Participation

A series of questions to frame the elements that will be most important for NC to understand if there is a change in funding to a per capita rate or block grant – not a complete list, but a start

General Program Questions

PER CAPITA RATES

- Timing of payment?
- ★ Will change impact Medicaid only or include Health Choice?
- Will the federal share of receipts have to be returned to CMS?
- Will there be a cap on enrollment at the State or national levels?

BLOCK GRANTS

- Is grant a cap on payments or a fixed annual amount?
- Frequency of payment?
- Will change impact Medicaid only or include Health Choice?
- Will the federal share of receipts have to be returned to CMS?

★ Questions that are partially or totally addressed in current version of House bill to repeal and replace the ACA

Eligibility and Enrollment Questions

PER CAPITA RATES

- ★ • What eligibility groups will be established for per capita rates?
- How will they compare to current eligibility groups
- How does NC's mix of enrollment impact the initial rate?

BLOCK GRANTS

- Will any current eligibility groups be excluded from the grant calculation?
- How will they compare to current eligibility groups
- How does NC's mix of enrollment impact the initial grant?

Funding Formula Questions

PER CAPITA RATES

- ★ • What base year will be used for initial rate?
- How will partial year NC initiatives or expansions be handled in rate calculation?
- How will rebates, assessments, IGT's, program integrity recoveries, third party recoveries, transferred costs impact initial rate calculation?

BLOCK GRANTS

- What base year will be used for initial grant?
- How will partial year NC initiatives or expansions be handled in grant calculation?
- How will rebates, assessments, IGT's, program integrity recoveries, third party recoveries, transferred costs impact initial grant calculation?

Funding Formula Questions

PER CAPITA RATES

- Will there be mechanisms to rebase rates?
- How will cost settlements be handled in initial rate calculation?
- ★ • How will supplemental payments be handled in initial rate calculation?

BLOCK GRANTS

- Will there be mechanisms to rebase grants?
- How will cost settlements be handled in initial grant calculation?
- How will supplemental payments be handled in initial grant calculation?

Funding Formula Questions

PER CAPITA RATES

- Will administrative cost be included in rate or funded separately?
- How will rates accommodate changes in medical technology, disease process and prevalence?
- How will HIT spending be handled in initial rate calculation?

BLOCK GRANTS

- Will administrative cost be included in grant or funded separately?
- How will grants accommodate changes in medical technology, disease process and prevalence?
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Changes to Funding Formula Questions

PER CAPITA RATES

- ★ What is basis for inflating rates?
 - Will inflation index recognize differences in NC medical inflation and utilization?
 - Will the degree of managed care and experience impact inflation index?
- ★ What index will be used – Medicaid only, Medicaid/Medicare, All payers?

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State Authority Questions

PER CAPITA RATES

- Will NC have authority to adjust eligibility standards, rates, policy and services?
- Can NC cap or expand enrollment?
- Can NC initiate waivers, pilots?
- Will NC have authority to initiate a managed care structure?
- What restrictions will exist with per capita rates?

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Supplemental Items Questions

PER CAPITA RATES

- ★ • How will Disproportionate Share Hospital (DSH) allotments be impacted?
- Will NC be allowed to continue collecting assessments?
- Will CMS continue to mandate drug rebates?

BLOCK GRANTS

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- Will NC be allowed to continue collecting assessments?
- Will CMS continue to mandate drug rebates?

Transition Questions

PER CAPITA RATES

- ★ When will change be effective?
- How will transition year claims run-out, settlements, Program Integrity recoveries, etc be handled?

BLOCK GRANTS

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- How will transition year claims run-out, settlements, PI recoveries, etc be handled?

Federal Participation Questions

PER CAPITA RATES

- How will federal match rates be calculated and applied in future years?
- How will variation in match rates between programs and categories of spending be handled?

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Scenarios for Possible New Reality

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DISCUSSION/QUESTIONS

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