2005-06 Governor’s Executive Budget

Medical Assistance Briefing

February 24, 2005
There is a National Health Crisis

- National Healthcare Spending Outpacing Growth in GNP
- Health Insurance Premiums Growing Faster than Inflation
- Medicaid Spending Outpacing State Tax Revenues
  - Medicaid Enrollment Up to 53 Million
  - Sharp Increases Resulting from Loss of Federal Revenues
  - All States Pursuing Cost Containment
Nationally, Medicaid Spending Growth Outpaces State Tax Revenue Growth

NOTE: State Tax Revenue data is adjusted for inflation and legislative changes. 2004 is a preliminary estimate.

President’s Budget Further Reduces Funding

- Restricts Intergovernmental Transfers
- Limits Reimbursements to Government Entities
- Reduces Allowable Amount of Provider Assessments
- Eliminates Preferential Tax Treatment for HMOs
- Reduces/Limits Targeted Case Management
- Reduces Pharmacy Reimbursements
- Limits Medicaid Administrative Matching Funds
- Limits Transfer of Assets for Long-Term Care
Pennsylvania MA Facing a Challenge

- Serves Over 1.7 Million; Growing to 1.8 Million
- Annual Expenditures Exceed $15 Billion
- Continues to Outpace State Revenues
- Now Over 19% of FY 2005-06 General Fund
Medical Assistance Portion of the 2005-06 Commonwealth Budget

- Pre K-12 Education: 34%
- Medical Assistance: 19%
- Other Welfare: 17%
- Higher Education: 8%
- Corrections: 5%
- Debt Service: 3%
- All Other: 14%

Total General Fund - $23.8 Billion
PA Growth in Medical Assistance Spending Mirrors National Picture

PA’s Medicaid spending grew at a slower rate than nationally between 2000 and 2003 --- 6% avg. annual growth vs. 11.9% nationally

In Thousands) State Funds Only

Source: DPW Budget Office
Why are MA Costs growing?

- Increasing Number of Patients with High Cost Needs
  - Growing Elderly Population
  - Growing Uninsured
- Health Care Trends – Rising Costs
  - Patient Acuity
  - Service Utilization
  - New Technology
  - New Drug Treatments
- Loss of Federal Funding
  - FMAP
  - One-Time Funding
Caseload Increases Explain Some of the Growth

The Medicaid program is projected to expand by more than 100,000 new eligibles next year.

Source: FY 03-04 Governor's Executive Budget & DPW Budget Office
Elderly and Disabled Use the Greatest Share of Medicaid Resources

- Elderly: 245,746 (13%)
- Disabled: 380,916 (21%)
- Children & Families: 1,108,273 (60%)
- Chronically Ill Adults: 115,070 (6%)

- Elderly: $5.7 billion (43%)
- Disabled: $3.6 billion (28%)
- Children & Families: $2.7 billion (21%)
- Chronically Ill Adults: $1.0 billion (8%)
Seniors Also Represent the Fastest Growing Group in the Medicaid Program

Similar to state and national trends, the number of elderly has been growing at the fastest rate over the past few years, fueling increases in Medicaid spending.
Pharmacy Costs Are Key Cost Driver

Pharmacy Growth vs. PA Medicaid Growth
(average annual growth rates of total funds)

Source: OMAP/FFS actuals, Managed Care projections
# Rate Increases

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Inpatient Hospitals</td>
<td>2.8%</td>
<td>3.0%</td>
<td>4.0%</td>
<td>4.1%</td>
<td>1.0%</td>
<td>3.5%</td>
</tr>
<tr>
<td>(Fee-for-Service)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managed Care Organizations</td>
<td>9.3%</td>
<td>6.1%</td>
<td>10.7%</td>
<td>7.7%</td>
<td>4.6%</td>
<td>5.0%</td>
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<tr>
<td>Nursing Homes</td>
<td>7.1%</td>
<td>3.5%</td>
<td>5.8%</td>
<td>4.6%</td>
<td>6.7%</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

Rates are negotiated with the Hospital Association of Pennsylvania.

Rates are negotiated with the plans but must be within actuarially sound rate ranges for Federal participation.

