

Medicaid Trends and Health and Human Resources Budget Outlook

November 18, 2022

Presentation Outline

1. Medicaid Enrollment, Spending and Federal Match Rate Trends
2. Unwinding Medicaid Enrollment after the Public Health Emergency
3. November 2022 Medicaid Forecast
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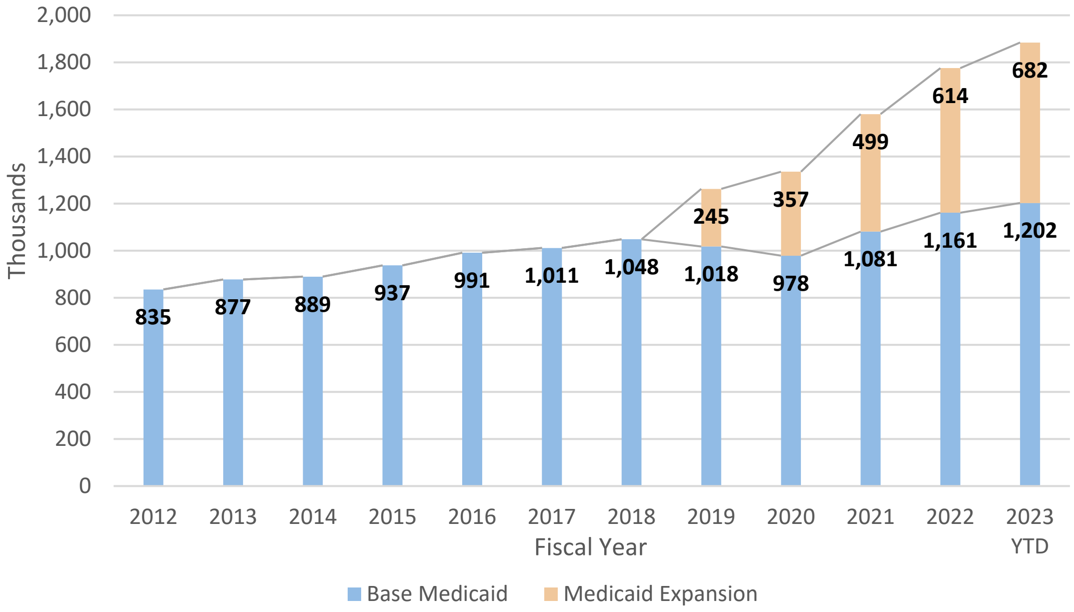
5. Medicaid Outlook for the 2023 Session
6. Other HHR Budget Pressures for the 2023 Session

Medicaid Enrollment, Spending and Federal Match Rate Trends

Medicaid Enrollment Continues to Increase Due to the Federal Requirement of Not Disenrolling Members

Enrollment increased an average of 3.9% per year prior to 2019, and since Expansion has increased <u>14.2%</u> per year.

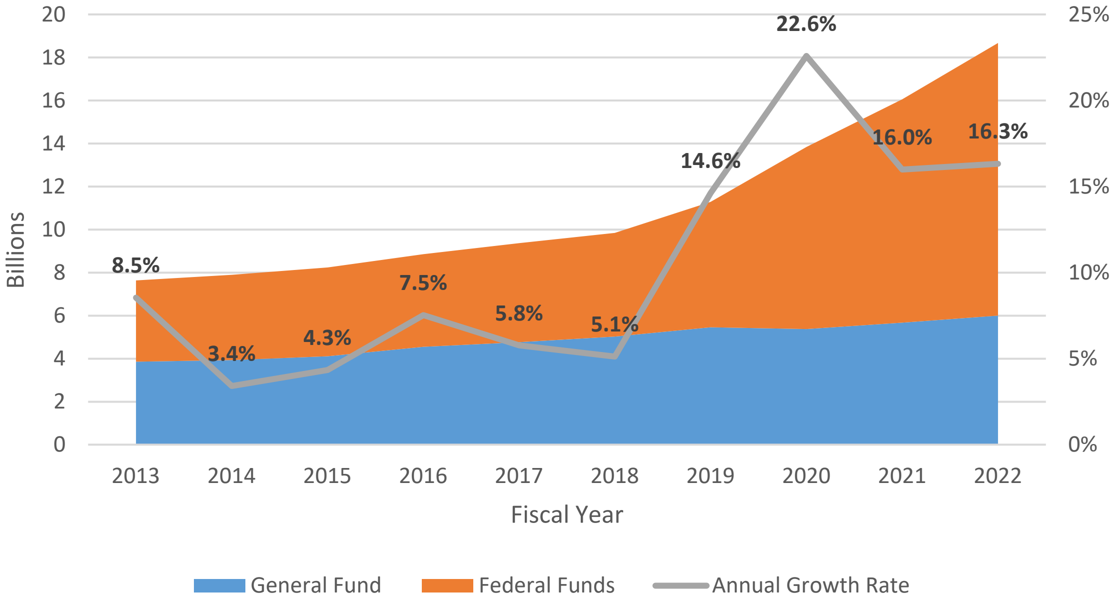


- FY 2022 enrollment was nearly 1.8 million compared to 1.3 million in FY 2019, an increase of 40.7 percent.
- In FY 2022, Medicaid Expansion enrollment represented 35 percent of total enrollment.
- Enrollment as a percent of state population has increased from 12.3 percent in FY 2018 to 18.3 percent in FY 2021.

Sources: DMAS monthly enrollment report for October 2022 (numbers reflect average monthly enrollment). Percent of population numbers are from U.S. Census Bureau data.

Medicaid Spending Reflects the Temporary Federal Eligibility Requirement and Federal Funds are an Increasing Share

