



FEDERAL HEALTH REFORM

MAKING MEDICAID STRONGER, MORE EFFICIENT

A Utah Health Policy Project Issue Brief

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EXECUTIVE SUMMARY

The Patient Protection and Affordable Care Act (PPACA) brings fundamental changes in how Medicaid operates, impacting every area of the program, including eligibility standards, payment methodologies, and care delivery systems. These much needed changes will allow Medicaid to operate more efficiently, while serving more people who would otherwise go uninsured. Over time, Medicaid will come to serve as the foundation for PPACA's worthy goal: to bring all Americans into the health care system. While Medicaid is jointly funded by the federal and state governments, it is managed by the states. This means that, between now and 2014 when most of the major changes take effect, Utah has much work to do in terms of redesigning its Medicaid program to meet the new requirements. This hard work, however, will pay great dividends: in decreasing the number uninsured in the state by one-third; making Medicaid more cost-effective and efficient; and, improving the quality of care low-income Utahns receive.

EXTENDING COVERAGE TO ALL LOW-INCOME UTAHNS

Contrary to popular belief, Medicaid does *not* provide coverage to *all* those living in poverty. Medicaid is a program made up of discrete eligibility categories (283 at last count), and certain categories are given favor over others. People with disabilities, children, pregnant women, and seniors are much more likely to be eligible than adults generally. In Utah, for example, unless an adult living in poverty is pregnant, a very poor parent (earning less than 44% of poverty), a senior, or living with a serious disability, they likely will not qualify for Medicaid. As a result, tens-of thousands of low income adults are left without access to decent, affordable health care coverage.

PPACA simplifies things. It eliminates Medicaid's categorical system of eligibility, creating a single category: so long as they meet the residency requirements, *all* individuals in households earning less than 133% of the poverty level are eligible for Medicaid (\$14,404 for an individual or about \$29,326 for a family of four in 2009). The Utah Department of Health estimates Utah Medicaid enrollment will grow by about one-third to 310,000 because of this change, cutting the number of uninsured in the state by over 30%. Further, recognizing that enrolling more of the states' uninsured poor will come at significant cost to the states, PPACA provides additional funding to the states to cover the new enrollees. Normally, the federal government covers 72% of Utah's Medicaid costs. However, for the first two years of reform, the federal government will pay 100% of the cost of covering the new expansion groups; the federal portion of costs will decrease slightly to 95% in 2017; 94% in 2018; 93% in 2019 and 90% FMAP for 2020 and beyond.

PPACA Medicaid Implementation Timeline

2010

- State option allowing states to cover childless adults immediately;
- New state options for offering home and community based care for people with disabilities;
- New state option to provide family planning services to low-income individuals up to 133% FPL;
- Additional funding to states to improve their fraud, waste and abuse prevention systems.

2011

- New state health home option for Medicaid enrollees with multiple chronic conditions or a persistent mental health disorder;
- \$100 million in “wellness grants” to states who create programs that help Medicaid beneficiaries lose weight, stop smoking, and improve their health.
- Creates State Balance Incentive Program that provides states additional funding to increase community based long-term care services.

2012

- *Bundled payment demonstration project* to develop programs around a single payment for all services related to treatment of a given condition versus traditional fee-for-service payments.
- *Accountable care organization demonstration project* allowing 8 states to create program permitting pediatric medical providers to develop programs to help contain costs and then share in the resulting -savings.

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SIMPLIFYING MEDICAID ELIGIBILITY

Beyond doing away with Medicaid’s cumbersome categorical eligibility system, PPACA does several other things to make Medicaid work better. First, it eliminates the asset test. Many states have already dropped this burdensome test from their program’s eligibility processes, and they are satisfied with the results, reporting lower administrative costs and improved efficiency. This change Utah will be able to significantly simplify the process of applying for Medicaid, decreasing the number of state eligibility workers needed to process cases, and thereby reducing administrative costs associated with running the program.

Second, PPACA allows states to contract with community based organizations (CBOs) to conduct outreach and enroll eligible individuals. In times of distress, families often turn first to CBOs for help. PPACA builds on this trust by allowing these organizations to act as “enrollment outlets.”

Third, PPACA takes advantage of technology to help enroll eligible individuals. It allows individuals to apply or renew Medicaid coverage through a website with an electronic signature. Further, it requires the new insurance exchanges to communicate eligibility information to state Medicaid programs to help ease enrollment in Medicaid for those who do not qualify for coverage on the new exchange.

PPACA HELPS CONTROL MEDICAID SPENDING

Among the myths propounded by critics of health reform is that there is *no* cost-containment within the reforms. The reality is that the new law contains many important and unprecedented tools to trim health care costs, starting with health homes.

