Senate Medical Affairs
ACA Subcommittee
First Update

South Carolina
Department of Health and Human Services

January 24, 2013

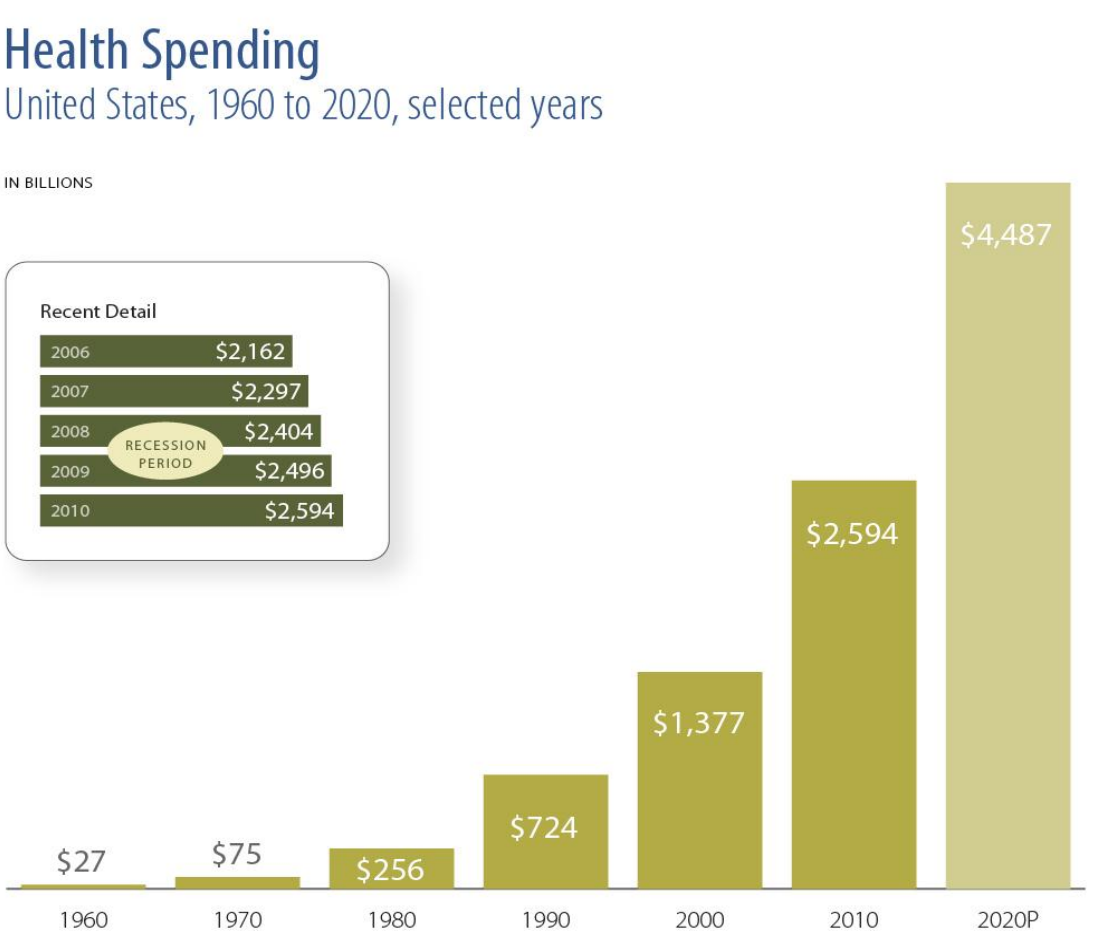
Many estimates are preliminary projections as of January 2013 and not considered final.
These estimates may change as more state and federal data and guidance becomes available.

Triple Aim

- Reduce the per capita cost of health care
- Improve the health of populations
- Improve the patient experience (quality and satisfaction)

Constant Health Spending Growth

South Carolina Health & Human Services



Notes: Health spending refers to National Health Expenditures. Projections (P) include the impact of the Affordable Care Act.
Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Expenditure Data, 2012 release.

Total health care spending in the United States has nearly doubled or more every decade since 1960

In 2009, 2010 and 2011 health care spending grew 3.9% each year (record lows)

In each of those years real GDP grew -3.1%, 2.4% and 1.8%

There is Enough Money in the System

South Carolina Health & Human Services

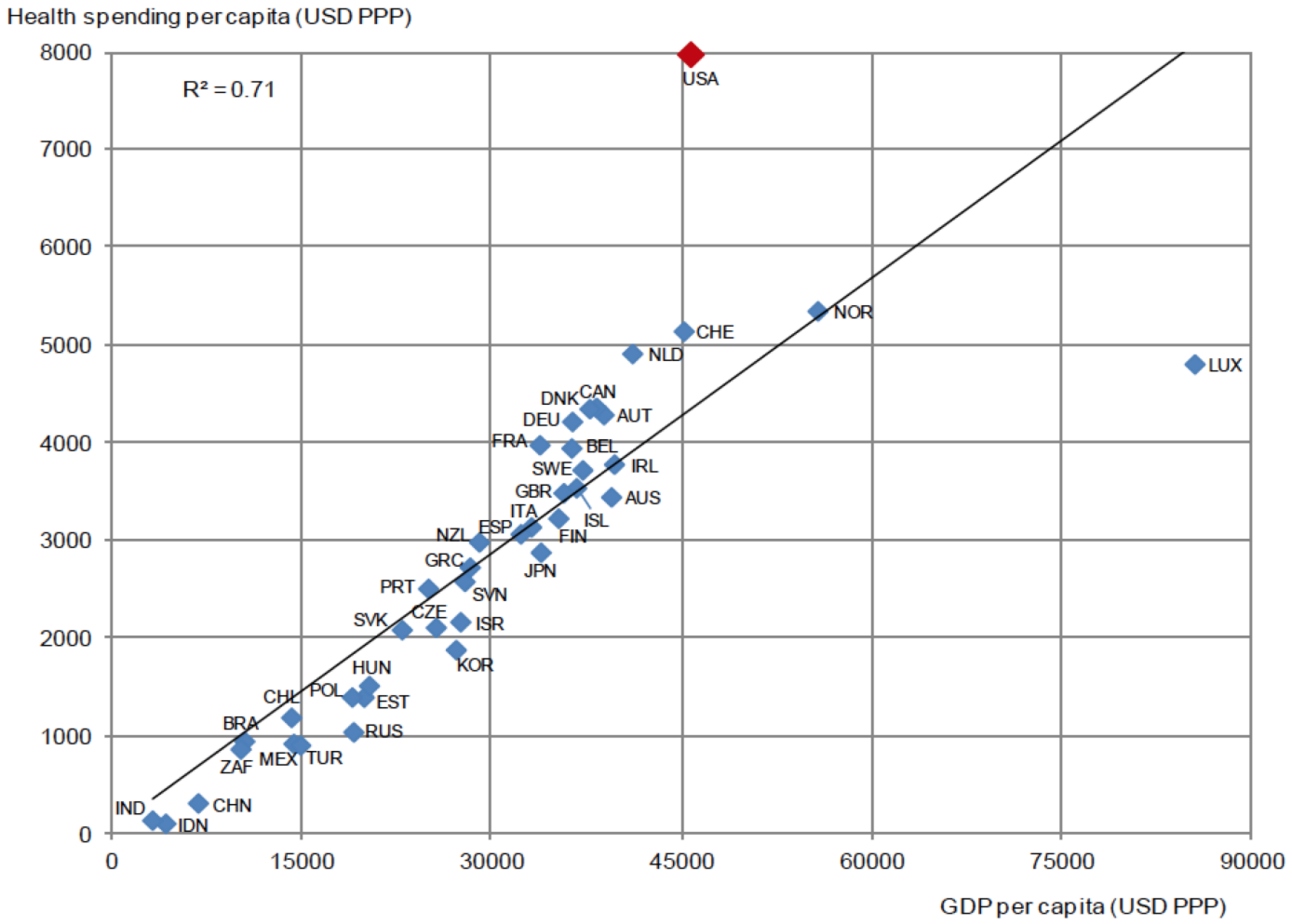
Health Spending Per Capita and as a share of GDP

Selected Developed Countries, 2010

Notes: US spending per capita as reported by OECD differs from CMS figures reported elsewhere in this report. Health spending refers to National Health Expenditures.

Source: Organization for Economic Cooperation and Development, *OECD Health Data 2012*, June 2012, www.oecd.org.

