

Medicaid Expansion Update

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- Coalition Draft Interim Report (Jan 13 2016)

<http://boardsandcommissions.sd.gov/Meetings.aspx?BoardID=145>

- State Health Official Letter published Feb 17 regarding 100% FMAP policy

Medicaid Expansion Update

- Work continues to develop financial plan based on policy
- Several implementation teams formed in March 2016 to develop approach to implement the new policy

Medicaid Expansion Update

- Policy Operations
- Telehealth
- Behavioral Health
- Alternative Service Delivery Model
- Care Coordination for Hospital Services
- Tribal, IHS, Provider, and state staff representation

EXECUTIVE SUMMARY

Governor Dugaard convened the Health Care Solutions Coalition (HCSC) to develop a strategy to improve healthcare access and outcomes for American Indians that, along with changes in federal policy for funding Medicaid services for people eligible for services through Indian Health Services, will simultaneously produce general fund savings that can be leveraged to finance Medicaid expansion. The HCSC is a partnership between South Dakota Tribes, IHS, Medicaid service providers, South Dakota Legislators, and State agencies.

KEY ASPECTS OF MEDICAID TODAY

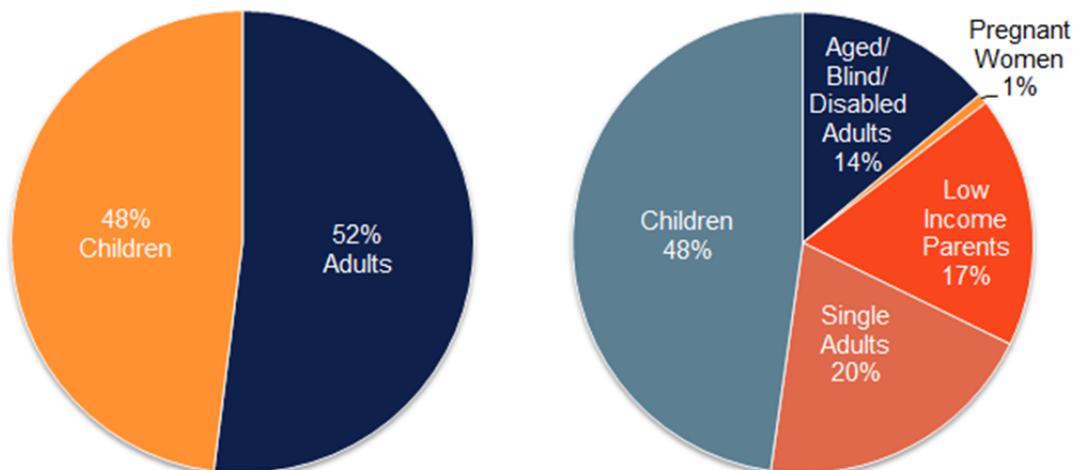
Medicaid is a State-Federal partnership with each entity sharing in financing. The amount of federal funding varies by state. In SFY 2016, South Dakota is responsible for 48.38% of Medicaid costs while the federal government pays the remaining 51.62%.

About 118,000 individuals are currently covered by South Dakota Medicaid during an average month. South Dakota has a conservative program; coverage for adults is limited to those with disabilities, pregnant women, and low income parents. Children make up the largest group of individuals receiving coverage at 68%.

MEDICAID EXPANSION IMPACT

Based on a survey completed in 2015, the Medicaid expansion population in South Dakota is estimated at 49,721 individuals. Approximately 30% of the expansion population is American Indian. One third of the expansion group is comprised of adults in low income families with incomes between 53-138% of the FPL. Two thirds of the expansion group will be a new group of single adults.