Control Costs through Health Homes

PPACA provides states additional funding to create health homes for Medicaid beneficiaries with chronic disease.¹ With their emphasis on care coordination, disease management, and other quality improvements, health homes (also known as medical homes) have been shown to

improve health outcomes while simultaneously containing costs. The Community Care of North Carolina program, for example, is estimated to have saved North Carolina \$150 to \$170 million per year by providing health homes to their Medicaid beneficiaries.ⁱⁱ

PPACA encourages states to follow North Carolina's lead by providing a 90% federal match (vs. Utah's normal 72% match) for every Medicaid enrollee with multiple chronic disease or a persistent mental health disorder who enrolls in a health home that incorporates care coordination and disease management services. A recent Commonwealth Fund survey found Utah ranked 50th in the nation in providing a health home to its low-income and minority children.ⁱⁱⁱ Thus Utah is in a great position to use the new health home opportunity within PPACA to control costs and improve health outcomes for Utah's poor.

Family Planning Services

Perhaps the most exciting cost saver for state Medicaid programs is the new state plan option to provide family planning services to low-income pregnant women. Family planning services have repeatedly been shown to reduce rates of unintended pregnancy while improving maternal and child health. This is why virtually all employer based health plans cover these services.

Utah is particularly well poised to take advantage of this new option. By providing these services to families earning less than 133% of poverty (the income threshold for the state's Baby Your Baby Program) the state will save an estimated \$830,100 per year through a reduction in unintended pregnancies and improved health outcomes. To implement the program Utah would need to make a *one-time* investment of \$778,600.

Why the Family Planning Option makes sense for Utah...

- Utah has 350,820 women in need of contraceptive services;
- Increased access to these services would reduce unintended pregnancies in Utah by 3,700 and cut the abortion rate in half (1,500);
- Medicaid would be made to resemble private plans, saving the state \$822,400 per year.

Implementation Timeline

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2013

- Provides 100% federal financing to increase Medicaid primary care provider reimbursement to Medicare levels (~30% increase in Utah);
- Provides states that receive a grade of A or B in successfully immunizing adults a 1% increase in their FMAP rate for preventive health services.

2014

- All Utahns in households less than 133% FPL become eligible for Medicaid;
- Extends former foster kids Medicaid eligibility from age 21 to age 26.

2015

- State's CHIP federal match increases from 80% to 100% (CHIP is entirely federally financed).

New Resources to Prevent Fraud, Waste and Abuse

PPACA provides states with additional funding to help them strengthen their fraud, waste and abuse prevention systems. In 2009, the Office of the Legislative Auditor General found Utah's fraud prevention controls woefully inadequate and that Utah Medicaid could save over \$20 million annually by improving these systems.^{iv} PPACA provides Utah with new resources to update computer systems and develop new tools to help capture these savings.

Other Cost Containment and Quality Improvement Demonstration Projects

Recognizing that not every cost-containment tool has been invented yet, PPACA supports a number of demonstration projects that will allow states to test ideas for controlling costs and improving quality:

- Create accountable care organizations and pay-for-performance programs that reward providers for controlling costs and improving quality.^v
- Bundled payment programs allowing states to experiment with how providers are paid;^{vi}
- Emergency psychiatric care demonstration project to help develop ideas that prevent expensive, but preventable, emergency mental health events.^{vii}
- Wellness program grants to help find ways to help Medicaid beneficiaries stop tobacco use, control weight, prevent or improve management of diabetes, and other health improvements;
- Additional funding to help increase community based long-term care which has been proven time after time to be more cost-effective than institutional care.^{viii}

CONCLUSION

The new federal health reform law reaches broad and deep, impacting almost every area of the health care system. The changes to Medicaid are equally extensive, if uniquely well suited to tackling Utah's challenges around Medicaid. This paper provides a summary of some of the potential opportunities Utah may want to focus on as we reinvent our Medicaid program. However, the list is not exhaustive. PPACA provides many more options to help states create the best health coverage program possible for their low-income families. Let's get to work.

ⁱ PPACA Section 2703

ⁱⁱ Kaiser Family Foundation Commission on Medicaid, Community Care of North Carolina: Putting Health Reform Ideas into Practice in Medicaid, May 2009.

ⁱⁱⁱ Commonwealth Fund State Scorecard on Health System Performance, October 2009 (Medical home date from 2007).

^{iv} Office of Legislative Auditor General, A Performance Audit of Fraud, Waste and Abuse Controls in Utah's Medicaid Program, December 2009.

^v PPACA Section 2706

^{vi} PPACA Section 2705

^{vii} PPACA Section 2707

^{viii} PPACA Section 3502