LEGISLATIVE BUDGET BOARD

Medicaid Overview

PRESENTED TO THE HOUSE COMMITTEE ON APPROPRIATIONS

LEGISLATIVE BUDGET BOARD STAFF **JANUARY 2019**

Overview

Medicaid is a jointly-funded State/Federal program providing health insurance primarily to low-income parents, non-disabled children, pregnant women, the elderly, and people with disabilities. As a requirement of participation, states must cover certain groups and have the option to cover additional groups.

The Health and Human Services Commission (HHSC) is the single state agency responsible for Texas's Medicaid program, but services are administered by a variety of state agencies.

Basic Federal Requirements

- **Entitlement:** any eligible person may enroll.
- **Statewideness:** states cannot limit available services to specific geographic locations.
- **Comparability:** same level of services available to all clients.
- **Freedom of Choice of Provider:** clients may see any Medicaid health care provider who meets program standards.

Waivers

The U.S. Secretary of Health and Human Services has broad authority to waive statutory and regulatory provisions, allowing states to test new ways of delivering and paying for services. For example:

- **Section 1115 demonstrations** do not require statewideness, comparability, or freedom of choice of provider; and
- **1915(c) waivers** allow states to provide long-term-care services in home and community-based settings and may be implemented in limited geographic areas with comparability of services with non-waiver enrollees not required.