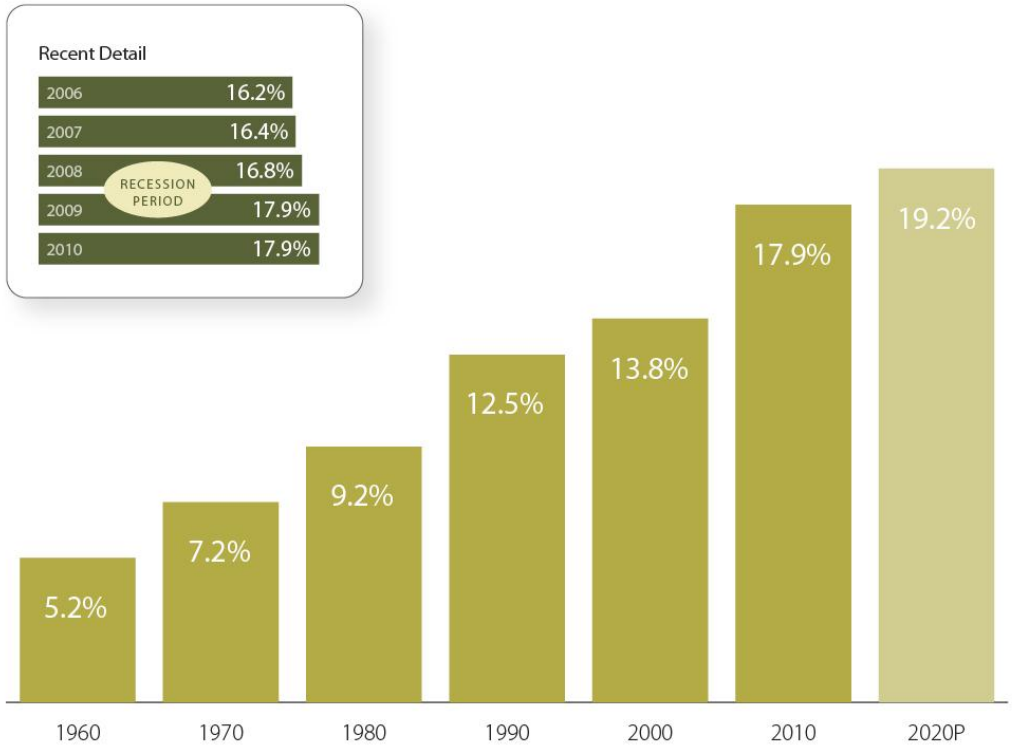
Chart 3: Total health expenditure per capita and GDP per capita, 2009 (or nearest year)



Source: OECD Health Data 2011.

US Health Spending as a Share of GDP Grows Under ACA

South Carolina Health & Human Services



Notes: Health spending refers to National Health Expenditures. Projections (P) include the impact of the Affordable Care Act. 2010 figure reflects a 4.2% increase in GDP and a 3.9% increase in national health spending. CMS projects national health spending will also have accounted for 17.9% of GDP in 2011 and 2012.

Source: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Expenditure Data, 2012 release.

A larger portion of paychecks, payrolls and government budgets are going to health care every year

ACA continues growth through EHB mandates in the private market, subsidies and expansion with little cost control

Institute of Medicine estimates 1/3 of all health care spending is excess cost

$765B Excess Cost in 2009

South Carolina Health & Human Services

- $100B more than the entire US defense budget
- Sufficient to fully pay health insurance premiums for 150,000,000 people
- 1.5 times the total 2004 national infrastructure investment including roads, railroads, aviation, drinking water, telecommunications and other structures

*For the full Institute of Medicine report, Best Care at Lower Cost: The Path to Continuously Learning Health Care in America, visit the National Academies Press website.

The Institute of Medicine's Six Domains of Excess Cost:

Unnecessary services ($210B)

Administrative waste and duplication ($190B)

Inefficient services ($130B)

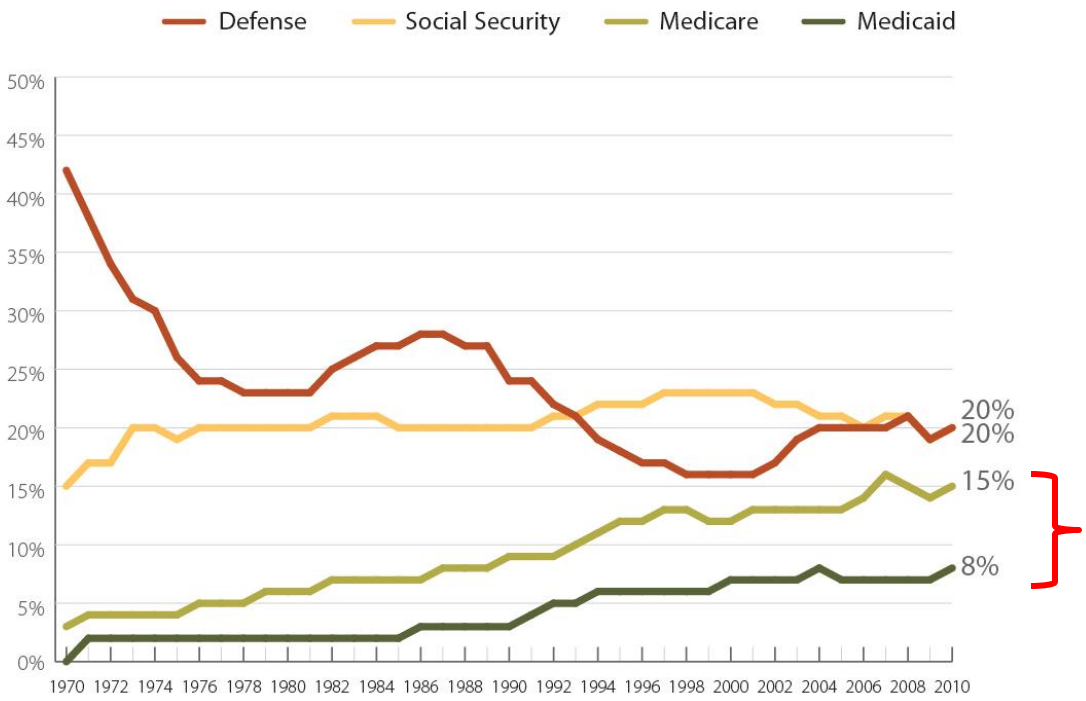
Prices that are too high ($105B)

Fraud ($75B)

Missed prevention opportunities ($55B)

Major Programs as a Share of the Federal Budget

South Carolina Health & Human Services



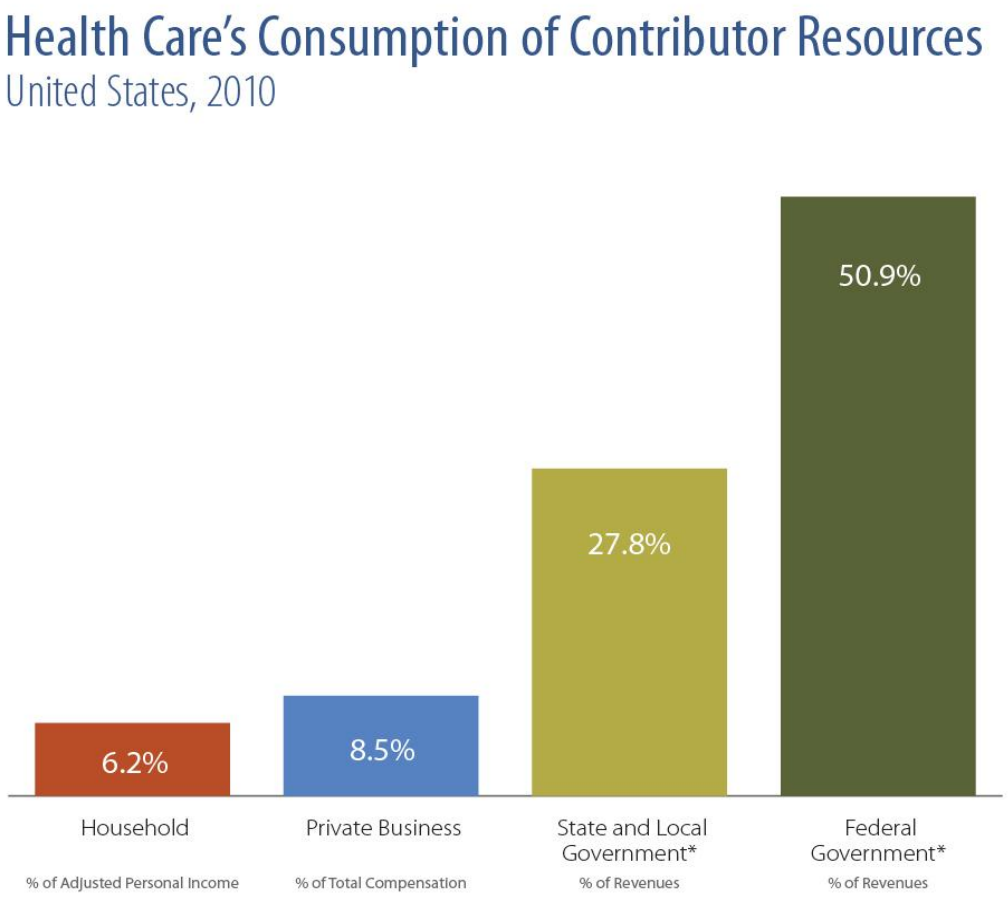
Notes: Spending shares computed as percentage of federal outlays. All outlays reflect federal spending only (i.e., Medicaid outlays shown reflect federal portion of Medicaid).