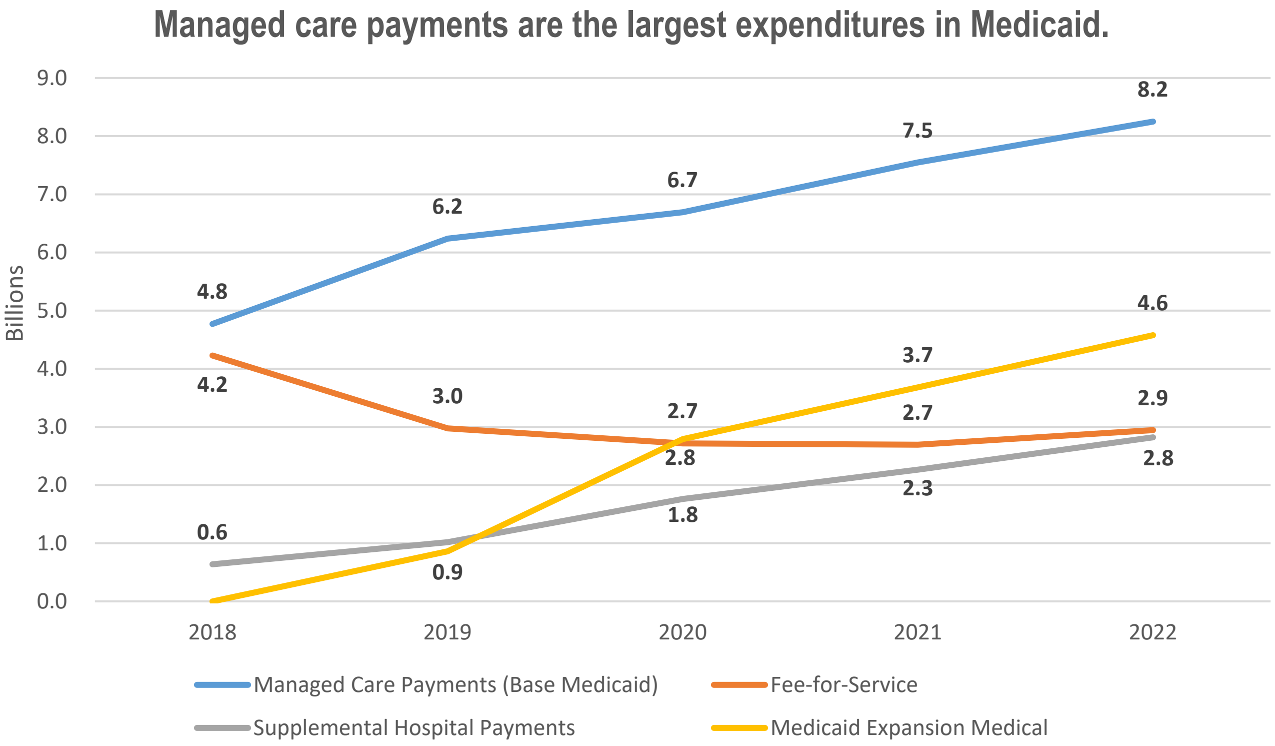
Medicaid spending increased an average of 5.2% per year from 2013 to 2018 and since 2019 is averaging 17.4%.



Source: DPB's Expendwise database of Cardinal accounting data.

- Total spending has increased from $7.6 billion in FY 2013 to $18.7 billion in FY 2022.
- Federal funds make up nearly 68 percent of all Medicaid spending.
  - Prior to Medicaid Expansion federal funds were closer to 50 percent.
- Since 2019, spending has reflected the expansion of Medicaid.
  - Medicaid Expansion spending was $4.6 billion in FY 2022; 25 percent of total Medicaid spending.
  - The state share of Medicaid Expansion is 10 percent and is covered by an assessment on private hospitals.

Largest Spending Category is in Payments to Managed Care Organizations

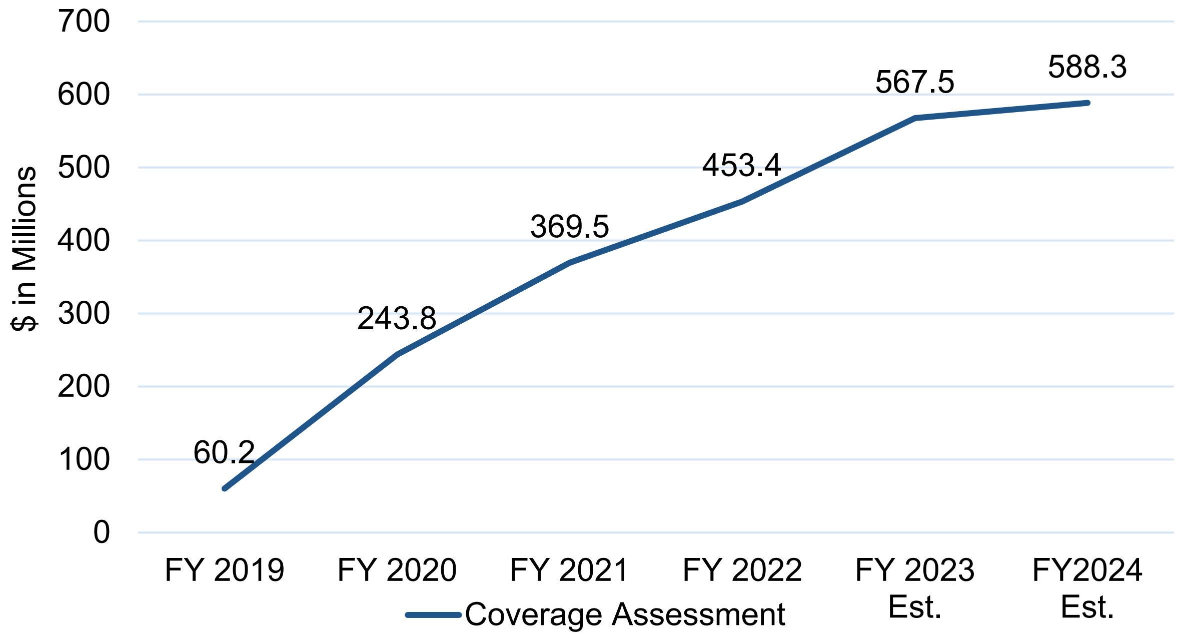


- Most spending for Medicaid Expansion is in managed care.
- Supplemental hospital payments have grown rapidly to include the enhanced rate payments.
  - State share of these payments are from an assessment on private acute care hospitals.
- Fee-for-service has declined as services have been moved into managed care and the public health emergency reduced the normal turnover in eligibility.

Source: 2022 DMAS Medicaid Forecast.

