

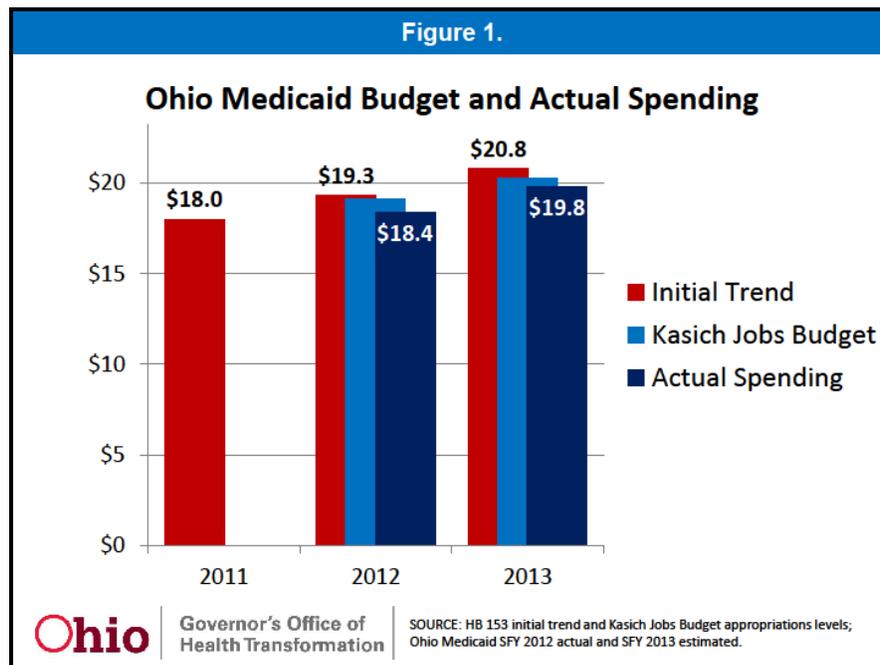
Office of Health Transformation Overall Medicaid Budget Impact

Background:

From a budgeting perspective, Medicaid is always a challenge. It currently represents approximately 25 percent of the state share of the general revenue fund (about 45 percent of GRF when you add in the federal reimbursement). The program historically has been associated with high growth rates due to demographic and economic factors that impact the number of people covered and to health care inflation rates that greatly impact the cost of their services.

In January 2011, Governor John Kasich created the Office of Health Transformation to address Medicaid spending issues, plan for the long-term efficient administration of the Ohio Medicaid program, and act to improve overall health system performance.¹ The new Office organized existing staff in the state's six Medicaid-related agencies to advance the Administration's Medicaid modernization and cost-containment priorities in the operating budget.

Governor Kasich's first budget proposed spending \$500 million less than the trend in 2012 and \$942 million less in 2013. At the same time, the budget introduced new tools to improve care coordination, integrate behavioral and physical health care, rebalance long-term care spending, and modernize reimbursement to reward value instead of volume. Ohio Medicaid used these tools to drive Medicaid program improvements and deliver *additional* savings – resulting in actual spending nearly \$1 billion below the initial trend *in both years* (Figure 1).



¹ Executive Order 2011-02K, [Creating the Governor's Office of Health Transformation](#) (January 13, 2011).

Executive Budget Proposal and Impact:

The Executive Budget builds on the momentum of the first two years, both in terms of the design and delivery of the Medicaid program as well as the underlying administrative structure through which it is managed. It accomplishes this in the face of significant challenges resulting from the federal Affordable Care Act (ACA).

Medicaid Baseline. Medicaid currently provides health care services to over 2.3 million Ohioans per month at a projected cost of \$19.8 billion (all funds in FY 2013). The general revenue fund (GRF) accounts for \$12.7 billion of that spending, of which \$5.1 billion is the state's share after the federal government reimburses the state for the federal share of the program.² These are the Medicaid-related expenditures by all six agencies that are involved in the operation of the Medicaid program. These agencies include the departments of Job and Family Services, Aging, Alcohol and Drug Addiction Services, Developmental Disabilities, Health, and Mental Health.