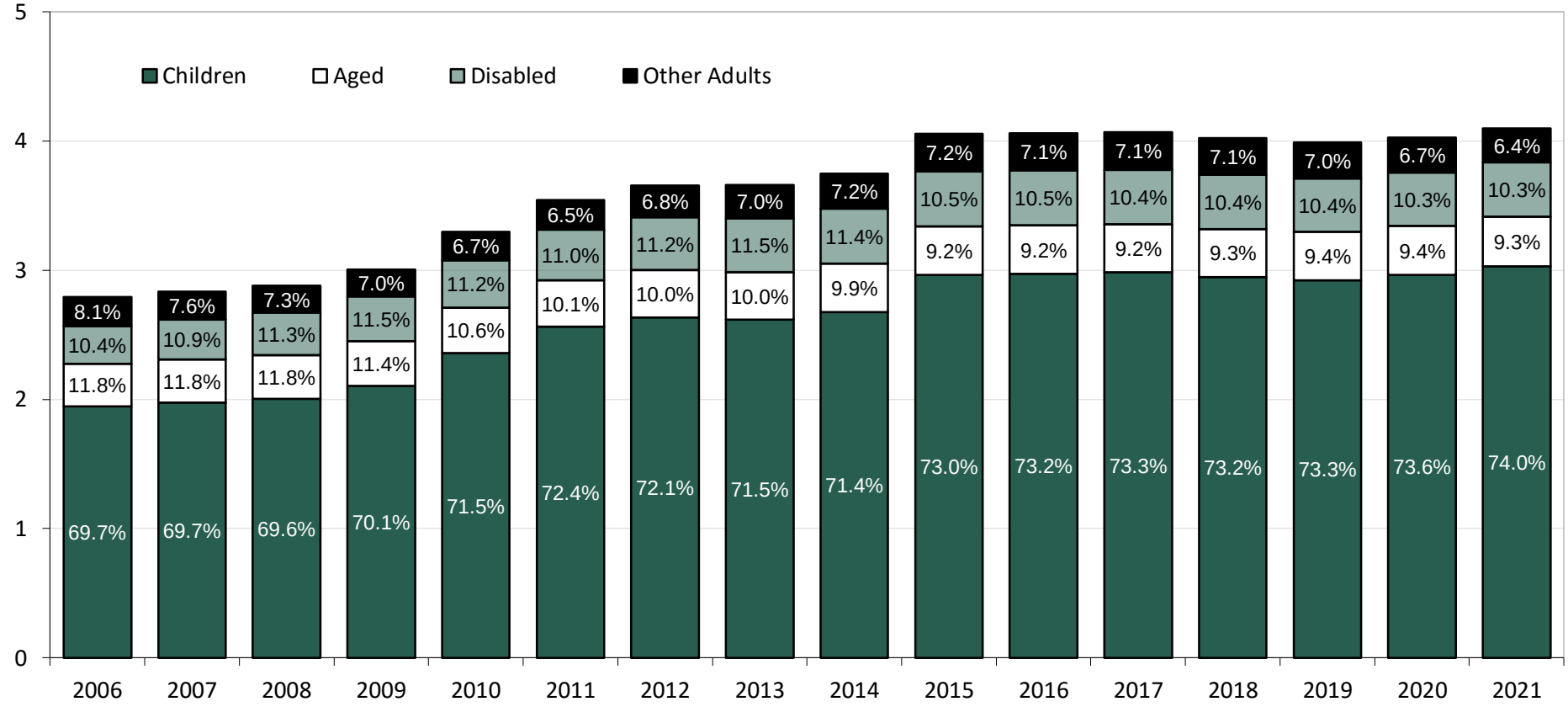
Budget Drivers: Caseload and Cost

Medicaid expenditures are primarily a function of two factors: caseload and cost.

- As caseloads increase or decrease (due to factors such as population growth, the economy, or policy changes), Medicaid expenditures fluctuate.