MEDICAID POPULATION AFTER EXPANSION



INDIAN HEALTH SERVICE (IHS) AND MEDICAID

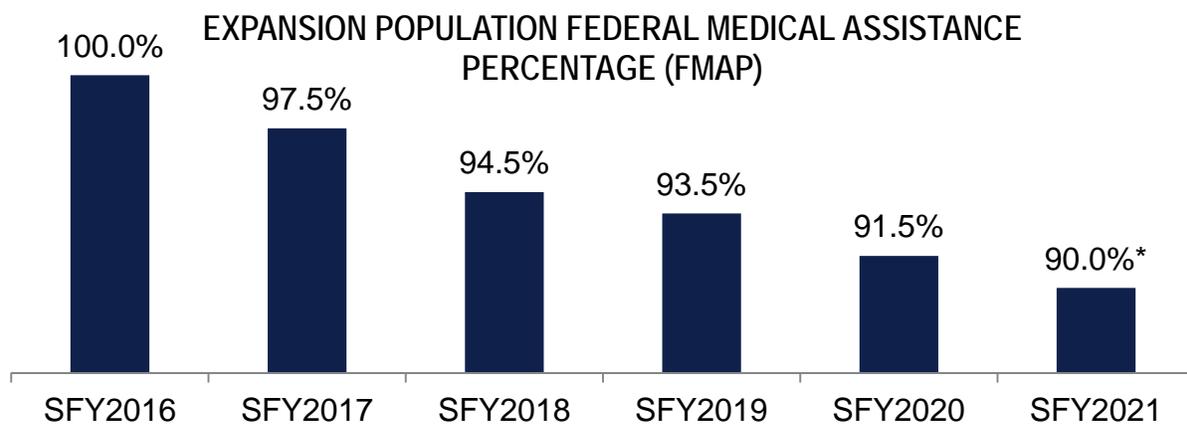
American Indians comprise approximately 35% of South Dakota’s Medicaid population. This has significant financial implications for Medicaid as services provided directly by IHS are eligible for 100% Federal Financial Participation (FFP). However, services provided to Medicaid-eligible American Indians outside of IHS do not receive 100% federal funding. Instead, South Dakota Medicaid must pay for these services at the regular federal match rate.

During State Fiscal Year (SFY) 2015, South Dakota’s Medicaid program expended \$208.2 million for healthcare services for individuals eligible for both IHS and Medicaid. Of that total, \$69.2 million was for services provided directly by IHS and paid with 100% federal funds. The remaining \$139 million was paid at the state’s regular federal match rate, or \$67 million general funds and \$72 million federal funds.

South Dakota has long argued that services for individuals eligible for both Medicaid and IHS should be eligible for 100% federal funding whether provided directly through IHS or by non-IHS providers.

MEDICAID EXPANSION IN SOUTH DAKOTA

States have the option to expand Medicaid coverage to adults with incomes up to 138% of the Federal Poverty Level. One of the key features of Medicaid expansion is that the federal government pays most of the costs of expansion. States must pay 10% of total costs starting in State Fiscal Year 2021 and thereafter, per federal regulations in 42 CFR 433.10.



