

Impact on Alaska of Medicaid Provisions in the House-Passed AHCA: Preliminary Analysis

June 21, 2017

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Health and Social Services

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Overview of Findings

The Stakes for Alaska

- Medicaid covers one in four people in Alaska—more than 185,000 individuals, nearly half of whom are children
- Under the House-passed AHCA, Alaska is expected to lose \$2.8 billion in federal Medicaid funds between federal FY* 2020 and 2026 due to elimination of enhanced match for expansion and the per capita cap, reflecting 27% of Alaska’s current law federal Medicaid funding
- Nearly 34,000 expansion adults could lose coverage entirely, and the remaining children, seniors, people with disabilities, and other adults covered by Medicaid are at increased risk for cuts
- To stay under a per capita cap Alaska would be required to cut its Medicaid program spending by \$929 million in federal and State dollars between FY 2020 and 2026, with a federal funds loss of \$473 million
- The federal funds available to Alaska under the per capita cap will not be known until after each year ends, creating substantial uncertainty for the state as it makes key decisions
- The magnitude of the federal cuts are such that they may well affect Alaska’s ability to finance other State priorities such as education and infrastructure

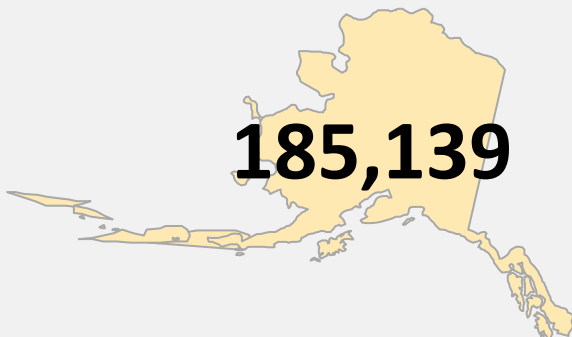
*References to FY throughout this document are federal fiscal years unless noted otherwise.

Role of Medicaid in Alaska

Alaska: Medicaid Enrollment

Medicaid covers **one in four people** in Alaska
Children represent **nearly half** of Alaska's Medicaid beneficiaries