Hospital Coverage Assessment Funds Medicaid Expansion

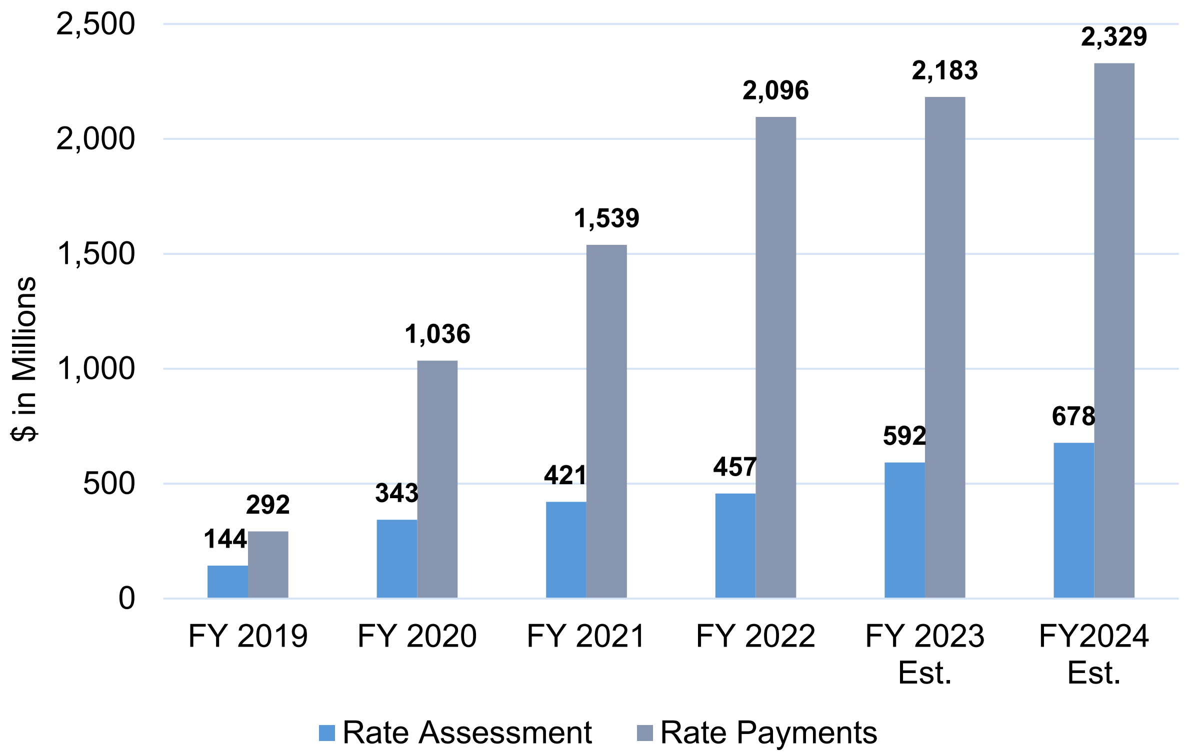
Coverage assessment has grown rapidly but will level off as the public health emergency ends.



Source: 2022 DMAS Medicaid Forecast.

- The coverage assessment pays for the 10 percent state match for Expansion.
- Private acute care hospitals pay the coverage assessment.
- The federal eligibility requirement during the public health emergency has increased the state share of Medicaid Expansion costs.

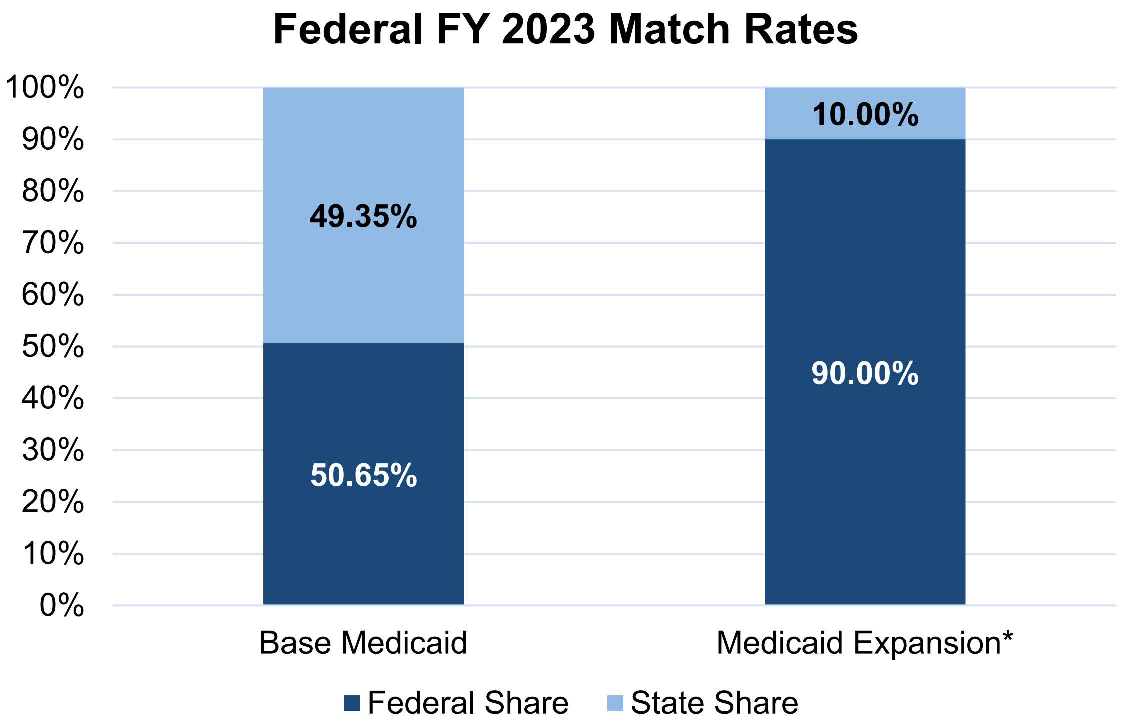
Hospital Rate Assessment Funds Additional Medicaid Payments to Hospitals; Net Benefit is Positive



Source: 2022 DMAS Medicaid Forecast.

- The payment rate assessment funds enhanced Medicaid rates for hospitals.
  - The hospitals pay this assessment, which covers the state share of the payments.
- In FY 2022, the $457.0 million in rate assessment revenue generated $2.1 billion in additional Medicaid revenue for hospitals.
- The net benefit was over $1.6 billion to hospitals in FY 2022.

Federal Match Rate for Medicaid is Variable Now

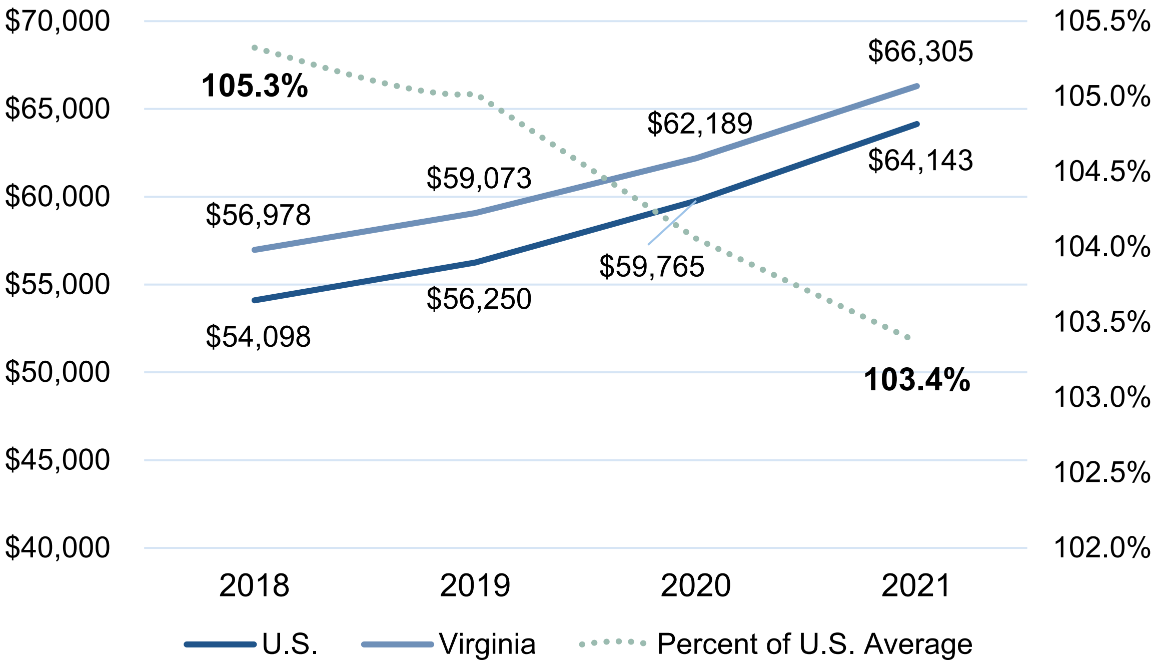


- Federal Match Rate for Virginia had been stable at 50 percent since 2004.
- Federal match rate for federal FY 2023 is 50.65 percent and in FY 2024 increases to 51.22 percent.
- The federal match rate is calculated annually and changes will impact Virginia's budget every year.

