REPEAL AND REPLACE:
IMPLICATIONS FOR MEDICAID
INTRODUCTION

Since the publication of our recent report titled “Grading Obamacare While Speculating About Trump: Separating Fact from Fiction” on December 21, 2016, President Donald Trump has been inaugurated, executive orders issued and alternative proposals generated. The American Health Care Act, introduced March 6, described by conservative Republicans as “Obamacare Lite”, has already cleared the House Ways & Means and House Energy & Commerce Committees, and is headed to the House Budget Committee; House vote is targeted prior to the April 10 recess. Challenges from the right (“Freedom Caucus”) and left (Democrats) create uncertainty regarding its future, especially in the Senate where Republicans have a narrow 52-48 voting margin.

In this article, we focus on Medicaid, an entitlement program providing insurance coverage for 68 million Americans and the Trump administration’s initial target for reform. Medicare, with the advocacy of AARP and political support from millions of aged Americans, will be far more difficult to reform. In addition, Medicare, unlike Medicaid, is largely administered from a central focal point, the Centers for Medicare and Medicaid Services (CMS), whereas Medicaid represents a decentralized program with significant variation among the 50 states.
LIKELY WINNERS AND LOSERS
(BASED ON ASSUMPTIONS)
Alvarez & Marsal (A&M) expects the following reform scenario for Medicaid based on the likelihood that the Republican American Health Care Act will not be approved without significant changes:

- States will be able to elect to receive federal funding for State Plan services in the form of per capita allotments or block grants. All states will be required to continue to provide basic coverage to mandated groups.

- States most likely to elect per capita allotments are states that have not adopted Medicaid expansion. These states will draw a federal match on program services up to an established cap. CMS will prescribe an income limit — likely 100 percent of the federal poverty level (FPL) — and will allow increases in the cap as beneficiary enrollment increases.

- States most likely to elect block grants are those states with robust Section 1115 demonstration waivers. These states may continue to reform their programs through “global waivers.”

- States that have adopted Medicaid expansion will be encouraged to transition expanded populations to nonpublic coverage options. For those that remain eligible for Medicaid, an enhanced match will decrease over time to be consistent with the federal match on traditional Medicaid services.

- States will be encouraged to use personal responsibility provisions such as premiums and copayments (as per Indiana). Federal personal responsibility mandates are unlikely due to the difficulty and cost to operationalize and collect.

- The Federal Matching Assistance Percentage (FMAP), the share of federal funding for Medicaid services and an approach for computing annual increases, will serve as a negotiating tool to pass “repeal and replace” legislation and achieve a predetermined budget target.

- Disproportionate Share Hospital (DSH) payment reductions authorized by the ACA to begin in FY2018 and extend through FY2025 will be pulled back with increased allotments going to states that have rejected Medicaid expansion. This signals an anticipated reversal in the downward trend of uncompensated care costs and potentially limits the availability of Delivery System Reform Incentive Payment (DSRIP) funding.

- Federal payments for DSH, administrative costs and other fees will be carved out of a per capita allotment. Notably absent from mention in proposed “repeal and replace” plans, home and community-based services (HCBS) authorized under 1915(c) waivers may also be carved out. These waivers are essential to ensuring continued rebalancing with expensive institutional services and to meeting expectations established by the Supreme Court’s Olmstead decision.

- States electing block grant options will be granted broad flexibility in program design. These states will be required to continue coverage as per statutory mandates and will be pressed to have a comprehensive strategy to prevent fraud, waste and abuse.
**Winners**

- **Medicaid managed care organizations (MCO’s).** Enrollment has been steadily increasing across the country, with extensions to high-cost populations, i.e., dual-eligible aged, disabled and those with special needs. Industry and health plan consolidation has raised prices and reduced choice. Knowledge, sophistication and analytic capabilities are a competitive advantage relative to Medicaid administrative personnel within the states. However, a possible reduction in the number of Medicaid beneficiaries will pose interim challenges to MCO's.

- **HCBS providers.** The underlying trend toward non-institutional care for the aged and disabled will accelerate.

- **States with historically high Medicaid spending and inefficient service models.** These states will be rewarded with block grants or per capita allotments that are higher, at least initially, in comparison to their more efficient and conservative counterparts. Note, however, CMS may attempt to equalize per capita allotments such that high cost states such as New York may more closely approximate spending in lower cost states such as Florida.

**Losers**

- **State budgets.** Block grants and per capita allotments are oriented toward a reduction in longer-term spending. Medicaid spending at the state level is forecast to increase 5.0–6.0 percent, a rate far exceeding the state budget revenue growth. Block grant and per capita caps prevent “the more you spend, the more you get” mentality. Efficient states are likely to have a lower level of baseline spending than inefficient states.

- **Acute care hospitals.** Reduction in eligible Medicaid beneficiaries will increase the number of uninsured, compounded by possible legislation affecting health exchanges. A reduction is also likely in the rate of Medicaid and Medicare reimbursement growth.

- **Providers.** Reduced federal funding is likely to affect Medicaid rate increases for physicians, hospitals, skilled nursing facilities and home care. Providers will also be negatively affected by a higher rate of uninsured and bad debt expense.

- **People on HCBS waiting lists.** It remains unclear how states will be able to afford to address the needs of people on HCBS waiting lists within a block grant or per capita allotment environment.
Authorized in 1965 by Title XIX of the Social Security Act, Medicaid is an entitlement program that provides healthcare coverage to low-income Americans. Although participation in Medicaid is optional, all states have a Medicaid program. Each state receives federal matching funds to finance services provided under a Medicaid State Plan approved by CMS. While averaging 63.7 percent (2015) nationally, federal matching funds vary by state per capita income. “States have substantial flexibility to design their programs within certain broad Federal requirements related to eligibility, services, program administration and provider compensation.”

Prior to the 2010 enactment of the ACA, Medicaid beneficiaries included low-income children and parents, people who are blind or disabled, and seniors. The ACA enabled states to expand Medicaid by increasing income eligibility limits (from 100 percent to 138 percent of the FPL) and allowing “childless able-bodies adults” to participate. For expansion populations, the ACA provided an initial enhanced federal match of 100 percent, declining to 90 percent by 2020. As of 2016, 31 states had expanded their Medicaid program and there were 68 million Medicaid beneficiaries.

Source: http://kff.org/health-reform/slide/current-status-of-the-medicaid-expansion-decision/
Coverage for Medicaid beneficiaries varies by state. Every state plan must include mandatory services as specified in the federal statute, such as hospitalization, physician services, skilled nursing facility (SNF) care, screening, diagnosis and treatment for beneficiaries under age 21, and home healthcare. States may also elect State Plan coverage of (a) several optional services, such as prescription drugs, Intermediate Care Facility (ICF) services for people with intellectual disabilities, clinic services, therapies, etc.; and/or (b) HCBS. States may also offer HCBS to targeted populations that without the benefit of these services would require care in an institutional setting such as an SNF or ICF. Rather than the State Plan, these services are typically authorized under Section 1915(c) of the Social Security Act and commonly referred to as a 1915(c) HCBS waiver.

For Medicaid expansion populations, states must provide an alternative benefit plan (ABP). A state’s ABP may not necessarily include all of the benefits offered in the Medicaid State Plan. It must, however, include the 10 categories of essential health benefits required by the ACA, provide parity in coverage between physical and mental health services, and offer certain preventive services.

Medicaid also provides financial support to hospitals that serve a large number of Medicaid and low-income uninsured patients. DSH payments supplement Medicaid fees and temper losses for the cost of uncompensated care by making payments to safety net providers at the rate paid by Medicare for inpatient services. Safety net hospitals in Medicaid expansion states have seen a significant reduction in uncompensated care costs, accounting for approximately $4 billion of the total $5 billion reduction in uncompensated care in 2014. ACA’s planned reduction in DSH payments has a corresponding inverse relationship with DSRIP funding. As part of the 1115 waiver process used to design and customize state Medicaid expansion programs, DSRIP provides grants to providers to improve healthcare indicators by creating reimbursement systems that incentivize quality.

Source: Kaiser Foundation, Medicaid.gov
The number of Medicaid beneficiaries and uninsured as a percentage of the total population varies by state. The percentage of Medicaid beneficiaries ranges from a low of 10 percent in North Dakota and Wyoming to a high of 29 percent in West Virginia; the percentage of uninsured ranges from 4 percent in Massachusetts to 16 percent in Texas. Access is far more limited for the uninsured largely dependent upon government safety net hospitals and Federally Qualified Health Centers (FQHCs) for their healthcare.

Children and non-senior adults account for 75 percent of Medicaid beneficiaries, but only 32 percent of Medicaid spending; the aged and disabled account for 25 percent of Medicaid beneficiaries and 68 percent of spending. Spending per enrollee varies substantially across each enrollment group with the aged ($15,346) and disabled ($17,848) far higher than children ($2,679) and adults ($4,044). In FY2012, the average spending per beneficiary was $6,833.
Medicaid beneficiaries and the uninsured are also socially disadvantaged and clinically vulnerable. These populations include racial and ethnic minorities, undocumented and documented immigrants (i.e., with green cards or under Deferred Action for Parents of Americans and Lawful Permanent Residents (DAPA)), and those residing within impoverished and rural areas. Clinically vulnerable populations include those with complex comorbidities (i.e., multiple chronic medical conditions), the disabled, patients with acute and chronic behavioral health issues, and substance abusers.