Total Medicaid Enrollment, May 2017

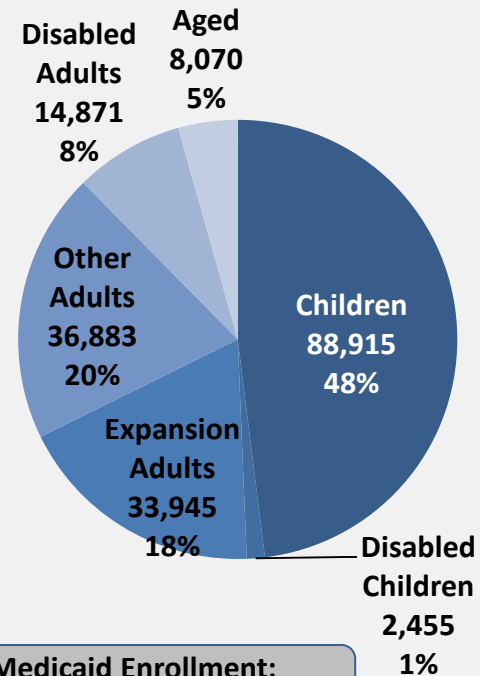


Share of Alaska Medicaid Enrollees in Working Households, 2015



Eight in Ten

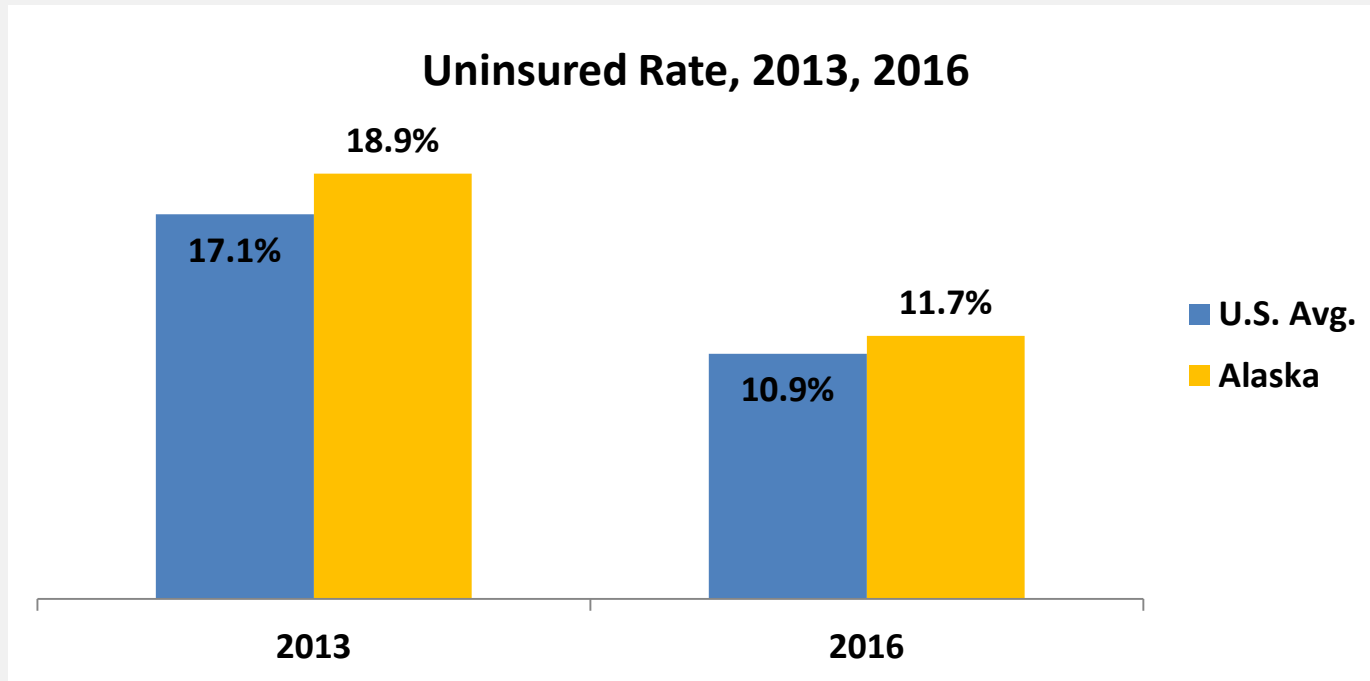
Medicaid Enrollment by Eligibility Category, May 2017



Total Medicaid Enrollment:
185,139

Alaska's Uninsured Rate Dropped After Expansion

Alaska's uninsured rate has fallen considerably since the implementation of the ACA, particularly since the Medicaid expansion took effect



Alaska expanded Medicaid on September 1, 2015

Alaska receives federal funding for all allowable program costs

- **Federal dollars guaranteed as match to Alaska spending**
- **Matching rates vary by population and service**
 - For many beneficiary groups and services, matching rate in FY 2017 = 50.00%
 - Matching rate for expansion adults = 95% in 2017; 90% in 2020 and beyond
 - Indian Health Service and Tribal Facility services matching rate = 100%
- **The federal government and Alaska share in the risk if there are higher than expected health care costs, for example:**
 - Higher than expected enrollment
 - Public health epidemics (e.g., the substance use epidemic)
 - Breakthrough treatments or medications
 - New initiatives related to delivery system reform or access
 - Economic downturn

Major Medicaid Provisions in the AHCA

The House-passed AHCA includes major changes to Medicaid

- Converting Medicaid to a per capita cap with state option for block grant for children and adults
- Elimination of enhanced federal funding for Medicaid expansion after 2019, with the exception of “grandfathered” enrollees
- \$834 billion in cuts to federal Medicaid funding between FY 2017-2026

The FY 2018 President’s Budget proposes additional Medicaid cuts on top of those included in “repeal and replace” efforts, but they are not specified

“...the Budget includes a net savings to Medicaid of \$627 billion over 10 years, not including additional savings to Medicaid as a result of the Administration’s plan to repeal and replace Obamacare...” – FY 2018 HHS Budget in Brief

The Senate is developing its own approach to repeal and replace that may also include cuts to expansion funding and a per capita cap