** The state share of Medicaid Expansion is covered by the provider assessment on private hospitals.*

Population and Personal Income Determine the Medicaid Federal Match Rate

Per capita personal income gap in Virginia has narrowed to the U.S. average.

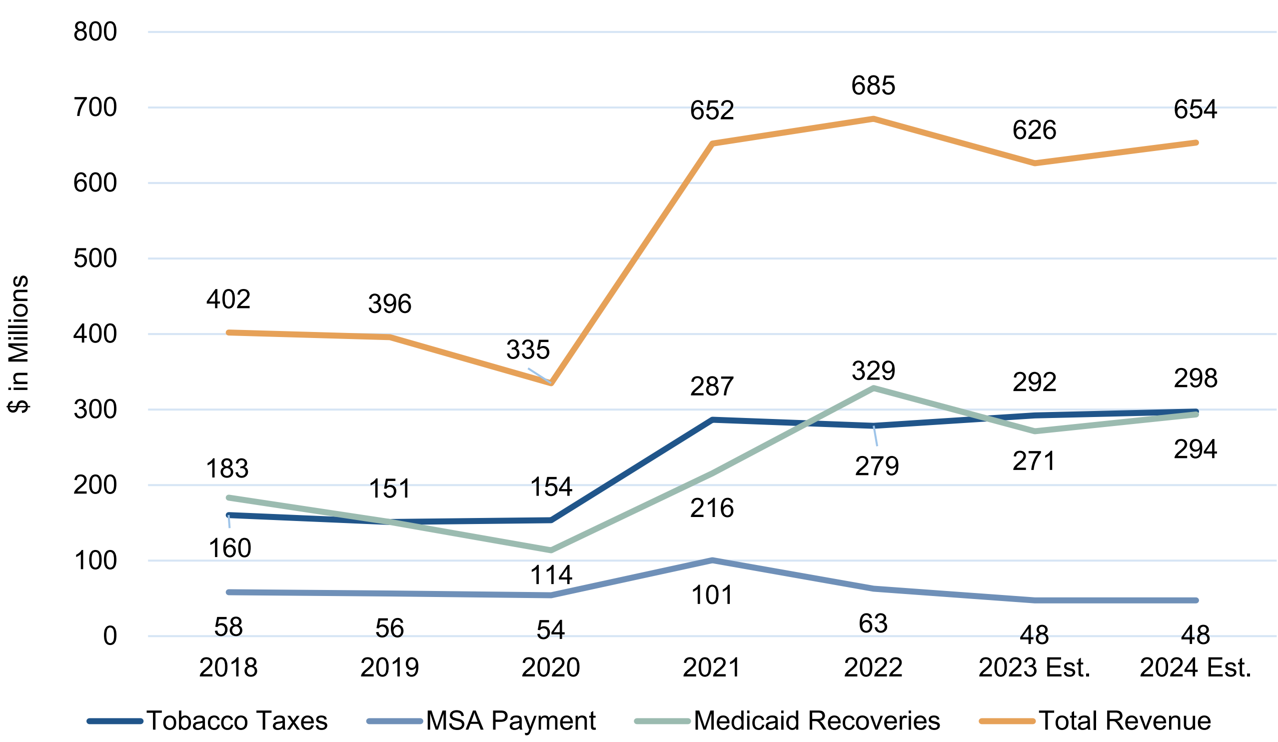


Source: U.S. Bureau of Economic Analysis.

Federal Medical Assistance Percentage (FMAP):

- Calculated based on state three-year average of per capita personal income compared to the national average.
- Federal FY 2023 is based on 2018-2020 per capita personal income.
- An increase in FMAP reflects a decline in a state's share of U.S. average per capita income.

Health Care Fund is Used as State Match for Medicaid; Has Nearly Doubled in Revenue Since FY 2020



Source: DPB's Expendwise system. Note that "Total Revenue" includes smaller miscellaneous revenues.

- Health Care Fund revenues come from tobacco taxes, the Master Settlement Agreement with tobacco companies; and Medicaid Recoveries.
- Pharmacy rebates, the increase in tobacco taxes, and managed care repayments have driven the increase in revenues.
- FY 2024 budget includes about $150.0 million in managed care repayments that are likely one-time.

Unwinding Medicaid Enrollment after the Public Health Emergency

Federal Law Prohibits Disenrolling from Medicaid While the State Receives Enhanced Federal Match

- The federal Families First Coronavirus Response Act (P.L. 116-127) was signed into law March 18, 2020, the second bill passed by Congress to deal with the impact of COVID-19.

- In Medicaid, the federal match rate was increased 6.2 percentage points for each quarter during the federal public health emergency (PHE).

- During the PHE, states cannot disenroll anyone (except for a few exceptions) as a requirement to receive the enhanced federal match.

- The January-March 2020 quarter was the first eligible quarter for the enhanced federal match.