* Note: 90% is the FMAP for all fiscal years following SFY2021

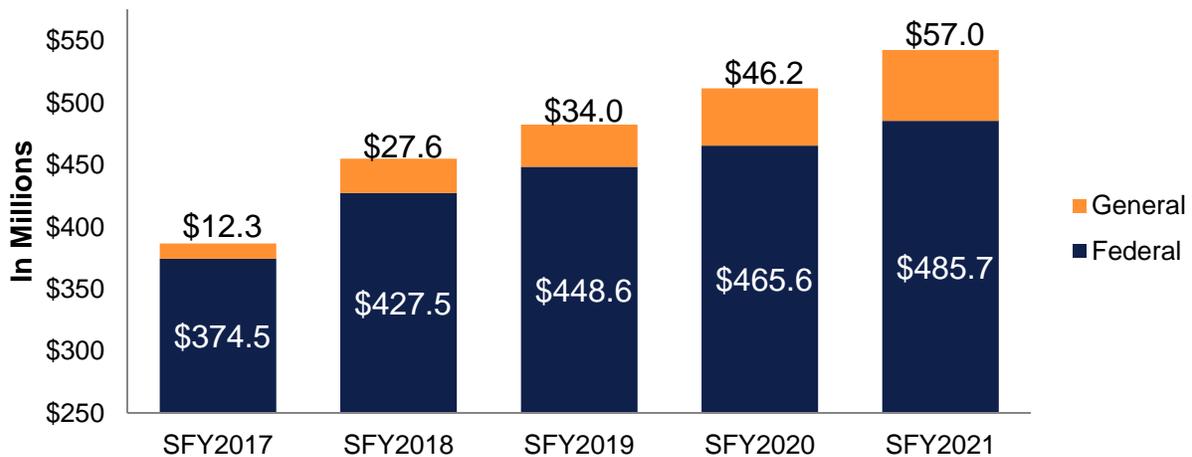
CONSERVATIVE BUDGET PROJECTIONS

The estimates used in Governor Dugaard’s SFY17 budget proposal include a number of conservative assumptions as a way to mitigate financial risk. South Dakota looked to the experience of other states to inform assumptions:

- Estimates assume 54,693 eligible individuals, a 10% increase over the 2015 survey of 49,721;
- Projects the average cost per Medicaid Eligible to be \$7,744 in SFY 2017 with an annual increase of 5%. This rate is based on the actual cost for Low Income Family (LIF) members in SFY 2015 plus 20%;
- Projects administrative expenditures will increase by 5% and require DSS to hire an additional 55 employees;
- No consideration for 100% FFP for American Indians eligible for IHS; estimated to be up to \$15 million per year.

Without taking into consideration economic impact to tax revenue, estimated at \$8.6 million for 2021, South Dakota will need \$57 million by 2021 in order to fully fund Medicaid expansion.

PROJECTED MEDICAID EXPANSION COSTS, SFY 2017- 2021



SOUTH DAKOTA MEDICAID EXPANSION CONCEPT PAPER

In early 2015, legislators, state officials, and health care providers saw an opportunity to leverage more federal funding for American Indian health care in South Dakota if the current CMS interpretation of services “received through” IHS could be expanded to include services provided by non-IHS providers. State savings from increased FFP could help defray the costs to expand Medicaid. After engaging in discussions with the Centers for Medicaid and Medicare Services (CMS), South Dakota submitted a [Concept Paper](#) to CMS with a proposal to provide better health care access to American Indians eligible for IHS, improve health outcomes for American Indians eligible for Medicaid, and increase access to health care for the entire expansion population in South Dakota.

In October 2015, CMS released a [white paper](#) proposing to update policy on funding services provided to Medicaid eligible American Indians and Alaskan Natives (AI/AN). Under CMS’s proposed policy change, more services would be eligible for 100% federal

funding, which would increase access to care for AI/AN Medicaid recipients, while generating savings to the state budget to fund Medicaid expansion.

HEALTH CARE SOLUTIONS COALITION RECOMMENDATIONS

Governor Daugaard tasked the HCSC with the development of a solution that supports increased access to healthcare for American Indians and improves health outcomes for American Indians in South Dakota, while leveraging state savings to finance Medicaid expansion. The Coalition began meeting in October 2015. Three subcommittees were formed to address specific issues outlined in South Dakota's concept paper:

After three months of meetings, the Coalition proposed the following recommendations:

- RECOMMENDATION 1 Increase use of telehealth services to support emergency departments and support increased access to primary and specialty care consultation and treatment in through Indian Health Service and Tribal Programs.
- RECOMMENDATION 2 Develop a formal Community Health Worker/Community Health Representative program under the Medicaid State Plan.
- RECOMMENDATION 3 Expand support for prenatal and postpartum care to support healthy birth outcomes
- RECOMMENDATION 4 Expand capacity for mental health and chemical dependency services through Indian Health Service and Tribal Programs.
- RECOMMENDATION 5 Expand Medicaid eligible providers of behavioral health and substance use disorder (SUD) treatment services.
- RECOMMENDATION 6 Add evidence-based behavioral health services and supports for children and families, including supporting the provision of functional family therapy as a Medicaid state plan service.

