



Medicaid Trends and Health & Human Resources Budget Outlook

November 17, 2023

Presentation Outline

- 1 Overview of Virginia's Medicaid Program and Trends
- 2 November 2023 Medicaid Forecast
- 3 Other Budget Pressures in Health and Human Resources



Overview of Virginia's Medicaid Program and Trends

Medicaid is a Comprehensive Assistance Program for Low-Income Individuals and Families

- The program covers 1.9 million Virginians as of November 1, 2023.
 - 22.0 percent of Virginians are covered by Medicaid.
 - Over 60 eligibility categories.
- It provides a comprehensive benefits package that includes long-term care, community-based behavioral health, dental, and Early and Periodic Screening, Diagnostic and Treatment services for children.
- Design of the program reflects a combination of legacy federal public assistance programs prior to 1965 and changing policy goals over time to assist low-income individuals and families.
 - Policy goals include providing long-term care to low-income individuals, coverage of children and pregnant women, and home and community-based services.

Source: Department of Medical Assistance Services (DMAS) November 2023 monthly enrollment report, and the July 1, 2022, population estimates from the Weldon Cooper Center.

Medicaid Has Three Main Cost Drivers



Enrollment

Generally, explains about half the program's growth over time.

There are a few eligibility groups that are optional.



Provider Rates

The state has some control over how much providers are paid.

Rates must be balanced against maintaining access to providers.

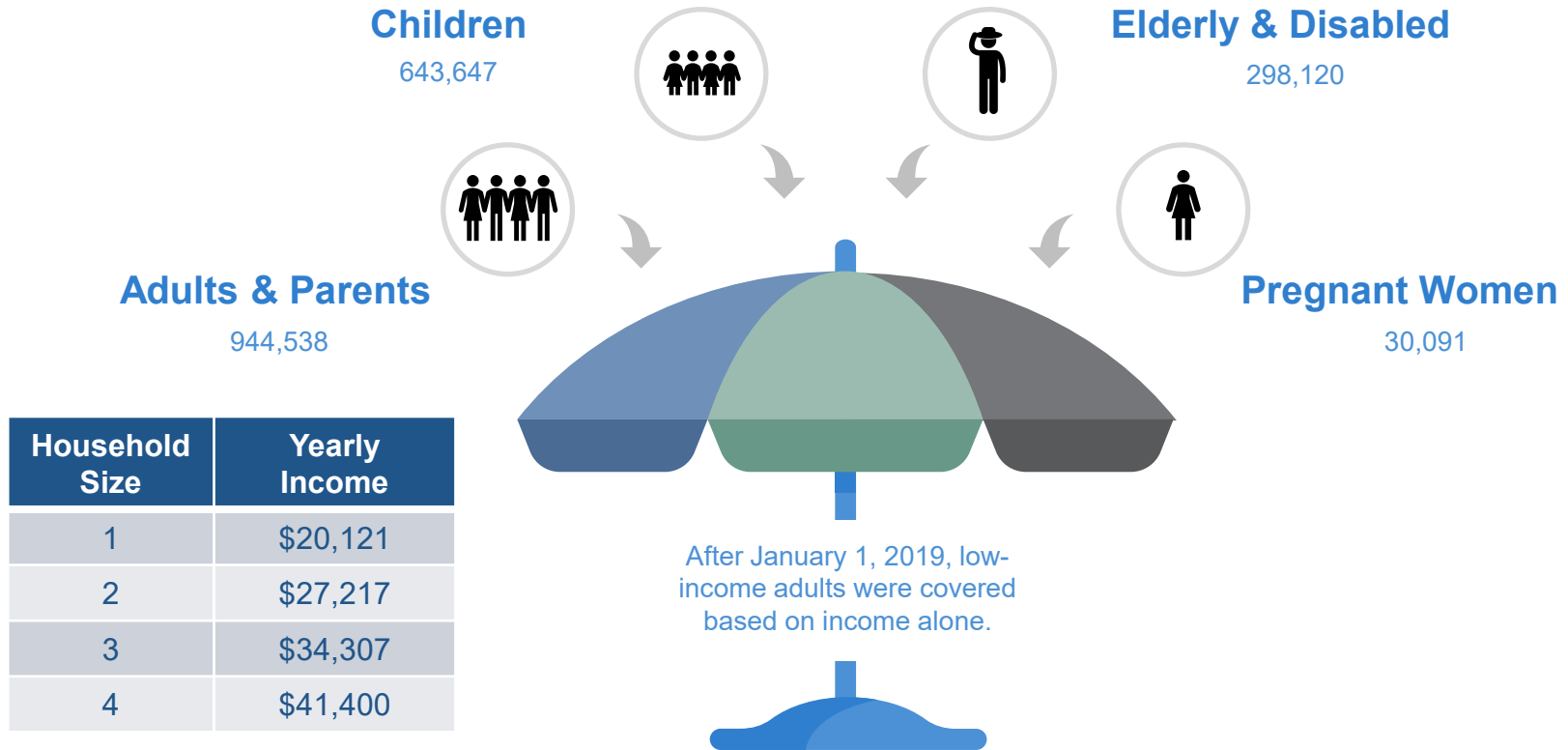


Benefits

Many services covered by Medicaid are federally mandated, but some are optional.

Dental is one example of an optional service.

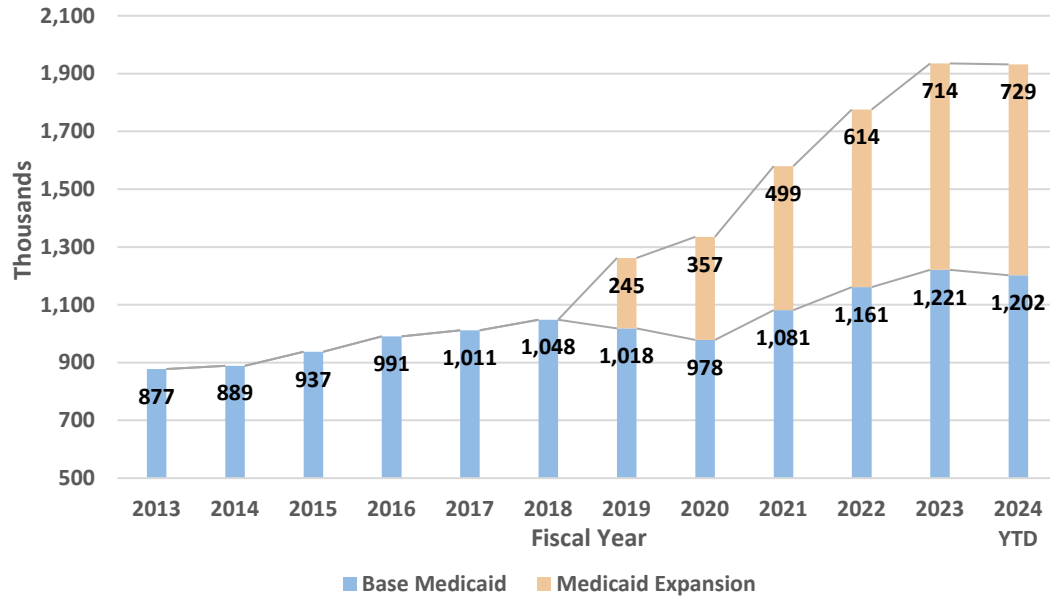
Medicaid Covers Most Low-Income Individuals



Source: DMAS monthly enrollment report for November 2023.

Medicaid Enrollment has Grown Rapidly but is Beginning to Decline after the End of the Public Health Emergency

Enrollment increased an average of 3.9% per year prior to 2019, and since Expansion has increased 13.2% per year.