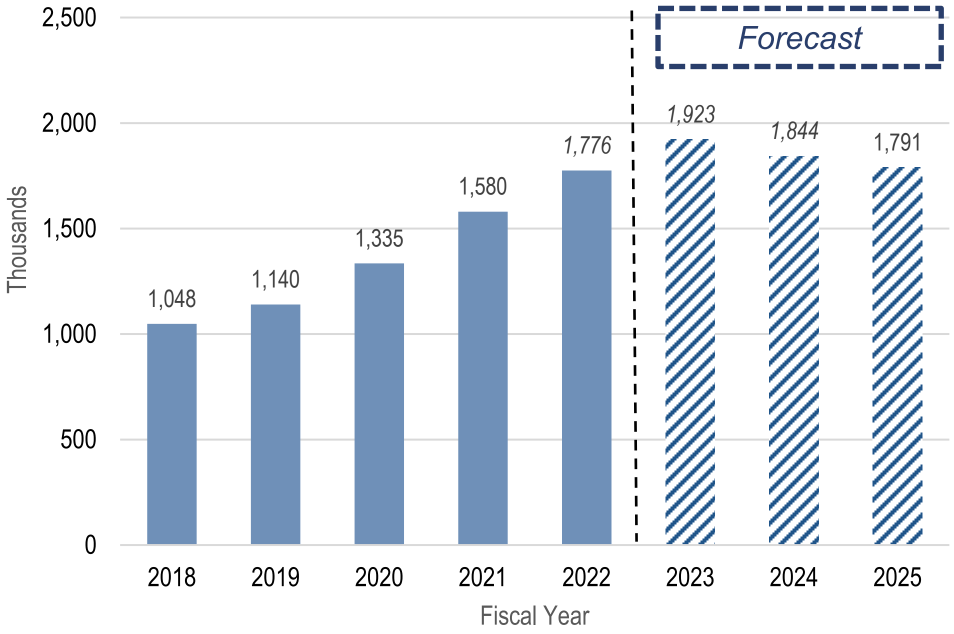
- Through June 30, 2022, the Commonwealth has received a total of $2.0 billion in additional federal funds related to this provision.
    - Chapter 2, 2022 Special Session 1 Acts of Assembly, included $389.4 million in GF savings from enhanced federal matching funds.

Virginia Will Need to Redetermine Eligibility for Nearly Everyone within 12 Months

- Federal officials have not indicated if the Public Health Emergency (PHE) will be extended past this January 2023.
  - Previous federal guidance noted that there would be a 60-day notice to states prior to ending the PHE.
  - That 60-day notice requirement passed on November 12, 2022. Without any notice, it is possible that the PHE will likely be extended another quarter until April 2023.
- The enhanced Federal match would then end on June 30, 2023, if the PHE is extended.
- At that point, the Commonwealth would need to begin the redetermination process for nearly everyone on Medicaid in May 2023.
- This process is expected to take 12 months.
- The Department of Medical Assistance Services estimates that by the end of the process, about 351,000 members will have been disenrolled from the program.

Enrollment Projected to Decline Through FY 2025 After the Federal Public Health Emergency Ends

Average monthly Medicaid enrollment has increased due to the federal requirement to maintain eligibility.



Source: DMAS population estimates, 2022 Medicaid Forecast.

- FY 2021 enrollment increased 18.3 percent, FY 2022 enrollment increased 12.4 percent, and in FY 2023 is expected to increase 8.3 percent.
- After the PHE ends, enrollment is projected to decline 4.1 percent in FY 2024 and an additional 2.9 percent in FY 2025.

Most of Those Who will be Disenrolled Likely have Access to Other Health Insurance Coverage

- The Urban Institute projects that out of those expected to be disenrolled:
  - 60 percent of children are eligible for the Children's Health Insurance Program.
  - One-third of adults and 10 percent of children are eligible for Marketplace subsidies.
  - The remainder are mostly eligible for employer-based health coverage.
- The Commonwealth will need to assist in transitioning individuals from Medicaid to the federal Marketplace coverage.
- While most of those disenrolled will migrate to another type of heath care coverage, there will likely be premium and other costs that did not exist when covered under Medicaid.

Source: Buettgens, Matthew, and Andrew Green. 2021. What Will Happen to Unprecedented High Medicaid Enrollment after the Public Health Emergency? Washington, DC: Urban Institute.

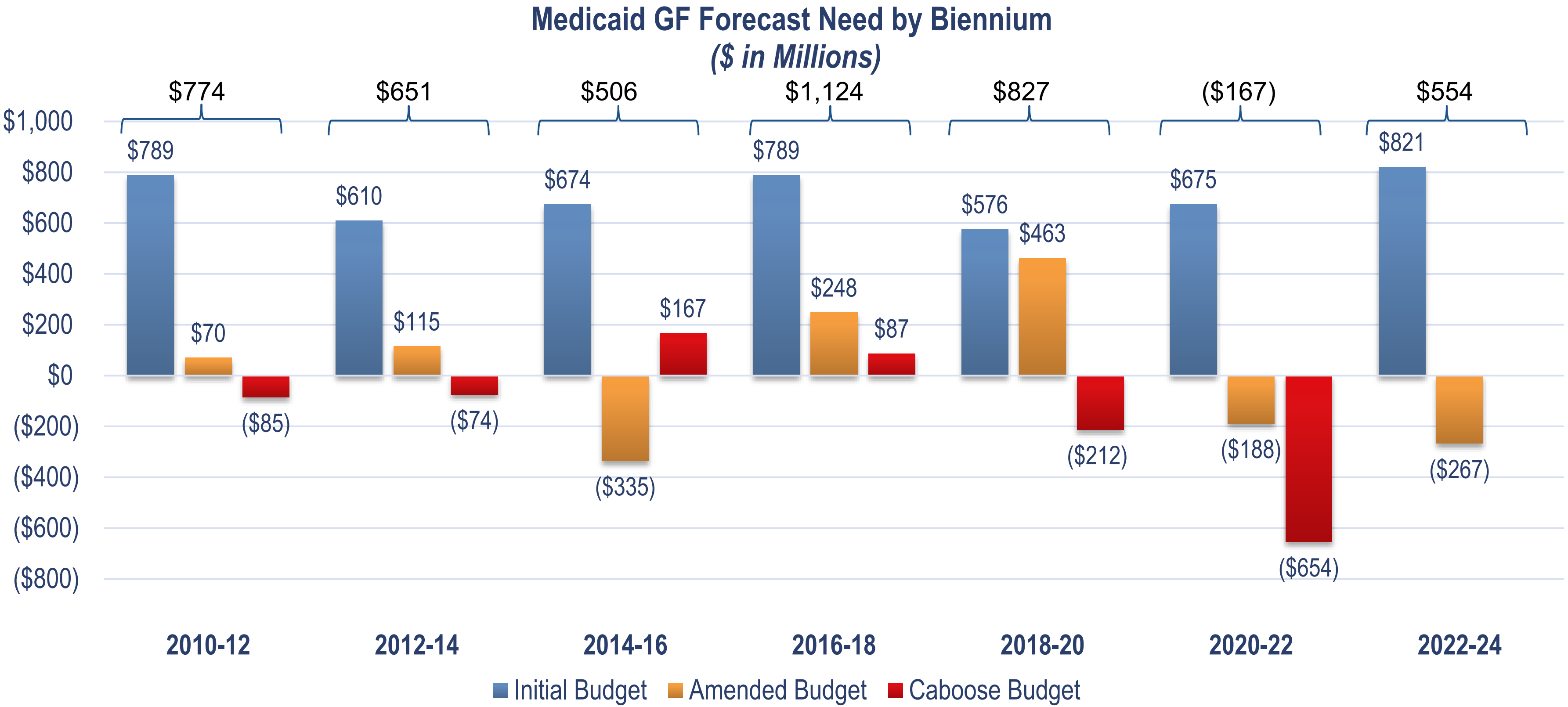
November 2022 Medicaid Forecast

Medicaid Forecast Primarily Reflects Additional Savings Due to the Extension of the Federal Public Health Emergency

Fund Source ($ in Millions)	FY 2023 (Surplus) / Need	FY 2024 (Surplus) / Need	FY 2025 (Surplus) / Need
General Fund	**($279.3)**	**$12.3**	**$150.7**
Coverage Assessment	36.5	66.2	82.8
Rate Assessment	148.9	205.0	245.6
Federal Funds	1,298.3	1,085.0	1,522.3
TOTAL	**$1,204.4**	**$1,368.3**	**$2,001.4**
Growth Over Prior Year	13.1%	3.2%	2.9%

- Amendments to the 2024-2026 biennial budget, to be considered in the 2024 Session, are likely to be impacted by a more normal Medicaid growth rate and inflationary pressures in health care.