CONCLUSION

In order to expand Medicaid coverage to adults with incomes up to 138% FPL, South Dakota must find a way to offset new costs. Governor Daugaard remains committed to ensuring that any expansion plan for South Dakota is fiscally responsible and has adopted a conservative estimate of cost. To move forward, the following considerations must be met:

- No general fund increase is required, expansion costs must be covered by current general fund budget;
- Tribes must support the expansion proposal; and
- South Dakota Legislature must support the expansion proposal through passage of the Governor's recommended budget.

INDIAN HEALTH SERVICE FUNDING

Federal Medical Assistance Percentage Funding for Medicaid is shared between the state and the federal government. The federal government's share is called the Federal Medical Assistance Percentage (FMAP). When Medicaid pays for health care using South Dakota's FMAP, the federal government pays 52 cents of every dollar and the State of South Dakota pays the other 48 cents.



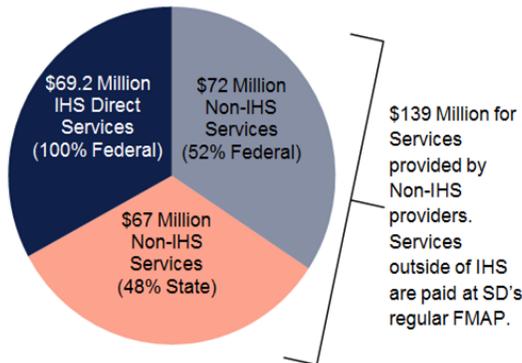
INDIAN HEALTH SERVICE (IHS) AND MEDICAID

The United States Government has a treaty obligation to provide healthcare to American Indians. That obligation is to be met through Indian Health Services. American Indian eligibles comprise approximately 35% of South Dakota's current Medicaid population. This has significant financial implications as services provided directly by IHS or Tribal programs are eligible for 100% federal funding.

American Indians can be eligible for Indian Health Services and Medicaid:

- When an IHS-eligible is also Medicaid eligible and receives care directly from IHS or a Tribal facility, the bill is paid with 100% federal funds.
- When an IHS eligible is also Medicaid eligible and receives care from a non-IHS provider the bill is paid at the state's regular FMAP, which requires South Dakota to pay roughly 48% of the bill.

During State Fiscal Year 2015, South Dakota's Medicaid program expended \$208.2 million for healthcare services for individuals eligible for both IHS and Medicaid.



We are working with the Centers for Medicare and Medicaid Services (CMS) to convert part or all of the \$67 million we spend today at the regular FMAP to 100% federal funding to save at least the \$57 million in state funds needed for Medicaid expansion in 2021.

CMS POLICY CHANGE

South Dakota has long argued that services for individuals eligible for both Medicaid and IHS should be eligible for 100% federal funding whether provided directly through IHS or by non-IHS providers. CMS is now reconsidering this policy and will be issuing final policy guidance in the near future. We can then determine if enough state funds could be freed up in the current budget to fund the cost of expansion.

EXAMPLE 1: A 10-year-old Tribal member visits the doctor at an IHS facility. IHS bills SD Medicaid. The federal government pays the entire bill.



EXAMPLE 2: A 10-year-old Tribal member is examined at an IHS facility. Her condition requires special treatment, so IHS refers her to Rapid City Regional Hospital. The hospital bills SD Medicaid. The federal government pays roughly half the bill. The State pays the other half of the bill.



THE FACTS ABOUT MEDICAID EXPANSION

31 states have expanded Medicaid to cover individuals up to 138% of the Federal Poverty Level. Governor Daugaard's expansion plan to provide coverage for 50,000 South Dakotans would not increase the state general fund budget and has several conservative assumptions to mitigate against potential cost overruns some expansion states have experienced.

HOW IS SOUTH DAKOTA'S ENROLLMENT PROJECTED?