Rates are determined by regulations and are based on 3 years of audited financial statements and the acuity level of residents.
PA Medicaid Taking the Initiative

- Long Standing Cost Controls
- Recent Initiatives
- FY 2005-06 Proposals
Long Standing Cost Controls

- Prior Authorizations
- Preadmission Reviews
- Claims Editing
- Managed Care
- Rate Containment
- Third Party Liability
- Fraud and Abuse
Recent Initiatives

- Rebalancing Long-Term Care
- PROMIS™
- Fraud and Abuse Detection System (FADS)
- Nursing Home and MCO Assessments
- ACCESS Plus
- Performance-Based Contracting
- Pharmacy Realignment
FY 2005-06 Budget Proposals

Guiding Principles

- No One Will Lose Eligibility
- No Changes to Services for Children
- Will Meet Anticipated Demand for Services for Those in Need
Budget Proposals Affect

- Benefit Packages
- Pharmaceutical Manufacturers & Pharmacies
- Hospitals
- Long Term Care
- Managed Care
- Fraud and Abuse
- Third Party Liability (Coordination of Benefits)
Benefit Packages

- Keep All Services
- Add Some Limits
- Give Consumers Flexibility to Choose
- Add and Increase Some Co-pays
- Will Include Exceptions Process
# Adult Benefit Package

<table>
<thead>
<tr>
<th>Service</th>
<th>Benefit Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prescription Drugs</td>
<td>6 prescriptions /month</td>
</tr>
<tr>
<td>Inpatient Hospital</td>
<td>2 admissions /year</td>
</tr>
<tr>
<td>Inpatient Rehab</td>
<td>1 admission /year</td>
</tr>
<tr>
<td>Durable Med Equipment</td>
<td>$5000 /year</td>
</tr>
<tr>
<td>Grouped Outpatient Services</td>
<td>18 visits /year (N/A to pregnant women)</td>
</tr>
<tr>
<td>Service</td>
<td>Limit</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Prescription Drugs</td>
<td>3 prescriptions /month</td>
</tr>
<tr>
<td>Inpatient Hospital</td>
<td>1 admission /year</td>
</tr>
<tr>
<td>Inpatient Rehab</td>
<td>1 admission /year</td>
</tr>
<tr>
<td>Durable Med Equipment</td>
<td>$5000 /year</td>
</tr>
<tr>
<td>Ambulance</td>
<td>1 transport /year</td>
</tr>
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## Adult Co-payment Proposal

<table>
<thead>
<tr>
<th>Service</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Name Drugs</td>
<td>$1</td>
<td>$3</td>
</tr>
<tr>
<td>Laboratory, Renal Dialysis</td>
<td>N/A</td>
<td>Up to $3</td>
</tr>
<tr>
<td>Home Health</td>
<td>N/A</td>
<td>$3</td>
</tr>
<tr>
<td>Hospice</td>
<td>N/A</td>
<td>$3; Max $21</td>
</tr>
<tr>
<td>Portable X-ray</td>
<td>$1</td>
<td>Up to $3</td>
</tr>
</tbody>
</table>
## GA Co-payment Proposal

<table>
<thead>
<tr>
<th>Service</th>
<th>Current</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand Name Drugs</td>
<td>$2</td>
<td>$12</td>
</tr>
<tr>
<td>Generic Drugs</td>
<td>$2</td>
<td>$6</td>
</tr>
<tr>
<td>Emergency Services</td>
<td>N/A</td>
<td>$25</td>
</tr>
<tr>
<td>Outpatient Hospital</td>
<td>Up to $6</td>
<td>$6</td>
</tr>
<tr>
<td>Hospice</td>
<td>N/A</td>
<td>$6; Max $42</td>
</tr>
<tr>
<td>Portable X-ray</td>
<td>$2</td>
<td>$6</td>
</tr>
<tr>
<td>Lab Tests</td>
<td>N/A</td>
<td>$6</td>
</tr>
<tr>
<td>Doctor Visits</td>
<td>Up to $6</td>
<td>$6/$10¹</td>
</tr>
<tr>
<td>Home Health</td>
<td>N/A</td>
<td>$6</td>
</tr>
<tr>
<td>Outpatient Hospital</td>
<td>Up to $6</td>
<td>$6</td>
</tr>
<tr>
<td>Ambulance, CRNP, DME, Case Manager, Dentist, Podiatrist, Chiropractor, Independent Med/Surg Center, Optometrist</td>
<td>Up to $6</td>
<td>$6</td>
</tr>
</tbody>
</table>

¹ For specialists, the co-payment is $10
MA Fee For Service Behavioral Health Services