- Medicaid expenditures also fluctuate as a result of cost growth (tied to rate changes, medical inflation, utilization, and acuity), which can be negative or positive.

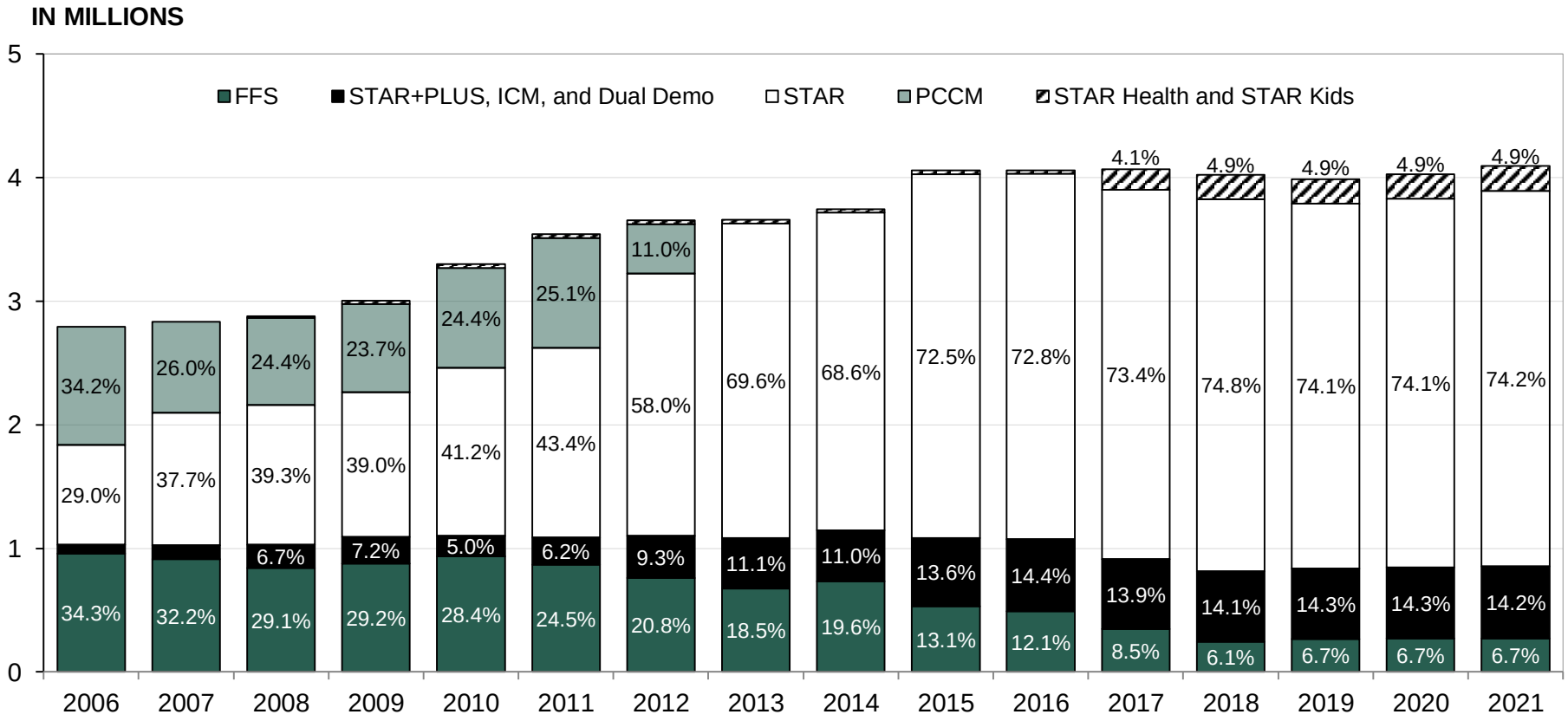
Medicaid Average Monthly Full-Benefit Caseload by Enrollment Group Fiscal Years 2006 to 2021

