

Commonwealth of Virginia



General Assembly

Setting the Medicaid Growth Target for the 2020-2022 Biennial Budget

August 20, 2019

Presentation Overview



Overview and Purpose



Benchmarks for Comparison



Next Steps

Authorizing Language in Item 307, Chapter 854

- 1) Effective with the development of the 2020-2022 biennium.....established **an annual Medicaid state spending target for each fiscal year.**
- 2) The Joint Subcommittee for Health and Human Resources Oversight shall establish the annual target by September 15 of each year for the following two fiscal years.
- 3) The target shall take into account the following:
 - 10-year rolling average of Medicaid expenditures by eligibility category and utilization of services,
 - 20-year rolling average of general fund revenue growth, and for policy decisions adopted by the General Assembly during the previous Session which impact Medicaid spending.
- 4) It is the intent of the General Assembly that the Governor abide by the spending target for Medicaid state spending, as established by the Joint Subcommittee, in developing the introduced budget each year and shall notify the Chairmen of the House Appropriations and Senate Finance Committees in the event the target cannot be met, along with the reason it cannot be met.

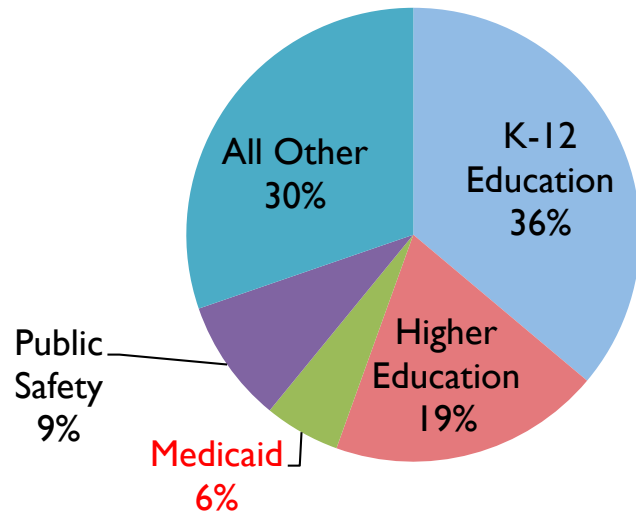
Purpose of Target

- Medicaid is an entitlement program, so this is not a cap on benefits or enrollment.
- Intent is to better inform decision makers of Medicaid's growth relative to other benchmarks in order to ensure frequent consideration of cost effectiveness.
- Provide greater program transparency on drivers of growth on an annual basis.

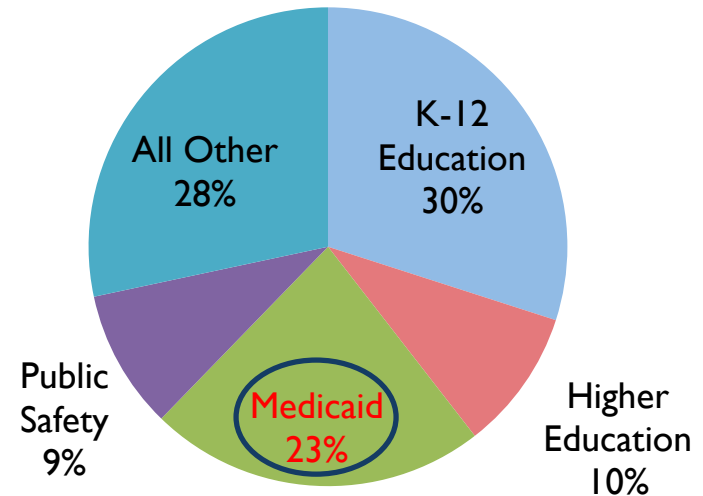
Medicaid Is the State's Largest Budget Driver

