



February 4, 2008

To: State Human Service Administrators

From: Larry Goolsby, Director, Legislative Affairs

Re: Highlights of President Bush's FY 2009 Budget Proposal;  
Conference Call Tuesday, Feb. 5, 2:00 p.m. Eastern

### **Medicaid Medicaid Overview**

In total, the budget proposal estimates that FY 2009 federal Medicaid outlays will be \$218 billion. This is a \$13.8 billion (6.8 percent) increase over projected FY 2008 spending. The Federal Medical Assistance Percentage has a floor rate of 50 percent, and for FY 2009 the highest FMAP is 75.84 percent. Overall, the federal government will pay for approximately 57 percent of medical assistance payments, and approximately 51 million individuals in states and territories will be covered by Medicaid.

The budget also notes that Medicaid received a rating of "Adequate" in its 2007 Program Assessment Rating Tool review. Based on this review, CMS is taking the following actions to improve the Medicaid rating, including:

- Working with states to measure, track, and improve quality of care in Medicaid and moving toward a national framework for Medicaid quality.
- Reducing fraud, waste, and abuse in the Medicaid program, and improving overall program integrity.
- Working with states to establish baseline data for the newly developed Medicaid performance measures.

#### **FY 2009 Proposed Legislation**

The FY 2009 budget includes several new initiatives to reform the Medicaid program, including reforms to the Long-Term Care, Managed Care and Pharmacy systems, as well as changes to the reimbursement rates for Targeted Case Management, Family Planning, Administrative, and Qualifying Individual services. In FY 2009 these legislative proposals are projected to save the federal government over \$1.875 billion, with savings of over \$17 billion over five years.

#### *Long-Term Care*

##### **Refining Long-term Care Home Equity**

The Deficit Reduction Act prohibited individuals with more than \$500,000 of home equity from being eligible for Medicaid long-term care services. States have the option of increasing this limit to \$750,000. The administration proposes to eliminate this option; this would save an estimated \$80 million in FY 2009 and \$480 million over five years. The Administration also

proposes to make this figure subject to the CPI inflation factor starting in 2011.

**Options for Acute Care Benefits for Optional Long-Term Care Groups:**

The Administration proposes to establish a State Plan Amendment option to allow states to offer private-sector benchmark coverage to certain Medicaid populations. The proposal saves \$20 million in FY 2009 and \$650 million over five years.

*Managed Care*

**Extend 1915(b) Waiver Period**

The Administration includes a budget-neutral proposal to extend the renewal period for 1915(b) waivers from two to three years.

**Repeal Special Rules Section for Managed Care Exemptions (1932(a) (2))**

The Administration proposes to allow states to enroll populations described in section 1932(a) (2) of the Social Security Act in managed care plans. These populations are children with special needs, Medicare beneficiaries, and Indians. This proposal would save \$100 million in FY 2009 and \$2.1 billion over five years.

*Prescription Drugs*

**Reform of Drug Rebate Formula**

The Administration proposes once again to replace the "best price" factor with a budget-neutral flat rebate in the Medicaid drug rebate formula. The secretary justifies this budget neutral provision by stating that the best price deters manufacturers from offering lower prices to other (non-Medicaid) drug purchasers and therefore interferes with the marketplace.

**Reform of Federal Upper Limit Reimbursement**

The budget includes a proposal to build on the reforms approved in the DRA. The Administration again proposes to reduce the federal upper limit (FUL) reimbursement for multiple-source drugs to 150 percent of the average manufacturers' price (AMP) of the lowest priced drug in the group. Currently, the FUL is based on 250 percent of the AMP of the lowest priced drug. In FY 2009 this would save \$195 million and \$1.110 billion over five years.

*Program Integrity*

**Third-Party Liability**

The budget includes three proposals related to third-party liability. First, the Administration proposes to strengthen current law by allowing states to cost-avoid for prenatal and preventive pediatric claims where a third party is responsible. It also proposes to allow states to collect for medical child support where health insurance is derived from a non-custodial parent's obligation to provide coverage. In addition, it would allow states to recover Medicaid expenditures from beneficiary liability settlements. These proposals together are estimated to save \$35 million in FY 2009 and \$470 million over five years.

**Asset Verification for Medicaid Eligibility**

The budget proposal extends the web-based asset verification demonstration permanently and includes technical corrections to the proposal included in the TMA, Abstinence Education and QI Programs Extension Act of 2007. This expansion is estimated to cost \$82 million in FY 2009 and \$1.2 billion over five years.

**Medicaid Administration Cost Allocation**

As in previous years, the Administration proposes to reduce duplicate Medicaid payments that it says were improperly included in TANF block grants and also charged to Medicaid. This proposal would reduce federal outlays by an estimated \$280 million in FY 2009 and \$1.77 billion over five years.

**Actuarial Reporting**

This budget-neutral provision would authorize the publication of an annual actuarial report assessing the financial status of the Medicaid program.