IN MILLIONS



NOTES:
(1) Other adults includes TANF Adults, Pregnant Women, Medicaid for Breast and Cervical Cancer, and Medically Needy clients.
(2) Fiscal year 2018 is estimated; fiscal years 2019 through 2021 are the most recent Legislative Budget Board projections.
SOURCES: Legislative Budget Board; Health and Human Services Commission.

Medicaid Average Monthly Full-Benefit Caseload by Delivery Model
Fiscal Years 2006 to 2021



NOTES:
(1) Represents average monthly number of clients receiving full-benefit Medicaid health insurance services. Managed Care delivery models include all but Fee-for-Service. The percent of clients receiving STAR+PLUS and ICM in fiscal years 2006 and 2007 was 2.6 and 4.1 percent, respectively. The percent of clients receiving STAR Health from fiscal year 2008 to 2016 was between 0.4 and 1.0 percent; STAR Kids was not implemented until fiscal year 2017.
(2) Fiscal year 2018 is estimated; fiscal years 2019 through 2021 are the most recent Legislative Budget Board projections.
(3) Integrated Care Management (ICM) was an alternative to STAR+PLUS operating in Dallas from February 2008 through May 2009.
(4) Primary Care Case Management (PCCM) was a non-capitated model implemented in September 2005 and discontinued in March 2012.
SOURCES: Legislative Budget Board; Health and Human Services Commission.

Managed Care

Managed care is a system of delivering health care in which the state contracts with managed care organizations (MCOs) to provide services to Medicaid members and pays the MCOs a per member per month amount (premium or capitation payment).

HHSC is responsible for monitoring MCO contract compliance, service utilization, and quality of care, as well as developing and maintaining Uniform Managed Care Contracts (UMCC) and the Uniform Managed Care Manual (UMCM).

Managed Care Delivery Models

Current Managed Care Delivery Models

- *STAR:* Serves non-disabled children, pregnant women, and certain low-income parents.
- *STAR Kids:* Serves children, under age 21, with disabilities.
- *STAR+PLUS:* Serves adults with disabilities, adults over the age of 65, and women enrolled in Medicaid for Breast and Cervical Cancer.
- *STAR Health:* Serves children in the conservatorship of the Department of Family and Protective Services and certain young adults in foster care or eligible as former foster care children.
- *Dual Demonstration (Dual Demo):* Serves persons in six counties who are dually eligible for Medicare and Medicaid who were previously enrolled in separate coverage for each program.

Caseload Growth

Medicaid caseloads more than doubled from fiscal year (FY) 2001 to fiscal year 2015. Caseloads stabilized in FY 2016 to FY 2017 and declined by 1.1 percent in FY 2018, the first decline since FY 2000. Caseloads are projected to decline by an additional 0.9 percent in FY 2019 before returning to low growth in the 2020-21 biennium.