GF Need in Medicaid Typically is Greatest in Even-Year Sessions for Each New Biennial Budget

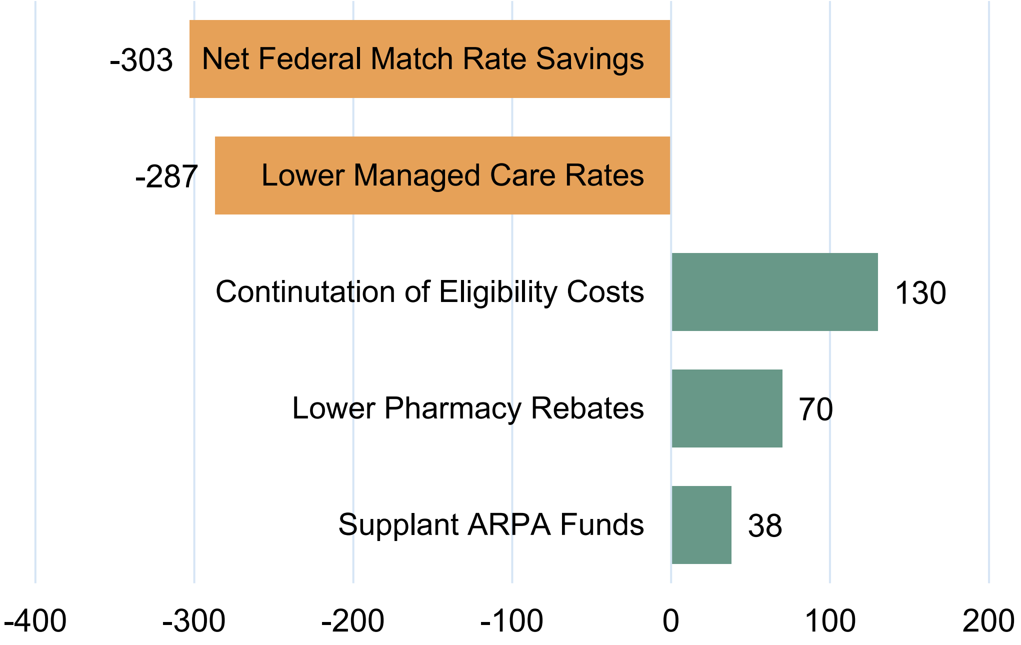


FY 2022-2024 Biennium General Fund Impact is a Net Savings

- Total spending is projected to increase over the 2022 – 2024 biennium by $2.6 billion in total funds, much of it federal funds. The General Fund share of this increase is actually a **net savings of $267.1 million**.
- The largest single factor is the continuation of the higher federal match rate for two additional quarters due to extension of the public health emergency.
    - GF savings from the continuation of the enhanced federal match is $421.1 million.

Major Forecast Cost/Savings Factors

($ in Millions)



Note: Chart highlights only major drivers of the forecast and does not total to the net Medicaid Forecast estimate.

Source: November 2022 Medicaid Forecast.

Managed Care Rates are Typically a Major Budget Driver

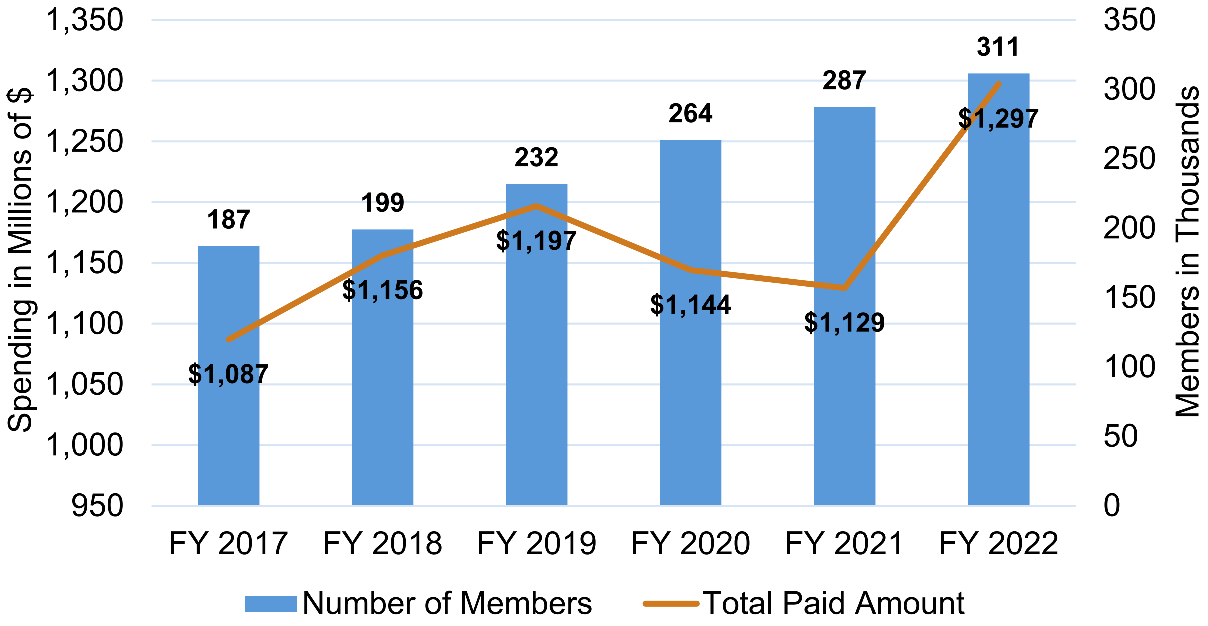
- After enrollment, Managed Care rates are the primary driver of Medicaid spending.
  - 69 percent of Medicaid spending is through managed care capitation payments.
- Managed Care rates are set by a contracted actuary and are required per federal policy to be actuarially sound.
- Actuarial projections were updated from last year for FY 2023 rates and were much lower than budgeted.