Percent of General Budget by Major Area

FY 1985

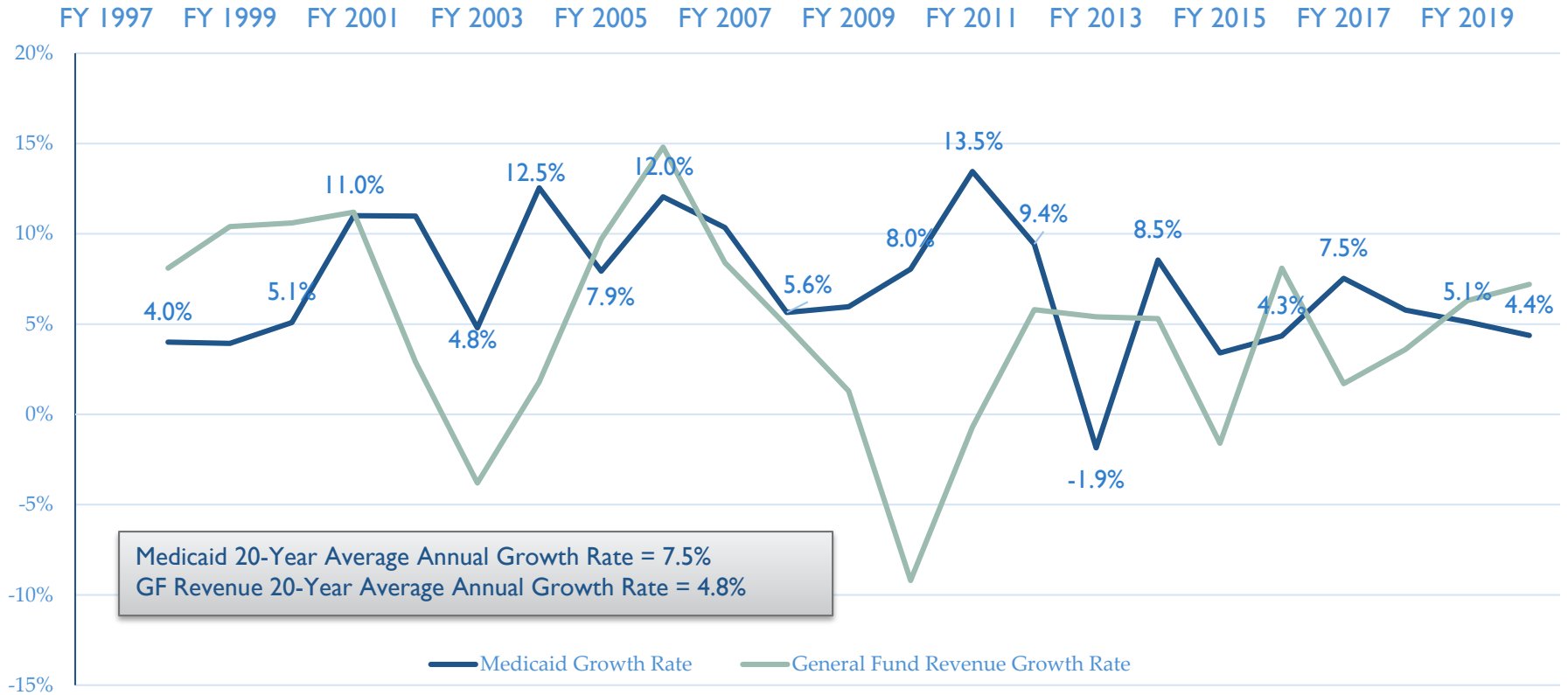


FY 2018



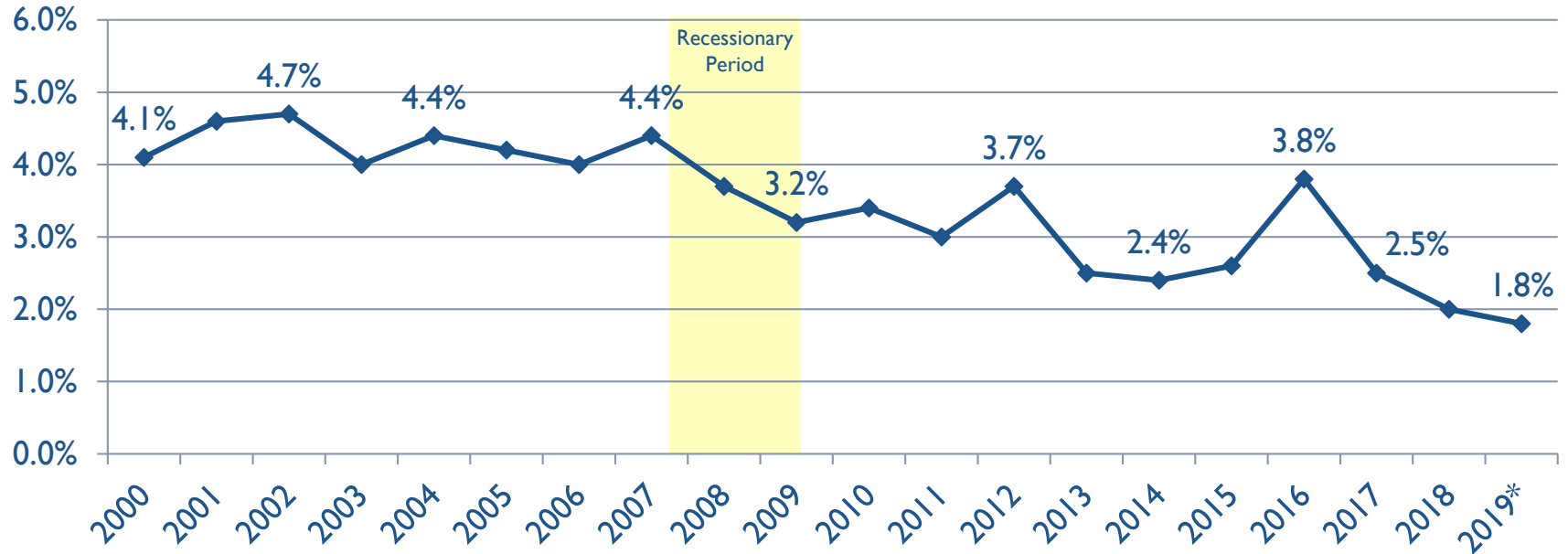
Source: Chapter 221, 1986 Acts of Assembly and Chapter 836, 2017 Acts of Assembly.