- FY 2023 enrollment was over 1.9 million compared to less than 1.3 million in FY 2019, an increase of 53.3 percent.
- In FY 2023, Medicaid Expansion enrollment represented 38 percent of total enrollment.
- Enrollment as a percent of state population has increased from 12.3 percent in FY 2018 to 22.0 percent in FY 2024.

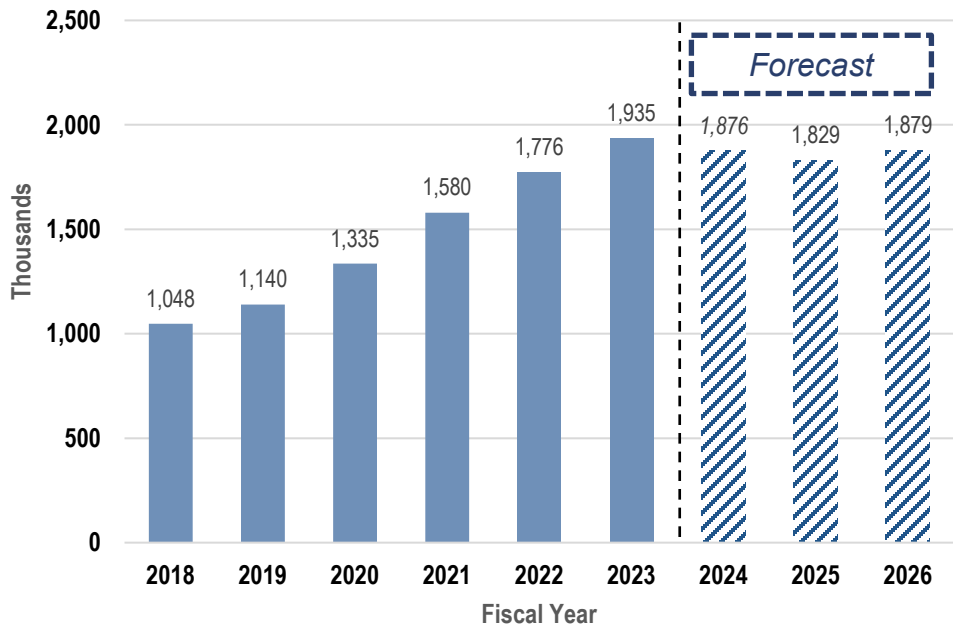
Sources: DMAS monthly enrollment report for November 2023 (numbers reflect average monthly enrollment). Percent of population numbers are based on the Weldon Cooper Center. Census Bureau data.

Federal Pandemic Prohibition on Medicaid Disenrollments Increased Enrollment and has Now Ended

- The federal Families First Coronavirus Response Act (P.L. 116-127), signed into law March 18, 2020, to deal with the impact of COVID-19, increased the federal match rate for Medicaid by 6.2 percentage points for each quarter during the federal public health emergency.
 - However, states during the federal Public Health Emergency (PHE) could not disenroll anyone (except in a few cases) to receive the enhanced federal match.
 - By December 31, 2023, the Commonwealth will have received a total of \$3.1 billion in additional federal funds.
- Congressional action in December 2022 removed the link to the PHE and enhanced FMAP phases out by December 2023.
 - Virginia must redetermine eligibility for everyone in the program over 12 months, or by April 2024.
 - The Department of Medical Assistance Services (DMAS) estimated in the fall of 2022 that by the end of the process, about 351,000 members will have been disenrolled from the program.

Projected Decline in Enrollment after the End of the Public Health Emergency is Lower than Projected Last Year

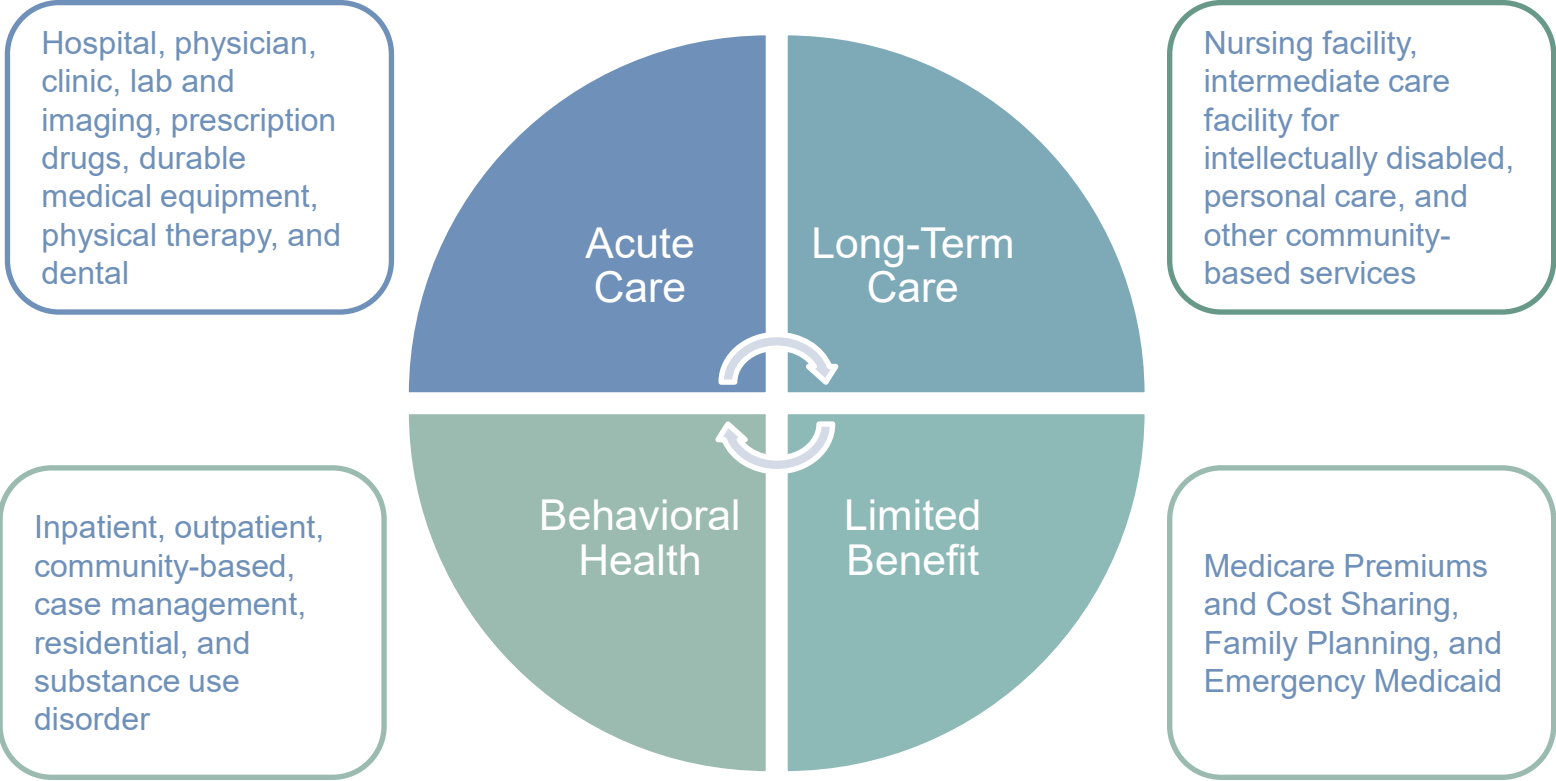
Medicaid enrollment is projected to decrease temporarily as the federal requirement to maintain eligibility has ended.



Source: DMAS population estimates, 2023 Medicaid Forecast.

- FY 2021 enrollment increased 18.3 percent, FY 2022 increased 12.4 percent, and FY 2023 increased 9.0 percent.
- After the PHE ends, enrollment is projected to decline 3.1 percent in FY 2024 and 2.5 percent in FY 2025, and then begin to increase again in FY 2026 by 2.7 percent.
- Last year's projection indicated a larger drop in FY 2025 of over 38,000 members.