Recent events contributing to caseload growth include:

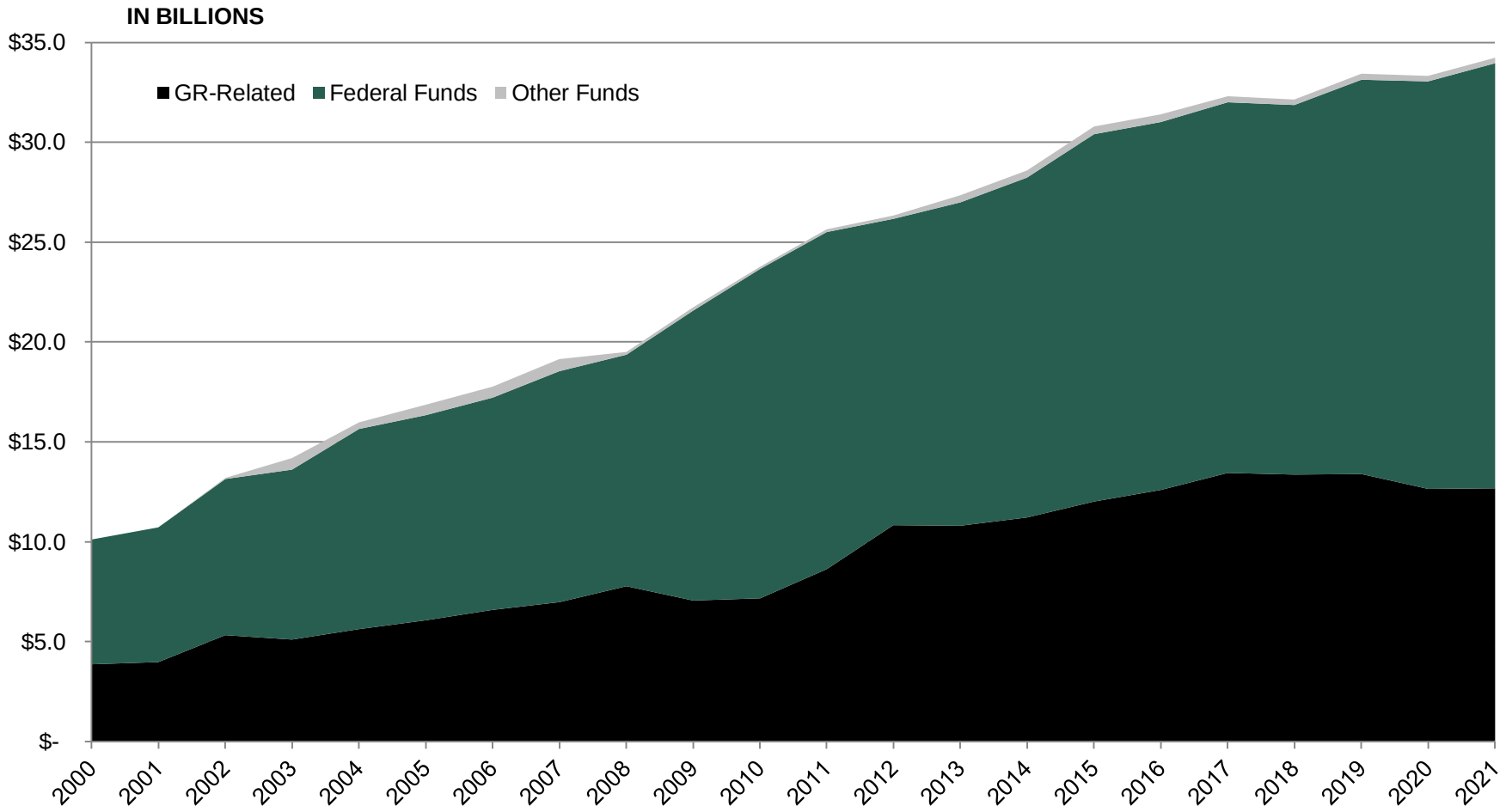
- **FY 2001 to FY 2003:** Nearly 50 percent growth in children enrolled from FY 2001 to FY 2003 due primarily to Senate Bill 43, Seventy-Seventh Legislature, 2001, which included Medicaid simplification provisions and six months continuous eligibility.
- **FY 2008 to FY 2011:** Caseloads grew 23 percent from FY 2008 to FY 2011, primarily due to the economic recession, with enrollment of children, people with disabilities, and other adults all growing more than 10 percent.
- **FY 2014 to FY 2015:** Pursuant to the Affordable Care Act, children ages 6 to 18 with family incomes from 100 to 138 percent of the Federal Poverty Level (FPL) moved from the Children's Health Insurance Program (CHIP) to Medicaid beginning in early calendar year 2014, adding almost 300,000 children to Medicaid when the transition was complete. Growth in annual average monthly caseload for children is most apparent in FY 2015, which increased more than 10 percent from FY 2014.
- **FY 2006 to FY 2021:** The population of Texas is projected to grow by 29 percent from calendar year 2006 to 2021.