Medicaid vs. GF Growth Rates



Medical Inflation

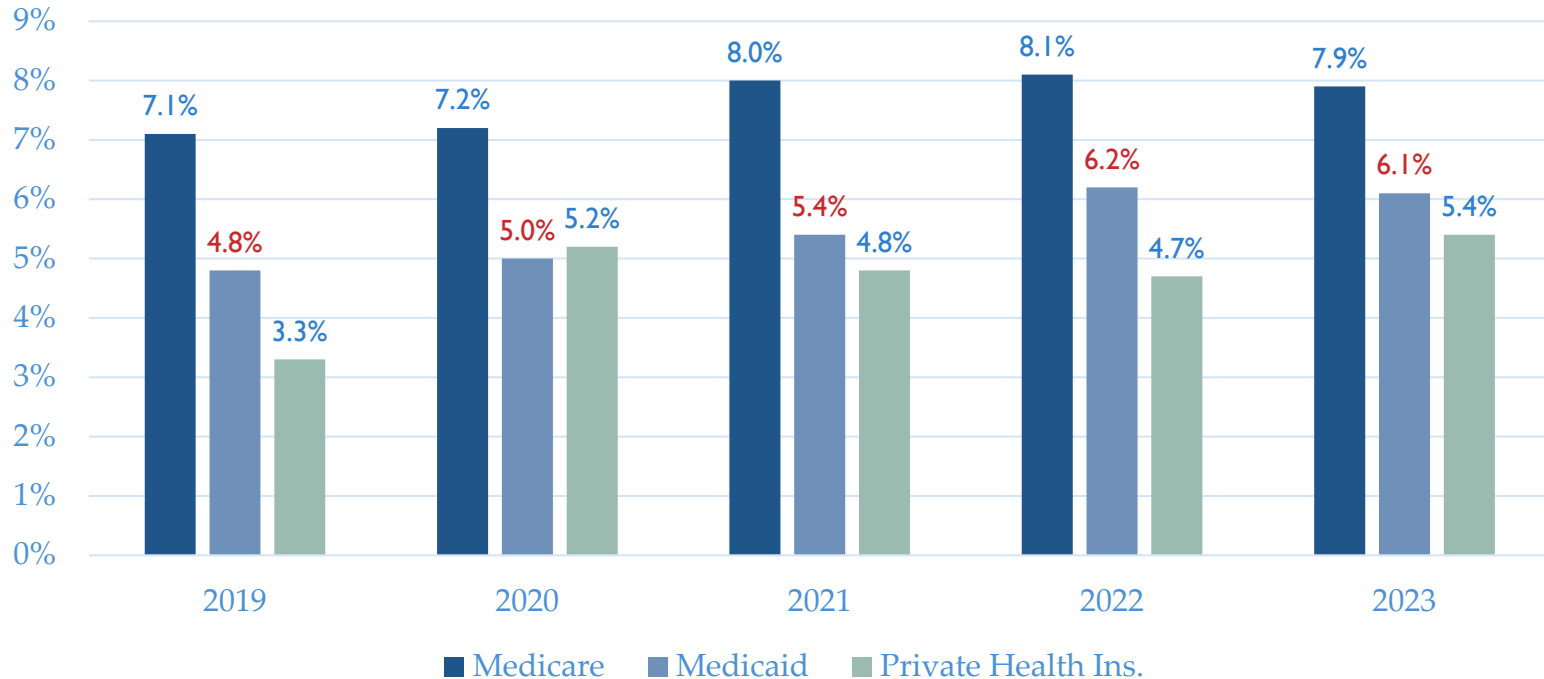
- Medical inflation averaged 4.3 percent prior to 2008 and since then has