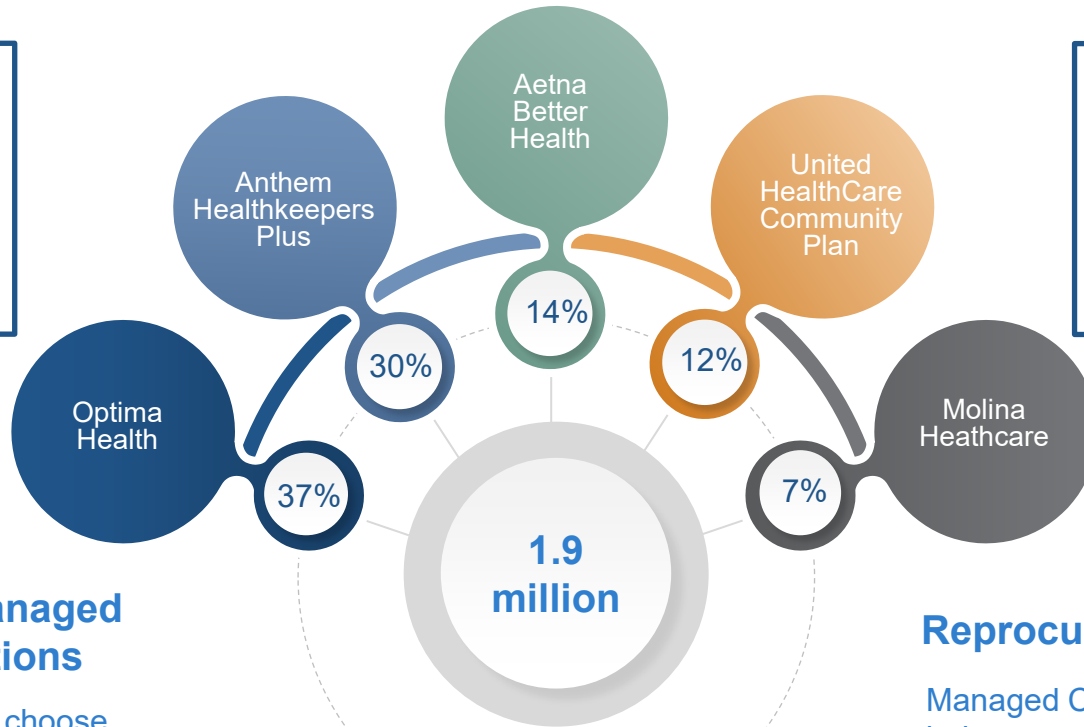
Medicaid's Comprehensive Benefits Make the Program More Expensive than a Commercial Insurance Product



Services Primarily Delivered through Managed Care, Private Insurers that are Paid to Provide Care

Managed Care Organizations are private insurance companies that coordinate care of enrolled members.

Managed Care Organizations are paid a monthly capitated rate for every enrolled member.



Five Medicaid Managed Care Organizations

Medicaid Members choose their MCO.

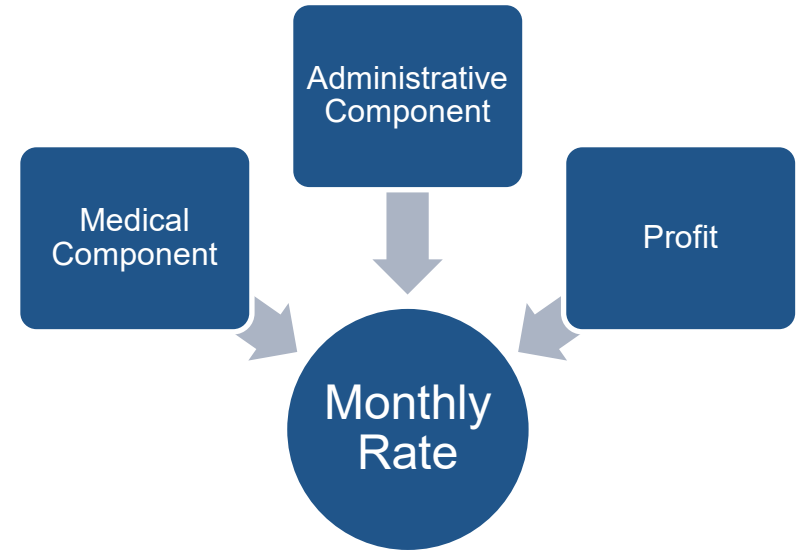
Reprocurement

Managed Care is currently being reprocured to take effect July 1, 2024.

Source: DMAS Medicaid / FAMIS Enrollment Dashboard, October 2023.

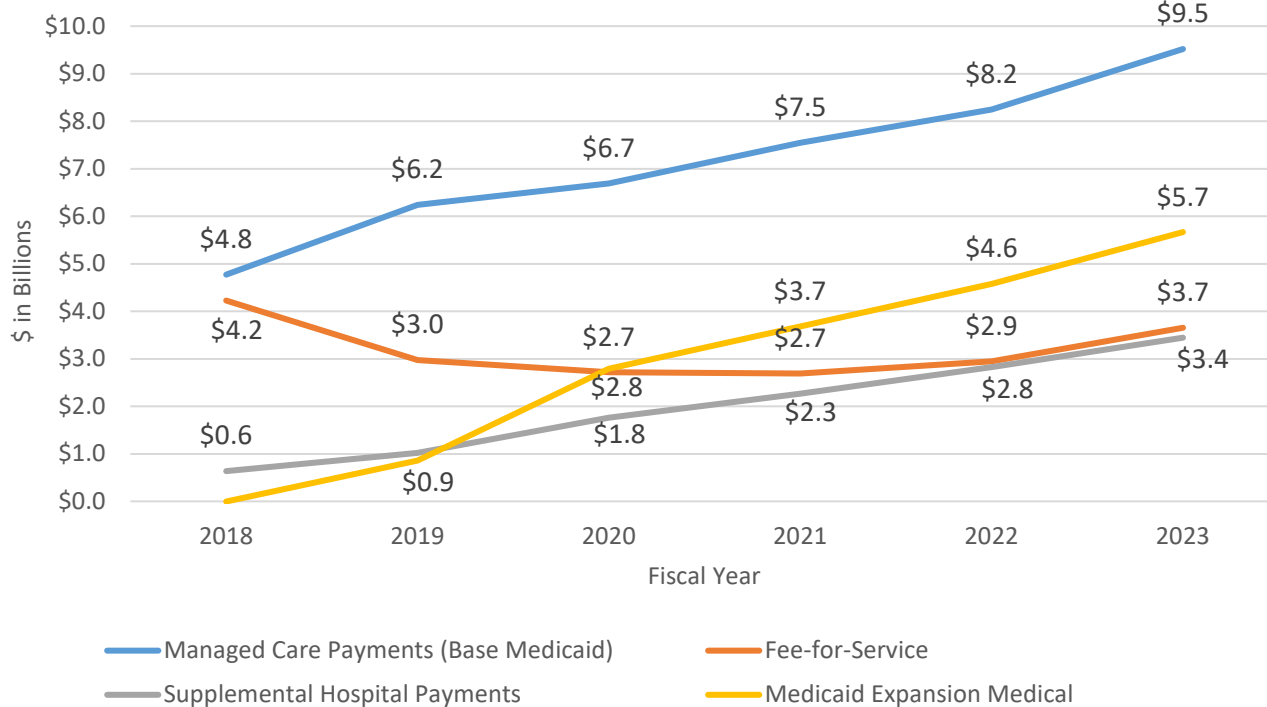
Managed Care Payments Have Built in Financial Protections for the Commonwealth

- The monthly Managed Care Organization (MCO) capitated payment is based on actuarial analysis conducted annually.
- The payment generally assumes a 1.0 percent profit.
- The contracts with MCOs provide that if their actual profit exceeds 3.0 percent the Commonwealth will receive a repayment of the excess profits on a sliding scale.
- In addition, the contract specifies a medical / loss ratio, which requires the MCOs to expend 85 percent of their payments on medical claims. (If the MCO does not meet this requirement, it triggers a repayment to the Commonwealth.)