Some expansion states experienced higher than projected total enrollment and a faster rate of enrollment. Our low population numbers make that unlikely and Governor Daugaard's budget proposal assumes 49,721 plus 10% contingency for a total of 54,693. Enrollment numbers are based on an independent 2015 survey and are consistent with survey findings in 2011. Governor Daugaard's proposal also assumes 90% of eligible people will enroll at the start of year 1, and 100% of eligible people will enroll by the end of year 1.

HOW WERE THE COST PROJECTIONS DEVELOPED?

Some expansion states experienced higher than projected costs per person. Governor Daugaard's proposal uses FY15 actual expenditures for low-income parents on Medicaid in South Dakota and adds a 20% adjustment to mitigate against this potential financial risk (\$6,454 plus 20%= \$7,774). Nationally, the FY15 cost per enrollee for expansion states was \$6,483.

FISCALLY CONSERVATIVE BUDGET

\$ 57.0M	Projected State Cost of Expansion in 2021
(\$ 3.0M)	Contingency Enrollment
(\$ 6.5M)	Contingency Cost Per Person
(\$ 14.5M)	American Indians in Expansion Group
<u>(\$ 6.8M)</u>	Added State Tax Revenue
\$ 26.2M	Projected State Cost With No Contingency

About one third of the expansion population is American Indian. Although the new IHS 100% reimbursement could reduce the cost of expansion by up to \$14.5 million, that savings is ignored. Furthermore, the economic benefit to tax revenue, which is conservatively estimated at \$6.8 million in 2021, is not factored into the projections.

WHAT IS THE STATE BUDGET IMPACT?

Governor Daugaard's proposal does not increase the state general fund budget. It would repurpose state general funds spent today in the Medicaid budget for expansion.

WHAT ABOUT THE FEDERAL BUDGET IMPACT?

Some will argue expansion increases the federal debt and there is no guarantee these enhanced federal funds will be available in the future. Over half of the Medicaid expansion population is eligible for federal tax subsidies through the marketplace. If SD expands, the federal costs for this group would shift from one federal budget line item to another. It is cheaper to provide comparable coverage through SD Medicaid than to provide coverage through the federal marketplace so this proposal would potentially reduce federal expenditures for that part of the expansion population.

The Governor would support statutory "trigger" language withdrawing South Dakota from the expansion if federal reimbursement drops below 90% or if the Affordable Care Act is repealed.

A SOUTH DAKOTA DECISION

Governor Daugaard's proposal makes sense for South Dakota. His plan is fiscally conservative, mitigates against cost overruns and plans for the long-term cost of expansion when the federal share drops to 10%, and results in **NO** increase to the state budget.

MEDICAID EXPANSION: IT MAKES SENSE FOR SOUTH DAKOTA

Governor Daugaard is seizing a unique opportunity to solve a long standing reimbursement issue with Indian Health Service and expand Medicaid to cover an additional 50,000 South Dakotans at no additional cost to state taxpayers.

NO STATE BUDGET IMPACT

Governor Daugaard's plan does not increase the state budget. It calls for \$373 million in federal funds in FY17.

FIXING THE INDIAN HEALTH SERVICE (IHS) REIMBURSEMENT ISSUE

People can be eligible for both Medicaid and Indian Health Services.

When American Indians eligible for both Medicaid and IHS receive care directly from an IHS facility, the federal government pays 100% of the bill. Today when that same individual receives care outside of IHS the bill is split- the federal government pays 52% and the state pays 48%.

- Last year we spent \$208.2 million for health care for people eligible for both Medicaid and IHS
 - \$139 million (\$67 million state funds) spent outside IHS
 - \$69.2 million spent at IHS and paid at 100% federal funds

CMS is reconsidering its policy governing when it will reimburse 100%. If successful, the savings will be enough to fund the state cost of expansion.

FISCALLY CONSERVATIVE COST ESTIMATES

Governor Daugaard's budget estimates project the state cost of expansion at \$57 million in 2021 when the federal government's share drops to 90%. The estimates include a number of conservative assumptions:

- Added 10% to the number of projected eligible
- Accelerated rate of enrollment – 90% in year 1 and 100% in year 2
- Added 20% to projected cost per eligible
- Although 30% of expansion population estimated to be American Indian, assumed no 100% match for expansion group
- Ignored increased economic impact to state tax revenue estimated at \$8.6 million.

