



TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jess Benson

DATE: November 10, 2016

### Medicaid Forecast October 2016

**Forecasting Group.** Staff members from the Department of Human Services (DHS), the Department of Management (DOM), and the Fiscal Services Division of the Legislative Services Agency (LSA) met on November 10, 2016, to discuss estimated Medical Assistance (Medicaid) expenditures for FY 2017. The Forecasting Group meets regularly to discuss revenues and expenditures and agree on an estimate for the current and upcoming fiscal years. The Group will publish an estimate for FY 2018 in early December.

<b>Medicaid Balance Sheet</b>			
	<i>Actual FY 2015</i>	<i>Actual FY 2016</i>	<i>Estimated FY 2017</i>
<b>Medicaid Funding</b>			
Carryforward from Previous Year	\$ 0	\$ 0	\$ 22,891,475
Palo Tax	1,379,442	980,730	1,372,140
Health Care Trust Fund	223,277,860	224,990,504	222,890,000
Nursing Facility Quality Assurance Fund	29,195,653	37,205,208	36,705,208
Hospital Trust Fund	34,570,769	34,700,000	34,700,000
hawk-i Performance Bonus	177,017	0	0
Medicaid Fraud Fund	392,810	1,021,178	500,000
Deappropriations from Various DHS Approps	15,828,136	0	0
CHIP Contingency	919,114	0	0
Food Assistance Bonus Funds	0	2,000,000	0
Appropriation Transfers/Carryforward	12,964,476	33,359,091	0
<b>Total Non-General Fund for Medicaid</b>	<b>\$ 318,705,277</b>	<b>\$ 334,256,711</b>	<b>\$ 319,058,823</b>
<b>General Fund Appropriation</b>	<b>1,250,658,393</b>	<b>1,318,191,564</b>	<b>1,318,246,446</b>
General Fund Supplemental	43,000,000	67,000,000	0
<b>Total All General Fund Sources</b>	<b>\$ 1,293,658,393</b>	<b>\$ 1,385,191,564</b>	<b>\$ 1,318,246,446</b>
<b>Total Medicaid Funding</b>	<b>\$ 1,612,363,670</b>	<b>\$ 1,719,448,275</b>	<b>\$ 1,637,305,269</b>
<b>Total Estimated State Medicaid Need</b>	<b>\$ 1,534,793,632</b>	<b>\$ 1,638,098,506</b>	<b>\$ 1,691,873,821</b>
FMAP Changes	79,120,038	56,105,434	-45,565,523
Health and Wellness Program Expenditures	0	0	17,142,483
Iowa Plan Contract Recovery	0	-4,000,000	0
Enhanced FMAP Expirations (BIP, Health Home)	0	0	14,798,807
Cost Containment	0	-6,000,000	0
Eliminate MHI Transfer	0	-7,729,892	-18,144,319
Drug Rebate Savings Adjustment	0	0	9,000,000
Family Planning Enhanced FMAP Adjustment	0	0	-5,000,000
2.0% Incentive Payment Adjustment	0	0	-10,000,000
Expand Gero-Psych Capacity	0	1,765,119	0
Nursing Facility Rebase	1,250,000	17,030,405	0
Home Health Rebase	0	1,000,000	1,000,000
Hospital Inpatient Psych Cost-Based Adj.	0	1,000,000	0
UIHC DSH Adjustment	-2,800,000	-1,712,772	-1,000,000
HCBS Waiver Waiting List Slots	0	0	2,000,000
HCBS Provider Rate Increase	0	1,000,000	2,200,000
<b>Total Estimated Medicaid Need</b>	<b>\$ 1,612,363,670</b>	<b>\$ 1,696,556,800</b>	<b>\$ 1,658,305,269</b>
<b>Midpoint of Balance/(Under Funded)</b>	<b>\$ 0</b>	<b>\$ 22,891,475</b>	<b>\$ -21,000,000</b>
BIP - Balancing Incentive Payment Program		HCBS - Home and Community-Based Services	
ACA - Affordable Care Act		FMAP - Federal Medical Assistance Percentage	

**FY 2016.** Fiscal Year 2016 ended with a \$22.9 million dollar surplus in Medicaid that will be carried forward and used to offset FY 2017 expenditures. The reasons for the surplus are as follows:

- \$8.1 million savings due to managed care member months coming in lower than projected primarily in the Long-Term Services and Supports population.
- \$3.7 million savings due to runout claims for the fee-for-service program coming in lower than projected.
- \$3.6 million due to additional revenue from drug rebates and other recoveries.
- \$3.1 million savings due to the non-federal share of the State Resource Centers coming in lower than projected.
- \$2.4 million savings due to an adjustment made by the federal government on the amount of drug rebate revenue that was required to be returned to the federal government.
- \$1.6 million due to additional state revenue primarily in the Health Care Trust Fund (tobacco tax) and the Medicaid Fraud Fund. This was partially offset by lower hospital assessment fee revenue and no decategorization reversion.
- \$437,021 due to savings across all other categories.