Sources: Centers for Medicare and Medicaid Services (CMS), Office of the Actuary, National Health Expenditure Data, 2012 release. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2012 to 2020*, January 31, 2012, Appendix F, "Historical Budget Data," www.cbo.gov.

Health care spending on Medicaid and Medicare now consumes 23% of the federal budget

Major Programs as a Share of the Federal Revenue

South Carolina Health & Human Services



50.9% of federal revenues for Medicaid and Medicare compared to 23% of the federal budget

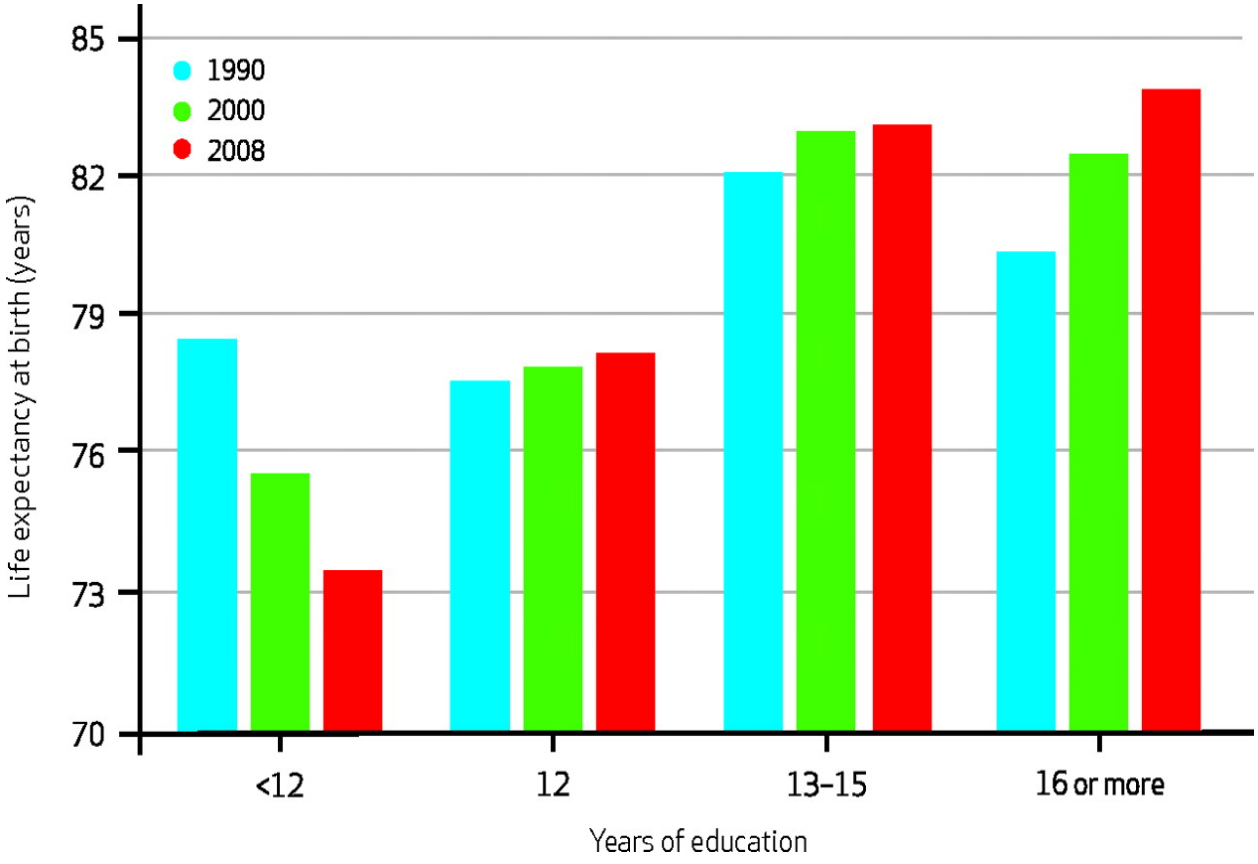
The fine print: "due to borrowing, federal government revenues are less than outlays"

Even under ACA the federal government is still borrowing to pay for its health care promises

US is Falling Behind in Life Expectancy

South Carolina Health & Human Services

Life Expectancy for White Women by Years of Education



Source: Health Affairs, August 2012

In 1950 US life expectancy ranked 12th at 68.9 years

In 2009 the US ranked 28th at 79.2 years

South Carolina ranked 42nd in US in 2007 at 76.6 years

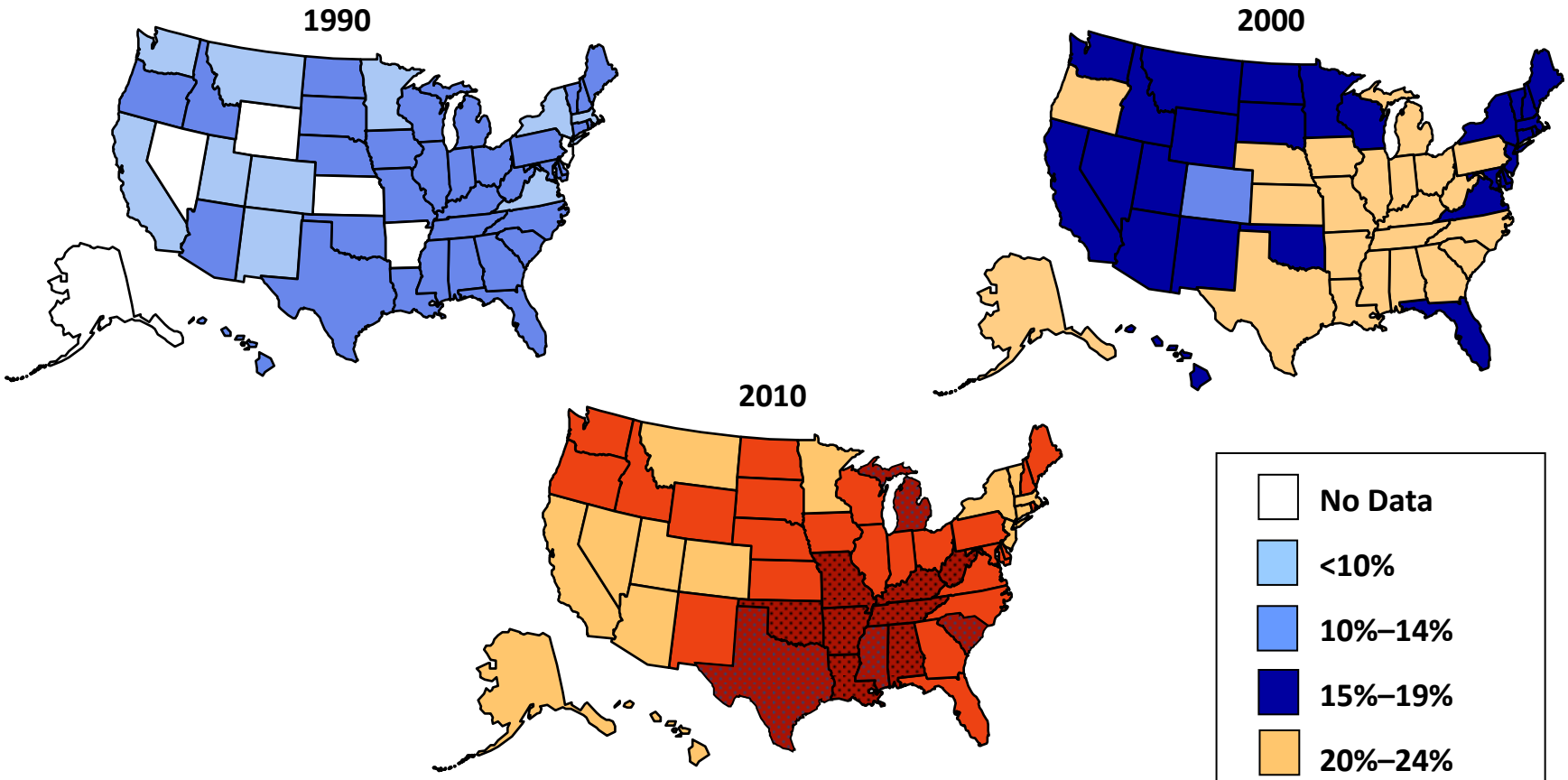
Disturbing disparities exist, and for certain groups life expectancy has actually fallen in the past two decades