GOOD FOR SOUTH DAKOTANS

- Adults who cannot earn enough to gain subsidized insurance coverage would have coverage
- Tribal members would see improved care through IHS
- Counties would see savings through poor relief
- Sheriffs with jails and state prisons will have less medical costs for indigent prisoners hospitalized for longer than 24 hours
- Hospitals will have less charity care
- Medicaid providers through opportunity for improved payment rates if enough ongoing state funds are saved beyond the cost of expansion

SOUTH DAKOTA DECISION

Governor Daugaard appointed the South Dakota Health Care Solutions Coalition to develop recommendations if the state moves forward with expansion. This large stakeholder group included tribes, legislators, IHS, providers, state agencies, and other stakeholders.

The Governor will not support expansion unless state fund savings in the existing budget can be made available to fully fund expansion and tribes and the legislature support the plan.

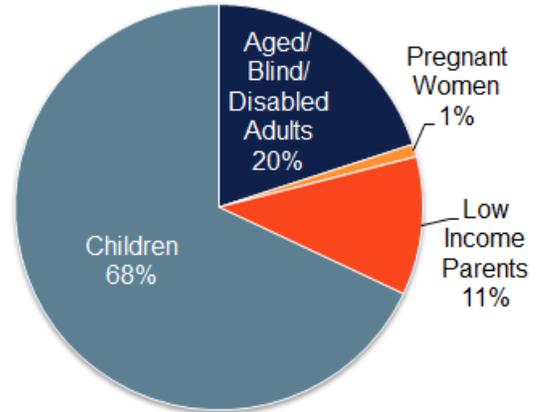
Medicaid expansion makes sense for South Dakota with the opportunity to improve healthcare for American Indians, save money for counties and Medicaid providers, and potentially save millions in state dollars.

MEDICAID EXPANSION DEMOGRAPHICS

SOUTH DAKOTA MEDICAID TODAY: South Dakota Medicaid currently covers about 118,000 individuals in an average month.

KEY FACTS

- Medicaid provides health care to 14% of all South Dakotans.
- The majority, 68% are children.
- Coverage for adults is limited to adults with a disability, very low income parents, and pregnant women.

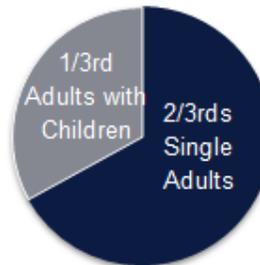


MEDICAID EXPANSION POPULATION: South Dakota's expansion population is estimated at about 50,000 individuals.

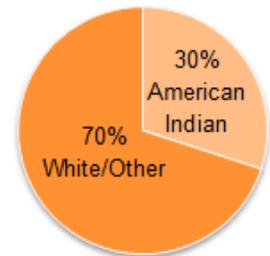
KEY DEMOGRAPHICS

- 1/3 of the Expansion Population is parents with children with household incomes between 53-138% Federal Poverty Level.
- 60% of the Expansion Population is working. Of those working, 2/3rds are working full time; 1/3rd is employed part time.

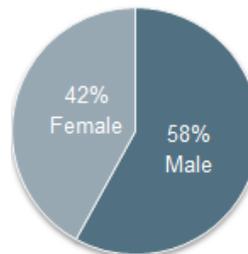
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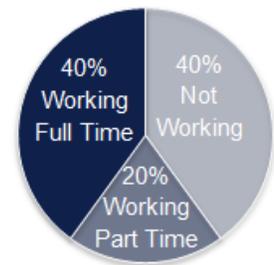
RACE/ETHNICITY



GENDER



EMPLOYMENT STATUS



SOUTH DAKOTA MEDICAID AFTER EXPANSION:

Expansion adds adults with incomes up to 138% of the Federal Poverty Level to Medicaid.

