

State of South Carolina Department of Community Health Patient Protection and Affordable Care Act Medicaid Agency Financial Impact Analysis

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State Medicaid Agency Financial Impact SFY 2014 – SFY 2020

- **Milliman letter to Anthony Keck, Medicaid Director
Dated: April 6, 2012**
- **Analysis focused on the financial impact of the Patient Protection and Affordable Care Act (PPACA) on the state Medicaid Agency budget**
- **Analysis was not intended to review any of the following:**
 - **State employee health care expenditures**
 - **State tax revenues**
 - **Employers purchasing health insurance**
 - **Individuals purchasing health insurance**
 - **Hospital and Medical Professionals : Income, expenses, bad debt, uncompensated care or other financial issues of health care providers**
 - **Health Insurance Exchange related taxes, licenses, or fees**
- **Analysis has not been updated to reflect the Supreme Court decision**

Summary of Results – SFY 2014-2020 Baseline (millions \$)

	State and Federal	State Only
Current Medicaid and CHIP Programs	\$45,591.2	\$14,262.4
ACA Related Expenditures	14,424.6	1,085.4
Sub-Total Medicaid Expenditures	\$60,015.8	\$15,347.8
Provider Reimbursement Sensitivity Impact	2,703.5	589.5
Total Medicaid Expenditures	\$62,719.3	\$15,937.3

Summary of Results – SFY 2014-2020 (millions \$)

	Baseline	Full
Medicaid Assistance Expansion to 138%		
• Uninsured - Expansion Population	\$303.8	\$376.4
• Crowd-out Population – Expansion	125.4	221.7
• Crowd-out Population – Eligible	433.5	622.6
• Eligible but Unenrolled Population	598.4	854.8
SSI Eligible Population	13.2	13.2
Pharmacy Rebate Savings – MCO	(335.5)	(335.5)
Health Insurer Assessment Fee	101.7	109.8
DSH Payment Reduction	(217.5)	(217.5)
CHIP Program – Enhanced FMAP	(130.2)	(130.2)
Physician Fee Schedule Change	0.0	0.0
Administrative Expenses	192.6	192.6
Sub-Total	\$1,085.4	\$1,786.5

Summary of Results – SFY 2015 vs. 2020 Baseline (millions \$)

	SFY 2015	SFY 2020
Medicaid Assistance Expansion to 138%		
• Uninsured - Expansion Population	\$0.0	\$117.6
• Crowd-out Population – Expansion	0.0	48.6
• Crowd-out Population – Eligible	60.9	74.8
• Eligible but Unenrolled Population	84.0	103.2
SSI Eligible Population	0.0	5.1
Pharmacy Rebate Savings – MCO	(43.7)	(54.5)
Health Insurer Assessment Fee	11.3	20.1
DSH Payment Reduction	(7.1)	(56.8)
CHIP Program – Enhanced FMAP	0.0	(9.1)
Physician Fee Schedule Change	0.0	0.0
Administrative Expenses	28.2	29.3
Sub-Total	\$133.6	\$278.4

Financial Analysis – Key Assumptions

- Medicaid eligibility for individuals under 65 up to 133% Federal Poverty Level (FPL)
- Estimate using 138% FPL due to 5% income disregard
- U.S. Census Bureau – American Community Survey, Calendar Year 2009
- Trended expansion and unenrolled populations at 1% per year to SFY 2013, 0% per year for SFY 2014 – 2016, and 1.5% per year thereafter
- Federal Medical Assistance Percentages (FMAP) for Expansion
 - 100% in CY 2014, 2015, and 2016
 - 95% in CY 2017
 - 94% in CY 2018
 - 93% in CY 2019
 - 90% in CY 2020+

Financial Analysis – Key Assumptions

- Baseline Participation Analysis
 - 85% for Expansion Uninsured Parents
 - 80% for Expansion Childless Adults
 - 70% for Currently Eligible Children but not Enrolled
 - 70% for Currently Eligible Parents but not Enrolled
 - 75% for Crowd-out Parents
 - 65% for Crowd-out Children
 - 50% for Crowd-out Childless Adults
- Overall participation rate for current eligible but unenrolled and expansion Parents, Adults and Children : 71%
- Overall penetration rate for Children : 91.0% (includes current enrolled)

Enrollment Projections - Baseline

Population	SFY 2015	SFY 2020
Current Program		
Medicaid	893,000	962,000
CHIP	71,000	78,000
Sub-total	966,000	1,040,000
Expansion Population		
Parents / Childless Adults	236,000	251,000
Currently Insured (Crowd-out)		
Children / Currently Eligible Parents	79,000	84,000
Newly Eligible Parents / Adults	97,000	103,000
Unenrolled Eligible – Children / Parents	91,000	98,000
SSI Disabled Eligible	7,000	7,000
Total Medicaid After Expansion	1,476,000	1,584,000