Largest Spending Category is Payments to Managed Care Organizations

Managed care payments are the largest expenditures in Medicaid.



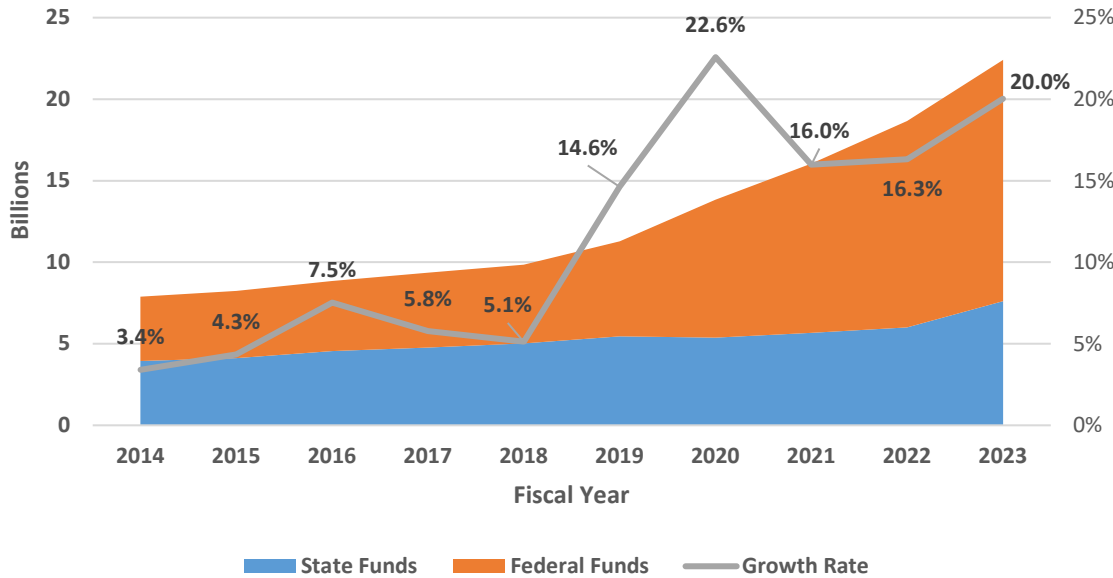
Source: 2023 DMAS Medicaid Forecast.

- Most spending for Medicaid 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 (direct payments for medical services made by DMAS) was declining as services were moved to managed care and the public health emergency reduced the normal turnover in eligibility, but fee-for-service is trending upward again.

Medicaid Spending Grew Rapidly from Expansion and the Public Health Emergency

State share will increase as federal pandemic funds expire.

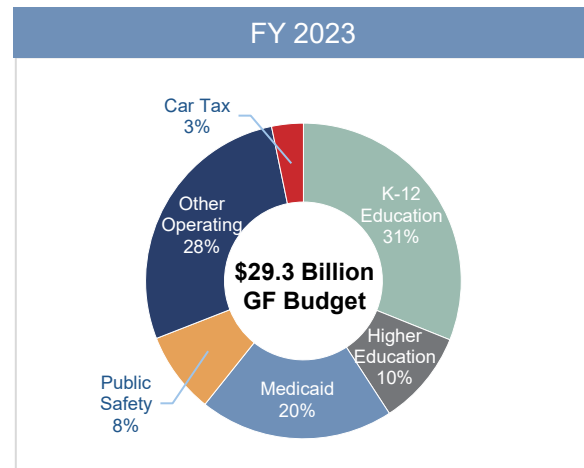
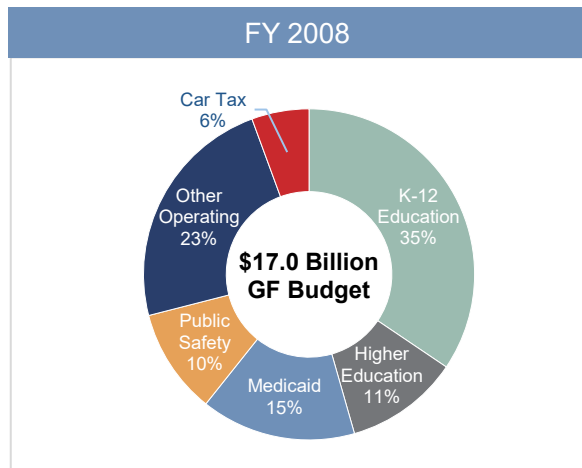
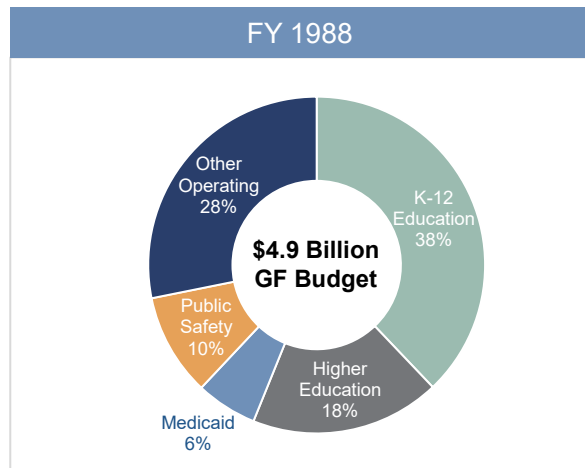
Medicaid spending increased an average of 5.2% per year from 2014 to 2018 and since 2019 is averaging 17.9%.



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

- Total spending has increased from \$7.9 billion in FY 2014 to \$22.4 billion in FY 2023.
- Federal funds make up nearly 66 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 and the increased enrollment during the pandemic.
 - Medicaid Expansion spending was \$7.0 billion in FY 2023; 32 percent of total Medicaid spending.
 - The state share of Medicaid Expansion is 10 percent and paid by an assessment on private hospitals.

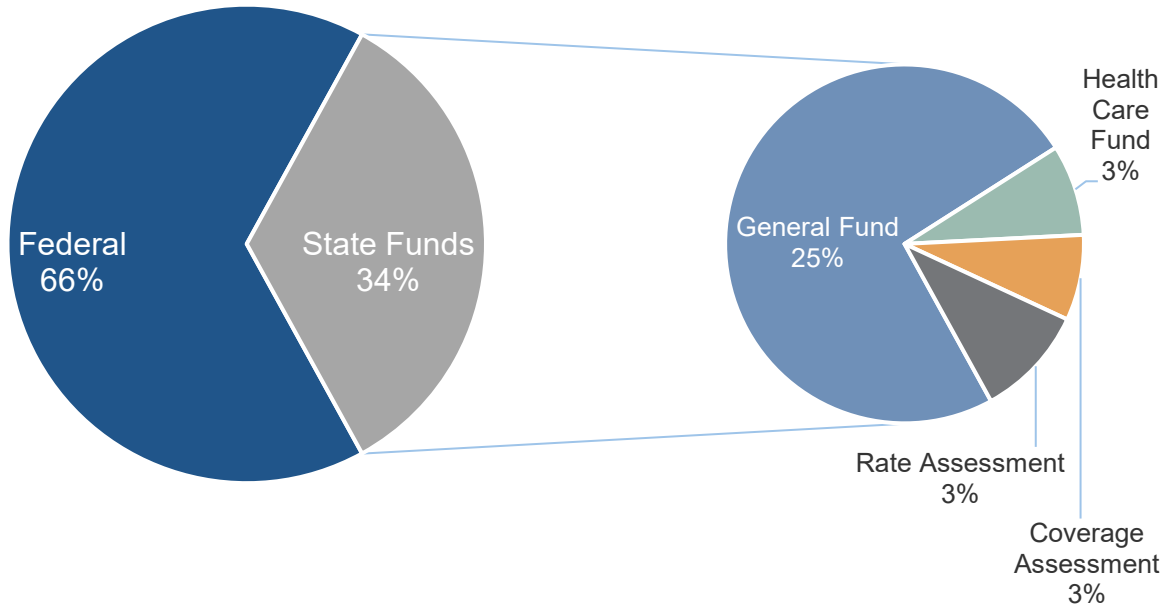
Medicaid's GF Share of the Overall Budget has Grown Since 1988, but did Slow During the Pandemic



- Over the past 35 years Medicaid's growth rate has outpaced growth in GF revenue, increasing its share of the overall budget.
- Prior to the pandemic Medicaid's share was at 23.0 percent, however it did decline to 20.0 percent in FY 2023 due to the enhanced federal funding provided.