The total Medicaid "baseline" – what the Medicaid program would cost in the upcoming biennium assuming current eligibility, benefit, and payment policies remain unchanged – is projected to grow 13.3 percent to \$22.4 billion in FY 2014 and grow 4.5 percent to \$23.4 billion in FY 2015 (Figure 2). There are several factors that account for this high baseline growth:

- **ACA Woodwork Enrollment Increase.** The ACA individual mandate to purchase health insurance is expected to result in some individuals seeking health coverage who were not previously seeking it, and some who might have been seeking it might not have found it. Under either circumstance, given the greater awareness of the need to have health coverage and the availability of Medicaid, more individuals who are currently eligible for Medicaid but are not enrolled are likely to do so. This is commonly referred to as the "woodwork effect." Given the fact that they will enroll without any changes in state policy, they must be included in the baseline estimates. Ohio Medicaid estimates more than 230,000 "woodwork" individuals will enroll in Medicaid by June 2015. This increases GRF baseline estimates by \$531 million (\$186 million state share) in FY 2014 and by \$996 million (\$335 million state share) in FY 2015.
- **ACA Physician Fee Increase.** Another ACA-related impact on the baseline budget is the mandated increase in physician fees that began on January 1, 2013. Although this required two-year increase of Medicaid rates to the level of Medicare receives 100 percent federal reimbursement, it still requires estimated GRF appropriations of \$320.9 million in FY 2014 and \$261.9 million in FY 2015.
- **Health transformation initiatives.** There are a few initiatives underway in the current biennium that have not been fully implemented and will continue being implemented in the next biennium, including implementation of health homes for people with serious

² The current, standard federal matching rate for Ohio is 63.58 percent in federal fiscal year 2013.

mental illness, and enrolling disabled children in health plans. The most notable example is that the implementation of the Integrated Care Delivery System (ICDS) will not be fully implemented in FY 2013 due to a delay in federal approval of our waiver request. ICDS was authorized in House Bill 153 and is intended to better coordinate the care of certain individuals who are enrolled in both Medicaid and Medicare. This initiative is expected to reduce the rate of spending growth after full implementation is achieved, but it has initial start-up costs associated with paying the “run-out” of fee-for-service claims at the same time prospective payments are made to the health plans that will provide integrated care. Although the state has since received federal approval and has selected health plans through a competitive process, and enrollment is projected to begin this July, the “run-out” cost was originally expected to largely occur in FY 2013 but is now delayed until FY 2014. This is a contributing factor to the under-spending in this fiscal year and must be accounted for in the baseline for the upcoming biennium.

Savings and Cost Avoidance. The Medicaid baseline growth rates described above are not sustainable. While such rates would be of concern under any circumstances, they are particularly troubling after all of the Medicaid modernization and cost containment efforts in the current biennium that helped return Ohio’s budget to structural balance. Therefore, the Executive Budget includes a number of cost avoidance initiatives intended to again emphasize value and establish the right incentives for cost-effective, quality care. These initiatives, generally payment methodology changes, are largely targeted at providers that benefit the most from the projected enrollment growth, such as health plans and hospitals. This package of savings and cost avoidance totals \$517 million (\$191 million state share) in FY 2014 and \$801 million (\$296 million state share) in FY 2015 (Figures 2 and 3).

Extend Medicaid Coverage. Governor Kasich’s decision to extend Medicaid eligibility to adult Ohioans with income up to 138 percent of poverty will increase overall Medicaid appropriations but decrease the state share of GRF. The new income eligibility test will result in approximately 366,000 Ohioans becoming “newly eligible” for Medicaid, but it will also result in approximately 91,000 Ohioans who are eligible for Medicaid today moving off the program (they will have the option to seek coverage on the new federal Health Insurance Exchange). These enrollment changes are expected to increase Medicaid spending \$500 million in FY 2014 and \$1.9 billion in FY 2015 (Figure 2) – but the state share actually *decreases* \$23 million in FY 2014 and \$68 million in FY 2015 because the state saves from current enrollees leaving the program and the federal government covers 100 percent of the cost of the newly eligible population (Figure 3).