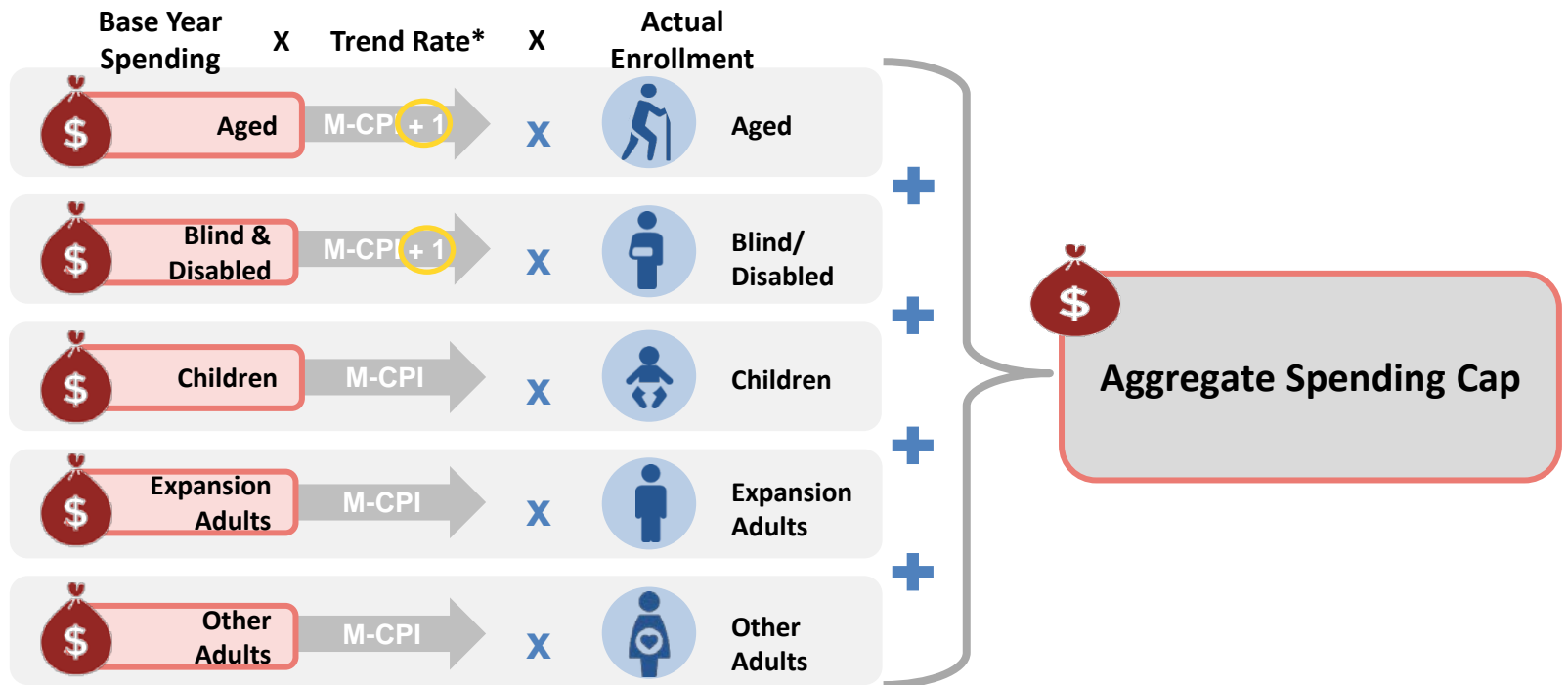
Under Per Capita Cap, Alaska at Risk for Spending Above Cap

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- **The House-passed AHCA establishes an aggregate cap on federal Medicaid expenditures beginning in FY 2020**
- **The cap is “built up” from per capita limits on five different eligibility groups**
- **The per capita limit for each eligibility group will be set based on the State’s historic spending per enrollee increased by a national trend rate**
 - Medical component of the consumer price index (medical CPI) for children, expansion adults and other adults
 - Medical CPI + 1 percentage point for seniors and people with disabilities
- **If Alaska spends in excess of its cap, the federal government will “claw back” its share of any overpayments in the following year; i.e., the State’s aggregate cap will be reduced the following year**
 - If Alaska spends below the cap, the “savings” are not rolled over to the following year
- **To live within reduced federal funding, Alaska will either have to increase State expenditures or reduce Medicaid spending by cutting benefits, reimbursements or eligibility**

AHCA: Per Capita Cap Formula

Aggregate cap on Medicaid funding is built up from per capita caps for five different eligibility groups