Cost Growth

The primary factors contributing to cost growth include the following:

- **Rate Changes:** Adjustments to reimbursements to providers.
- **Medical Inflation:** Growth in costs related to how health care is delivered and what services are available.
    - Technological and other medical advances.
    - Increases in the cost of prescription drugs.
- **Utilization:** Changes in how many services are accessed.
- **Acuity:** Relative health of persons enrolled in the program.

Medicaid Funding by Method of Finance
Fiscal Years 2000 to 2021



NOTES:
(1) Fiscal years 2000 to 2017 are expended, fiscal years 2018 through 2021 are amounts included in the Legislative Budget Estimates, House.
SOURCE: Legislative Budget Board.

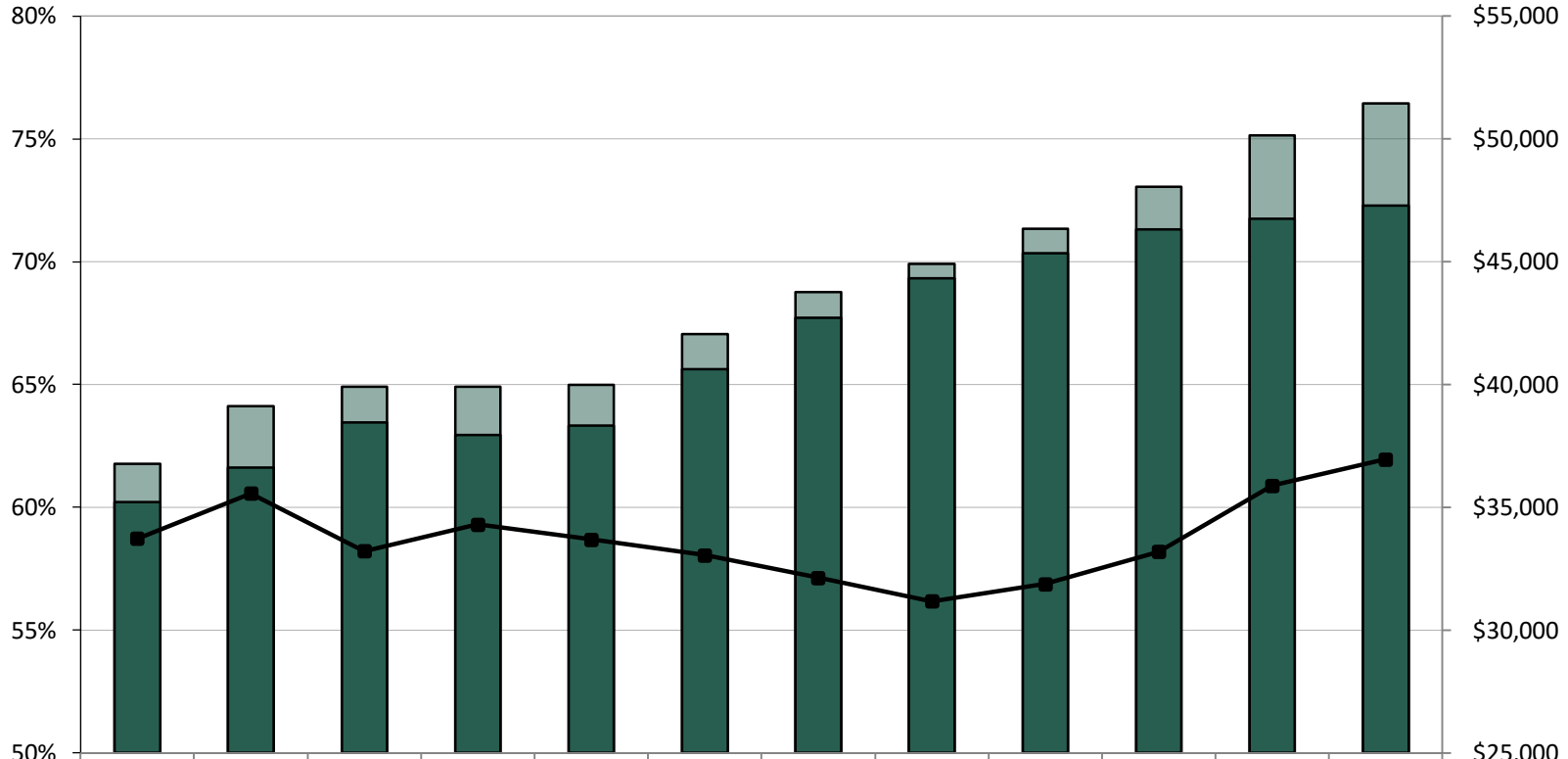
Financing

Financing of the Medicaid program is based on an array of matching rates that determine the amount of state funds (General Revenue, General Revenue-Dedicated, and Other Funds) and the amount of Federal Funds.

The primary matching rate for client services is the Federal Medical Assistance Percentage (FMAP).

- Each state has a different FMAP based on its per capita personal income (PCPI) relative to the nation's PCPI.
    - Federal Fiscal Year (FFY) FMAP is generally announced in November of the previous FFY.
    - FMAP is based on the three most recent years of income data available.
    - FFY 2020 FMAP was announced in November 2018 based on PCPI data for calendar years 2015 through 2017.
- State FMAPs can range from 50 to 83 percent.
    - Below 55 percent: states with PCPI higher than the national average.
    - Above 55 percent: states with PCPI below the national average.

FMAP and PCPI
Federal Fiscal Years 2010 to 2021



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
US PCPI	$36,768	$39,122	$39,919	$39,913	$39,996	$42,065	$43,766	$44,918	$46,329	$48,064	$50,137	$51,439
Texas PCPI	$35,213	$36,626	$38,463	$37,956	$38,321	$40,615	$42,716	$44,327	$45,352	$46,327	$46,739	$47,291
FMAP	58.73%	60.56%	58.22%	59.30%	58.69%	58.05%	57.13%	56.18%	56.88%	58.19%	60.89%	61.96%

NOTES:
(1) FMAPs are for federal fiscal year (FFY) and do not reflect enhanced FMAPs related to the American Recovery and Reinvestment Act (ARRA) that applied from the first quarter of FFY 2009 until the third quarter of FFY 2011.
(2) FFY 2021 is projected.
SOURCES: Legislative Budget Board; U.S. Department of Health and Human Services; Bureau of Economic Analysis; U.S. Census Bureau.

Other Matching Rates

Higher matches are available for certain client services.

Examples include the following:

- Enhanced FMAP (EFMAP)
  - 30 percent reduction to the state share under FMAP
  - Applies to Medicaid for Breast and Cervical Cancer
- 11.5 percentage point increase to EFMAP for Federal Fiscal Year 2020
  - Applies to children previously eligible for CHIP
- 90/10
  - Applies to family planning services
- Community First Choice
  - 6 percentage point increase to FMAP
  - Applies to certain long-term-care services

Other Matching Rates (continued)

Matching rates for administrative services differ from those for client services, with most administrative services matched at 50 percent.