Medicaid's State Share is Mainly General Fund but Does Have Other Revenue Sources

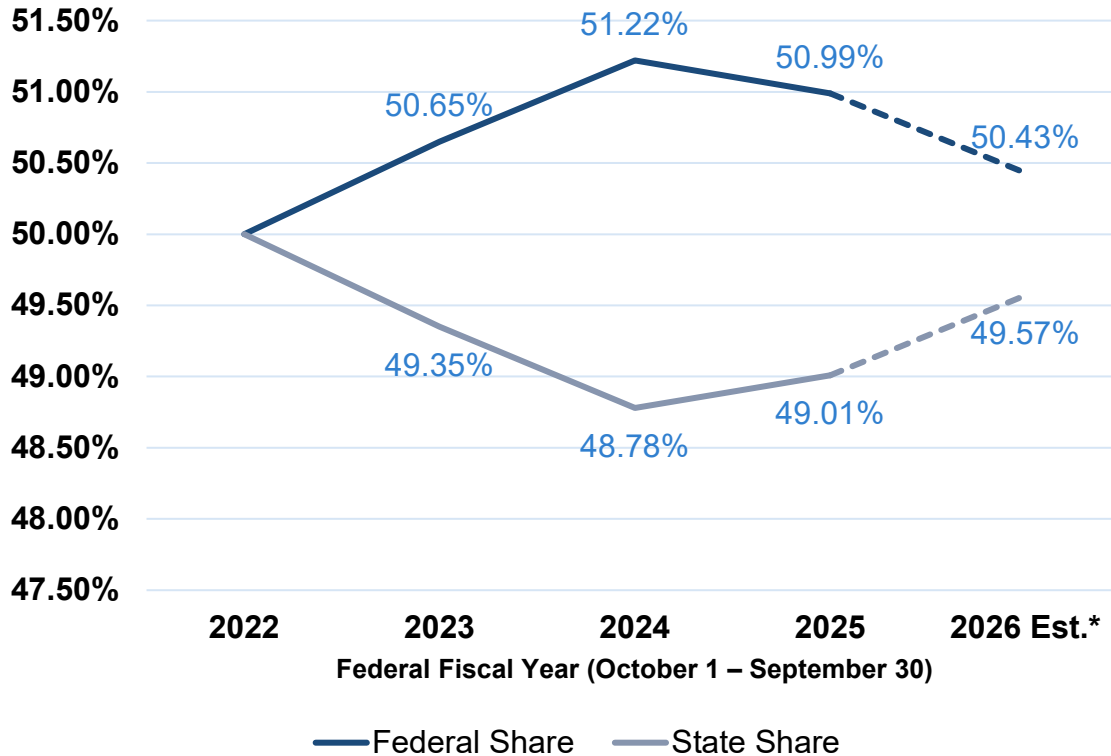
FY 2023 Fund Sources
\$22.4 Billion Total Funds



Source: DPB's Expendwise system.

- While the federal share is the largest fund source for Medicaid, state funding made up 34 percent in FY 2023.
- The state share is mostly General Fund, but also includes revenue from the Health Care Fund and the assessment revenue from private hospitals.

Regular Federal Match Rate Decreasing as Virginia's Per Capita Personal Income Improves

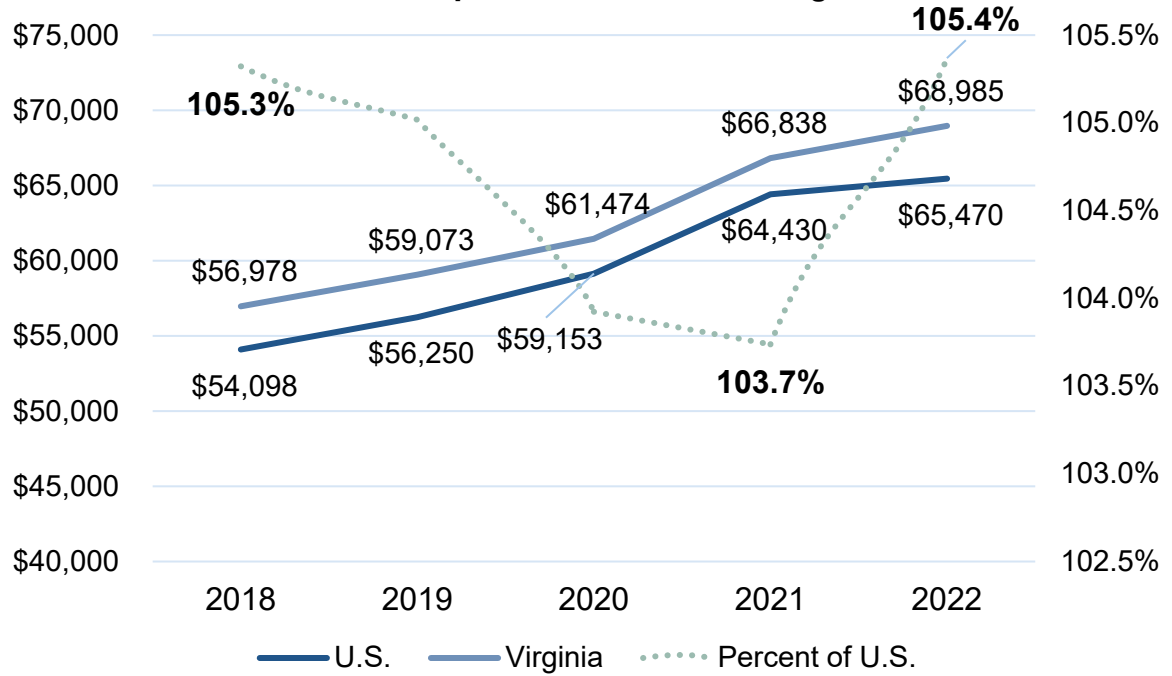


- Federal Match Rate for Virginia had been 50 percent since 2004.
- Federal match rate increased for federal FYs 2023 and 2024, and then drops to 50.99 percent in FY 2025.
- The reduction in the FY 2025 federal match rate adds **\$60.0 million GF to the 2024-2026 biennial Medicaid need.**
- Most recent data indicated the match rate will decline further in federal FY 2026.

* Staff estimate based on available data but will change after 2023 data is released.

Population and Personal Income Determine the Medicaid Federal Match Rate

Per capita personal income gap in Virginia narrowed in 2020 and 2021 compared to the U.S. average.