Obesity Trends* Among US Adults

South Carolina Health & Human Services

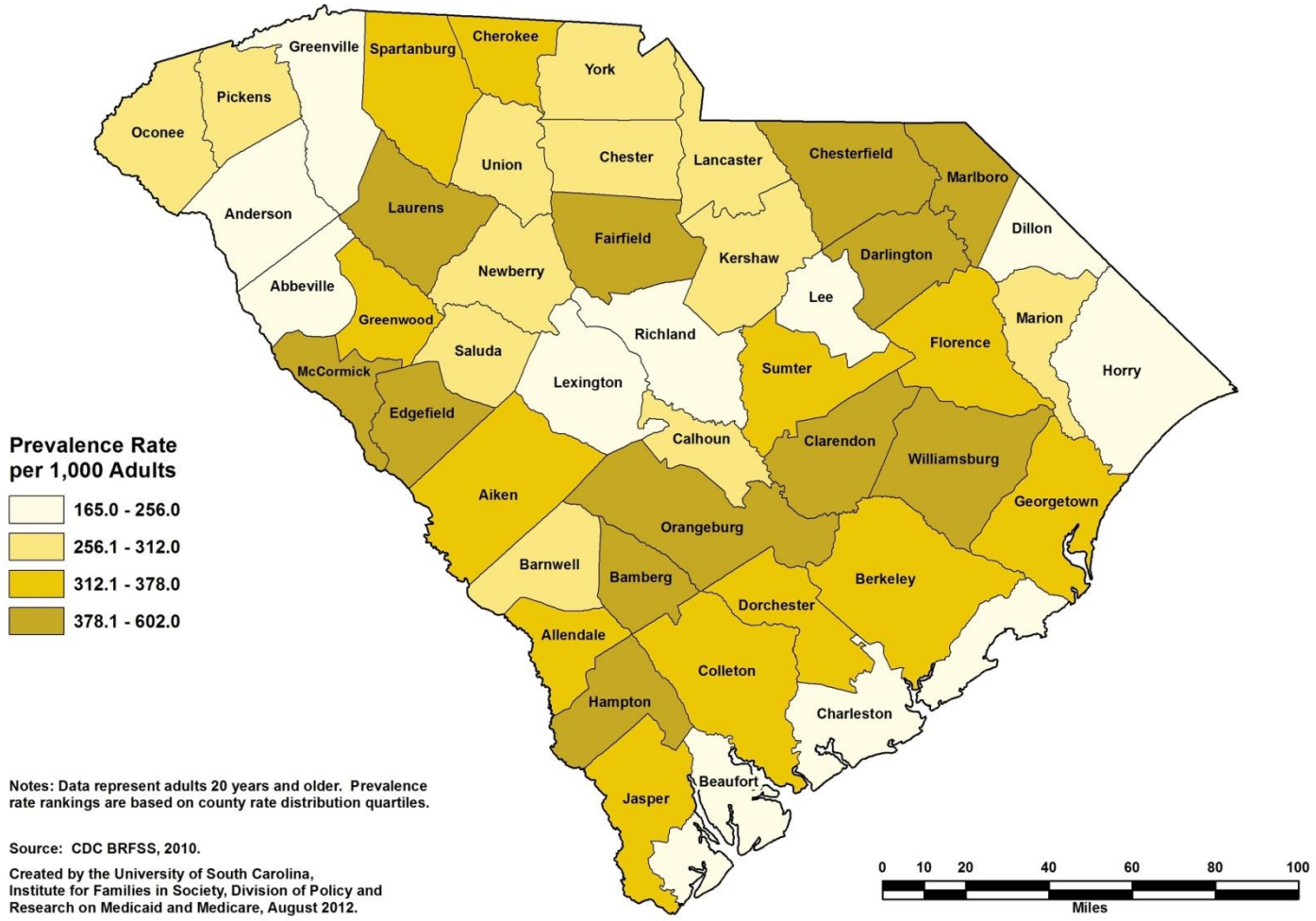
BRFSS, 1990, 2000, 2010

(*BMI ≥30, or about 30 lbs. overweight for 5'4" person)



Source: Behavioral Risk Factor Surveillance System, CDC

Prevalence of Obesity Among All South Carolina Adults by County

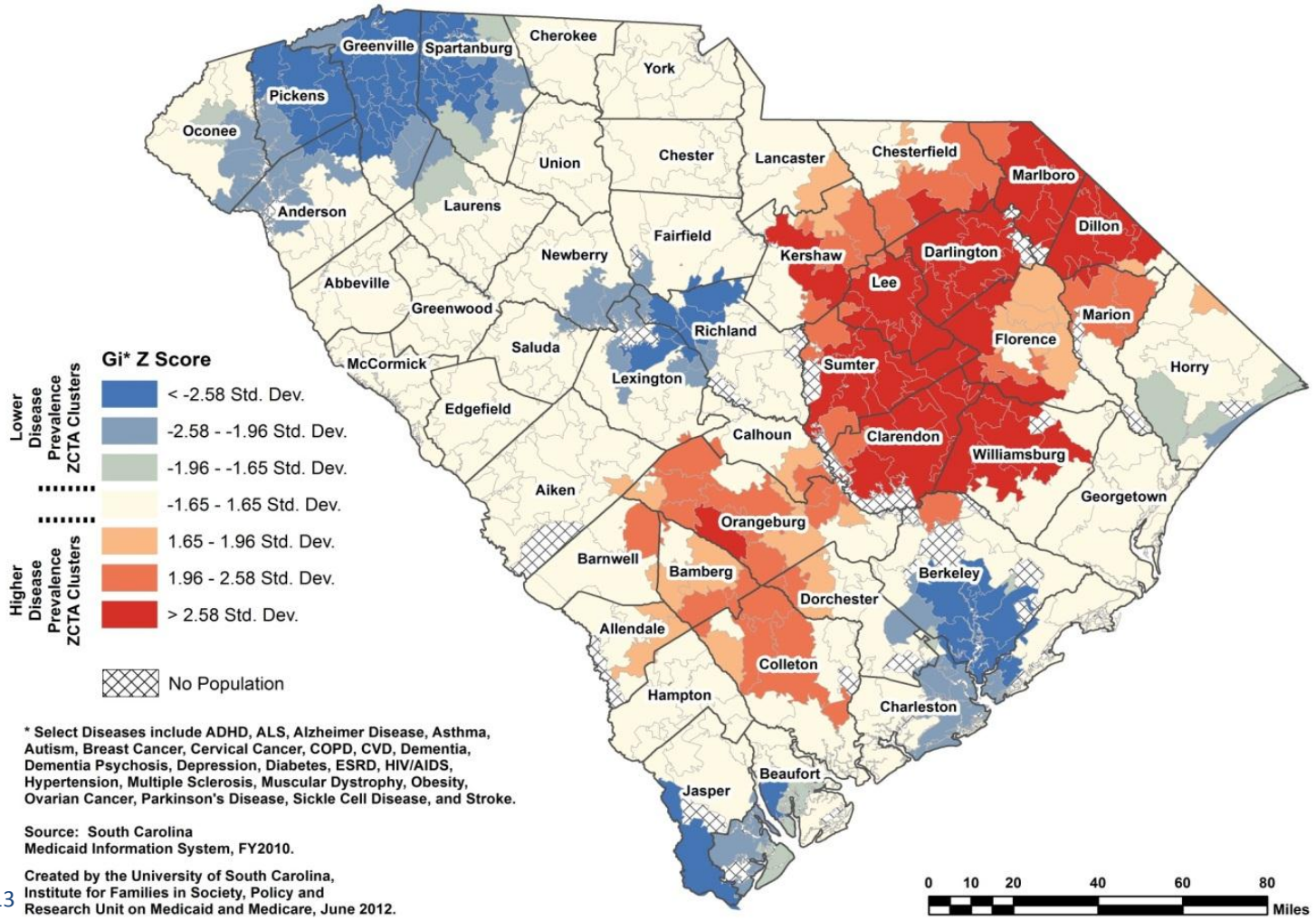


Notes: Data represent adults 20 years and older. Prevalence rate rankings are based on county rate distribution quartiles.

Source: CDC BRFSS, 2010.

Created by the University of South Carolina, Institute for Families in Society, Division of Policy and Research on Medicaid and Medicare, August 2012.

Prevalence of Select Diseases* among South Carolina Medicaid Recipients 19 Years and Older by ZCTA, FY 2010 Getis-Ord Gi* Statistic (Hot Spot Analysis)



* Select Diseases include ADHD, ALS, Alzheimer Disease, Asthma, Autism, Breast Cancer, Cervical Cancer, COPD, CVD, Dementia, Dementia Psychosis, Depression, Diabetes, ESRD, HIV/AIDS, Hypertension, Multiple Sclerosis, Muscular Dystrophy, Obesity, Ovarian Cancer, Parkinson's Disease, Sickle Cell Disease, and Stroke.