Examples of other administrative matching rates include the following:

- 90/10
  - Administration of family planning services
  - Design, development, or installation of an approved Medicaid Management Information System (MMIS) for claims and information processing
- 75/25
  - Operation of an approved MMIS for claims and information processing
  - Activities conducted by skilled medical professionals
  - Certain medical and utilization review activities
  - Certain external quality review activities
  - Operation of a state Medicaid fraud control unit

Medicaid Funding

in millions	2018-19	2020-21	Biennial Change	Percentage Change
General Revenue	$26,608.6	$25,187.9	($1,420.6)	(5.3%)
General Revenue-Dedicated	$154.7	$124.8	($29.9)	(19.3%)
Other Funds	$568.8	$568.5	($0.2)	(0.0%)
Federal Funds	$38,236.1	$41,674.8	$3,438.7	9.0%
All Funds	**$65,568.2**	**$67,556.1**	**$1,987.9**	**3.0%**

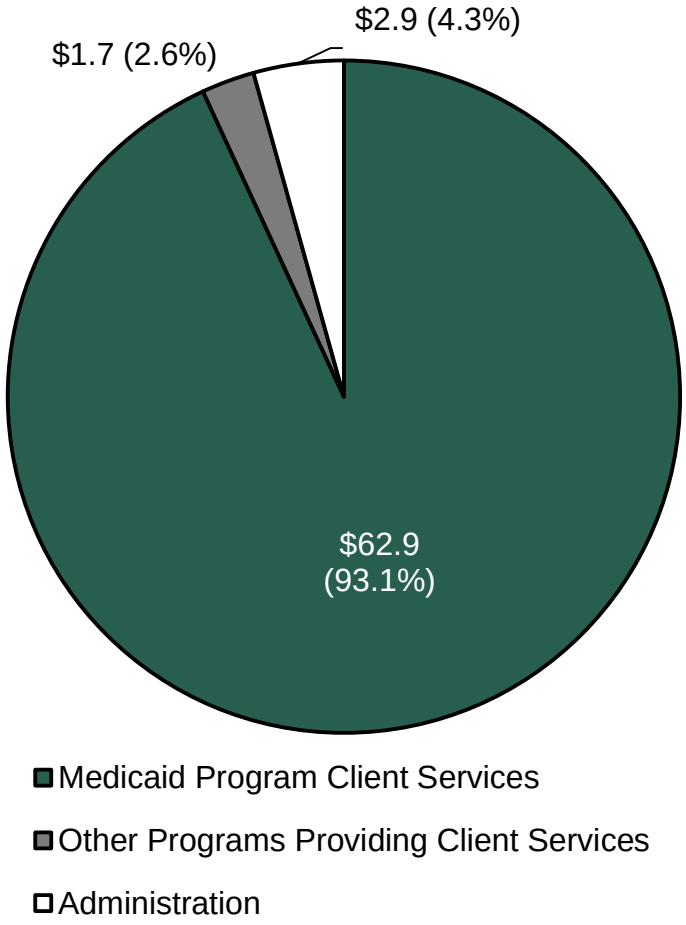
- The 2018-19 base includes $1.8 billion in General Revenue Funds above the 2018-19 General Appropriations Act and reflects revenue adjustments, transfers, and assumed supplemental funding.

Medicaid Funding (continued)

- $67.6 billion in All Funds and $25.2 billion in General Revenue.
- This is an increase of $2.0 billion in All Funds and a decrease of $1.4 billion in General Revenue.
- More favorable Federal Medical Assistance Percentages (FMAP) result in a higher proportion of the program being funded with Federal Funds.
- Funding is provided for:
  - Projected caseload growth
  - Maintaining fiscal year 2019 average costs for most services
  - Cost growth associated with average costs established by the federal government

Medicaid Funding by Category
2020-21 Fiscal Biennium

IN BILLIONS



Medicaid funding supports three major functions.

- Medicaid program client services, which are funded in Goal A at HHSC
- Other programs providing client services where Medicaid is a source of funding
    - Examples include the Early Childhood Intervention (ECI) program and State Supported Living Centers (SSLCs)
- Administration of these programs including the following:
    - Direct administration of and contracts for the Medicaid program
    - Other administrative function where Medicaid is a source of funding

Contact the LBB

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