averaged 2.9 percent.



Source: Bureau of Labor Statistics, CPI – Medical Care.

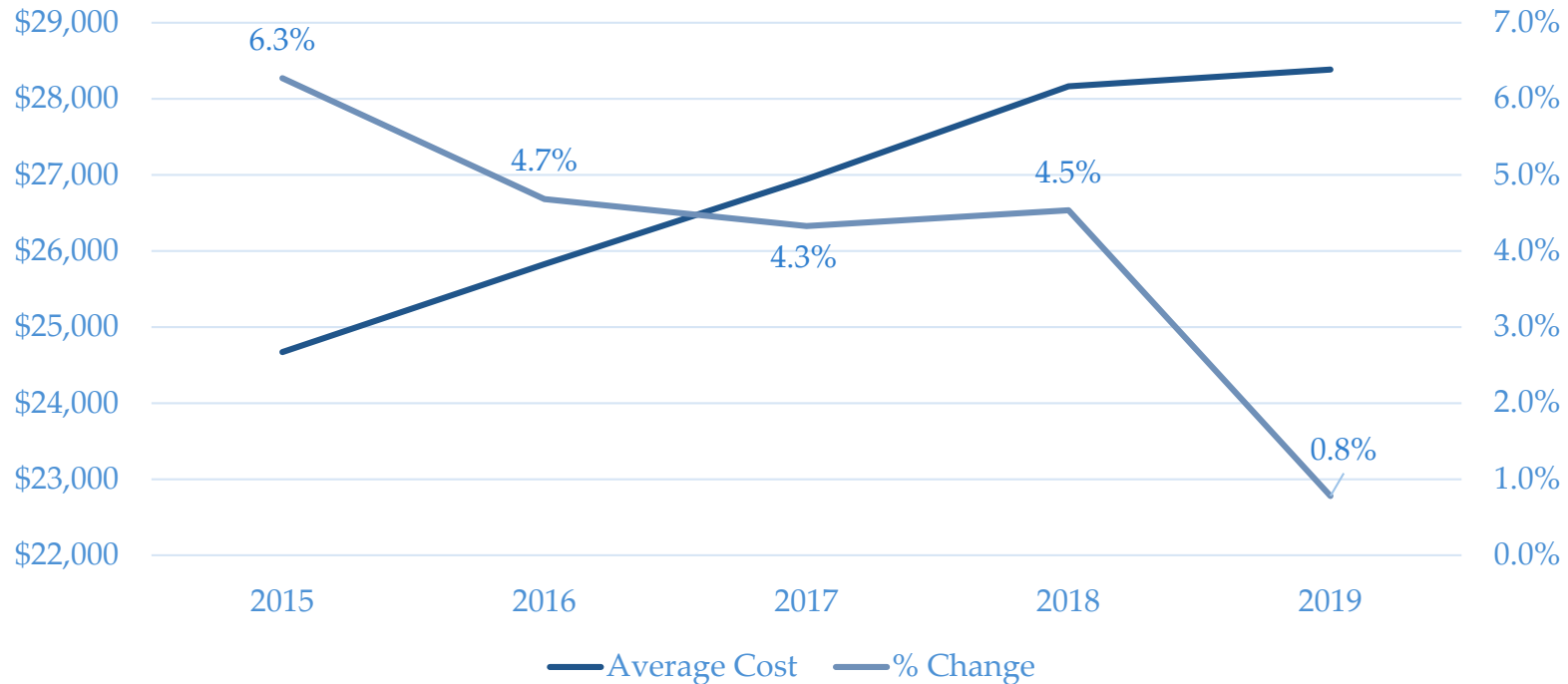
* 2019 reflects first seven months only.