Source: South Carolina Medicaid Information System, FY2010.

Created by the University of South Carolina, Institute for Families in Society, Policy and Research Unit on Medicaid and Medicare, June 2012.

ACA Overview and Impact

South Carolina
Health & Human Services

SC ACA Timeline

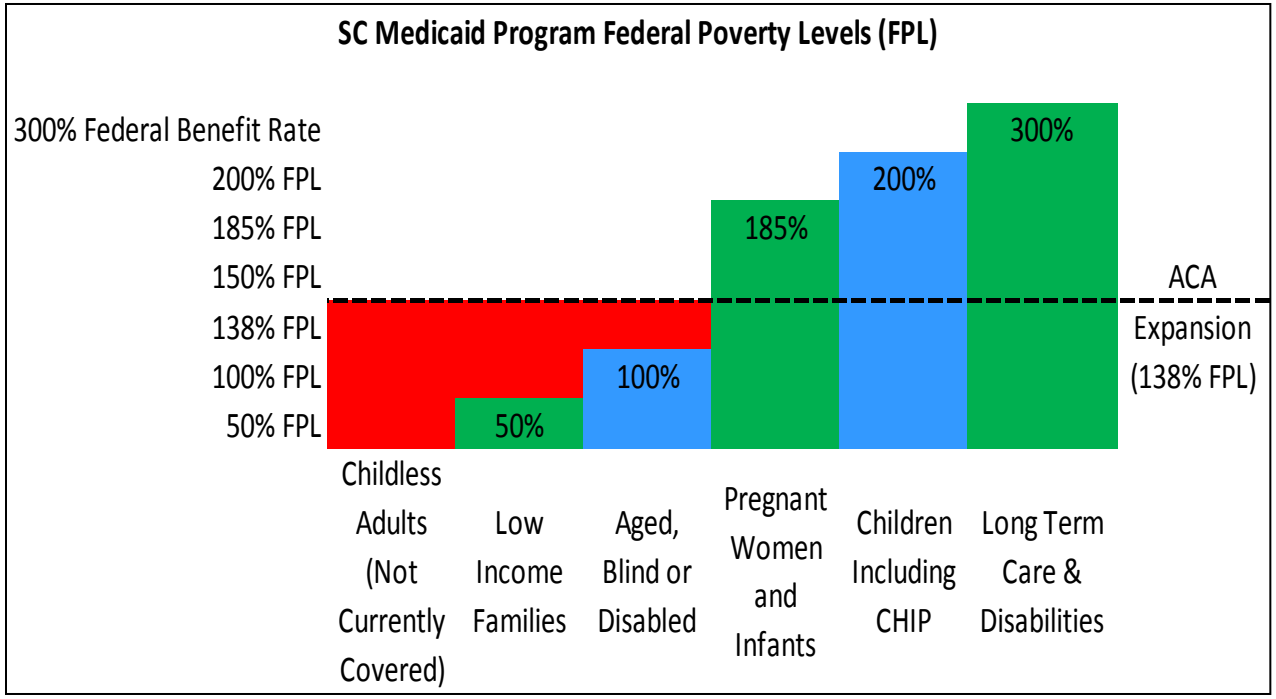
South Carolina Health & Human Services

- 2013
  - Temp bump in Primary Care Payments
  - January: State exchanges certified
  - Qualified Health Plans certified
  - October: Exchanges begin enrollment for Medicaid and qualified health plans for Jan ‘14
  - New Medicaid Application in place
- 2014
  - Individual Mandate/penalty/tax begins
  - Advance premium tax credits begin
  - Optional Medicaid Expansion
  - MAGI for eligibility determination, exchanges, streamlined enrollment
  - New rating rules for private insurance

These are high-level program deadlines required by the statute that the public and many stakeholders will generally be aware of

Medicaid Expansion in SC: 513,000 New Enrollees by 2015

South Carolina Health & Human Services



Without Medicaid Expansion:

101,000 may drop private insurance

162,000 currently eligible but unenrolled will join Medicaid.

With Medicaid Expansion:

193,000 could drop private insurance to go on Medicaid

344,000 people will become newly eligible for Medicaid

Medicaid Expansion in SC: 1.7M Enrollees by 2020

South Carolina Health & Human Services

Projected Enrollment Growth				
Population		**FY 2013**	**SFY 2014**	**FY 2020**
Current Programs				
	Medicaid	938,000	985,000	1,077,000
	CHIP	70,000	74,000	80,000
Total Current Programs		**1,008,000**	**1,059,000**	**1,157,000**
After ACA - 67% Average Participation				
Expansion Population (Newly Eligible)				
	Uninsured Parents/Childless Adults		252,000	267,000
	Currently Insured Parents/Childless Adults		92,000	98,000
	SSI		7,000	8,000
Eligible but Unenrolled in Medicaid*				
	Currently Insured Children/Parents		101,000	107,000
	Uninsured Children		13,000	14,000
	Uninsured Parents		48,000	51,000
Total Expansion from ACA Participants			**513,000**	**545,000**
Total Medicaid Population After ACA		**1,008,000**	**1,572,000**	**1,702,000**

* Estimates indicate that 162,000 people currently eligible but unenrolled will enroll in Medicaid even without the Medicaid expansion

Source: Milliman ACA Impact Analysis

Without Medicaid Expansion:

101,000 may drop private insurance

162,000 currently eligible but unenrolled will join Medicaid.

With Medicaid Expansion:

193,000 could drop private insurance to go on Medicaid

344,000 people will become newly eligible for Medicaid

Current Medicaid Needs $2.4B More 2014-2020 Expanding Costs an Additional $613M to $1.9B

South Carolina Health & Human Services

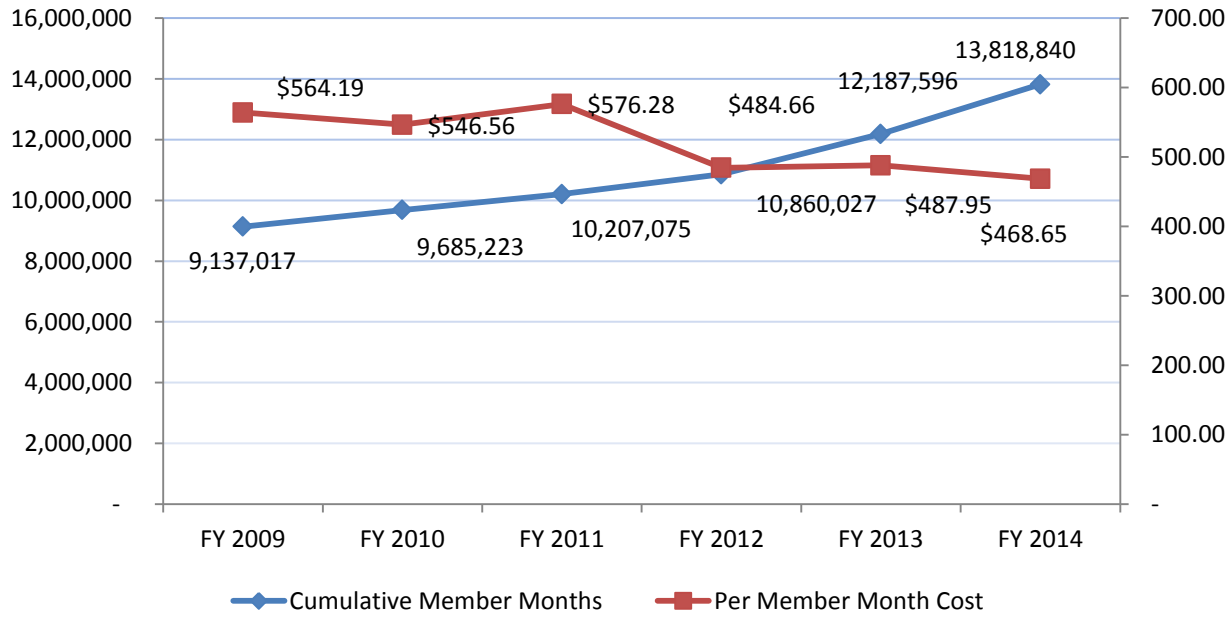
November 2012 Medicaid Expansion Projections SFY 2014 to 2020 (in $ millions) - State Expenditures			
Category	**Without Expansion – Welcome Mat Effect (Best Estimate Participation)**	**With Expansion to 138% FPL (Best Estimate Participation)**	**With Expansion to 138% FPL (100% Participation)**
Pre-ACA : Expected Program Growth	**$2,071.3**	**$2,071.3**	**$2,071.3**
ACA Impact to Current Program			
Pharmacy Rebate Savings – MCO	**($477.3)**	**($477.3)**	**($477.3)**
DSH Payment Reduction	**($166.6)**	**($166.6)**	**($166.6)**
CHIP Program – Enhanced FMAP	**($128.6)**	**($128.6)**	**($189.9)**
ACA Impact - Currently Eligible			
Eligible but Not Enrolled - Uninsured	**$520.5**	**$520.5**	**$746.6**
Eligible but Not Enrolled - Currently Insured	**$476.4**	**$476.4**	**$790.3**
CHIP Program – Enhanced FMAP	**($66.3)**	**($66.3)**	**($97.9)**
ACA Impact - Expansion Population			
Expansion Population - Uninsured	**$0.0**	**$330.3**	**$407.9**
Expansion Population - Currently Insured	**$0.0**	**$120.6**	**$215.2**
SSI Eligible	**$0.0**	**$14.8**	**$14.8**
Health Insurer Assessment Fee	**$138.0**	**$149.7**	**$164.4**
Physician Fee Schedule Change	**$3.5**	**$3.5**	**$3.6**
Expenditure Shift from Other State Agencies	**$0.0**	**$3.5**	**$4.8**
Administrative Expenses	**$61.1**	**$193.4**	**$285.5**
Sub-total	**$360.7**	**$973.9**	**$1,701.4**
Non-Medicaid Other State Agency Offsets	**$0.0**	**($43.7)**	**($61.4)**
Sensitivity - Increase Physician Reimbursement to 100% Medicare	**$0.0**	**$620.8**	**$665.1**
Sub-total	**$360.7**	**$1,551.0**	**$2,305.1**
Post-ACA : Expected Program Growth	**$2,432.0**	**$3,622.3**	**$4,376.4**