In 2015, Medicaid spending was $564 billion, with the federal government, through its FMAP, accounting for 63.7 percent of the total. FMAP represents the percentage of federal matching funds of state expenditures and varies from...
state to state based on each state’s population below the FPL. The ACA for newly eligible Medicaid recipients provided 100 percent federal funding for 2014, 2015 and 2016, and provides 95 percent for 2017, 2018 and 2019, and 90 percent thereafter.

The nonfederal or state-funded portion of Medicaid represents 19.3 percent of the average state budget. State funds include revenues raised through income, sales and other broad-based state taxes, as well as restricted revenue sources applied to specific activities such as provider taxes, lottery proceeds, tobacco settlement funds, local funds and bond expenditures for capital projects.4

Total Medicaid spending is forecast to increase at a 5.9 percent compound annual growth rate (CAGR) to reach $1 trillion by 2025.5

Approximately 43 percent of total Medicaid spending, a surprisingly high percentage, is spent with managed care organizations (MCO), followed by spending for FFS acute care and FFS chronic care. The high level of MCO spending reflects a desire by state governments to transfer financial risk from the state budget to the commercial payer. Population health, expenditure, resource allocation and quality data — essential for outcomes and accountability management — is far more limited for MCOs than it is for FFS providers.

Source: CMS National Health Expenditures
Medicaid spending per beneficiary varies widely by state, with New Jersey, at $13,480, more than 2.7 times that of Alabama, at $4,983. The wide range in spending reflects the beneficiary mix between the high cost of the aged and disabled population and low costs for children and adults; the number of beneficiaries in institutional care, primarily nursing homes and, to a lesser extent, intermediate care facilities for people with intellectual disabilities; differentials in payment rates for similar levels and/or types of service (e.g., the Medicaid-to-Medicare physician fee ratio); geographical differences in labor and provider costs; the ability of state Medicaid directors to negotiate contract terms with MCOs; and other factors.

States with Medicaid expansion tend to spend more per beneficiary on Medicaid than those without expansion, reflecting, in general, a more liberal spending policy for social services.

Dual-eligible beneficiaries are those eligible for Medicare and Medicaid — either full benefits, assistance with Medicare premiums, or cost sharing through a Medicare Savings Program such as Qualified Medicare Beneficiary (QMB) or Specified Low-Income Medicare Beneficiary (SLMB) programs. Medicare pays for Part A: hospital, non-institutional (post-acute) SNF care, hospice and some home health; Part B: physician and other professional services, durable medical equipment, home health services; Part C: Medicare Advantage; and Part D: prescription drug benefits.6

Medicare-covered services are paid first by Medicare, as Medicaid is generally the payer of last resort. Medicaid “may cover the cost of care that Medicare may not cover or may partially cover (such as nursing home care, personal care, and home- and community-based services).”7

In 2013, 10.7 million Medicaid beneficiaries — 59 percent aged, 41 percent over the age of 65 and disabled — were dually eligible; 72 percent were eligible for full Medicaid benefits. The dual-eligible population represents 15 percent of all Medicaid beneficiaries and accounts for 33 percent of costs.8 Medicaid spending per dual beneficiary varies widely by state.
MEDIACAID SPENDING PER BENEFICIARY, BY QUARTILE, FY2015

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**Significant Variation in Spending Per Dual-Eligible Beneficiary (Medicaid & Medicare)**

Source: Kaiser Foundation, Medicaid.gov

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Source: Kaiser Foundation
The primary goal of the ACA was to increase coverage and not necessarily to improve the efficiency of effectiveness of care delivery, i.e., manage costs and outcomes. Since implementation, the number of uninsured Americans declined between 2013 and 2015 from 41.0 to 28.5 million, or 35 percent. This number is forecast to fluctuate by approximately +/-2 million by 2025, assuming no legislative or regulatory changes. Nearly three-quarters of individuals newly covered by the ACA gained coverage via enrollment in a state Medicaid program.

The decrease in uninsured is comprised of an increase in people with private health insurance coverage and newly enrolled Medicaid beneficiaries. As of March 2016, more than 12.7 million people were enrolled in state or federal marketplace plans — approximately one-third newly insured. Health exchange participation figures are significantly below earlier CMS and Congressional Budget Office (CBO) projections, which estimated that by 2016, 33 million Americans would be newly covered.9

As of June 2016, Medicaid enrollment had grown by more than 15 million (27 percent). Of the new Medicaid enrollees, 78 percent were enrolled under the expanded coverage criteria since the period before open enrollment (which started in October 2013).10 Medicaid enrollment grew ahead of expectations by 5 million.11

**AFFORDABLE CARE ACT**

**COVERAGE:**
- **Medicaid Eligibility Expansion** to those earning 138 percent of the FPL, including adults without dependents, in participating states
- **Individual Mandate:** if uninsured, 2016 penalty of $695 or 2.5 percent of family income, whichever is greater
- **Employer Mandate:** Employers with >50 full-time employees (>30 hours per week) are required to offer health insurance coverage that meets affordability provisions; i.e., no more than 9.5 percent of gross pay for individual coverage. They will be charged a $2,000 penalty per full-time employee that lacks health coverage
- **Insurers may not deny coverage to individuals for pre-existing conditions,** and must offer the same premiums within the same age and geographical group regardless of gender and pre-existing conditions, except tobacco use
- **Young Adult Coverage:** can remain under parents’ health plan through age 26
- **Health plans are required to provide essential health benefits** (n=10 categories); i.e., ambulatory (outpatient) services, emergency services, hospitalization, pregnancy / newborn, mental health / substance abuse, Rx drugs, rehabilitation, labs, prevention, wellness and chronic disease, pediatric including oral and vision care
- **Elimination of annual and lifetime spending caps**

**ACCESS:**
- Created **Health Exchanges** at the federal and state levels to make “affordable” health plans meeting essential (“basic”) health plan requirements available to uninsured and low-to-moderate income individuals and households
- Employers may not require employees to wait more than 90 days for health insurance eligibility

**AFFORDABILITY:**
- **Subsidies** (in the form of refundable tax credits) available on the state health insurance exchanges for individuals with a household income up to 400 percent of the FPL. Note, average premium subsidy of $291/month
- **No Out-of-Pocket Costs for Preventive Services** (n=66); e.g., annual primary care visit, screenings (e.g., BP, cholesterol, colorectal cancer, depression, diabetes, hepatitis, HIV) and vaccinations
- **Pre-tax Health Savings Accounts (HSAs)** for enrollees in high deductible health plans
- Patients are granted the right to appeal whenever an insurer denies payment for healthcare services
For the entire 2017–2026 period, incremental federal spending for people who the ACA made eligible for Medicaid coverage is projected to be $100 billion per year, whereas the comparable figure for premium exchange subsidies is $90 billion; in total, this equals $190 billion in incremental federal healthcare spending per annum.

Safety net hospitals have been a major beneficiary of Medicaid expansion under the ACA. Safety net hospitals are defined as those with a low income utilization ratio exceeding 25 percent and/or inpatient Medicaid utilization greater than one standard deviation above the mean within a specific state. The number of state and local government safety net hospitals has declined by 17.9 percent since 1999, a rate 10 times the decline in the overall market. A few of the hospitals have converted to not-for-profit status (e.g., University Health Shreveport and Conroy), whereas the majority have closed. A proprietary analysis by A&M highlights the improved earnings before interest, tax, depreciation and amortization (EBITDA) margins associated with hospitals located in Medicaid expansion states.
In 2014, Medicaid DSH payments totaled $18 billion, with the federal government contributing $10 billion and states $8 billion; alternative sources suggest a split of $12 billion and $6 billion, respectively.\textsuperscript{13}

Originally set to decline in FY2014, DSH payment reductions are now scheduled to begin in FY2018 and continue to decline until FY2025. According to the Medicaid and CHIP Payment and Access Commission (MACPAC), an opportunity exists for “DSH allotments and payments to be better targeted toward the states and hospitals that serve a disproportionate share of Medicaid and low-income patients and that have disproportionate levels of uncompensated care.”\textsuperscript{13}

Increased Medicaid and health exchange insurance coverage has somewhat increased provider access, especially when compared to those who remain uninsured. Increased funding for FQHCs, combined with expanded hours at certain facilities, has also helped. However, ACA expansion has not addressed other continuing barriers such as:

- Growing shortage of physicians, estimated by the American Association of Medical Colleges at 46,000–90,000 in 2025.\textsuperscript{14}
- Inadequate number of network providers, especially specialists in exchange plans and Medicaid
- Limited number of physicians and non-physician providers willing to accept Medicaid patients
Patients without an identified primary care provider attribution