**FMAP and Performance Measurement**

The budget includes a proposal to link performance measurements to a state's FMAP. States unable to achieve acceptable performance measures would be penalized by a lower FMAP. CMS

officials indicated that this proposal also includes administrative action. The estimated savings over FYs 2009-2013 are \$310 million.

#### **State Requirement to Participate in the Public Assistance Reporting Information System (PARIS)**

The Administration proposes a requirement for states to participate in PARIS to increase information sharing between states for verification of an applicant's eligibility for services through state and federal data matching. This proposal will save the federal government \$5 million in FY 2009 and \$135 million over five years.

#### **Mandated National Correct Coding Initiative**

This proposal would encourage providers to correctly code for services by refusing payment for services that have been improperly coded. This proposal would reduce federal outlays by an estimated \$5 million in FY 2009 and \$105 million over five years.

#### *Reimbursement*

##### **Administrative Reimbursement Policies**

As in years past, the budget proposes to align all administrative reimbursement rates in Medicaid to 50 percent to create consistency in the administrative matching structure. This proposal will reduce federal outlays by \$950 million in FY 2009 and \$5.485 billion over five years.

##### **Family Planning Reimbursement Policies**

The Administration proposes to match the rate structure for most covered services provided under Medicaid by reducing the reimbursement rate for family planning services and supplies to a state's regular FMAP. This proposal is projected to save the federal government \$570 million in FY 2009 and \$3.335 billion over five years.

##### **Case Management Reimbursement Policies**

This proposal would make the reimbursement for Targeted Case Management services uniform with the standard administrative matching rate of 50 percent. The Administration estimates that this change would save \$200 million in FY 2009 and \$1.1 billion over five years.

##### **Qualified Individuals Program Reimbursement Policies**

This proposal would make the matching rate for the qualifying individuals (QIs) program uniform with the state's regular FMAP. This proposal will save the federal government \$200 million in FY 2009 and \$200 million over five years.

#### *Enhancements*

##### **Qualified Individuals Program**

The budget includes a proposal to extend Medicare Part B premium assistance for QIs through September 30, 2009. QIs are Medicare beneficiaries with incomes of at least 120 percent and less than 135 percent of FPL and who have limited financial resources. This is estimated to cost \$470 million in federal funds in FY 2009.

##### **Improving Continuity of Care**

The budget again includes two budget-neutral legislative proposals to ensure that Medicaid and SCHIP enrollees receive the benefits of Health Insurance Portability and Accountability Act related coverage that increases continuity, portability, and accessibility of health insurance.

##### **Transitional Medical Assistance**

Transitional Medicaid Assistance allows families to remain eligible for Medicaid for up to 12 months after they lose welfare cash benefits due to increased earnings. The Medicare, Medicaid, and SCHIP Extension Act of 2007 (P.L. 110-173) extends TMA through June 30, 2008. The Administration proposes to extend TMA through September 30, 2009. This proposal will cost the federal government \$485 million in FY 2009 and \$6.95 billion over five years.

##### **Refugee Exemption Extension**

The Administration proposes to extend Medicaid eligibility for refugees who would otherwise lose coverage from seven to eight years. This is a Social Security Administration proposal with Medicaid impacts. This proposal will increase federal outlays by \$32 million in FY 2009 and \$92 million over five years.

**Premium Assistance**

This proposal gives states more flexibility to determine the cost effectiveness of employersponsored coverage and to share information with employers to streamline the implementation of Medicaid employer-sponsored insurance programs. This proposal also requires administrative action. This proposal would save the federal government \$140 million over five years.

**Administrative Proposals**

The budget also includes two administrative proposals that carry no cost savings and one that would result in \$100 million in Medicaid savings in FY 2009 and \$800 million over five years.

**Clarify Inflation Protection in Partnership LTC Programs**

This proposal will require that long-term care insurance policies that include Future Purchase Option inflation protection be deemed ineligible for inclusion in Partnership programs. There are no savings associated with this proposed regulation.

**Redefining 1915(b)(3) Services (Managed Care)**

The Administration indicates that it will publish a regulation to clarify which services provided under 1915(b)(3) of the Social Security Act will be allowable for managed care savings. This regulation is projected to save the federal government \$100 million in FY 2009 and \$800 million over five years.

**Free Care**

This proposal will codify in regulation the longstanding Medicaid "free care" policy. This policy mandates that providers cannot bill Medicaid for services furnished to the public and other payors at no cost. There are no cost savings associated with this regulation.

**Recent Program Developments**

The FY 2009 budget acknowledges that there are five proposals that were included in the FY 2008 budget but that have been delayed by a congressional moratorium. These include Tamper-Resistant Prescription Pads, School-Based Transportation and Administrative services, Rehabilitation services, Medicaid Graduate Medical Education, and Public Provider Payments. The Administration has included the projected savings for these programs after the moratoriums are lifted in the baseline of the FY 2009 budget. The budget projects cost savings of \$2.035 billion in FY 2009 from these and the three new regulations.