Managed Care Program	FY 2023 (Last Year)	FY 2023 (Actual)	FY 2024 (Last Year)	FY 2024 (New Est.)	FY 2025 (Est.)
CCC Plus (Non-expansion)	1.9%	(4.7%)	4.3%	5.9%	5.0%
Medallion 4.0 Rates (Non-expansion)	4.4%	(4.1%)	4.1%	4.8%	3.9%

Medicaid Behavioral Health Care and Managed Care Updates

Medicaid is a Large Payer of Behavioral Health Services

Managed Care Transition Slowed Spending While Members Served Continues to Increase.



Source: DMAS Behavioral Health Dashboard.

- Spending declined in FY 2020 and FY 2021 as these services were moved into managed care.
- The average amount per member for these services declined from $5,812 in FY 2017 to $3,931 in FY 2021.
- In FY 2022, expenditures increased as costs for one of the new behavioral health services were dramatically higher than expected.

Implementation of Behavioral Health Redesign is Underway

Traditional Services
- Early Intervention / Screening
- Peer and Family supports
- Outpatient
- Community Mental Health Rehabilitation Services
- Group Homes, Residential Treatment, Inpatient Hospitalization

12/1/2021 New Services
- Comprehensive Crisis Services
- Multi-system Therapy (MST)
- Functional Family Therapy (FFT)

7/1/2022 New Services
- Assertive Community Treatment (ACT)
- Intensive Outpatient Treatment (IOP)
- Partial Hospitalization (PHP)

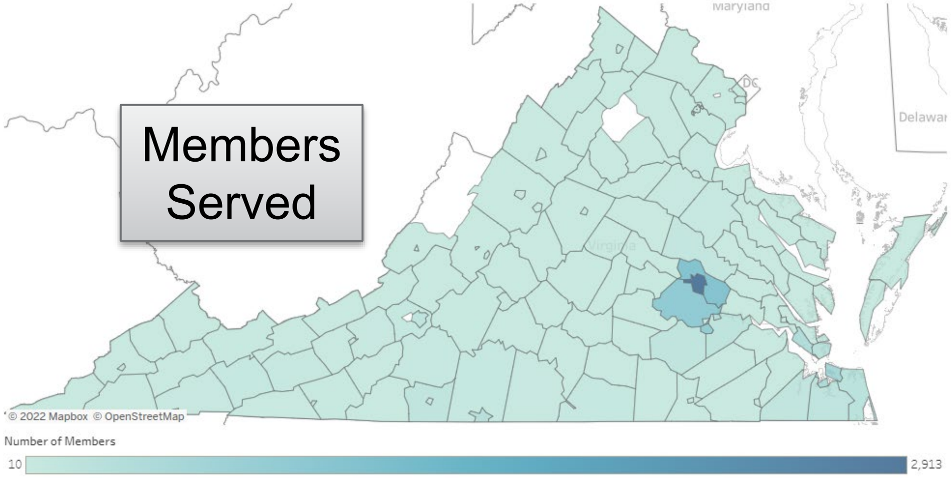
Future Services
- Tiered School-based Behavioral Health Services
- High Fidelity Wrap-Around
- Intensive Outpatient Programs
- Peer Crisis Support

- Redesign to develop a continuum of behavioral health services including prevention, recovery, outpatient, community-based, crisis, residential, and inpatient services.
- Traditional community mental health rehabilitation services have grown rapidly over time, but DMAS is moving toward more evidence-based services to better improve effectiveness of these services for members.
- Part of the last phase of redesign requires a plan to phase-out the traditional non-evidence-based services.

Source: Staff analysis of DMAS documents.

Implementation of Community Stabilization Service was Problematic

- Community Stabilization is a new service implemented on December 1, 2022, to provide temporary assistance to individuals as they transition from a hospital discharge to community-based services.
- In the first seven months of the new service, $123.2 million was paid in claims for 10,922 members (average cost per member of $11,275).



Source: DMAS Behavioral Health Dashboard.

- DMAS did not have adequate controls, such as service authorization in place.
- Routine monitoring and appropriate utilization controls are necessary to ensure appropriate use of these services.

COVID-19 Impact on Health Care Utilization has Resulted in Large Managed Care Repayments

Total Managed Care Repayments

Managed Care Organization	FY 2022 ($ in Millions)	FY 2023 ($ in Millions)
Aetna	$97.1	$107.2
Anthem	171.4	258.0
Molina	36.0	41.2
Option	31.9	56.7
United	60.9	106.8
Virginia Premier	58.0	100.8
Total Funds	**$455.3**	**$670.7**

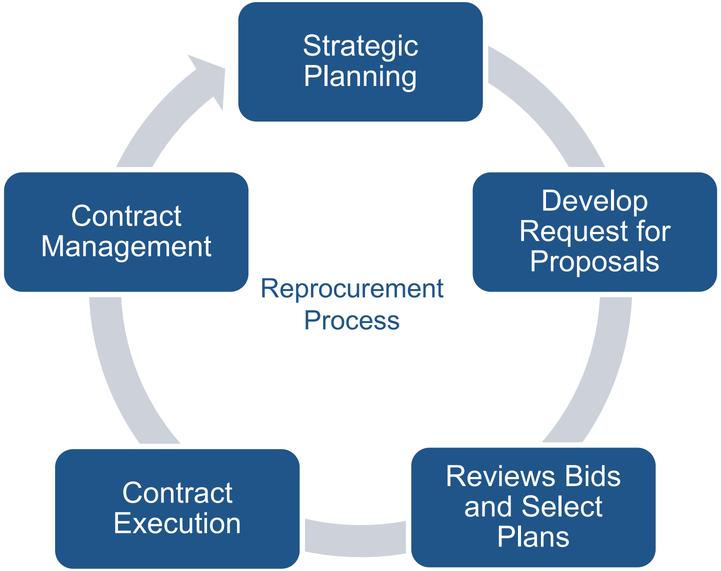
Source: Department of Medical Assistance Services, October 2022.

- Virginia has requirements on managed care that 85 percent of funds be paid as medical claims and profits are limited.
- FY 2024 expected repayments from all six MCOs is estimated at $314.9 million.
- State share of these repayments is $76.1 million in FY 2022, $206.7 million in FY 2023, and an estimated $136.2 million in FY 2024.

Reprocurement of the Managed Care Contract is an Opportunity to Enhance Value from the Program

- In January 2023, the Commonwealth Coordinated Care Plus and the Medallion 4.0 managed care programs will be merged into **Cardinal Care**.
- DMAS has announced the reprocurement of the managed care contract with a target date of July 1, 2024.
  - Largest contract in the Commonwealth.
    - FY 2025 Medicaid Forecast estimate of $14.6 billion in spending on managed care equates to a five-year contract value of at least $73 billion.
  - Current contract is set to expire in FY 2026.
  - Unique opportunity to leverage the state's purchasing power to improve value in managed care for the Commonwealth and the program's members.
  - General Assembly may wish to provide direction on how the new contract should improve performance and value.