• Restricted availability of (timely) appointments

• Limited provider proximity and/or wheelchair transportation access, especially acute issues in rural areas

Affordability of care is the major barrier to access. Rising out-of-pocket expenses driven by higher premiums, coinsurance, copayments and, especially deductibles represent financial challenges to many Americans. The ACA has contributed to premium increases and higher copayments and coinsurance not only for Americans newly covered under the ACA, but also for Americans who had already been covered by employer-based coverage or by their own individual insurance. Nearly three-quarters of households have incomes below $97,000 per annum — the family of four maximum for health exchange subsidies. The average household income was $55,755 in 2015.\(^{15}\)
MANAGED CARE: INTEGRAL TO MEDICAID SPENDING AND OUTCOMES
Medicaid MCO enrollment has increased nearly threefold since 2000, from 18.8 million to 55.2 million beneficiaries. Though the growth is dramatic, it is slower than in the prior decade when enrollment grew nearly sevenfold from 2.7 million. During this period there has also been dramatic health plan consolidation whereby five major competitors — Anthem/Wellpoint, United Health, Centene (HealthNet), Molina and Wellcare — have a 42 percent aggregate market share, and the top 10 firms have a 55 percent share.16

Despite accounting for more than 80 percent of Medicaid beneficiaries in 2015, Medicaid MCO expenditures of $227 billion represent 43 percent of the total. Combined, FFS acute care and long-term care expenditures totaled $272 billion or 51 percent of the total. Expenditures per beneficiary for managed care beneficiaries are $4,118, whereas expenditures for FFS beneficiaries are $19,963, reflecting the difference in served populations, i.e., children and adults versus the aged and disabled. Enrollment in Managed Long-Term Services and Support (MLTSS) programs that finance and support institutional and/or home-based care services approximate 1.8 million or 2.6 percent of the Medicaid population.17

Future MCO growth will require a different approach to the management of the high-cost aged and disabled beneficiary population.
There are five major types of Medicaid managed care plans providing a range of inpatient and ambulatory services including diagnostic tests, as well as drug coverage. Several states – Alabama, Colorado, Idaho, Montana, North Carolina, Oklahoma, South Dakota and Vermont – have a majority enrollment in primary care case management (PCCM) provider plans. Medicaid special needs plans (SNPs) exist for HIV and dual-eligible populations requiring enhanced management.
Medicaid managed care enrollment varies by state, with 23 states having more than 80 percent of eligible beneficiaries enrolled in MCOs. Another 15 states have enrollment between 61 percent and 80 percent. Capitation premiums and payments for managed care plans are projected to increase from $192 billion in 2014 to $515 billion in 2024 for a CAGR of 10.4 percent. The limited increase in FFS acute and long-term care suggests an additional transfer of risk to health plans.

Healthcare spending is highly concentrated, especially within the Medicaid program, with 1 percent of beneficiaries accounting for 25 percent of spending, 5 percent accounting for 54 percent, and 10 percent accounting for 68 percent, or more than two-thirds of the total. Per beneficiary expenditures for the aged and disabled far exceeds that of children and adults.
Opportunities exist to better understand the distribution of spending among the highest cost conditions including diabetes/endocrine conditions ($255 billion), cardiovascular disease ($231 billion), mental health and substance abuse ($188 billion), musculoskeletal conditions ($183 billion), injuries ($168 billion), chronic respiratory disease ($132 billion), neurological disease ($101 billion) and others.18 Many of the same patients, especially among the aged, have multiple comorbidities.

Source: Center for Financing, Access, and Cost Trends, AHRQ, Household Component of the Medical Expenditure Panel Survey (HC=155), 2012

SPENDING / RESOURCE ALLOCATION:
- Public health targeting at-risk behaviors: smoking, alcohol, diet, activity, substance abuse
- Social determinants: economic stability, physical environment, food, education, community and social context
- Prevention: primary, secondary, tertiary
- Acute care: hospital, physician, ancillary services, prescription drugs
- Long-term care: skilled nursing, home-based care services, intermediate care facilities

CLINICAL RISK STRATIFICATION MODELS:
- Hierarchical Condition Categories (HCCs): 70 condition categories selected from ICD codes and includes expected health expenditures
- Adjusted Clinical Groups (ACG): Uses both inpatient and outpatient diagnoses to classify each patient into one of 93 ACG categories; used to predict hospital utilization
- Elder Risk Assessment (ERA): For adults ≥60, uses age, gender, marital status, number of hospital days over the prior two years and selected comorbid medical illness to assign an index score
- Chronic Comorbidity Count (CCC): Total sum of selected comorbid conditions grouped into six categories
- Minnesota Tiering (MN): Based on Major Extended Diagnostic Groups (MEDGs); groups patients into one of five tiers: Tier 0 (Low; 0 Conditions), Tier 1 (Basic: 1 to 3), Tier 2 (Intermediate: 4 to 6), Tier 3 (Extended: 7 to 9), and Tier 4 (Complex: 10+ Conditions)
- Charlson Comorbidity Measure: Predicts the risk of one-year mortality for patients with a range of comorbid illnesses
Analytics are essential for risk stratification, i.e., identifying the high and moderate-cost population at-risk for hospitalization, repeated visits to the emergency department, use of expensive medications and potential for nonadherence to treatment regimens. Current approaches often result in confusion due to the multiplicity of risk stratification models and a failure to assess the total cost of care, i.e., hospital, post-acute care, ambulatory and pharmaceuticals.

Analytics are also essential to understand cost drivers such as provider variation, site of service differentials and test redundancy; improve population health, quality (outcomes), care navigation/coordination and the experience of care; and negotiate more favorable MCO contracts.

“Big data” does not equate with insights and foresights; the organization of data into dashboards by itself also has limitations. Insights should lead to targeted actions that are measureable and subject to continuous process improvement.

Despite the significant expenditures for Medicaid made under the ACA, inequities in access to care and outcomes continue to exist (see Appendix). The rapid growth of MCOs may require state agencies to become more active in monitoring and managing performance in several dimensions including the efficiency and effectiveness of care delivery, as well as the beneficiary experience of care.

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### STATE IMPERATIVES FOR MEDICAID MANAGED CARE

**CREATE MAXIMAL VALUE**
- Stratify at-risk population
- Identify opportunities for wellness and prevention, clinical improvement, quality outcomes and cost reduction
- Assess less costly alternatives for institutional care; home care-based services
- Prioritize resource allocation in a cost-effective manner
- Integrate efforts with other community-based resources

**AUGMENT OVERSIGHT**
- Establish objective and measureable near- and longer-term goals
- Identify performance incentives and disincentives focused on goals
- Measure and monitor performance relative to goals; process, outcome and experience of care
- Develop internal and/or third-party non-MCO capabilities for data collection and analysis; e.g., claims, etc.

**MANAGE DRUG COSTS**
- Drug formulary
- Generic substitution
- Step therapy
- Specialty drugs; e.g., HIV, hepatitis C, cancer, etc.

**DEVELOP NEW PROCUREMENT AND CONTRACTING STRATEGIES**
- Coordinate efforts among responsible state agency personnel overseeing fee-for-service and managed care contracts; i.e., procurement (target beneficiaries, state regions), RFP generation, bidder selection and contract administration
- Rationalize number of MCO contracts, as appropriate

Sources: National Academy for State Health Policy; A&M Analysis
PRELIMINARY STEPS TO ACA REFORM
Following the 2016 presidential election, the Trump transition team outlined on a single webpage the tenets that will guide its healthcare policy, which in most respects mirror what the candidate said on the campaign trail. Despite its publication, the challenge has always been to distinguish between the president’s campaign rhetoric and actual policy position.

On January 13, 2017, the Senate passed and the House concurred with a joint resolution allowing revisions to the ACA via budget reconciliation, i.e., passage via a majority without possibility of a Senate filibuster. This resolution clears the legislative path for changes to the ACA.

**TRUMP TRANSITION TEAM WEBSITE: TRANSLATED**

**VISION FOR HEALTHCARE IN TRUMP ADMINISTRATION SUMMARIZED AND TRANSLATED**

- Affordable Care Act (“Obamacare”)
  - In some form or fashion ACA will be “repealed and replaced” or significantly changed
  - Replacement statute may include Health Savings Accounts
  - Health insurance regulation to return to states from federal government (e.g., no federally mandated benefits)
  - Health insurance policies may be sold across state lines
  - High-risk pools (possibly state-based) will be established or expanded

- “Right to life” positions to be advanced (e.g., Hyde Amendment continuation)
  - No birth control, etc., mandates for health insurers (i.e., Little Sisters of the Poor lawsuit)

- Additional funding for healthcare research

- FDA / drug approval reforms to speed approval of innovative medical products

- “Modernize Medicare”: Promotion of Medicare Advantage plans, possible turn to Paul Ryan plan to “defined contribution” versus “defined benefit”

- More Medicaid waivers and possible Medicaid “block grants”

**JOINT BUDGET RESOLUTION – S. CON. RESOLUTION 3**

*On January 13, 2017, the Senate passed and House concurred in “joint resolution” on the federal budget. This resolution permits revisions to Obamacare via “reconciliation.”*

- In passing the budget resolution on January 13, revisions to the Affordable Care Act can be attempted via the “reconciliation process.”