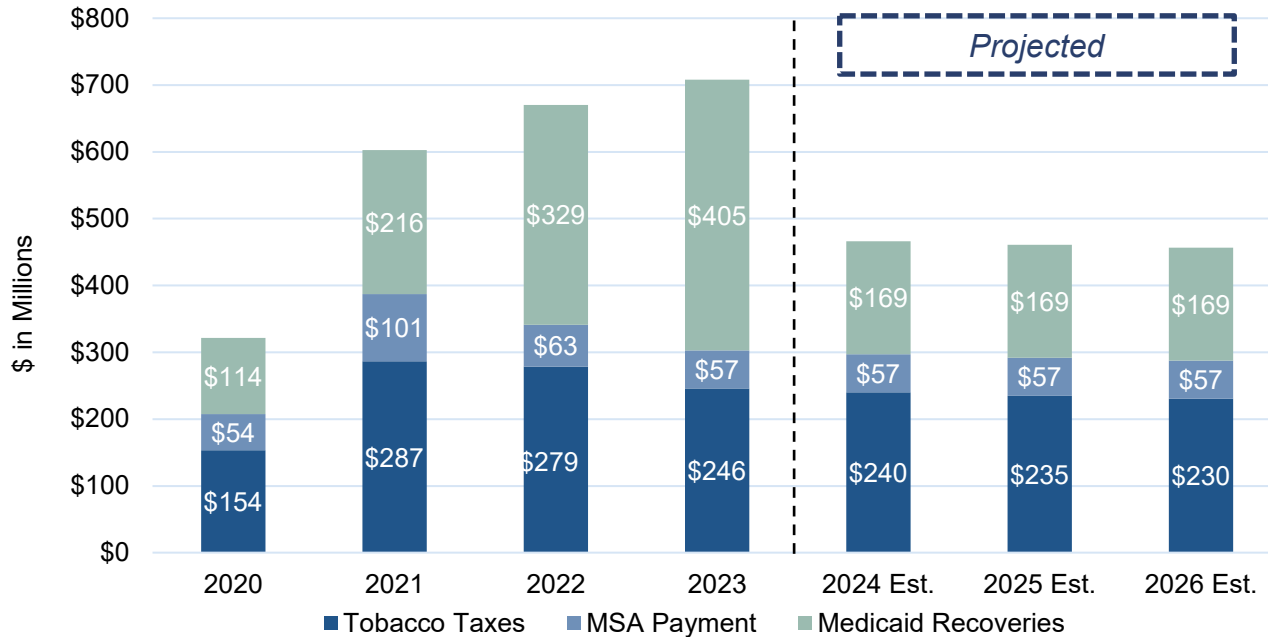
Source: U.S. Bureau of Economic Analysis.

Federal Medical Assistance Percentage (FMAP):

- Calculated based on state three-year average of per capita personal income compared to the national average.
- Federal FY 2025 is based on 2020-2022 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

Declining tobacco tax revenue and the end of managed care repayments will create a major shortfall.

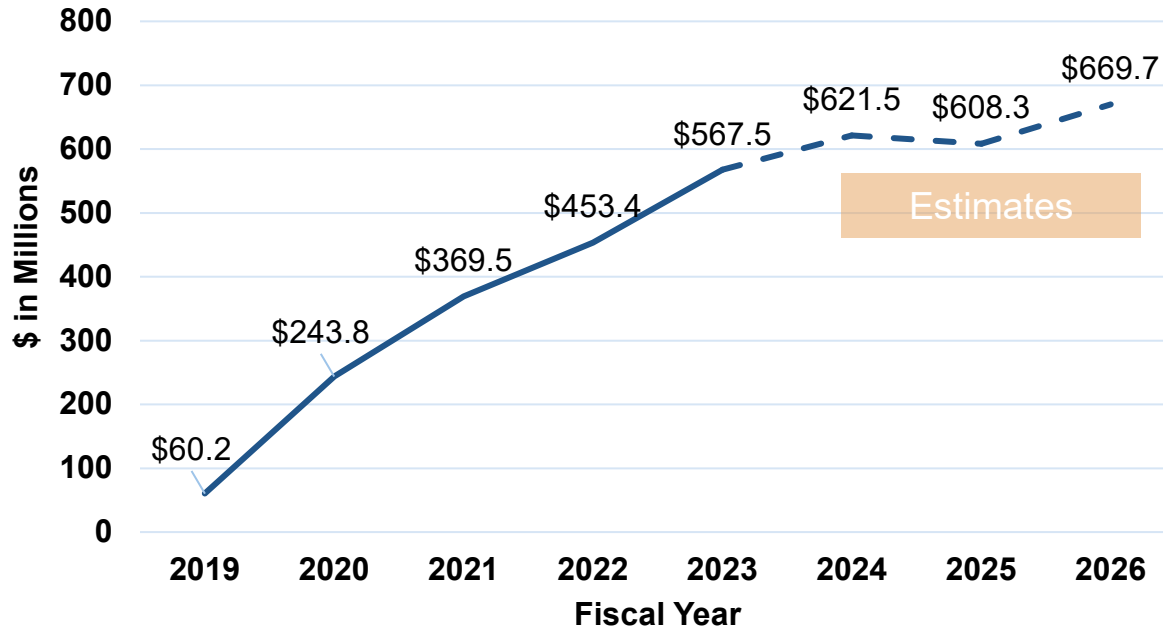


Source: DPB's Expendwise system.

- Revenues come from tobacco taxes, the Master Settlement Agreement (MSA) with tobacco companies; and Medicaid Recoveries.
- Pharmacy rebates and one-time managed care repayments drove the FY 2021 through FY 2023 increase in revenues.
- The FY 2024 base is high due to a \$229.9 million cash balance from managed care repayments, so the 2024-2026 biennial GF need to reflect the lower revenue is **\$475.0 million**.

Hospital Coverage Assessment Funds State Share of Medicaid Expansion

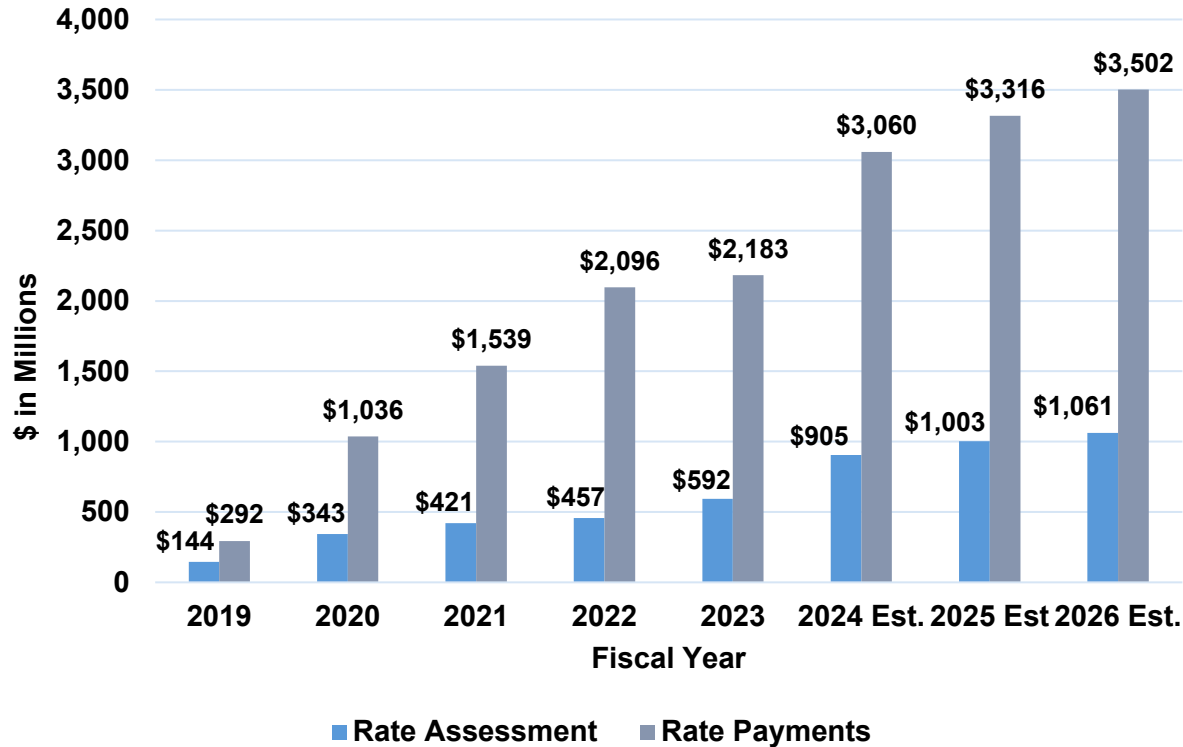
Coverage assessment has grown rapidly but will level off as the public health emergency ends.