National Health Expenditure Projections



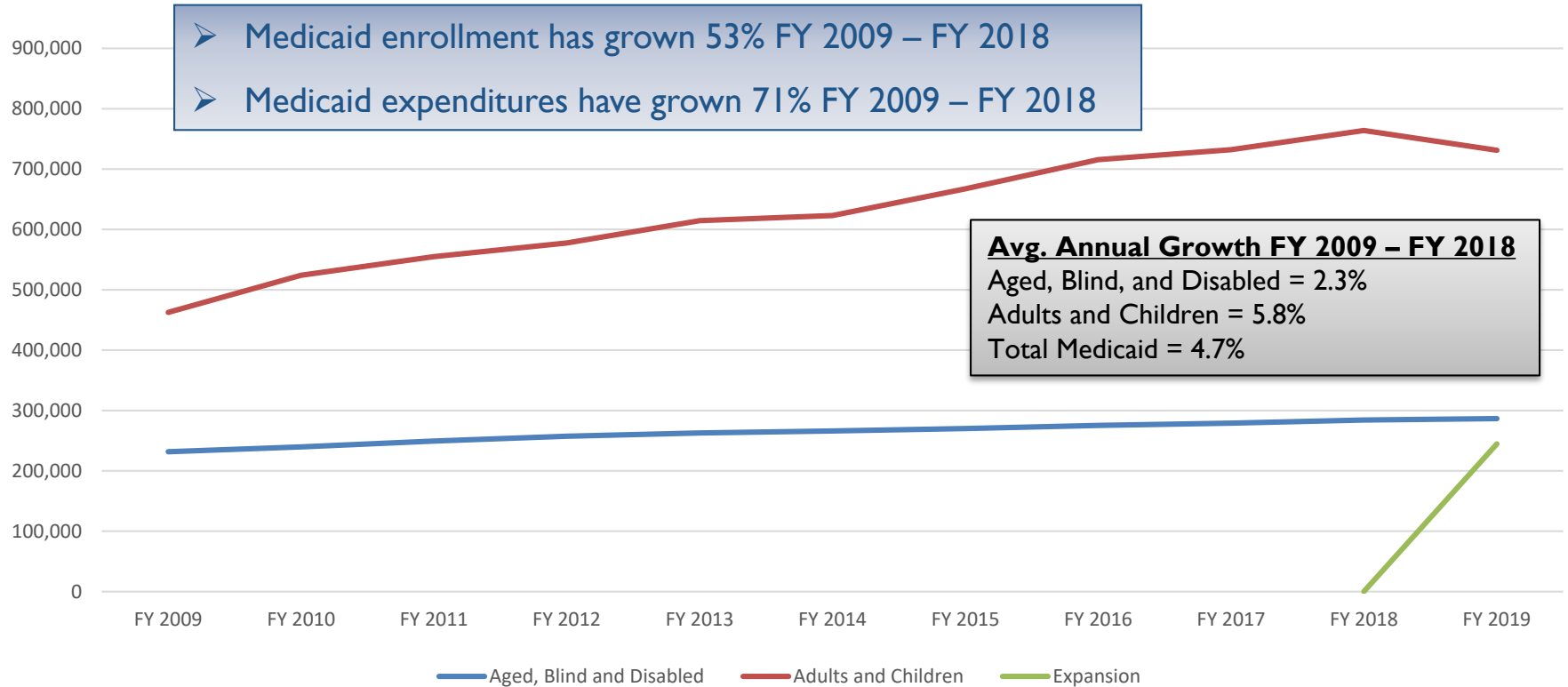
Source: Centers for Medicare and Medicaid Services, Office of the Actuary, 2018 - 2027 Projections.