- Under budget reconciliation rules, measures affecting the budget can pass on a simple majority vote in the Senate and cannot be filibustered through a 60 vote requirement.

- The budget resolution charges two Senate committees and two House committees to draft changes to laws - like the ACA - that would have the effect of reducing the deficit.

- Practical impact of the budget resolution is to permit the House and Senate to make changes to the ACA that have a financial impact to the budget, e.g., repeal Medicaid expansion, eliminate health exchange subsidies, etc.

- Budget resolution charged committees to report changes to law by January 27, 2017.
Repeal of the ACA continues to be the stated policy of the Trump administration. On Inauguration Day, January 20, 2017, President Trump signed an executive order that does not repeal the ACA, but serves as a notice from the administration of its intentions to seek “prompt repeal” and to “write new regulations and exercise discretion,” as legally allowable. This may include a more liberal interpretation of existing regulations (or a moratorium on enforcing those ACA regulations the Trump administration does not like), expanded criteria for application of the individual mandate hardship clause (i.e., fewer Americans to pay a penalty with non-coverage), increased use of Medicaid waivers for demonstration projects and, most significantly, possible elimination of health exchange premium subsidies. The immediate impact of the executive order may be limited, though departments responsible for ACA enforcement – the Department of Health and Human Services, the Treasury Department and the Internal Revenue Service – may use the executive order to direct changes to or suspension of current ACA rules and regulations.

PRESIDENT TRUMP’S EXECUTIVE ORDER ON AFFORDABLE CARE ACT

On January 20, 2017, hours after being sworn in, President Donald Trump issued one of his first executive orders setting out his position on repealing the ACA

- On Inauguration Day, President Trump issued his first executive order, titled “Executive Order Minimizing the Economic Burden of the Patient Protection and Affordable Care Act Pending Repeal.”
  - Presidential executive orders are not laws per se, but they are written to help officers and agencies of the executive branch manage operations within the federal government itself.
  - Executive orders do have the full force of law when they take authority from a legislative power that grants its power directly to the executive by the Constitution, or are made pursuant to acts of Congress that explicitly delegate to the president some degree of discretionary power.
  - Executive orders may be overridden by legislation or by a court when they are not based on legislative or constitutional authority.
  - All presidents since George Washington have issued executive orders. The most famous executive order is Abraham Lincoln’s order of January 1, 1863, the Emancipation Proclamation.

- Trump’s executive order says: “It is the policy of my Administration to seek the prompt repeal of the Patient Protection and Affordable Care Act.”

- While the ACA remains in effect, the executive order says that “pending such repeal, it is imperative for the executive branch to ensure that the law is being efficiently implemented, take all actions consistent with law to minimize the unwarranted economic and regulatory burdens of the Act, and prepare to afford the States more flexibility and control to create a more free and open healthcare market.”
A major challenge for the Trump administration will be the large number of states with Republican senators and Republican House representatives, governors and/or Republican-controlled state legislatures that have supported Medicaid expansion and associated benefits, i.e., increased coverage largely paid for by the federal government, health exchange premium subsidies and a reduction in the uninsured population.
Rather than a complete repeal of all ACA provisions, there is a growing consensus that acknowledges the value in preserving some popular components of the Obamacare legislation. Coverage for young adults under their parents’ health insurance policy is one provision example that has broad bipartisan support, as well as support from President Trump. Bringing in premium dollars on a relatively healthy sector of the population promotes affordable coverage. Other popular ACA provisions, such as required coverage of pre-existing conditions and the prohibition of annual and lifetime benefit limits, have price tags that may become unaffordable when coverage mandates are eliminated and healthy people choose to become or remain uninsured; i.e., many of the provisions have interdependencies and thus are not necessarily amenable to standalone elimination. The pre-existing condition provisions, however, may be addressed through the adoption of “high-risk” pools or some federally backstopped insurance coverage for individuals with significant pre-existing medical conditions.

Several pieces of legislation or legislative outlines have emerged since January, suggesting the possibility of “repeal and repair” rather than “repeal and replace,” given the emerging consensus that the ACA is “not all bad” and that “repeal and replace” may not be feasible, given coverage requirements for 20 million Americans. The Patient Freedom Act (PFA), introduced on January 23, 2017, by Senators Susan Collins, R-ME, and Bill Cassidy, R-LA, is one example of legislation that attempts to keep the parts of Obamacare that people like and eliminate the unpopular provisions.

CASSIDY / COLLINS “PATIENT FREEDOM ACT”

On January 23, 2017, Senators Bill Cassidy (R-LA) and Susan Collins (R-ME) offered their own healthcare reform legislation for “repairing” Obamacare.

- Senators Cassidy and Collins introduced the Patient Freedom Act of 2017, the first of what will likely be many Republican attempts to replace or in this case “revise” the ACA.
- The PFA is notable for several reasons. It is the first replacement plan introduced in the new Congress and it is sponsored by two relatively conservative to moderate senators.
- The PFA does not “repeal” the ACA, it just makes revisions. The PFA allows states, rather than the federal government, to decide the path to take on healthcare reform.
- The PFA eliminates several controversial ACA provisions including: the individual and employer mandates, the community rating provision, the essential benefits requirements and the establishment of the health benefit exchanges.
- The PFA would maintain bans on lifetime and annual coverage limits, maintain the ACA ban on coverage exclusions based on pre-existing conditions and would permit adult children to remain on their parents’ plan until age 26.
- The PFA would leave many Obamacare features in place, such as Medicaid expansion and several of the ACA taxes.
- The PFA would allow states to select among three options: 1) maintain the current ACA model using subsidies and health benefit exchanges to provide insurance coverage; 2) enact a market-based option or “state alternative;” or 3) elect to design its own health system without federal funding. If a state fails to select one of the options by a certain date it will be deemed to have selected the market-based option.
- Although the Cassidy / Collins bill is unlikely to be enacted, it sets the stage for “repeal and repair” of Obamacare versus “repeal and replace.”
On February 17, 2017, House Republicans identified their underlying principles associated with “repeal and replace” including the use of a multiyear transitional period, a reduction in the newly insured Medicaid share of the enhanced federal match from a maximum of 90 percent to the traditional FMAP, a cap on matched expenditures via per capita allotments or block grants, and the establishment of high-risk pools.

The American Health Care Act (AHCA) introduced by House Speaker Paul Ryan on March 6, 2017, tracks the “repeal and replace” concepts floated by the Speaker in February including: replacing ACA subsidies with tax credits and moving Medicaid from an open ended entitlement program to a per-head or capitated funding program.

Conservatives leaders of the Republican Freedom Caucus described the AHA as “ObamaCare Lite” primarily due to the delayed timing of Medicaid expansion repeal (2020), and continued federal funding of newly enrolled Medicaid expansion beneficiaries (at 90% of the total actuarial cost) and low income health exchange enrollees. Negotiations are ongoing with the conservative leaders.

The AHCA was also criticized by Democrats for many reasons including the elimination of open ended entitlements (via per capita allotments) and funding for Planned Parenthood clinics, reduced insurance payment subsidies for low income enrollees using health exchanges, and lower taxes on affluent households and drug, medical device and insurance companies,
On March 7, 2017, the House Republican leadership unveiled its “repeal and replace” package entitled: the “American Healthcare Act” (AHA)

- In keeping with the principles in its February 17, 2017 “repeal and replace” outline, the House Republican leadership’s bill, keeps popular parts of the Affordable Care Act (ACA)
  - Pre-existing condition protection
  - Adult children remaining on parent insurance policy through age 26
  and jettisons the unpopular tax parts:
  - Individual and employer mandates
  - Health insurance premium tax
  - Medical device and drug tax
  - Medicare surtax on high income earners.
- AHA replaces ACA income-based subsidies to purchase health insurance with a monthly tax credit based on income for low and middle income individuals and families who do not receive employer insurance or are not covered by Medicare, Medicaid or a government program.
  - Value of tax credit could be between $2,000 and $14,000 per year.
- While AHA would eliminate the “individual mandate” it would permit insurance companies to impose a premium penalty on individuals who do not maintain continuous coverage.

- AHA would also change the 3 to 1 age-based premium variation limit to a 5 to 1 ratio.
- AHA would transition Medicaid to a “block grant” type program, with a “per capita allotment” to states, in varying amount per person based on age, disability, dual-eligible (Medicare) status, etc.
- Permits states with Obamacare Medicaid expansion to continue expansion programs through a transition period through December 31, 2019
  - States that did not expand Medicaid under the ACA will be provided with certain financial relief during the transition period, such as reinstated DSH (disproportionate share) payments - to help them with their uninsured populations.
- AHA would establish a “Health Stabilization Fund” which would provide up to $100 billion to the States between 2018 and 2026 to assist state residents with enrollment in high risk pools, or with insurance premiums or copayments, preventive health services, or direct payments to healthcare providers.