Source: Milliman ACA Impact Analysis

Budget Driver History

South Carolina Health & Human Services

Comparison of Cumulative Member Months to Costs



Source: Milliman Spring 2012 Forecast and Department budget documents

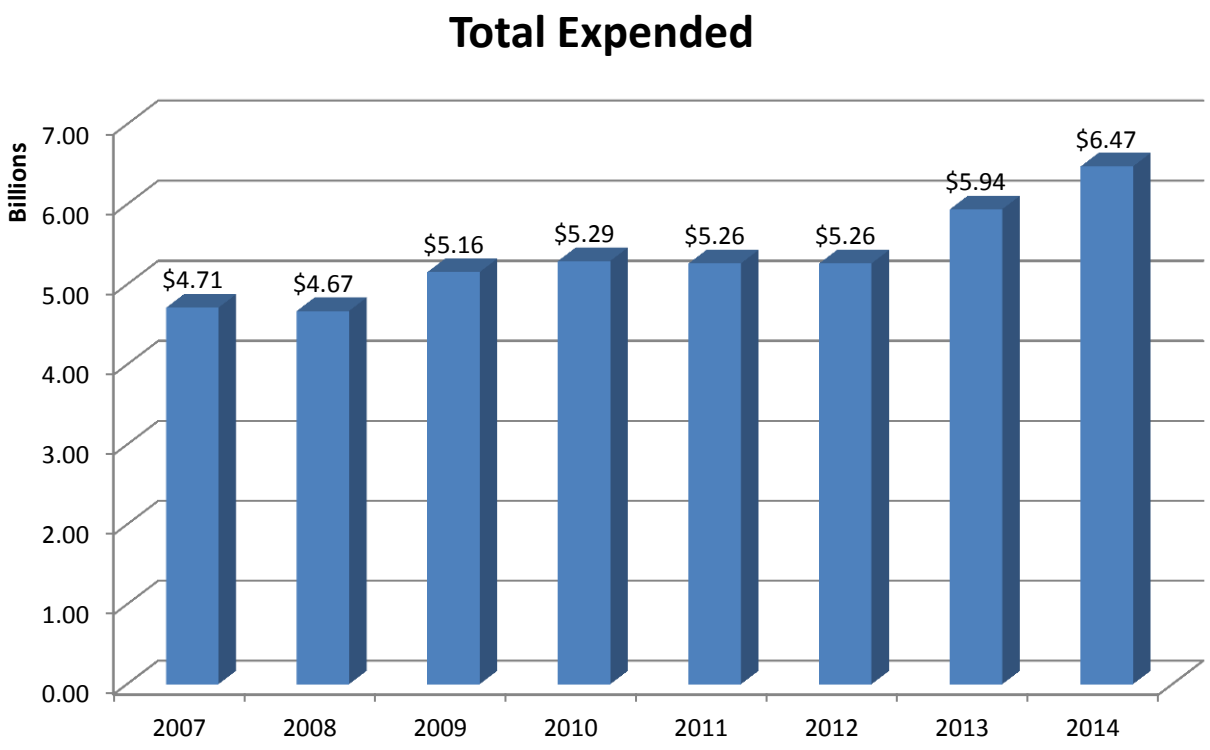
Cumulative member months are currently projected to grow 46% from FY 2009 to budgeted FY 2014

PMPM is currently projected to decline 14% from FY 2009 to budgeted FY 2014

Enrollment growth is our major cost driver

SC Medicaid Total Expenditures

South Carolina Health & Human Services



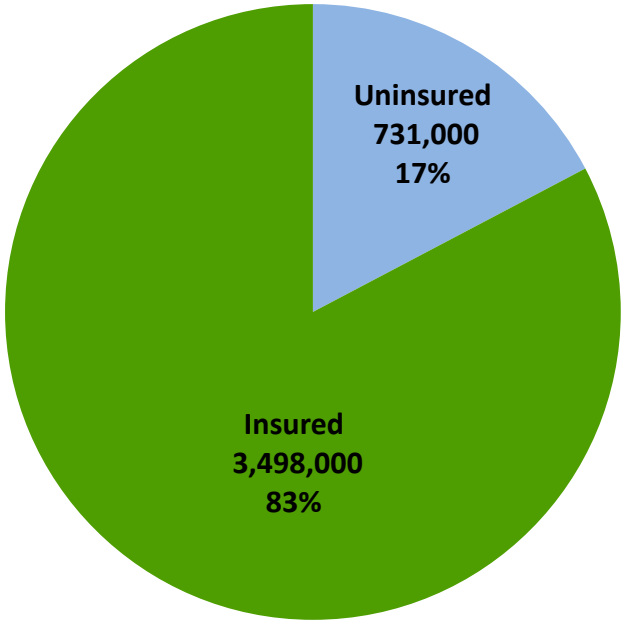
The Medicaid expenditures have grown 38.21% from FY2007 to FY2014.

* 2007-2012 are actual expenditures, 2013 and 2014 are projected expenditures.

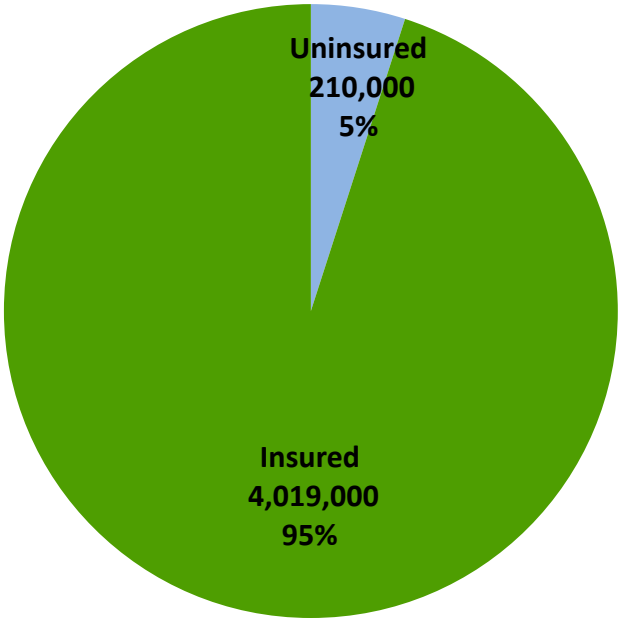
ACA Impact on SC Access to Affordable Health Insurance Coverage

South Carolina Health & Human Services

Pre-ACA: 2013 Uninsured



Post-ACA: 2015 Uninsured



By 2015

Over half a million people will gain access to affordable health insurance coverage as defined under the new health care law

The system will have a difficult time absorbing this growth – it may require between 250-300 full-time physician equivalents

Income Profile of the Uninsured in SC

South Carolina Health & Human Services

FPL	<100% FPL	100% FPL to 138% FPL	139% FPL to 200% FPL	201% FPL to 399% FPL	>400% FPL
2012 Annual Income - Family of 4	<$23,050	$23,051 to $31,809	$31,810 to $46,100	$46,101 to $69,150	>$69,150
Uninsured	284,000	106,000	131,000	127,000	83,000
% of Uninsured	39%	15%	18%	17%	11%

* Source: 2011 American Communities Survey, projected to 2014

How Will the Market Change with ACA's Optional Medicaid Expansion?

