

Department of Human Services  
SFY 2004 Medicaid Leasing and Cost Containment Initiatives  
(All amounts in state \$)

		Entire SFY <sup>1</sup>			
	Actual YTD thru November 30	SFY 2004 Projected	SFY 2004 Budgeted	Variance	
Leveraging Initiatives:					
ICF/MR Assessment Fee	\$ 1,309,747	\$ 5,268,687	\$ 6,100,000	\$ (831,313)	
Physician IGT	\$ -	\$ (94,800)	\$ 13,500,000	\$ (13,594,800)	
Subtotal Leveraging	\$ 1,309,747	\$ 5,173,887	\$ 19,600,000	\$ (14,426,113)	

**Cost Containment Initiatives:**

Pharmacy SMAC	\$ 577,157	\$ 1,818,841	\$ 1,900,000	\$ (81,159)
Pharm. Disp. Fee	\$ 824,595	\$ 1,979,027	\$ 2,177,778	\$ (198,751)
Pharm AWP	\$ 876,342	\$ 2,103,220	\$ 2,040,000	\$ 63,220
Co-Payments: Pres. Drugs	\$ 351,858	\$ 844,458	\$ 533,012	\$ 311,446
Co-Payments: Phys. Ofc. Visits	\$ 133,135	\$ 319,525	\$ 320,988	\$ (1,463)
Preferred Drug List/Supp. Rebates	\$ -	\$ 2,800,000	\$ 7,000,000	\$ (4,200,000)

**NOTES:**

The original savings target of \$6.1M was based on cost report revenue data that contained inaccuracies. The estimated savings was revised to \$5.2M to reflect the accurate data. Also, the savings target did not consider ongoing costs of contractual services. The ICF MR assessment fee is applied using a 60-day lag, therefore the November YTD represents 3 months of experience.

The SPA was submitted to CMS on 8/12/03. The Department has not yet received a formal response back from CMS on this SPA. However, the Department did receive a formal request from CMS for additional information related to this SPA near the end of the 90 day SPA review period, which was 11/17/03. This formal request for information was consistent with prior informal conversations initiated by CMS, in which the indicated that because all additional funds involved would be transferred back to the Department via an IGT, as opposed to being retained by the U of I physicians (based on U of I's justifiable increased costs), approval would not even be considered. CMS also mentioned a variety of detailed information that would be needed (in response to the anticipated formal request for additional information) concerning payments U of I physicians receive from other sources, such as commercial payors and the U of I generally, as well as a variety of information concerning service costs at the U of I. It is noted that much of this information is not easily accessible to the Department.

Additionally, based on CMS's formal denials of similar SPAs in the states of Virginia, West Virginia, Oklahoma, and Arkansas, it appears unlikely that Iowa's SPA will ultimately be approved either. While these other states have initiated formal appeals of CMS's denials of these SPAs, CMS has indicated that these states have indicated that they may not pursue these appeals. Savings target did not consider costs of contractual services required to implement policy.

The budgeted amount includes savings from the SMAC that was already in effect on July 1, 2003, plus additional changes to the SMAC that were to have gone into effect on July 1, 2003. The actual implementation date for the post-July 1 changes was November 3, 2003, so the savings have been reduced to account for this. (This expanded SMAC list includes 172 drug groups, up from the current 93 drug groups.) Additionally, the original estimates were based on a decrease in estimated acquisition cost (EAC) from Average Wholesale Price (AWP) minus 10%, rather than AWP minus 12%, which became effective July 1, 2003. Finally, the savings target did not consider costs of contractual services required to implement policy.

With five months' experience, savings projection is slightly below target, due to an overall decrease in drug utilization, as compared to projected.

With five months' experience, savings projection is slightly above target, due to an overall increase in drug utilization that is reimbursed using AWP -12%, as compared to projected.

With five months' experience, savings projection is above target, due to increased brand name drug utilization, as compared to projected. The Department received and responded to a request for additional information (RAI) from CMS, relative to the SPA submitted. The questions related primarily to clarification and confirmation that the copayment was compliant with Federal regs and confirmation of the projected Federal fiscal impact. DHS responded to the RAI on Dec. 9, 2003.

With five months' experience, savings projection is slightly below target, due to decreased utilization of physician office visit services, as compared to projected. The Department received and responded to a request for additional information (RAI) from CMS, relative to the SPA submitted. The questions related primarily to clarification and confirmation that the copayment was compliant with Federal regs and confirmation of the projected Federal fiscal impact. DHS responded to the RAI on Dec. 9, 2003.

Phase I of the PDL was confirmed by the DHS and posted to the website on 12/4/03. This will become effective January 5, 2004. Phase II recommendations were posted to the website on 12/5/03 and the P & T Committee meeting to discuss this phase is scheduled on January 7th and 8th. CMS requested a minor revision on the SPA and this was sent to them on 12/5/03. Public comment to the PDL is being posted to the website: [www.iowapdl.com](http://www.iowapdl.com). Provider trainings were held on December 10th and 11th throughout the state. This was well attended by pharmacists, light attendance on the physician side.