**FY 2017 Estimate.** For FY 2017, the Group agreed Medicaid will have an estimated need of \$21.0 million compared to anticipated revenues. This includes \$22.9 million in carryforward from FY 2016 and the \$33.2 million provided to increase rates for the three managed care organizations. [House File 2460](#) (FY 2017 Health and Human Services Appropriations Act) also made the following funding changes to the Medicaid Program:

- An increase of \$9.0 million due to an adjustment to the estimates for drug rebate savings.
- An increase of \$2.2 million for a 1.0% provider rate increase for Community Based Providers.
- An increase of \$2.0 million to increase the number of slots available for the Home and Community-Based Services (HCBS) waivers.
- An increase of \$1.0 million to increase reimbursement rates for Home Health Providers.
- A decrease of \$1.0 million to require the University of Iowa to provide matching funds for the Disproportionate Share Hospital (DSH) payment.
- A decrease of \$5.0 million due to an adjustment to the way the Federal Medical Assistance Match (FMAP) is accounted.
- A decrease of \$7.2 million to adjust projections to the DHS enrollment estimate.
- A decrease of \$10.0 million due to a timing adjustment for the 2.0% incentive payment to the Managed Care Organizations (MCOs).
- A decrease of \$18.1 million to reallocate funds directly to the Independence and Cherokee Mental Health Institutes (MHIs).

**FY 2018 Estimate.** The Medicaid Forecasting Group is in the process reviewing data for FY 2018 and will make a formal projection in early December.

**Emerging Trend Adjustment.** Based on a review of recent Medicaid data by DHS and Milliman health care consulting firm, the Governor's Office has decided to increase the capitation rates paid to the Managed Care Organizations (MCOs) by \$33.2 million state (\$94.5 million federal) for the first MCO contract time period spanning the final months of FY 2016 and FY 2017. The rationale for the increase is based on a number of factors. First, capitation rates for the MCO contracts were originally developed using FY 2014 data and with only six months of Iowa Health and Wellness Program data and since this time there have been some major shifts in health care spending trends. When the capitation rates were developed the Iowa Health and Wellness Program had just begun, making it difficult to estimate the overall health of the population served by the program and the types of care and services they would need (eg., inpatient hospital vs. outpatient hospital vs. physicians' offices). Current spending trends for the population have ended up significantly higher than the rates developed. Another significant driver that led to the rate increase was prescription drug costs. The capitation rates do not include the rapid rise in drug costs we have seen over the past

several years. These increases have been partially offset by higher drug rebates, but the State keeps the drug rebates savings while the MCOs are responsible for the higher costs incurred by both the Iowa Health and Wellness and the Medicaid populations. The factors above were not the only ones that lead to the rate changes, but were the leading causes.

**Medicaid Enrollment.** In FY 2015, Medicaid enrollment grew by 0.7%, adding 2,903 individuals for a total enrollment of 411,259. In FY 2016, Medicaid enrollment increased by 1.9%, adding 7,682 individuals for a total enrollment of 418,941. In the first three months of FY 2017 Medicaid has increased by 4,094 individuals for a total Program enrollment of 423,035 individuals.

**Table 1**

<b>Medicaid Enrollment – FY 2017</b>					
<u>FY 2017</u>	<u>Children</u>	<u>Adults</u>	<u>Aged</u>	<u>Disabled</u>	<u>Total</u>
July	-229	491	9	38	309
August	1,643	860	145	285	2,933
September	702	156	129	-135	852
Total FY 2017	2,116	1,507	283	188	4,094
Grand Total	243,391	67,734	31,411	80,499	423,035

**Iowa Health and Wellness Program (I-HAWP) Enrollment.** The new I-HAWP began on January 1, 2014. Enrollment through the first fiscal year (FY 2014) was 110,533, with 86,270 of those individuals enrolled in the Wellness Plan. In FY 2015, enrollment increased by 27,573 for a total enrollment of 138,106. In FY 2016, enrollment increased by 10,782 individuals. Through three months of FY 2017, enrollment decreased by 10,361 individuals for a total enrollment of 148,605. Individuals enrolled in both the Iowa Wellness Plan and the Marketplace Choice Plan may be determined medically exempt by the DHS and provided coverage through the regular Medicaid State Plan if they meet certain requirements. As of September 2016, there were 17,486 medically exempt individuals.

**Table 2**

<b>I-HAWP Enrollment – FY 2017</b>					
<u>FY 2017</u>	<u>Wellness Plan</u>	<u>Marketplace Choice Plan</u>	<u>Presumptive Eligible</u>	<u>Total</u>	<u>Medically Exempt</u>
July	-318	-220	-27	-565	-196
August	782	-51	89	820	26
September	-69	-477	8	-538	-712
Total FY 2017	395	-748	70	-283	-882
Grand Total	112,578	35,470	557	148,605	17,486

**FY 2018 Federal Medical Assistance Percentage (FMAP).** The U.S. Bureau of Economic Analysis released its final state personal per-capita income data for 2015 on September 28, 2016. This allowed states to calculate their final FY 2018 FMAP rates. The FY 2018 FMAP rates are based on per-capita personal incomes for calendar years 2013-2015. Iowa's FY 2018 FMAP rate increased by 1.77% to 58.05% (see Table 3 for more detail). The FMAP increase indicates that Iowa's economy is not as strong as those of other states, resulting in a larger share of the total FMAP for Iowa. This is the second year in a row that the federal share of FMAP has increased, after it had decreased over the previous six years. The 1.77% change in the FMAP rate for FY 2018 means that the State will be responsible for \$66.6 million less in Medicaid expenditures.

**Table 3**

<b>Five-Year State Regular Medicaid FMAP</b>			
<b>State Fiscal Year</b>	<b>Federal Share</b>	<b>State Share</b>	<b>Federal % Change</b>
FY 2014	58.35%	41.65%	-1.53%
FY 2015	56.14%	43.86%	-2.21%
FY 2016	55.07%	44.93%	-1.07%
FY 2017	56.28%	43.72%	1.21%
FY 2018	58.05%	41.95%	1.77%

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