Estimated by the Joint Committee on Taxation at $266 billion over 10 years. Lower federal Medicaid funding, estimated by the Center on Budget and Policy Priorities at $370 billion over 10 years, would likely result in fewer services, less eligibility, reduced affordability and a rise in the number of uninsured. In addition, new enrollees who exit Medicaid due to income (temporarily) exceeding the 138% Federal Poverty Limit threshold would not be allowed to re-enroll under the new guidelines.

Despite the criticisms, the proposal was approved by the Ways and Means and the Energy and Commerce committees on party-line votes and is heading to the Budget Committee. There are currently 237 Republicans, 193 Democrats and 5 vacancies in the House; passage requires 218 votes. A House vote is likely prior to Congressional recess scheduled for April 10-21, 2017.

On March 13, 2017 the Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) provided an estimate of the number of uninsured and cost savings for the period 2017-26:

- The number of uninsured will increase by 14 million in 2018, 21 million in 2020 and 24 million in 2026. The near-term increase reflects a decision by the previously insured to drop coverage due to the elimination of the fine provision associated with the insurance mandate and those
no longer able to afford premium costs estimated to rise by 15-20% in 2018 and 2019, respectively. In the intermediate and longer-term, the rise in insured will be driven by Medicaid spending caps and enrollment reductions.

- A reduction in the federal deficit of $337 billion results from a decline in healthcare outlays (Medicaid, subsidies for non-group health insurance) by $1.2 trillion partially offset by a $900 million decrease in revenues (payroll tax and investment income surtax for high net worth, insurer fees). The reduction in healthcare outlays per annum represents 63% of the ACA-related incremental spend associated with Medicaid expansion and premium subsidies.

If approved by the House, the bill heads to the Senate for additional committee hearings and revision. Already, four of the 52 Republican Senators have indicated that they would not support the bill, as drafted. Passage of the Joint Resolution on January 13, 2017 permits revisions to the ACA via the reconciliation process; only 51 votes will be necessary in the Senate, rather than the usual 60 vote filibuster, motion to proceed.

*In the period between House passage, should it occur, and Senate consideration, and if the reform bill makes its way to President Trump, it will likely undergo significant amendment and revision.*
HAELA AS A TEMPLATE FOR CHANGE
Despite submission of the AHCA, additional insights might still be gleaned from Republican plans proposed in 2016. Approaches described in the Republican House leadership’s “Better Way” proposal and a House budget resolution seek to replace individual and employer mandates and use Medicaid block grants to extend states more flexibility in reforming their Medicaid programs. Presented as discussion draft legislation, the Health Access, Empowerment and Liberty Act (HAELA) provides greater detail in operationalizing the Republicans’ approach.

Sponsored by Congressman Pete Sessions, R-TX, and Senator Cassidy, HAELA eliminates mandates on insurers, employers and individuals. Health plans would no longer be compelled to meet minimum coverage requirements, increasing options for less coverage and lower premiums. In eliminating the employer mandates imposed by Obamacare, small businesses would no longer be forced to offer group coverage that, for some, pushed them beyond the brink of profitability. Rather than imposing penalties, tax credits for premiums and tax-free health saving accounts would serve as the vehicles to enable individuals to choose and encourage them to maintain their coverage. HAELA also offers some specific details on Medicaid reforms absent in House Republicans’ other high-level plans.
HAELE A ND MEDICAID
PER CAPITA ALLOTMENTS
While past plans to reform Medicaid have focused on the use of state block grants, HAELA refines that approach in its proposal to establish per capita allotments. Similar to the approach used to administer funding for the popular Children’s Health Insurance Program (CHIP), per capita allotments are calculated using a beneficiary spending average multiplied by the number of enrollees to establish a cap for federal funding. The state then draws down the federal match as services are provided to beneficiaries. The state cannot draw federal dollars in excess of the established cap. The cap, however, increases with enrollment, mitigating state expenditures during periods of economic decline. HAELA proposes a 75 percent FMAP, which is higher than the pre-ACA FMAP national average of 63.7 percent (2015) and lower than the 95 percent (2017) enhanced FMAP for ACA expansion populations.

The increased share of the federal match would be balanced by a decrease in the number of people eligible for Medicaid. HAELA proposes an income eligibility limit of 100 percent of the FPL. Those losing Medicaid eligibility due to decreased income limits would be parents in families with income between 100 percent and 138 percent of FPL. Childless adults would return to the status of “categorically ineligible,” regardless of income. As an alternative to Medicaid, HAELA proposes that those losing coverage transition to private health insurance. Rather than drawing a federal match on the Medicaid services people no longer are eligible to receive, states could draw a federal match on private health insurance premiums paid by the state.
HAELA also provides specificity on the key issues of calculating beneficiary spending, annual increases to per capita allotments and the status of 1115 demonstration waivers. Absent specific legislative language, it seems most likely that HAELA’s focus is on the physical health component of Medicaid spending, comprised of medical, acute and primary. Across the United States, state spending per beneficiary has vast variation. Within the sphere of Medicaid physical health spending, four categories of beneficiaries (aged, blind and disabled, children, and non-disabled adults) emerge, each with differing levels of average costs. Rather than relying on either a national average or single state average, HAELA proposes to use a state-specific per capita allotment comprised of an average of spending amounts and enrollment for each of these four groups to produce what is essentially a “weighted average” to derive a state’s allotment. This approach would provide for higher allotments for states with historically higher spending. HAELA seeks to address the potential inequities of this approach through annual increases.

Historical growth in Medicaid expenditures has exceeded growth in the gross domestic product (GDP) but, for all four categories of beneficiaries, it has lagged behind the 6.7 percent growth in private health insurance expenditures. Growth would be further constricted under HAELA.

In year 1, HAELA would permit growth in the per capita average at a predetermined inflation rate, likely tied to a budgetary target. In years 2 and 3, HAELA’s per capita average would be increased by the projected growth in GDP plus 1 percent. In years 4 through 10, the draft legislation seeks to level the playing field by establishing a corridor of state averages by population category, allowing for higher growth for states with lower averages. Inflation and other policy decisions that create winners and losers have the potential to pit states against each other and create a political firestorm.
AVERAGE PER CAPITA MEDICAID SPENDING VARIES WIDELY ACROSS ELIGIBILITY GROUPS AND STATES, FY2011

$32,199 (WY)
$33,808 (NY)
$18,439 (HI)
$17,709 (TX)
$10,518 (NC)
$10,142 (AL)

$6,928 (NM)
$4,225 (OH)
$2,056 (IA)
$5,214 (VT)
$1,656 (WI)
$2,470 (TN)

Aged
Individuals with Disabilities
Adults
Children

NOTE: Spending per capita was calculated only for Medicaid enrollees with unrestricted benefits or those enrolled in an alternative package of benchmark equivalent coverage. Outliers are included in the figure, but not marked as outliers.

Source: Kaiser Family Foundation; KCMU and Urban Institute estimates based on data from FY2011 MSIS and CMS-64 reports. Because 2011 MSIS data were unavailable, 2010 MSIS & CMS-64 data were used for FL, KS, ME, MD, MT, NM, NJ, OK, TX, and UT. Due to data quality issues, New Mexico’s data point for the aged is withheld.

http://www.tradingeconomics.com/united-states/consumer-price-index-cpi/forecast
HAELA, WAIVER PROGRAMS AND THE LIKELIHOOD OF MCO, LTSS AND HCBS “CARVE-OUTS”
There is also a specific provision within HAELEA that allows approved 1115 demonstration waivers to continue throughout the current approval period. Medicaid 1115 waiver authority has been available to states for decades to design and test reforms to federally funded programs. States have used 1115 waivers to implement Medicaid managed care and to customize their approaches to ACA Medicaid expansion. In recent years, 1115 waivers have been used to promote coordination between physical care, behavioral health and addiction services, and long-term services and supports. Unwinding Medicaid expenditures authorized by 1115 waivers from more traditional Medicaid spending may prove to be a difficult task. This portion of Medicaid spending may not easily align with plans for per capita allotments and may explain why most of the Republican plans allow states to choose either a per capita allotment or a block grant.

States that have rejected Medicaid expansion or otherwise have austere Medicaid programs are at a comparative disadvantage in a block grant environment. With per capita allotments, the federal government would share fiscal risk of an economic downturn and be required to raise the cap as enrollment of eligible beneficiaries (assumed at 100 percent of the FPL) increased. In theory, these conservative states could operate in status quo mode with expenditures under prescribed caps. These states can be contrasted with states that have taken innovative approaches to reform their Medicaid programs.

Several states have successfully used 1115 demonstration waivers to make significant strides in healthcare reform. A per capita allotment threatens to stagnate this progress by limiting flexibility and state control of program administration. A block grant, referred to in the PFA as a “global waiver,” would allow states to continue these reform initiatives.