Financial Analysis – Key Assumptions

- Cost per Eligible
 - \$4,600 per year for a Parent or Adult
 - \$1,500 per year for a Child
- Expenditure Trends – Includes both Enrollment and Medical Inflation
 - 4.5% per year for current Medicaid and SSI expansion
 - 5.0% per year for current CHIP enrollees
 - 2.0% per year for Medicaid Assistance, Other State Agencies
 - 1.0% per year for Disproportionate Share Hospital Payments
 - 3.0% for expansion, crowd-out and eligible but unenrolled in SFYs 2014 – 2016
 - 4.5% for expansion, crowd-out and eligible but unenrolled in SFY 2017+
- Trend rates assume SCDHHS will implement policy actions to maintain trend rates at the levels illustrated
- CMS Office of the Actuary Trends were 6.7% from FFY 2009 – 2013 and projected at 7.9% for FFY 2015 – 2019 for national Medicaid expenditures

Key Assumptions – Pharmacy Rebate

- PPACA increased Medicaid brand name and generic prescription drug rebates
 - Increase in prescription drug rebates are to accrue 100% to the Federal government
 - However, current state Medicaid rebates are held harmless due to the increase in the pharmacy rebate
- PPACA extended the pharmacy rebates to pharmacy expenditures incurred under Medicaid managed care health plans
- Estimated a 48% rebate on approximately 18.5% of managed care expenditures

Key Assumptions – Health Insurer Assessment Fee

- PPACA created an annual fee on health insurance providers
 - \$8 billion in CY 2014, \$14.3 billion in CY 2018 and increases by the rate of growth in health insurance premium rates in CY 2019+
 - Annual fee is paid, in general, by for profit health insurance carriers
 - Specific exceptions to the health insurance fee
 - Health insurance assessment fee is not tax deductible
- Currently, all Medicaid health plans in S Carolina would be required to pay fee
- Actuarial soundness requires the inclusion of an allowance for the health insurance fee
- 1.4% in 2014 and 2.5% in 2015+
- Impact to state Medicaid budget since all fees accrue to federal government with SC DHHS paying state share of fee

Key Assumptions – Other Fiscal Impacts

- Disproportionate Share Hospital (DSH) Payments
 - DSH payments are scheduled to be reduced on a Federal Fiscal Year basis coinciding with the reduction in the number of uninsured
 - Model reflects the full DSH reduction percentages as illustrated in PPACA
- CHIP Program Enhanced FMAP
 - PPACA provides an additional 23% enhanced FMAP for FFY 2016 through FFY 2019
 - Additional FMAP limited to 100% : Included 20.7% enhanced FMAP for SC DHHS
- Administrative Expenditures
 - \$240 per recipient per year from October 1, 2013 through September 30, 2014 and \$160 per recipient on October 1, 2014 and thereafter
 - 2% inflation adjustment beginning in 2015
 - 1.5% per year additional growth beginning in SFY 2017 for expansion, crowd-out and eligible but unenrolled populations
 - 1.5% per year additional growth for current eligible populations
 - 70.0% federal financial participation for administrative expenditures

Key Assumptions – Physician Fee Schedule

- PPACA reflects an increase in payments to 100% of the Medicare fee schedule for primary care practitioners for evaluation and management services
 - Calendar years 2013 and 2014 only
 - Increase receives 100% federal matching
- Sensitivity analysis estimated the fiscal impact of permanently increasing the physician fee schedule to 100% of the Medicare fee schedule for all physicians and related health care services
- PPACA Financial Impact Analysis – values in millions \$

	Baseline	Full
Total Fiscal Impact	\$1,085.4	\$1,786.5
Sensitivity Analysis – Fee Schedule Increase	589.5	624.2
Total Fiscal Impact with Sensitivity	\$1,674.9	\$2,410.7

Non-Medicaid Financial Issues SFY 2014 – SFY 2020

- State Government
 - Health care cost for state employees
 - Exchange related fees for individual health insurance reinsurance pool
 - Changes in State and local income taxes due to changes in health care economic activity
 - State only (i.e., non-federally matched) health care expenditures that may be converted to Medicaid (i.e., federally matched)
- Health Insurance Carriers
 - Health insurance assessment fee and federal corporate income taxes
 - Changes in individual insurance rating rules
 - Reporting requirements of the Health Insurance Exchange
 - Essential Health Benefits
 - Exchange related fees for individual health insurance reinsurance pool
 - Administrative costs associated with risk adjustment program
- Employers
 - Essential health benefits
 - Affordability test penalty payments
 - Exchange related fees for individual health insurance reinsurance pool

Non-Medicaid Financial Issues SFY 2014 – SFY 2020 (cont'd)

- Individuals
 - Changes in individual insurance rating rules
 - Requirement of health insurance coverage
 - Premium tax credits and cost sharing credits
- Providers
 - Reduction in Medicare reimbursement to hospitals
 - Changes in bad debt or uncompensated care
 - New provider taxes for targeted health care services
 - Access to care
 - Loss of free care pool
- This is not an exhaustive list. Further, the list does not consider the non-financial implications associated with the current health care delivery system in the State of South Carolina.

Limitations

Milliman has prepared the information in the presentation as a summary of the analysis presented in our April 6, 2012 correspondence. The correspondence was developed for the specific purpose of assisting in the analysis of the financial impact of the PPACA on the Medicaid assistance expenditures. Milliman does not intend to benefit or create a legal duty to any third party. We make no representations or warranties regarding the contents of the presentation or the letter to third parties. The material included in the presentation should be reviewed in conjunction with the full April 6, 2012 correspondence.

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