CardinalCare
Virginia's Medicaid Program



Medicaid Outlook for the 2023 Session

2022 Session Resulted in Significant Investment in Medicaid Provider Rates

GF Actions for 2022-24 Biennium ($ in millions)	Biennial GF Amount
Developmental Disability Waiver Services	$377.0
Personal, Respite, Companion Care (7.5% Increase)	85.9
Continue 12.5% Increase for Home and Community-Based Services	43.5
Dental Services (30% Increase)	84.9
Primary Care Services Rates (Increase to 80% of Medicare)	20.0
Nursing Facility Value-Based Payment	37.5
Children's Hospital of the Kings Daughters; Virginia Home	15.4
Psychiatric Residential Treatment Facilities	11.7
Obstetrics and Gynecology Services (15% Increase)	6.6
Vision Services for Children (30% Increase)	6.2
Peer and Family Supports (Rate Doubled)	0.7
Total Medicaid Provider Rates (2022 Session)	**$689.4**

Key Takeaways for Medicaid

- The federal requirement to maintain eligibility for Medicaid has significantly increased enrollment during the COVID-19 pandemic; however, the enhanced federal match has offset the higher enrollment costs.
- Federal public health emergency is set to expire in January 2023 (or April 2023), resulting in the restart of the annual renewal process, which may result in disenrollment of an estimated 351,000 members who are no longer eligible for Medicaid (with most of those disenrolled being eligible for other health insurance).
- Reduced utilization of health care during the pandemic resulted in lower managed care rates and repayments from managed care organizations for exceeding profit limits, which has reduced the pressure on the state share of Medicaid.
- Virginia's slower growth in per capita personal income has resulted in a higher federal match for Medicaid, which will now fluctuate each year based on the latest data.
- The implementation of newly redesigned behavioral health services is helping to establish a care continuum but should be monitored closely and implemented in a way to reduce the inappropriate use of these services.
- Reprocurement of managed care contracts is an opportunity for the General Assembly to improve the performance and increase the value of managed care.

Medicaid Outlook for the 2023 Session

- While the Medicaid forecast is a net GF savings, labor market pressures and high inflation will continue to challenge Medicaid providers.
  - Even after the significant provider rate increases approved in the 2022 Session, Medicaid providers will likely be requesting additional rate increases to ensure service delivery.
- The end of the public health emergency will result in the eligibility redetermination of nearly 1.9 million individuals.
  - The larger enrollment combined with staffing issues presents a significant burden for the local departments of social services to process all cases in a 12-month period.

Other HHR Budget Pressures for the 2023 Session

DBHDS Budget Pressures

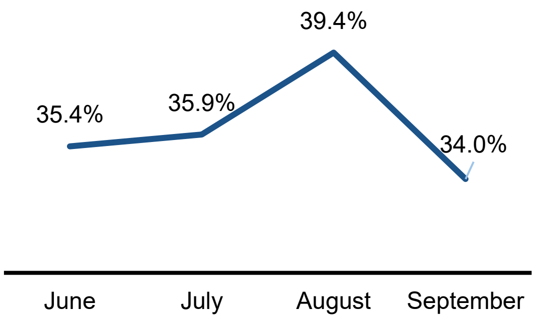
Budget Item
Build Out of the Crisis System • In the 2022 Special Session I budget, $51.5 million of state and federal funds were provided to fund mobile crisis and Crisis Receiving Centers. • DBHDS is requesting $58.3 million to enhance and build five new crisis stabilization units and nine crisis receiving centers.
Fund Alternative Custody Options • The General Assembly provided $5.4 million GF in the 2022 Session to support alternative custody options. • Lack of bed availability has created a broader problem by holding law enforcement up in hospital Emergency Rooms. • In FY 2022, there were 7,472 delayed admissions with an average wait of 43.2 hours for a bed.* • Secretaries of Health and Human Resources and Public Safety and Homeland Security were directed by the General Assembly to report on options for alternative custody for consideration in the 2023 Session.

* *Source: RD637 - Annual Report on the Implementation of 2014 Emergency Custody Order (ECO) and Temporary Detention Order (TDO) Law Change, June 30, 2022.*

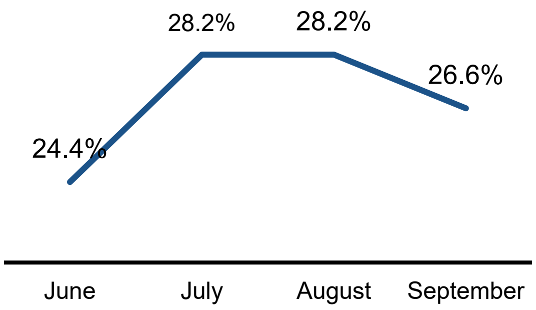
Compensation Increase has Begun to Reduce the Vacancy Rates for Direct Care Staff at State Psychiatric Hospitals

- In the 2022 Special Session I, the General Assembly provided $109.2 million (half from APRA funds) to increase direct staff compensation to 50 percent of the market median at state hospitals.
- Vacancy rates at state mental hospitals have decreased mainly for Direct Care Associates, with less of an impact so far on nurses.
- It is still too early to determine if additional compensation actions are necessary.
- **The following are the vacancy rates by month for direct care staff:**

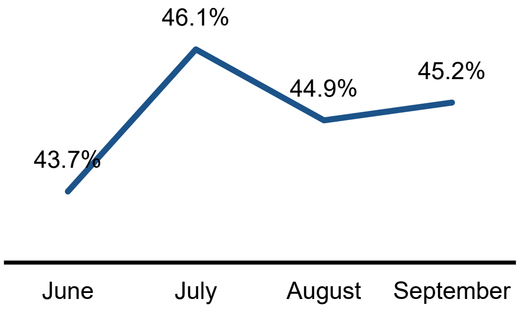
Direct Care Associates



Registered Nurses



Licensed Practical Nurses



Source: Adapted and updated from a presentation provided by Deputy Commissioner Angela Harvell to the Behavioral Health Commission, October 18, 2022.

Other HHR Budget Pressures

Budget Item
Developmental Disability Waiver Slots • 600 slots are funded in FY 2024; additional slots may be needed to further reduce the waiting list.
Medicaid Early Intervention Services Rates • An oversight excluded the 12.5 percent rate increase for these services that should have been continued in FY 2024 consistent with the other services that had received the same temporary increase in FY 2023.
Foster Care • Funding was provided for initiatives of the Safe and Sound Task Force in FY 2023 only. • $2.3 million GF in FY 2024 is required for the mandatory cost-of-living increase.
Trauma Center Fund • Approximately $5.0 million GF is need in FY 2024 to continue funding at historical levels.
Behavioral Health Loan Repayment Program • Funding for the new program was quickly exhausted as demand has exceeded the annual funding of $1.6 million.
State Match for Federal Drinking Water Match • In FY 2024, $3.4 million GF is needed to match the $91.9 million in federal drinking water infrastructure project grants.