Source: https://www.medicaid.gov/medicaid/managed-care/authorities/index.html
Typically administered under the authority of §1915(c) of the Social Security Act, HCBS waivers may also be carved out of initial Medicaid reforms. Long-term services and supports encompass a broad range of institutional services and HCBS that people may need — for several weeks, months, or years — when they experience difficulty completing daily tasks as a result of aging, chronic illness or disability. Long-term services and supports (LTSS) spending accounts for roughly one-quarter of Medicaid spending, whereas HCBS spending account for just over half of LTSS spending. In spite of its $40.1 billion 2013 price tag, references to §1915(c) waivers have been notably absent from proposed reform plans including the PFA and HAELA. The nature of HCBS services and the population served by §1915(c) waivers introduces a complexity to and has cost implications for per capita allotments.

In 2015, the average §1915(c) waiver expenditure for a person with an intellectual or developmental disability (I/DD) was $46,647. This amount does not include the costs for physical healthcare covered by Medicaid State Plan services. HCBS remain a cost-effective option to care provided by a state-operated ICF that averages $256,400 (2015) annually. HCBS offer an alternative to care that is appealing to people with I/DD, their families and their communities. §1915(c) waivers provide states with a vehicle to meet the expectations established by the Supreme Court’s 1999 Olmstead decision that held that people with disabilities have a qualified right to receive supports and services in the community rather than institutions.
In 2015, more than 640,000 people nationally were on 133 Section 1915(c) waiver waiting lists. The average length of time a person spent on a waiting list for I/DD waiver services was 43 months. As new enrollees into a per capita allotment environment, the average cost ($47,795) of waiver services for people on I/DD waiting lists would exceed the average per capita allotment for people in the blind/disabled category, estimated nationally at $17,709. Absent a policy mechanism to adjust the per capita allotment for the provision of waiver services, it would be increasingly difficult for states to reduce waiting lists within a per capita allotment capitation.

It seems by design rather than coincidence that a Republican-introduced bill (Bill Flores, R-TX) sets aside funding for reducing HCBS waitlists. If passed, this legislation would make funding for HCBS available to states on a competitive basis, giving priority to states with the highest number of individuals on a waiting list. While the language of this draft legislation is unclear, it implies that participating states would receive a payment equal to 90 percent of their typical FMAP rate.
BLOCK GRANTS VS.

PER CAPITA ALLOTMENTS
From 2016–2026, according to the CBO, mandatory federal outlays are forecast to increase from $2.5 to $4.1 trillion (CAGR: 5.3 percent), discretionary outlays from $1.2 to $1.4 trillion (CAGR: 1.8 percent) and interest from $255 to $830 billion (CAGR: 12.5 percent). Medicare ($596 billion) and Medicaid ($261 billion) alone account for 51 percent of the federal increase in mandatory outlays, whereas Social Security accounts for 42 percent. A deficit of $544 billion in 2016 is forecast to reach $1,366 billion in 2026, leading to an increase in the debt held by the public of $23.8 trillion. Republicans in Congress and several conservative think tanks have long suggested that the way to gain control over entitlement spending, and Medicaid in particular, is to give states a fixed amount of funding. An often used phrase is allowing “50 state experiments for Medicaid reform.” The two widely discussed ways to control funding are block grants to states and payments made on per capita allotments. States may be given the option to “select and stick” with one option or the other, or Congress may impose a selection for all states. Both involve a fundamental shift away from an open-ended Medicaid entitlement program to one where, at least at the federal level, spending is capped. The figure on the next page outlines the key components of a block grant and per capita allotments.

The projected increase in state-funded Medicaid spending of 5.0–6.0 percent (based on alternative estimates) far exceeds the rate of state revenue growth, thereby creating likely budgetary shortfalls.

One key takeaway from the discussion of paying states fixed amounts to run Medicaid is how spending baselines are established.
Baseline is an arcane federal budget term defined as “expenditures in a specified time period that will be used to determine the federal contribution to a state Medicaid program for a designated period into the future.” State Medicaid spending often is reported with a significant lag by CMS. “Is it the most recent years’ spending levels? Does it represent an average of X number of years’ spending? What happens if I expand enrollment?” These are just a few questions that have yet to be answered in the reform efforts. How and when a state’s Medicaid spending baseline level is set will be the subject of intense negotiation with Congress.

A second key takeaway is the inflation factor applied to the baseline. Some reform plans set a fixed amount (i.e., 3 percent) and others utilize some sort of index such as medical cost inflation. The challenge, as one can imagine, is which factor to choose and does the factor chosen actually control entitlement spending as envisioned? Regardless of which factor is chosen, there will be states that have higher and lower medical cost inflation factors. This will almost surely result in states that “win” and states that “lose,” given the factor applied. How much a state’s Medicaid spending is increased annually – based on factors applied to baseline spending levels – will also become the subject of intense negotiation with Congress.

As the chart below illustrates, a block grant sets one lump sum amount to fund state Medicaid programs while the per capita allotments (as indicated in the proposed HAELA legislation) would allow states to draw federal financial participation (FFP) on Medicaid-eligible services until an expenditure cap is reached. Four caps would be calculated by establishing an average expenditure for each of the categories that comprise
Medicaid beneficiaries — aged, individuals with disabilities, adults and children — multiplied by the number of eligible beneficiaries in each group. Each of these categories would potentially have separate growth factors applied. The HAELA legislation also proposes to reimburse states by category as they spend (up to category caps), which is similar to how Medicaid is reimbursed today.

Block grants and per capita allotments are not new concepts. In 1996, federal funding for the welfare reform program, Aid to Families with Dependent Children (AFDC), was block granted. States were allotted their share of $16.5 billion in federal funding based on their expenditures in a selected baseline year. While welfare reform was successful in reducing the number of families receiving Temporary Assistance for Needy Families (TANF) welfare checks, critics contend that many families that lost benefits moved deeper into poverty. Although states were required to spend TANF funding for one of four priority areas, these areas were open to broad interpretation, making federal oversight of TANF spending difficult and limited.
CHIP AS A POSSIBLE LEADING INDICATOR FOR MEDICAID
CHIP extends flexibility to the states to customize coverage of children and pregnant women within a capitated allotment that in some ways resembles the per capita allotments proposed in HAELA. States that elect to administer CHIP programs must establish a mandated income eligibility floor. Pre-ACA, the floor was set at 100 percent of the FPL, requiring those under that limit to be covered by Medicaid. Children and pregnant women with income above that floor could receive coverage under CHIP at an enhanced FMAP, ranging from 65 to 88 percent. Reauthorized by the ACA, the CHIP eligibility floor was raised to 138 percent and enhanced FMAP was increased by 23 percent. **ACA repeal would return CHIP to the 100 percent of FPL floor and decrease FMAP by 23 percent.**

CHIP differs from HAELA’s proposed per capita allotments in that CHIP establishes a federal spending limit regardless of enrollment. Under HAELA, states’ Medicaid per capita allotments would increase as enrollment increases. This difference is explained by states’ flexibility to set CHIP income eligibility limits. Some states have CHIP income eligibility limits as high as 400 percent of FPL and may be forced to manage expenditures by limiting benefits or maintaining waiting lists. HAELA sets an income eligibility limit of 100 percent and allows for growth in states’ allotment during periods of economic recession when increased numbers of people meet income eligibility limits.

**INCOME ELIGIBILITY LEVELS IN MEDICAID / CHIP, JANUARY 2017**

**CHILDREN**

**PREGNANT WOMEN**

*NOTE: Eligibility levels are based on 2016 federal poverty levels (FPLs) for a family of three. The FPL for a family of three in 2016 was $20,160. Thresholds include the standard five percentage point of the FPL disregard.*

Sources: Based on results from a national survey conducted by the Kaiser Commission on Medicaid and the Uninsured and the Georgetown University Center for Children and Families, 2017.
Ohio, Michigan and Indiana are among 14 states with Republican governors and Medicaid expansion plans authorized by 1115 demonstration waivers. Governors from these states, including now Vice President Mike Pence, have justified their requests to continue with expansion by citing the benefits of reductions in uninsured populations and uncompensated care. For these and other states, taking health insurance away from citizen voters is a risky proposition. Because Medicaid coverage is closely coordinated with CHIP and private health insurance subsidies and tax credits, repeal without replacement of any one of these components of Obamacare threatens a domino effect.