Source: 2023 DMAS Medicaid Forecast.

- The coverage assessment pays for the 10 percent state match for expansion.
- Private acute care hospitals pay the coverage assessment, which is based on the amount of state funding needed to pay the 10 percent state share.
- The assessment revenue levels off for FY 2025 due to unwinding, but then resumes upward growth in FY 2026.

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



- The payment rate assessment pays enhanced Medicaid rates for hospitals.
- The hospitals pay the assessment, which is the state share of the overall payments.
- In FY 2023, the \$592.0 million in rate assessment revenue generated \$2.2 billion in additional Medicaid revenue for hospitals.
- The net benefit was over \$1.6 billion to hospitals in FY 2023.

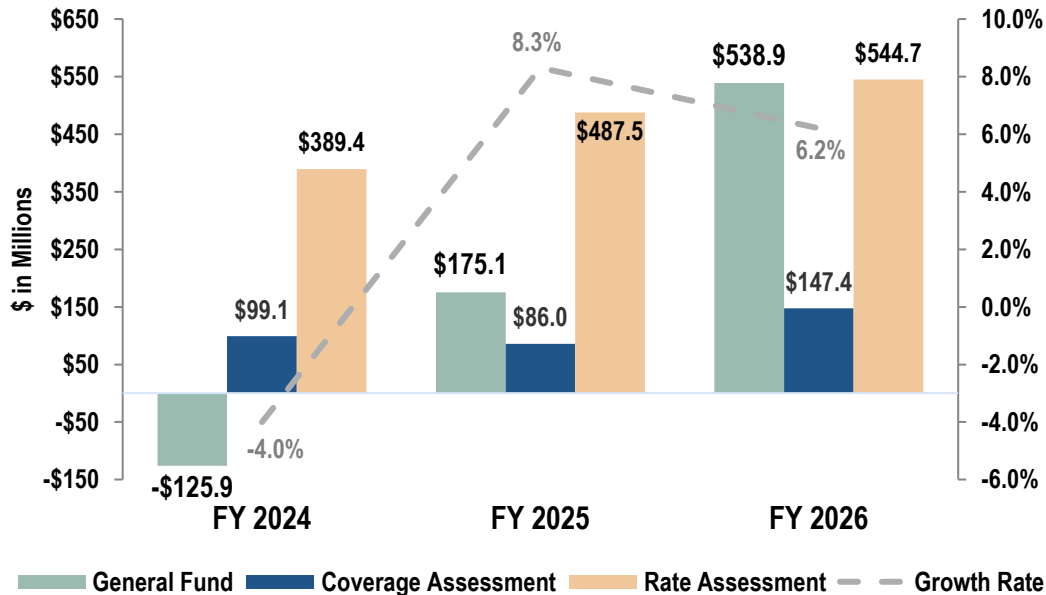
Source: 2023 DMAS Medicaid Forecast.



November 2023 Medicaid Forecast

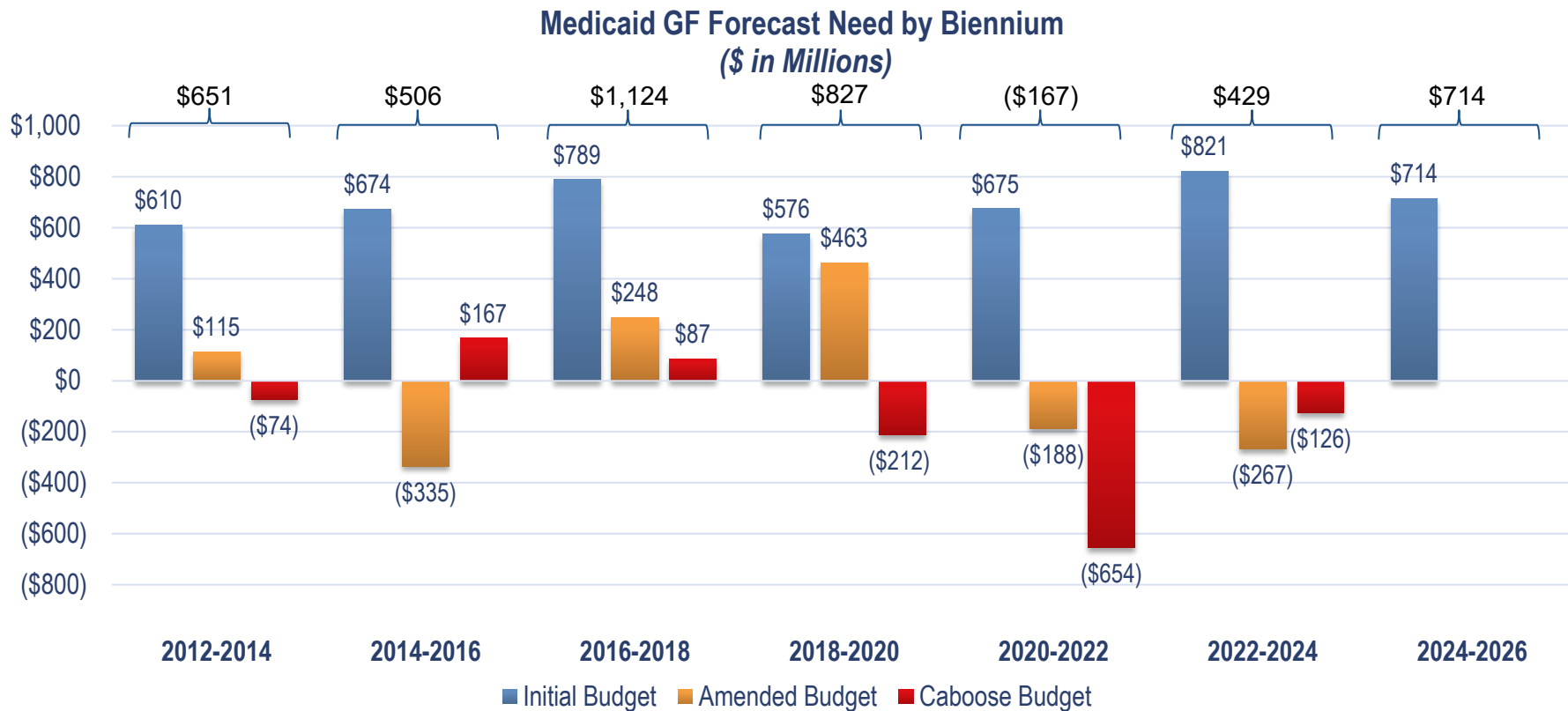
Medicaid Forecast Reflects a Return to Normal Growth Post Public Health Emergency; \$714.0 million GF Need in 2024-2026 Biennium

Forecast projects a net \$125.9 million in GF Savings in FY 2024 and a GF need of \$714.0 million over the 2024-2026 Biennium.