Executive Budget Appropriations. After factoring in baseline projects, savings and cost avoidance, and eligibility changes, the Executive Budget increases overall Medicaid spending 13.2 percent to \$22.4 billion in FY 2014 and 9.6 percent to \$24.5 billion in FY 2015 (Figure 2). The state share-only GRF appropriations reflect projected growth of 10.8 percent to \$5.6 billion in FY 2014 and growth of 2.7 percent to \$5.8 billion in FY 2015. Savings and cost avoidance, coupled with eligibility changes, were able to reduce state share GRF appropriations by \$213 million in FY 2014 and by \$365 million in FY 2015 relative to baseline projections.

Figure 2. Ohio Medicaid Spending (All Funds in millions)

| All Funds | SFY2012 | SFY 2013 | % | SFY 2014 | % | SFY 2015 | % | SFY 2014/15 |
|---|------------------|------------------|-------------|------------------|--------------|------------------|-------------|--------------------|
| Initial Trend in 2011 | \$ 19,342 | \$ 20,797 | | | | | | |
| HB 153 Appropriations ¹ | \$ 19,154 | \$ 20,298 | | | | | | |
| Actual /Estimate | \$ 18,438 | \$ 19,768 | | | | | | |
| Initial Program Trend in 2013 | \$ 18,438 | \$ 19,666 | 6.7% | \$ 20,723 | 5.4% | \$ 21,477 | 3.6% | \$ 42,200 |
| Health Transformation Initiatives In Progress (HB 153) | | | | | | | | |
| ICDS | | \$ - | | \$ 493 | | \$ 298 | | \$ 791 |
| Health Homes | | \$ 25 | | \$ 215 | | \$ 303 | | \$ 519 |
| ABD Kids MCP Expansion | | \$ - | | \$ 87 | | \$ 41 | | \$ 128 |
| Balancing Incentive Program | | \$ - | | \$ 27 | | \$ 25 | | \$ 52 |
| Subtotal | | \$ 25 | | \$ 822 | | \$ 667 | | \$ 1,490 |
| ACA Mandates | | | | | | | | |
| Woodwork | | \$ - | | \$ 531 | | \$ 996 | | \$ 1,527 |
| Physician Fee Increase | | \$ 77 | | \$ 321 | | \$ 262 | | \$ 583 |
| Subtotal | | \$ 77 | | \$ 852 | | \$ 1,258 | | \$ 2,110 |
| Baseline Total | \$ 18,438 | \$ 19,768 | 7.2% | \$ 22,397 | 13.3% | \$ 23,402 | 4.5% | \$ 45,799 |
| Savings & Cost Avoidance | | | | | | | | |
| Health plan changes | | | | \$ (270) | | \$ (376) | | \$ (646) |
| Hospital changes | | | | \$ (163) | | \$ (337) | | \$ (500) |
| Nursing Facility changes | | | | \$ 15 | | \$ 21 | | \$ 36 |
| HCBS changes | | | | \$ 4 | | \$ 27 | | \$ 31 |
| Fight Fraud and Abuse | | | | \$ (33) | | \$ (41) | | \$ (74) |
| Other Provider Changes | | | | \$ (70) | | \$ (95) | | \$ (165) |
| Subtotal | | | | \$ (517) | | \$ (801) | | \$ (1,318) |
| Baseline Less Savings & Cost Avoidance | | \$ 19,768 | 7.2% | \$ 21,880 | 10.7% | \$ 22,601 | 3.3% | \$ 44,481 |
| Simplify Eligibility/ACA | | | | | | | | |
| Eligibility Changes | | | | \$ (62) | | \$ (184) | | \$ (246) |
| Newly Eligible Enrollment (Pre Rebate) | | | | \$ 562 | | \$ 2,111 | | \$ 2,673 |
| Newly Eligible Enrollment (Net) | | | | \$ 500 | | \$ 1,927 | | \$ 2,426 |
| Executive Budget | \$ 18,438 | \$ 19,768 | 7.2% | \$ 22,380 | 13.2% | \$ 24,528 | 9.6% | \$ 46,907 |