For those states that have expanded Medicaid eligibility under ACA, repeal means a return to income limits of 100 percent of the FPL. Under repeal, expansion populations drawing federal funding on services at an FMAP ranging from 90 to 100 percent would no longer be eligible for Medicaid. One benefit that the reformers are potentially offering in the HAELA proposed legislation is a standard FMAP of 75 percent. This is very different from the way Medicaid works today, which is calculated based on each state’s per capita income. HAELA’s 75 percent FMAP may likely be a placeholder representative of a nationwide average that anticipates state to state variance as established by the way FMAP currently “works.” A single standard FMAP seems unlikely as this would be a substantial benefit to “wealthy” states at the expense of states with less personal income. This 75 percent placeholder may also be indicative of the fact that FMAP may be negotiable — either as a bargaining tool to gain state support to pass legislation or to meet a predetermined federal spending target.
Other elements of Medicaid reform include whether to allow states (or whether to mandate states) to require beneficiaries to meet elements of personal responsibility as a condition of Medicaid coverage or eligibility. These efforts typically emanate from more conservative governors and legislatures. Personal responsibility provisions in Medicaid can take many forms but typically involve premiums and copays for physical health coverage and work requirements for those who are able. Reform efforts currently underway in Indiana and other states also include reduced coverage if premiums are not paid or coverage is not obtained in a timely manner. The Indiana reform efforts may be instructive since President Trump has nominated Seema Verma to be his head of CMS. Ms. Verma, a consultant and contractor to the state, was the architect of the Indiana Medicaid reform efforts when Vice President Pence was governor.

As the figure indicates — despite valid policy reasons for including personal responsibility in Medicaid reform efforts — operationalizing these personal responsibility requirements like premium payments can be very challenging and costly.

States have long utilized Section 1115 of the Social Security Act of 1933 to incorporate more flexibility into their Medicaid programs. A key item to watch in the coming years is how much flexibility the new administration is willing to provide states via 1115 waivers. This is true regardless of what form Medicaid reform / “repeal and replace” of the ACA takes.
States have long utilized 1115 waivers to engage CMS in discussions about program reform efforts in LTSS Medicaid programs. LTSS programs involve institutional care in SNFs and ICFs. Included in LTSS is the provision of services in home and community-based settings that are essential to support people who are elderly and disabled to live outside of institutions. These programs continue to grow at rates that outpace revenues at both the federal and state level.

Unlike physical health, most of the LTSS participants are in the program for life once they enter. While there has been significant movement of LTSS services for the elderly and physically disabled to managed care, most LTSS for people with developmental disabilities have been carved out of managed care. So while there has been movement to 1115 waivers in LTSS programs, “reform” — beyond simply a change in payment methods — will be very challenging given the fiscal and programmatic differences in each of the states. As such, our current prediction is that LTSS will likely be carved out of broader Medicaid reform - at least in the near term.

**MEDICAID REFORM DETAILS – 1115 WAIVERS**

<table>
<thead>
<tr>
<th>1115 waivers offer flexibility in customizing state Medicaid programs</th>
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<tbody>
<tr>
<td>✓ States have used 1115 waivers to reform Medicaid programs</td>
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<tr>
<td>✓ 1115 programs must be cost neutral</td>
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<tr>
<td>✓ HAELA allows 1115 waivers to endure through their approval period</td>
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States will be encouraged to continue using 1115 to craft Medicaid reform

CASE STUDY: INDIANA
Vice President Pence, the former governor of Indiana, and Seema Verma, the CMS Administrator and architect of Indiana’s Medicaid expansion and former Governor Mitch Daniels’ high-deductible plan for Medicaid recipients, are intimately involved in the ACA “repeal and replace” effort. An understanding of the Healthy Indiana Plan 1.0 and 2.0 may provide additional insights into Washington deliberations.

The Healthy Indiana Plan, approved under a 1115 federal waiver in 2008, allows the “state to provide a Medicaid benefit package modeled after a high-deductible plan and health savings account to a low-income population.”26 The deductible of $1,100 is withdrawn from a POWER Account funded by the enrollee (to a maximum of 2–5 percent of income) and/or government. Failure of payment (as low as $4 per month) may result in ineligibility.26

Indiana received approval for an amendment to its 2008 waiver for Medicaid expansion in January 2015. The amendment provided coverage for adults with incomes up to 138 percent of the FPL — an estimated 350,000 to 400,000 residents. Administrative complexity exists with the need to track “premium payments or co-payments, compliance with healthy behaviors, health savings account balances and rollover funds, presumptive eligibility determinations, and services that would have been covered retroactively for certain groups.”27

Administrator Verma’s company, SVC Consulting, has also been involved in Kentucky’s 1115 waiver application, submitted in August 2016, that imposes work requirements (such as unpaid community service) on beneficiaries three months after enrollment as a condition of enrollment.

### Table: Comparison of Plans

<table>
<thead>
<tr>
<th>Eligibility</th>
<th>Existing Healthy Indiana Plan</th>
<th>Indiana’s State Employee HSAs</th>
<th>Gov. Pence’s Medicaid Expansion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals in poverty, with enrollment capped based on available funding</td>
<td>Limited benefits package with coverage exclusions</td>
<td>Full-time state employees</td>
<td>All able-bodied, working-age adults made eligible under ObamaCare expansion</td>
</tr>
<tr>
<td>Minimum amount enrollees pay for health plan and health account</td>
<td>$180</td>
<td>$1,687 to $2,597 (depending on smoker status)</td>
<td>$0</td>
</tr>
<tr>
<td>Maximum amount enrollees pay for health plan and health account</td>
<td>$544</td>
<td>$3,249 to $4,159 (depending on smoker status)</td>
<td>$322 to $584 (depending on plan choice)</td>
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<tr>
<td>Percent of health account contributed by enrollee</td>
<td>15% to 59%</td>
<td>55% to 73%</td>
<td>0% to 13%</td>
</tr>
<tr>
<td>Percent of health account paid by taxpayers</td>
<td>41% to 85%</td>
<td>27% to 45%</td>
<td>87% to 100%</td>
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**INDIANA MEDICAID EXPANSION**

**Why Governor Pence’s Medicaid Expansion is Nothing Like HSA**

![Diagram](attachment:image.png)
Healthcare disparities or “differences in the health status rates between population groups” have been reported for Medicaid beneficiaries and the uninsured. Low-income Americans are far more likely to have cardiovascular, pulmonary, kidney and liver disease, as well as diabetes. Adults with a low socioeconomic status (i.e., lower income and/or education levels) are disproportionately more likely to be obese, have a higher rate of cigarette smoking and abuse alcohol and/or drugs. Environmental factors such as child abuse and neglect and/or a history of parental substance abuse, combined with genetics and comorbid mental illness, may also contribute to the poor health behaviors and outcomes.

Healthcare inequities or the disparity in health status rates due to differences in socioeconomic and/or health resources also exists. Poor Americans, especially the uninsured but also Medicaid beneficiaries, often lack a primary care physician, have difficulty accessing specialists and use the emergency department for non-urgent conditions.

### HEALTH DISPARITIES BY INCOME

<table>
<thead>
<tr>
<th>DISEASE OR ILLNESS</th>
<th>ANNUAL FAMILY INCOME</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than $35,000</td>
</tr>
<tr>
<td>Coronary heart disease</td>
<td>8.1</td>
</tr>
<tr>
<td>Stroke</td>
<td>3.9</td>
</tr>
<tr>
<td>Emphysema</td>
<td>3.2</td>
</tr>
<tr>
<td>Chronic bronchitis</td>
<td>6.3</td>
</tr>
<tr>
<td>Diabetes</td>
<td>11.0</td>
</tr>
<tr>
<td>Ulcers</td>
<td>8.7</td>
</tr>
<tr>
<td>Kidney disease</td>
<td>3.0</td>
</tr>
<tr>
<td>Liver disease</td>
<td>2.0</td>
</tr>
<tr>
<td>Chronic arthritis</td>
<td>30.4</td>
</tr>
<tr>
<td>Hearing trouble</td>
<td>17.2</td>
</tr>
<tr>
<td>Vision trouble</td>
<td>12.7</td>
</tr>
<tr>
<td>No teeth</td>
<td>11.6</td>
</tr>
</tbody>
</table>

World Economic Forum 06/2016
A study published in the Annals of Surgery based on a review of 893,658 patient records in the National Inpatient Sample found a far lower mortality rate in patients with private insurance irrespective of the type of operation. After controlling for age, gender, income, geographic region, operation, and 30 comorbid conditions, Medicaid payer status was associated with the longest length of stay and highest total costs (P < 0.001).32

BEHAVIORAL HEALTH

“The good physician treats the disease; the great physician treats the patient who has the disease.” –Sir William Osler33

According to the definition suggested by the Patient-Centered Primary Care Collaborative, “behavioral health is an umbrella term for care that addresses any behavioral problems impacting health, including mental health and substance abuse conditions, stress linked physical symptoms, patient activation and health behaviors.”34

According to the National Institute of Mental Health, mood disorders and anxiety affect 9.5 percent to 18.1 percent of the adult population in any given year.35 Mood may be elevated (mania, hypomania), depressed (major depressive disorders, dysthymia disorders) or cycled (bipolar, cyclothymia) in the same patient. Despite being highly treatable, 60 to 80 percent of people with major depression disorders are under-diagnosed or inadequately treated by physicians.36 Approximately 14.8 million adults (6.7 percent) live with major depression, 6.1 million (2.6 percent) have bipolar disorder and 42.0 million (18.1 percent) exhibit a range of anxiety disorders, such as...
panic disorder, obsessive-compulsive disorder (OCD), post-traumatic stress disorder (PTSD), generalized anxiety disorder and phobias.\textsuperscript{37}

Somatization, a tendency to experience and communicate somatic (body) distress in response to psychosocial stress and to seek medical treatment, may accompany depression and anxiety. About 9.2 million (42.6 percent) of the 21.6 million adults with substance dependence and abuse disorders have co-occurring mental health disorders.\textsuperscript{38}

Mood disorders may also occur in response to a medical condition. The risk of depression in patients with a serious medical condition is estimated at 25–33 percent.\textsuperscript{37} The rate varies by the type of condition (e.g., heart attack, stroke, cancer), its lifecycle and severity, presence of comorbidities, impact on functional status, degree of psychosocial support and whether it is life-threatening or terminal. Nonmedical risk factors also contribute to the underlying emotional state and include social isolation, bereavement, retirement, job loss, relocation and substance abuse, most commonly involving prescription medications and alcohol.