South Carolina Health & Human Services

Category	Current Market	2014 No Expansion	2014 With Expansion
Uninsured	731,000	210,000	42,000
Medicaid	1,059,000	1,228,000	1,572,000
Private Market	2,439,000	2,358,000	2,266,000
Exchange	0	433,000	349,000
Medicare (Non-Duals)	657,000	657,000	657,000
Total	**4,886,000**	**4,886,000**	**4,886,000**

* Non-citizens are not included in population numbers above

Source: 2011 American Communities Survey, projected to 2014

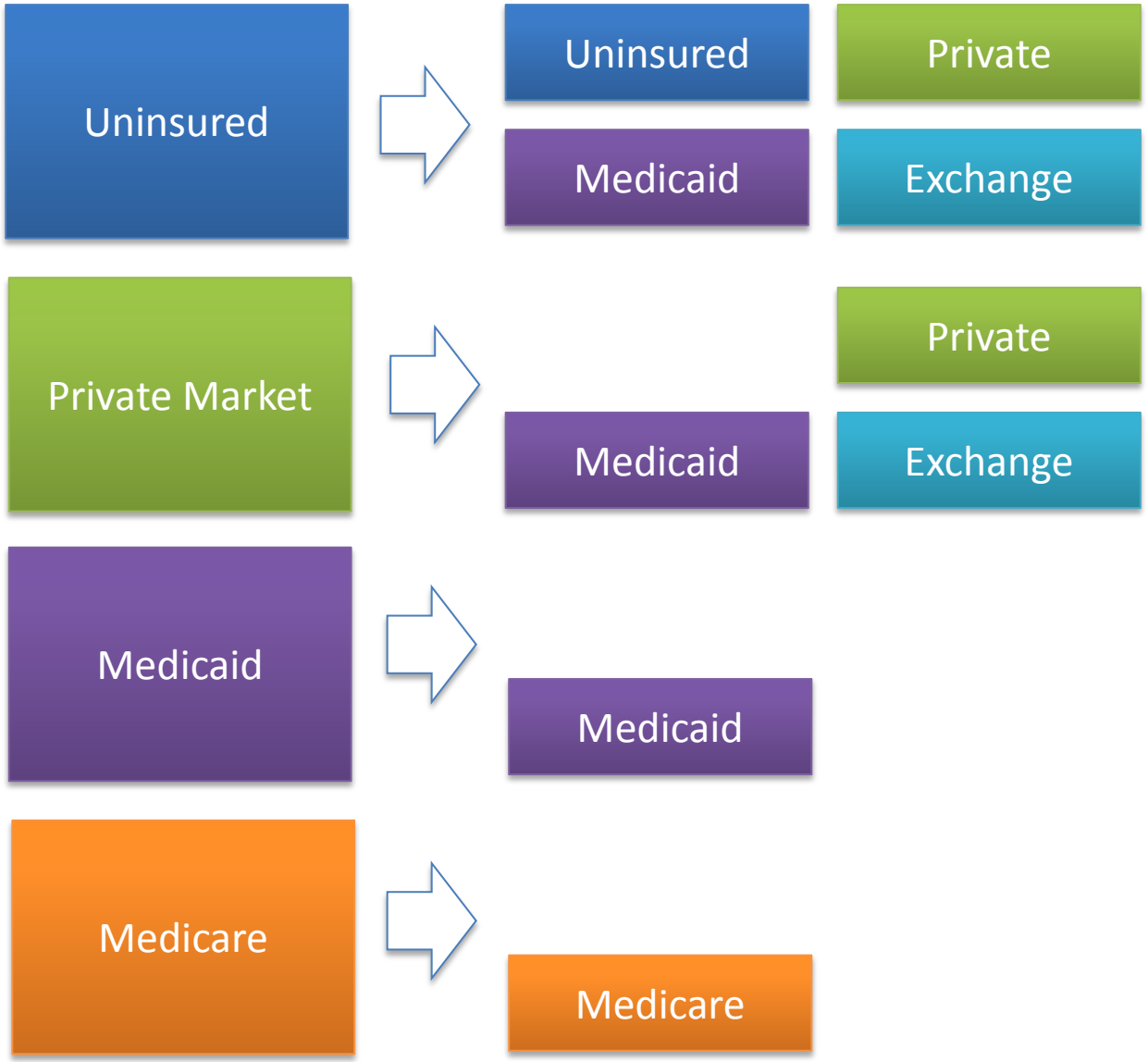
Significant growth will occur in the number of insured adults in both the Medicaid and private market

71% (521,000) of SC's uninsured are projected to gain access to affordable health insurance even without Medicaid expansion

This will inject significant new revenue into the health care system

How Will Payments Change After ACA?

South Carolina Health & Human Services



Even without Medicaid expansion, the ACA will result in massive changes to the payor mix in SC

For example, the uninsured will gain insurance through Medicaid, federal exchanges or private market insurance

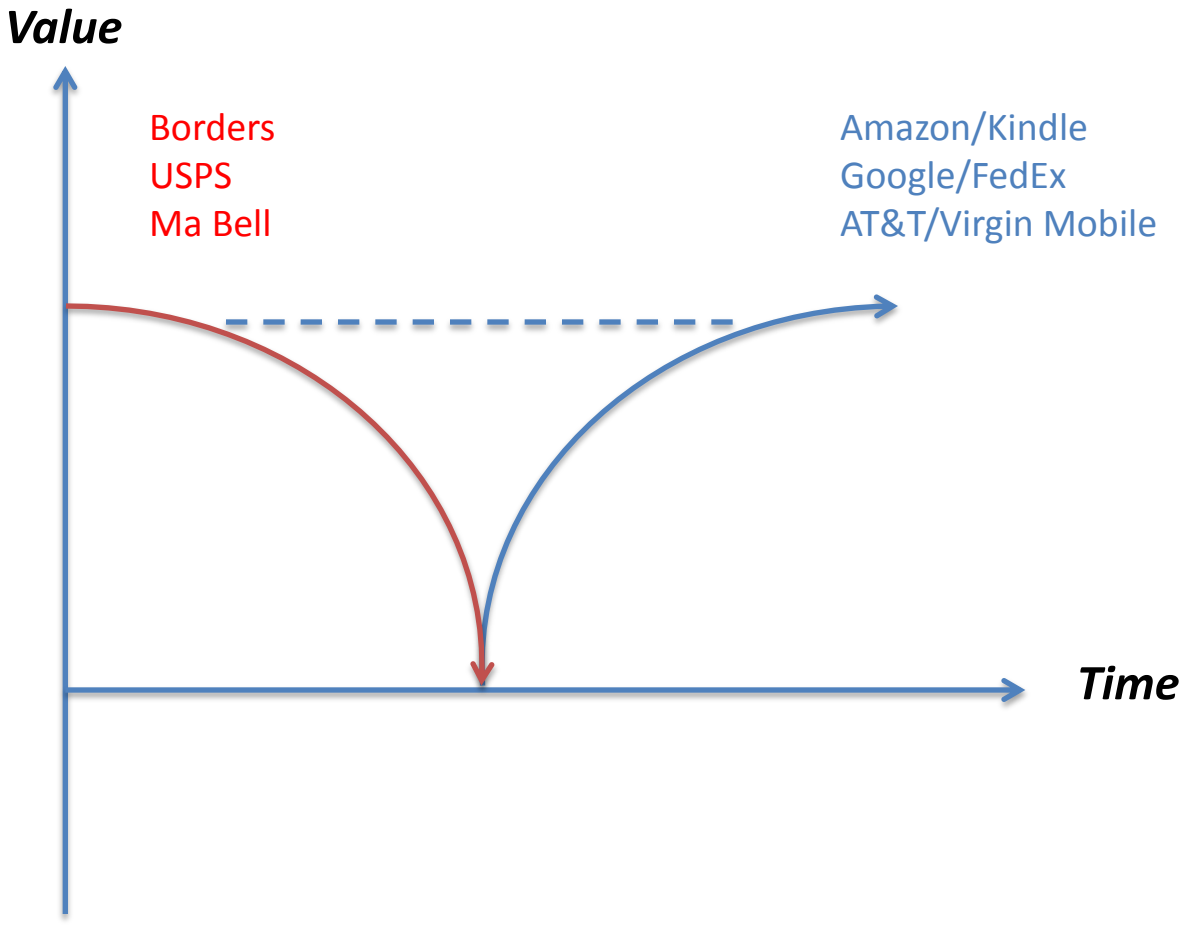
Hospitals are concerned about the net effect on their bottom line. Some changes pay more, some pay less

Understanding changes in the private market is critical to the Medicaid budget

South Carolina's Alternative

Health Care Business Model Must Change

South Carolina Health & Human Services



Business models have life cycles

Inpatient treatment is giving way to ambulatory treatment

Stand-alone providers are giving way to integrated services

How does the system bridge the gap without losing full value of the fixed investments?