	Actual YTD thru November 30	Entire SFY <sup>1</sup>		Variance
		SFY 2004 Projected	SFY 2004 Budgeted	
Hospital & Hosp-Based NF Xover	\$ -	\$ (29,363)	\$ 4,256,000	\$ (4,285,362)
Utilization Mgmt/Targeted Audits	\$ -	\$ 2,000,000	\$ 2,000,000	\$ -
<b>SubTotal Cost Containment (no NF):</b>	<b>\$ 2,763,087</b>	<b>\$ 11,835,709</b>	<b>\$ 20,227,778</b>	<b>\$ (8,392,068)</b>

**Nursing Facility:** For SFY 2004, nursing facility funding was capped at \$147M. In order for the cap not to be exceeded, the following (five) items were taken into consideration in determining the savings to be achieved. The NF case-mix system has been maintained and, with rebasing, rates were adjusted downward to accommodate the cap.

- Elim. of Hold Harmless	\$ 2,125,000	\$ 6,375,000	\$ 5,100,000	\$ 1,275,000
- NF Re-base - Inflation adjustmt.	\$ (2,555,853)	\$ (3,088,556)	\$ 3,045,490	\$ (6,134,046)
- Crossover (Freestanding)	\$ 467,497	\$ 1,114,568	\$ 1,056,000	\$ 58,568
- Bedhold	\$ 272,775	\$ 649,821	\$ 600,000	\$ 49,821
- Dual certification	\$ 414,167	\$ 988,000	\$ 994,000	\$ (6,000)
<b>Sub-Total NF:</b>	<b>\$ 723,586</b>	<b>\$ 6,038,833</b>	<b>\$ 10,795,490</b>	<b>\$ (4,756,657)</b>
<b>Subtotal Cost Containment</b>	<b>\$ 3,486,673</b>	<b>\$ 17,874,542</b>	<b>\$ 31,023,268</b>	<b>\$ (13,148,726)</b>
<b>Grand Totals</b>	<b>\$ 4,786,420</b>	<b>\$ 23,048,429</b>	<b>\$ 50,623,268</b>	<b>\$ (27,574,839)</b>

<sup>1</sup> Projected amount is calculated by taking the actual year-to-date amount and extrapolating this amount through the remainder of the state fiscal year, in most cases. Budgeted amount reflects the original estimate.

**NOTE:** All of the State dollar amounts are based on the pre-enhanced FMAP rates.

#### NOTES:

The SPA was submitted to CMS on 8/27/03. A CMS letter, dated December 1, 2003, requests additional information for continued processing. The information is due February 23, 2004. Also, DHS asked for a policy clarification from CMS regarding the 30% reimbursement for "bad debt". CMS responded stating that in order for bad debt to be considered as such for Medicare purposes, the amounts must actually be uncollectible (i.e. "...no likelihood of recovery at any time in the future."). CMS asserted that if Medicaid reimburses the 30% differential, there is a recovery of (part of) the bad debt, thus Medicare would only reimburse hospitals 70% of the amount of bad debt remaining after Medicaid had made the 30% payment. This finding by CMS would result in a financial loss to hospitals if the reduced payment policy was adopted and, therefore, it cannot be implemented (per directive given in HF 667). Savings target did not consider costs of contractual services required to implement policy.

An RFP to expand the Lock-In program was issued by the Department on October 20, 2003. Three contractors have submitted proposals that are currently being reviewed by an evaluation committee. It is anticipated that a contract will be awarded with a December 31, 2003 start date.

#### Savings on target.

The \$147M fixed State dollar NF cap was added per HF 619, with the intent that NF rates not exceed the rates in effect during SFY 2003. For the time period of April 1, 2003 through June 30, 2004, Congress provided States with a 2.95% increase in federal Medicaid matching funds as part of a federal fiscal relief effort. This increase in federal Medicaid matching funds effectively allowed for an increase in NF rates without using any more State dollars. After meeting with industry reps and the Governor's Office staff, original rate letters, that included a (-6.7%) inflation adjustment were changed to reflect a (-3.44) inflation adjustment. Based on this rate change, if a supplemental appropriation is not received in January 2004, it is projected that the inflation adjustment will need to be (-10.56%), in order to meet the intent of HF 619 for NF rates not to exceed the rates in effect during SFY 2003.

Savings target did not consider ongoing costs of contractual services. In-depth analysis currently being performed by Myers and Stauffer. CMS has posed several questions related to the SPA that was submitted on June 30, 2003. There are five questions specific to this SPA and five standard questions being asked for on every SPA submitted. DHS staff have recently sent a response to CMS on these questions (December 12, 2003).

The savings target is based on actual experience from July 1 through October 31, 2003. The projected savings is slightly less than the original projection and is reflective of decreased utilization. Bed hold days typically increase during late fall and winter as resident hospitalizations and therapeutic leave days increase (flu, holidays, etc.) The small difference will likely decrease as future actual experience occurs. Also, the savings target did not consider ongoing costs of contractual services. CMS has posed several questions related to the SPA that was submitted on June 30, 2003. There are five questions specific to this SPA and five standard questions being asked for on every SPA submitted. DHS staff have recently sent a response to CMS on these questions (December 12, 2003).

Savings target did not consider ongoing costs of contractual services. An updated, in-depth analysis of savings is currently being performed by Myers and Stauffer and is expected to be completed for the December 2003 update.