Mental Health America, a leading nonprofit advocacy organization, has measured access to mental healthcare based on nine measures:

- Adults with an acute mental illness (AMI) who did not receive treatment
- Adults with an AMI reporting an unmet need

\begin{table}
\centering
\caption{Unadjusted Outcomes for All Patients Undergoing Major Surgical Operations by Primary Payer Group}
\begin{tabular}{|l|c|c|c|}
\hline
Outcome & Private Insurance & Medicaid & Uninsured \\
\hline
In-hospital mortality & 1.3\% & 3.7\% & 3.2\% \\
Wound complication & 1.1\% & 1.7\% & 1.4\% \\
Infectious complications & 2.0\% & 3.4\% & 2.8\% \\
Urinary complications & 1.0\% & 1.0\% & 0.8\% \\
Pulmonary complications & 6.7\% & 9.3\% & 8.3\% \\
Gastrointestinal complications & 4.3\% & 4.7\% & 4.6\% \\
Cardiovascular complications & 4.0\% & 4.1\% & 4.3\% \\
Systemic complications & 1.5\% & 1.8\% & 1.4\% \\
Procedure-related complications & 3.1\% & 3.8\% & 3.5\% \\
Length of stay (days) & 7.4 ± 0.1 & 12.7 ± 0.4 & 10.1 ± 0.3 \\
Total cost ($ & 63,057 ± 93,0 & 93,567 ± 251,4 & 78,279 ± 231,0 \\
\hline
\end{tabular}
\end{table}

\begin{table}
\centering
\caption{In-Hospital Mortality for All Patients Undergoing Major Surgical Operations by Primary Payer Group}
\begin{tabular}{|l|c|c|c|}
\hline
Outcome & Private Insurance & Medicaid & Uninsured \\
\hline
Lung resection & 2.0\% & 4.3\% & 6.2\% \\
Esophagectomy & 3.0\% & 7.5\% & 6.5\% \\
Colecotomy & 1.8\% & 5.4\% & 3.9\% \\
Pancreatectomy & 2.7\% & 5.8\% & 8.4\% \\
Gastrectomy & 3.5\% & 5.4\% & 5.0\% \\
Abdominal aortic aneurysm & 7.0\% & 14.5\% & 14.8\% \\
Hip replacement & 0.1\% & 0.2\% & 0.1\% \\
Coronary artery bypass graft & 1.4\% & 2.8\% & 2.3\% \\
\hline
\end{tabular}
\end{table}

• Uninsured adults with an AMI
• Adults with a disability unable to see a doctor due to costs
• Youth with a major depression episode (MDE) not receiving mental health services
• Youth with a severe MDE who received some consistent treatment
• Children with private insurance not covering mental or emotional problems
• Students identified with an emotional disturbance for an individualized education program (IEP)
• Mental health workforce availability

Nearly 60 percent of adults with a mental illness did not receive treatment in 2012–2013.40 The availability of mental health providers varies widely by state, with Massachusetts, Maine and Vermont having approximately 250 individuals for every one mental health provider, compared to West Virginia, Texas and Alabama, where there are approximately 1,100 individuals for every one provider. Many of the states with the lowest access to mental healthcare did not expand Medicaid coverage.
The Centers for Disease Control and Prevention measured serious psychological distress in the adult population, defined as “mental health problems severe enough to cause moderate-to-serious impairment in social, occupational, or school functioning and to require treatment.” The Kessler Psychological Distress Scale (K6) was used to calculate a score based on the frequency of the following six questions: “During the past 30 days, how often did you feel …(1) So sad that nothing could cheer you up, (2) Nervous, (3) Restless or fidgety, (4) Hopeless, (5) That everything was an effort and (6) Worthless?”

A key finding of the analysis highlighted that as income increased, the age-adjusted percentage of serious psychological distress declined. Those eligible for Medicaid, even in expansion states providing coverage for adults with income over 138 percent of the FPL, have a far higher burden of mental illness.

Financial, psychosocial and environmental pressures may contribute to serious psychological distress. Alternatively, having a mental illness such as schizophrenia, bipolar disease, PTSD or substance abuse may limit earnings capacity.
Medicaid funding for behavioral health remains inadequate. Limited funding for ambulatory and community services often results in higher spending elsewhere (e.g., emergency rooms, hospitals, law enforcement and prisons) and may contribute to homelessness. High-profile mass killings such as those in Columbine, Colorado (Eric Harris); Newtown, Connecticut (Adam Lanza); Aurora, Colorado (James Holmes); and Tucson, Arizona (Jared Loughner) may have been avoidable.43


7. Ibid.


38. “Results from the 2010 National Survey on Drug Use and Health: Mental Health Findings,” U.S. Dept. of Health and Human Services Center for Behavioral Health Statistics and Quality, Substance Abuse and Mental Health Services Administration, January 2012, access at https://www.samhsa.gov/data/sites/default/files/2k10MH_Findings/2k10MH_Findings/2k10MHResults.htm.


42. RC Kessler et al., “Screening for serious mental illness in the general population,” Archives of General Psychiatry 60(2) (February 2003):184–89.

ABOUT THE AUTHORS

David Gruber, M.D., MBA is a Managing Director and the Director of Research with the Alvarez & Marsal Healthcare Industry Group in New York, specializing in strategy, commercial due diligence, analytics and new ventures. Dr. Gruber brings 32 years of diversified healthcare experience as a consultant, corporate executive, Wall Street analyst and physician.

His most recent publication, “Post-acute care: Disruption (and opportunities) lurking beneath the surface,” has been well-received.

Dr. Gruber was formerly Vice President of Corporate Development and New Ventures with the Johnson & Johnson Consumer Group of Companies, Vice President of the Bristol-Myers Squibb Healthcare Group, and a top 10 rated medical supplies and devices analyst at Lehman Brothers, Piper Jaffray and Sanford Bernstein. He was the lead analyst for the initial public offering of Intuitive Surgical (robotics) and Given Imaging, and a merchant banking investment in Therasense. Dr. Gruber has an M.D. from the Mt. Sinai School of Medicine and an MBA from Columbia University School of Business. He was formerly a Kellogg Foundation Fellow and is currently a Fellow at the Healthcare and Innovation Technology Lab (HITLAB).

John Cox is a Managing Director in Alvarez & Marsal’s Washington, DC public sector group where he leads the human services practice. John has 30+ years of experience as an executive and trusted advisor to federal agencies, state and local governments, and large commercial organizations. He specializes in budget development, provider payment changes, fiscal transparency and transformation within large state Medicaid offices. Prior to joining A&M, John was the presidentially appointed CFO of the U.S. Department of Housing and Urban Development (HUD). Additionally, John served as CFO of BMC Software, Inc., successfully leading financial transformations which reduced significant costs and greatly improved customer satisfaction.
Wanda Seiler is a Senior Director with the Alvarez & Marsal Public Sector Services Group in Washington, D.C. and works in the firm’s human services practice. She has 23 years of state government experience complimented by eight years of private sector service. She specializes in the assessment and restructuring of human and social services programs that support seniors and people with disabilities. She has advised over a dozen states in service system reform – restructuring reimbursement methodologies, refining quality oversight and monitoring and streamlining administrative functions and services. Wanda’s primary focus is on Medicaid long term services and supports.

Peter Urbanowicz, J.D., is a Managing Director with the Alvarez & Marsal Healthcare Industry Group in Washington, D.C., and leads the firm’s healthcare compliance practice. He was formerly Deputy General Counsel of the United States Department of Health and Human Services and then General Counsel of Tenet Healthcare Corporation (NYSE: THC). Mr. Urbanowicz has 25 years of experience in addressing challenging healthcare issues in government and private industry.

Mr. Urbanowicz advises boards of directors, management, investors and lenders of healthcare organizations facing significant regulatory, financial or operating challenges. He has guided organizations through difficult compliance issues and government investigations, while providing support on corporate governance, operations and financial improvement.
America’s health care system is neither healthy, caring, nor a system.

- WALTER CRONKITE
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