SCDHHS Strategic Pillars

South Carolina Health & Human Services

Payment Reform

- MCO Incentives & Withholds
- Payor-Provider Partnerships
- Catalyst for Payment Reform
- Value Based Insurance Design

Clinical Integration

- Dual Eligible Project
- Patient Centered Medical Homes
- Behavioral Health
- Telemedicine/Monitoring

Hotspots & Disparities

- Birth Outcomes Initiative
- Express Lane Eligibility
- Foster Care Coordination
- Convenient Care Clinics
- Community Health Workers

Improve value by lowering costs and improving outcomes:

Increased investment in education, infrastructure and economic growth

Shift of spending to more productive health and health care services

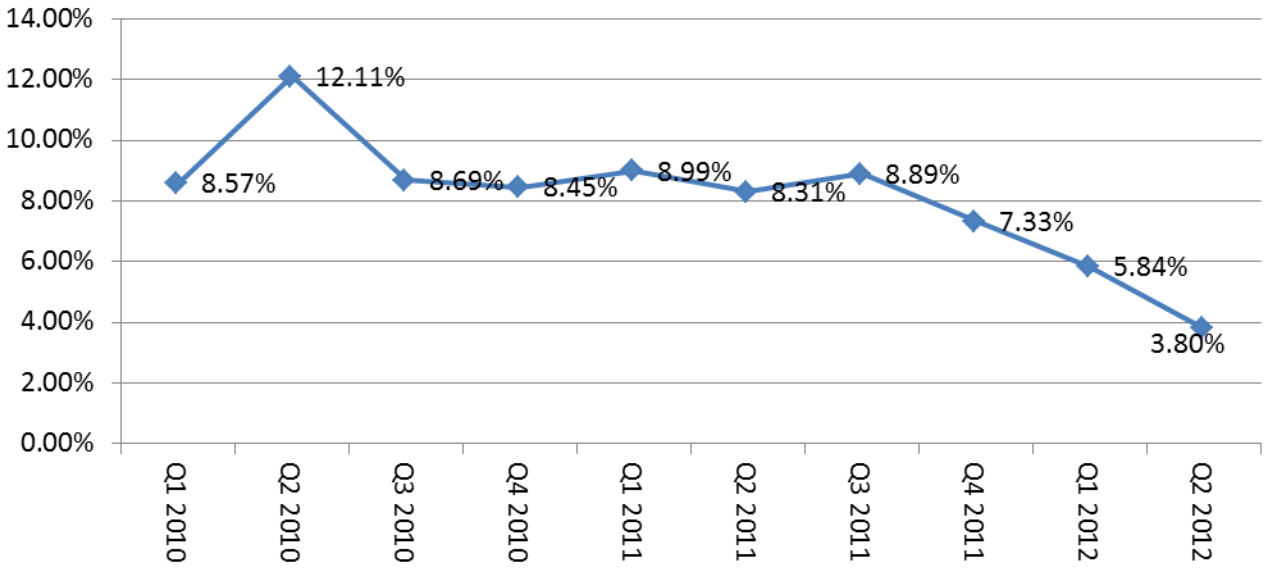
Increased coverage/treatment of vulnerable populations

An emphasis on public health

Hotspots & Disparities: Birth Outcomes Initiative

South Carolina Health & Human Services

Medicaid Rates with Documented Elective Inductions as a Subset of the =>37 to <39 Weeks Delivery



In July 2011, SCDHHS implemented a series of birth outcome initiatives to reduce the number of elective inductions and cesarean deliveries, as well as NICU hospital stays

SC is one of the first states in the nation to no longer pay for early elective deliveries; last year these harmful deliveries were reduced by half

Milliman estimates savings of $6M for first quarter FY 2013

Governor's Investment in Rural Hospitals

South Carolina Health & Human Services

		Rural Area Designation				
	CAH	Isolated	Small	Large + HPSA	Large W/O HPSA	Large - TLB of 90 Or Less
Number of Facilities	5	2	6	3	11	3
Total Number of Beds (HFY 2011)	125	90	302	315	1,835	229
Percent Change 2008-2011	-18.30%	-19.49%	-24.49%	-12.49%	-8.85%	-15.71%
# Losing Bed Days 2008 - 2011	4	2	5	3	9	3
2011 Total Occupancy Rate	18.49%	48.01%	31.74%	28.46%	50.68%	37.51%
2011 Percentage of Medicaid Days	8.25%	16.47%	21.01%	20.49%	19.77%	24.52%
4 Year Cumulative Profit (Loss) $	($7,141,295)	($31,459,033)	$34,363,582	($33,767,551)	$381,308,641	$9,983,161
# Operating at a Loss 2008 - 2011	4	2	4	2	0	1
# Operating at a Loss 2011	2	2	3	2	2	1

A Path Forward

South Carolina Health & Human Services

- Continue working on improving value in the health system
- Manage and measure mandated Medicaid and private market enrollment growth under ACA
- Set performance expectations for the health system to improve value
- Invest in health hotpots
- Apply for flexibility in 2017 when ACA waivers are available

The amount of implementation risk is significant

Just expanding coverage does not mean meaningful connection will be made between providers and patients

Projection risk is very high

A conservative budget approach is imperative

Additional Slides

DSH Payments for Uncompensated Care

South Carolina Health & Human Services

- DSH pays hospitals for the cost of uncompensated care (UCC). This year SCDHHS will pay $461.5M in DSH which covers about 57% of UCC.
- Even without Medicaid expansion the number of uninsured will decrease as coverage from federal health insurance exchanges and Medicaid grows, ***so not as much DSH will be needed in the future.***
- DSH is just one type of hospital payment. If a limit is placed on how much federal money can be spent on DSH, the state can simply shift its matching dollars to other types of hospital payments.

Federal reductions under ACA do not begin until 2017

The executive budget for SFY 2014 doesn't reduce DSH payments

This results in extra payments to hospitals and provides transition funds the hospitals requested

The Governor has committed to reimbursing rural hospitals 100% of uncompensated care

The Taxes Leaving SC Argument is Overstated

South Carolina Health & Human Services

- Several hundred billion dollars of new taxes were passed to fund the ACA
- Some argue that none of this will return if we don't expand. This is untrue:
  - An additional 0.9% Medicare tax on high-income earners ($200k single/$250 married) will go to the Medicare trust fund and **will return** since there are no changes to Medicare enrollment
  - An additional 3.8% investment income tax on high income earners ($200k single/$250k married) goes into the federal treasury. It may be used to reduce federal deficits or **return to SC** through military spending, education, infrastructure, etc., not exclusively health care
  - 71% (521,000) of SC's uninsured are projected to gain access to affordable health insurance coverage under federal exchanges and through growth in the current Medicaid program. These populations will be generously subsidized through federal tax credits or our current FMAP **so the revenue will return**

Even with these taxes, federal spending will still run a deficit. The CBO only projects a shrinking of the federal deficit due to ACA – not an elimination

The CMS actuary believes it is unlikely that the Medicare reimbursement reductions will happen as planned, requiring cuts elsewhere (like Medicaid)

The federal government looks ready to raise taxes even further in next few months to help pay for deficits – not spending

SCHA Jobs Report

South Carolina Health & Human Services

- Harvard economist Katherine Baicker – who has conducted studies showing Medicaid improves health – also writes in an article ***The Health Care Jobs Fallacy***:
  - "…this focus on health care jobs is misguided."
  - "Salaries for health care jobs are not manufactured out of thin air – they are produced by someone paying higher taxes, a patient paying more for health care, or an employee taking home lower wages..."
  - "Additional health care jobs leave Americans with less money to devote to college tuition and mortgage payments, and the US government with less money to perform all other governmental functions."

USC performed a similar analysis in 2011. SCHA argued Medicaid cuts would cost several thousand jobs

After the cuts health-care jobs in SC increased several thousand from 153,400 in April '12 to 160,600 in Oct. '12 (DEW)

Georgetown University projects health care jobs will grow by 5.6M with or without ACA

SCHA Jobs Report

South Carolina Health & Human Services

- Impact analysis generally ignores constraints on the labor market (such as physician and nurse shortages). Their job growth is theoretical.
- Impact analysis ignores the fact that jobs created in the analysis could have been created elsewhere, and in fact compete, in other sectors (such as transportation).
- Impact analysis assumes that the market under analysis is operating at the desirable efficiency, which health care clearly is not.

The report double counted several hundred million dollars of annual spending on the uninsured, considering "out of scope"

The report did no sensitivity analysis, considering it "out of scope"

The report considered labor constraints in SC "out of scope"


End