- Additional hospital assessments are projected for the 2024-2026 Biennium as follows: (i) \$233.4 million is projected for the costs of Medicaid Expansion; and (ii) \$1.0 billion is projected for the costs of additional higher rate payments to private hospitals.
- Combined with the decline in revenue from the Health Care Fund, the **total GF need for Medicaid is \$1.2 billion over the 2024-2026 Biennium.**

GF Need in Medicaid is Greatest in Even-Year Sessions to Reflect Program Growth in Each Biennial Budget

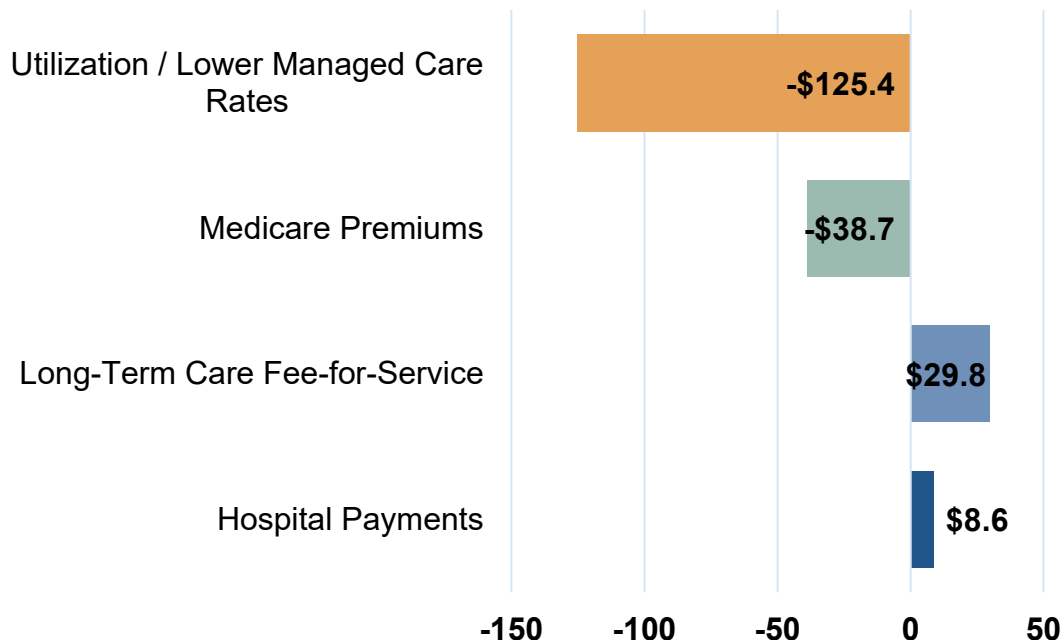


FY 2024 General Fund Savings is Due to Reduced Utilization and Lower Managed Care Rates

- FY 2024 spending is projected to decline over FY 2023, resulting in a GF savings of **\$125.9 million**.
- The savings is a result of the latest estimates for utilization in FY 2024 and a lower increase in managed care rates than projected last year.

Major Forecast Cost/Savings Factors

(\$ in Millions)



Source: November 2023 Medicaid Forecast.

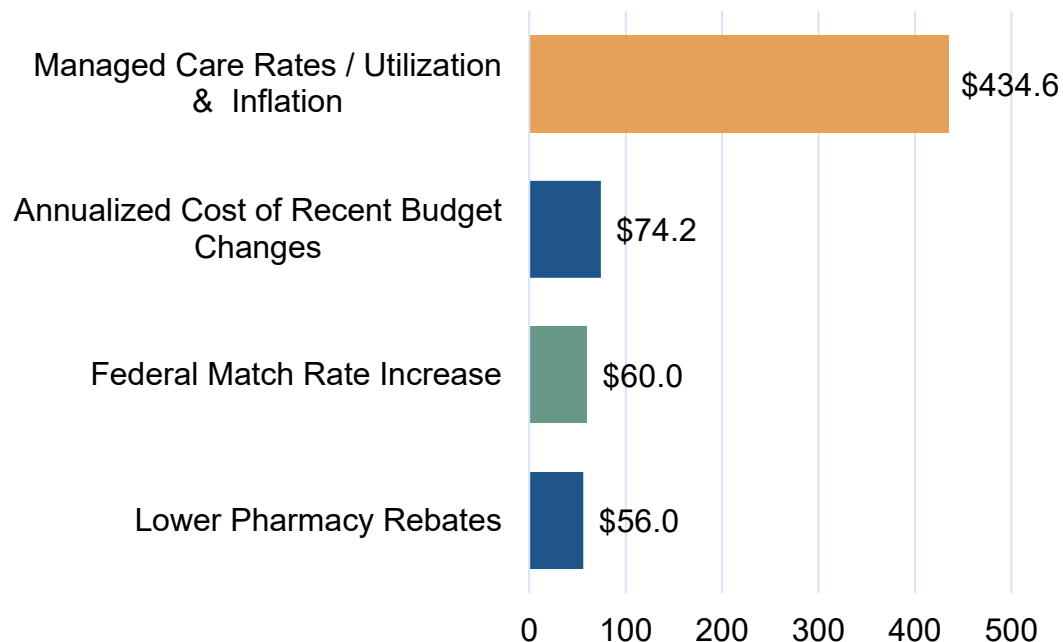
Note: Chart highlights only major drivers of the forecast and does not total to the net Medicaid Forecast estimate.

FY 2024-2026 Biennium General Fund Need Reflects a Return to Normal Growth for the Medicaid Program

- Total spending is projected to increase over the 2024-2026 Biennium by \$7.2 billion in total funds, mostly federal funds. The General Fund share of this increase is **\$714.0 million**.
- The growth is mainly due to increases in managed care rates, increasing utilization, automatic inflation increases, and federal match rate changes.

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 2023 Medicaid Forecast.

Estimates of Managed Care Rates have Major Impact on Funding Needed for the Program

- After enrollment, Managed Care rates are the primary factor in estimating Medicaid costs.
 - 70 percent of Medicaid spending is through managed care payments.
- Managed care rates are set by a contracted actuary and are required per federal policy to be actuarially sound.
- Higher managed care rates can translate into a significant funding need.

Managed Care Program	FY 2024 (Actual)	FY 2024 (Last Year Est.)	FY 2025 (Est.)	FY 2026 (Est.)
Acute (Non-expansion)	0.5%	5.9%	7.0%	4.5%
Long-Term Care (Non-expansion)	1.2%	4.8%	4.8%	4.8%

Key Takeaways for Medicaid

- Medicaid is a comprehensive program that provides assistance to low-income individuals and families and by design over-time, with various federal mandates and state policy changes, has been and will continue to be major budget driver.
- The end of the federal requirement to maintain eligibility for Medicaid is reducing enrollment, however, at a lower amount than expected last year.
- With the end of the enhanced federal pandemic funding the state must fund a larger share of the program going forward.
- Virginia's growth in per capita personal income is reducing the federal match rate for Medicaid, which creates an additional cost for the Commonwealth. Historically, Virginia was at the lowest federal match rate, but the Pandemic temporarily disrupted Virginia's rate.
- Due to lower utilization of health care services during the pandemic, managed care organization repayments boosted Health Care Fund revenues temporarily and reduced necessary GF support in the 2022-2024 biennium. Therefore, the GF must backfill that lower revenue for the 2024-2026 biennium.



Other HHR Budget Pressures for the 2024 Session

HHR Budget Pressures

Mandatory Budget Item (\$ in Millions)	FY 2025 GF	FY 2026 GF
Medicaid Forecast	\$175.1	\$538.9
Health Care Fund (Used as State Match for Medicaid)	235.2	239.8
Children’s Services Act • <i>Primary growth is in private day special education services.</i>	34.4	51.3
Children’s Health Insurance Program	8.6	22.7
Child Welfare Forecast	1.5	4.7
Total Mandatory	\$454.7	\$857.4

High Priority Budget Item (\$ in Millions)	FY 2025 GF	FY 2026 GF
Developmental Disability Waiver Slots (1,000 slots added each year)	\$26.6	\$55.6
Child Protective Services Recommendations	10.2	47.5
State Match for Federal Drinking Water Grants	6.5	6.5
Total High Priority	\$43.3	\$109.6