- Benefit Changes applicable to FFS, both General Assistance and Adult categories of aid
  - Inpatient Hospitalization reduced from 60 days to 30 days
  - Partial Hospitalization reduced from 720 hours/year to 540 hours/year
  - Psychiatric Outpatient services reduced from 7 hours/month to 5 hours/month

- Enhance quality of prior authorization reviews for children’s services
HealthChoices Behavioral Health Capitation

- Individuals who are dually eligible will remain in HC in the behavioral health system
- HC Capitation - no expansion dollars included in the budget
- MA Realignment (for children’s services) and cost of enhanced treatment services as a result of the closure of Harrisburg State Hospital assumed as potential rate adjustments
Pharmacy: Pricing Changes

- Proposal
  - Bring Payment in Line with Other Payers
  - Pay Brand Name Drugs at WAC plus 6%
    - Current is AWP Minus 10%
  - Adopt Enhanced State MAC for Generic Drugs
  - No Change in Dispensing Fee
    - Remains at $4
Pharmacy: Preferred Drug List

- **Proposal**
  - **Establishes Statewide PDL**
    - Applies to FFS and Managed Care
    - Will Not Affect Managed Care Pricing Arrangements
  - **Contractor Will Help Administer**
  - **Will Be Clinically Based**
    - Enhanced Clinical Edits
    - Prior Authorizations
Pharmacy: Medicare Part D

- Proposal
  - Position MA for Change Effective 1-1-06
  - Dual Eligibles to Receive Drugs from Medicare
  - Need to Eliminate Incentive to Cost Shift to MA
  - Eliminate Coverage for OTCs for Dual Eligibles
Hospitals

Proposal

- Provide Modest Rate Increase
  - 2%
  - In Past Averaged 3.1%

- Tie Pass Thru Payments to Operating Margins
  - Capped at 1% of Operating Margins

- Contrast: 31 States Froze or Reduced Payments to Hospitals
Pass Thru Payments (FY 04-05)

- Outpatient DSH  $61.0 M
- Medical Education  $75.6 M
- Community Access Fund  $56.1 M
- Tobacco Settlement  $86.2 M
- Inpatient DSH  $62.7 M
- Trauma Centers  $27.2 M
Nursing Homes

- Proposal
  - Provide Modest Increase
    - 2%
    - Average Annual Increase since FY 99-00 was 5.6%

- Contrast
  - 22 States Froze or Reduced Nursing Home Rates
  - PA Ranked 8th in Nation for MA Per Day Reimbursement
  - PA Per Day Averages $138; National Averages $118
Rebalancing Long-Term Care

- Proposal
  - Add Additional Counties
  - Pilot Cash and Counseling
    - Currently in 10 Counties
    - Serving 3,775 People
    - 95% Consumer Satisfaction
Budget Funds Continued Growth in Home and Community Based Services

This budget supports a 20% increase in waiver users since last year. Waiver users have grown on average 23% during this time period.

Home and Community Based Waiver Users

<table>
<thead>
<tr>
<th>Year</th>
<th>LTC Waiver Users</th>
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<tbody>
<tr>
<td>2002-03</td>
<td>18,223</td>
</tr>
<tr>
<td>2003-04</td>
<td>22,039</td>
</tr>
<tr>
<td>2004-05</td>
<td>26,182</td>
</tr>
<tr>
<td>2005-06</td>
<td>32,658</td>
</tr>
</tbody>
</table>

Note: Includes PDA, Attendant Care, OBRA, and Independence Waivers only.
Managed Care Organizations

- Proposals
  - Provide Modest Rate Increase
    - 2%
    - Actuarially Sound
    - Averaged in 4-8% Range in Past
    - Contrast: 21 States Froze or Reduced
  - MCOs Permitted to Charge Co-pays
  - Dual Eligibles to Return to FFS
Fraud and Abuse

- Proposal
  - Augment Provider Reviews
    - Use Specialized Software
    - Flag Suspicious Claims
    - Review Medical Records
    - Recover Overpayments
Third Party Liability

- Proposals
  - Require Insurance Carriers to Participate in Data Exchanges
  - Enhance Recovery of Cash Assistance
  - Eliminate Need to File Suit in Personal Injury Awards
  - Expand Employer Health Plan Open Enrollment Periods
Commonwealth Budget

- FY 2005-06 an Extremely Difficult Year
- Budget of Shared Sacrifice
- Preserves and Reforms the Safety Net