Milliman Medical Index



Source: Milliman Research Reports, 2019 and 2018 Milliman Medical Index, July 2019 and May 2018.

Medicaid Enrollment is Largest Driver



Source: Staff analysis of DMAS data.

Factors for Setting a Medicaid Target

- Enrollment growth
- Recent utilization and inflation trends
- Managed care rates
- Recent policy actions adopted by the General Assembly
- Required policy / funding changes

Policy Decisions from 2019 Session

- Medicaid target should account for the impact of recent General Assembly policy decisions
 - Physician rate increases to 70% of Medicare (\$4.1 million GF)
 - Rate increases for mental health professionals (\$2.6 million GF)
 - Rate increases for critical access hospitals (\$1.6 million GF)
 - Payment changes for nursing home residents choosing hospice (\$447,220 GF)

Other Factors Affecting Medicaid Costs

- **U.S. Dept. of Justice Settlement Agreement**
 - Requires 360 ID waivers and 75 DD waivers in FY 2021
 - Waivers now converted into Community Living, Family and Individual Support and Building Independence waivers
 - Potential cost of new waivers for FY 2021 is \$10.2 million GF annually based on the average cost of the waivers
 - Could be additional costs to complete Court requirements for the Settlement Agreement

Other Factors Affecting Medicaid Costs

- **Behavioral Health Redesign**
 - **Envisions expanding continuum of services for children and adults**
 - Use of evidence based services
 - Trauma informed
 - Universal prevention/early intervention services
 - Seamless care transition
 - Widespread use of telemental health services
 - Comprehensive crisis services
 - New residential options for individuals currently subject to TDOs and inpatient hospitalization
 - **Agency indicates implementation will not be budget neutral**

Next Steps

- Staff will meet with DMAS and others in the administration to review Target and seek feedback.
- Recommended Target will be sent to members of the Joint Subcommittee by September 5, unless a meeting is setup to review it.
- Final Target will be communicated to the Governor by September 15.

Appendix: Budget Language in Item 307, Chapter 854

V.1. Effective with the development of the 2020-2022 biennium, it is the intent of the General Assembly that there is hereby established **an annual Medicaid state spending target for each fiscal year**. The Joint Subcommittee for Health and Human Resources Oversight shall establish the annual target by September 15 of each year for the following two fiscal years. The target shall take into account the following: a 10-year rolling average of Medicaid expenditures by eligibility category and utilization of services, a 20-year rolling average of general fund revenue growth, and for policy decisions adopted by General Assembly during the previous Session which impact Medicaid spending.

2. In the event of an economic recession, the Joint Subcommittee may take into consideration enrollment and spending trends experienced during previous recessions in establishing the targets.

3. It is the intent of the General Assembly that the **Governor abide by the spending target for Medicaid state spending**, as established by the Joint Subcommittee, in developing the introduced budget each year and shall notify the Chairmen of the House Appropriations and Senate Finance Committees in the event the target cannot be met, along with the reason it cannot be met.