¹ Note: Amounts adjusted from \$18.8B in SFY12 and \$19.8B in SFY13 to include the budget for Medicare Part D and UPL appropriations

Figure 3. Ohio Medicaid Spending (State Share of General Revenue Funds in millions)

| GRF - State Share | SFY2012 | SFY 2013 | % | SFY 2014 | % | SFY 2015 | % | SFY 2014/15 |
|---|-----------------|-----------------|-------------|-----------------|--------------|-----------------|-------------|------------------|
| Initial Trend in 2011 | \$ 5,336 | \$ 5,680 | | | | | | |
| HB 153 Appropriations ¹ | \$ 5,108 | \$ 5,293 | | | | | | |
| Actual /Estimate | \$ 4,936 | \$ 5,079 | | | | | | |
| Initial Program Trend in 2013 | \$ 4,936 | \$ 5,081 | 2.9% | \$ 5,520 | 8.6% | \$ 5,733 | 3.9% | \$ 11,253 |
| Health Transformation Initiatives In Progress (HB 153) | | | | | | | | |
| ICDS | | \$ - | | \$ 182 | | \$ 110 | | \$ 292 |
| Health Homes | | \$ (3) | | \$ (17) | | \$ 10 | | \$ (7) |
| ABD Kids MCP Expansion | | \$ - | | \$ 32 | | \$ 15 | | \$ 47 |
| Balancing Incentive Program | | \$ - | | \$ (60) | | \$ (60) | | \$ (120) |
| Subtotal | | \$ (3) | | \$ 136 | | \$ 76 | | \$ 212 |
| ACA Mandates | | | | | | | | |
| Woodwork | | \$ - | | \$ 186 | | \$ 335 | | \$ 521 |
| Physician Fee Increase | | \$ - | | \$ - | | \$ - | | \$ - |
| Subtotal | | \$ - | | \$ 186 | | \$ 335 | | \$ 521 |
| Baseline Total | \$ 4,936 | \$ 5,079 | 2.9% | \$ 5,842 | 15.0% | \$ 6,144 | 5.2% | \$ 11,986 |
| Savings & Cost Avoidance | | | | | | | | |
| Health plan changes | | | | \$ (100) | | \$ (139) | | \$ (239) |
| Hospital changes | | | | \$ (60) | | \$ (125) | | \$ (185) |
| Nursing Facility changes | | | | \$ 6 | | \$ 8 | | \$ 13 |
| HCBS changes | | | | \$ 2 | | \$ 10 | | \$ 11 |
| Fight Fraud and Abuse | | | | \$ (12) | | \$ (15) | | \$ (28) |
| Other Provider Changes | | | | \$ (26) | | \$ (35) | | \$ (61) |
| Subtotal | | | | \$ (191) | | \$ (296) | | \$ (487) |
| Baseline Less Savings & Cost Avoidance | | \$ 5,079 | 2.9% | \$ 5,652 | 11.3% | \$ 5,847 | 3.5% | \$ 11,499 |
| Simplify Eligibility/ACA | | | | | | | | |
| Eligibility Changes | | | | \$ (23) | | \$ (68) | | \$ (91) |
| Newly Eligible Enrollment (Pre Rebate) | | | | \$ - | | \$ - | | \$ - |
| Newly Eligible Enrollment (Net) | | | | \$ (23) | | \$ (68) | | \$ (91) |
| Executive Budget | \$ 4,936 | \$ 5,079 | 2.9% | \$ 5,629 | 10.8% | \$ 5,779 | 2.7% | \$ 11,408 |

¹ Note: Amounts adjusted from \$4.8B in SFY12 and \$5.0B in SFY13 to include the budget for Medicare Part D

Updated January 31, 2013