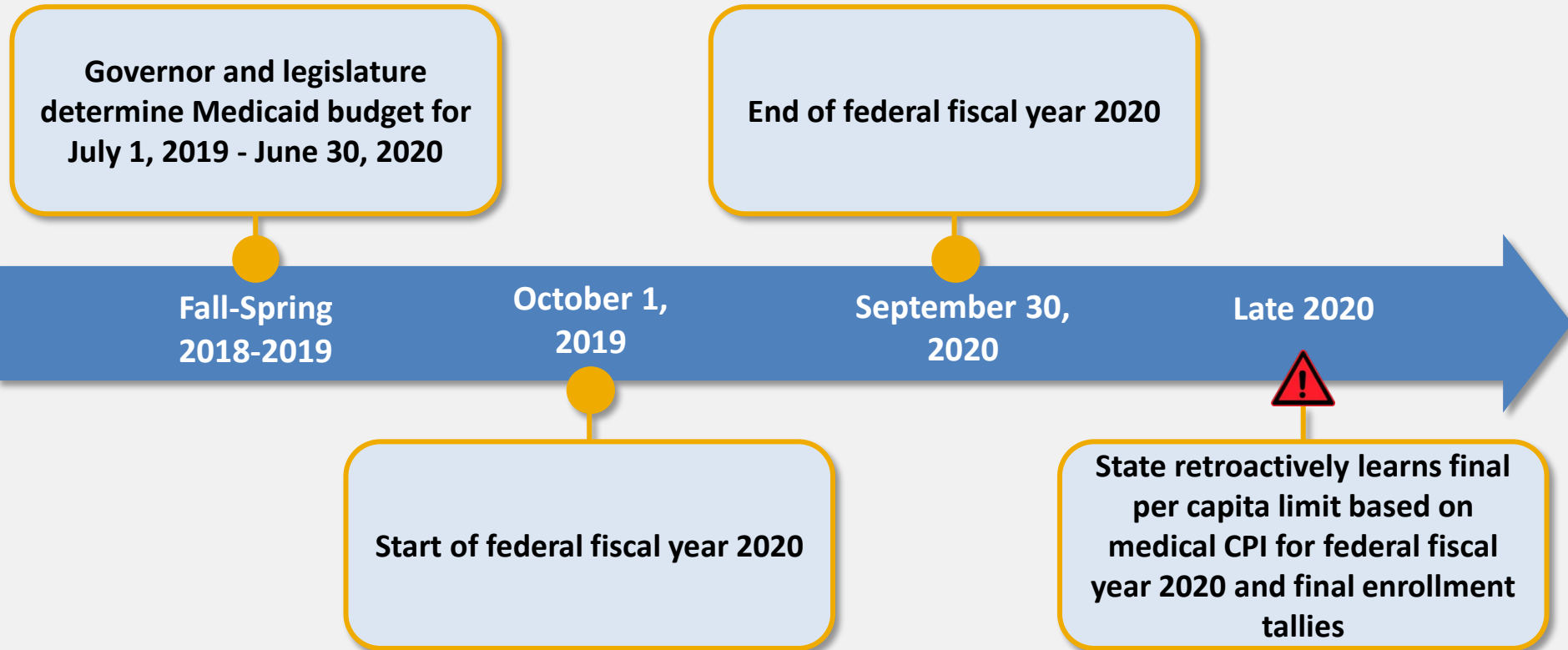


Certain enrollees are excluded from the cap calculation, such as those receiving any Medicaid-funded services through an Indian Health Service or Tribal facility, CHIP-financed children, and partial benefit enrollees. The cap also excludes certain types of payments, including administrative funds and disproportionate share hospital (DSH) payments.

*To calculate a state's starting caps in 2020, 2016 spending is trended by M-CPI; starting in 2020, M-CPI+1 is used to trend and calculate the aged and disabled spending caps, while M-CPI continues to apply to children, expansion adults, and other adults

Per Capita Cap is Retrospective

Each year, Alaska will have to establish its Medicaid budget almost *two years before* it knows the amount of federal Medicaid funding available for that budget year



AHCA Medicaid Expansion Provisions

- **Eliminates opportunity for non-expansion states to receive enhanced federal funding for expansion effective March 1, 2017**
- **Maintains enhanced federal Medicaid funding for existing expansion states through 2019, but eliminates enhanced funding in 2020 except for “grandfathered” adults:**
 - “Grandfathered” adults are those enrolled on December 31, 2019 who do not have a break in eligibility of more than a month thereafter
 - AHCA would require redetermination of eligibility for expansion adults every six months
- **Reduces enhanced federal Medicaid funding for “leader states” (those that had expanded coverage to adults prior to the ACA) after 2017**

Based on states’ experiences with enrollment freezes and more frequent re-determinations, the number of expansion adults for whom a state can receive enhanced funds can be expected to dwindle rapidly.*

Estimated Impact of Changes

Designed to assess state-by-state impact of Medicaid financing changes

- Per capita cap
- Block grant
- Reductions in federal funding for expansion

Uses publicly-available data to establish baseline for each state, for example:

- CMS-64 data on total Medicaid expenditures and expansion adult and total enrollment
- MSIS/MAX data on expenditures by eligibility group
- State-specific population growth projections from the Census Bureau
- CMS and CBO national growth projections by eligibility group
- CMS and CBO projections of medical CPI

Allows for sensitivity analysis

- Alternative inputs
- Diversion from projections
- State behavioral response

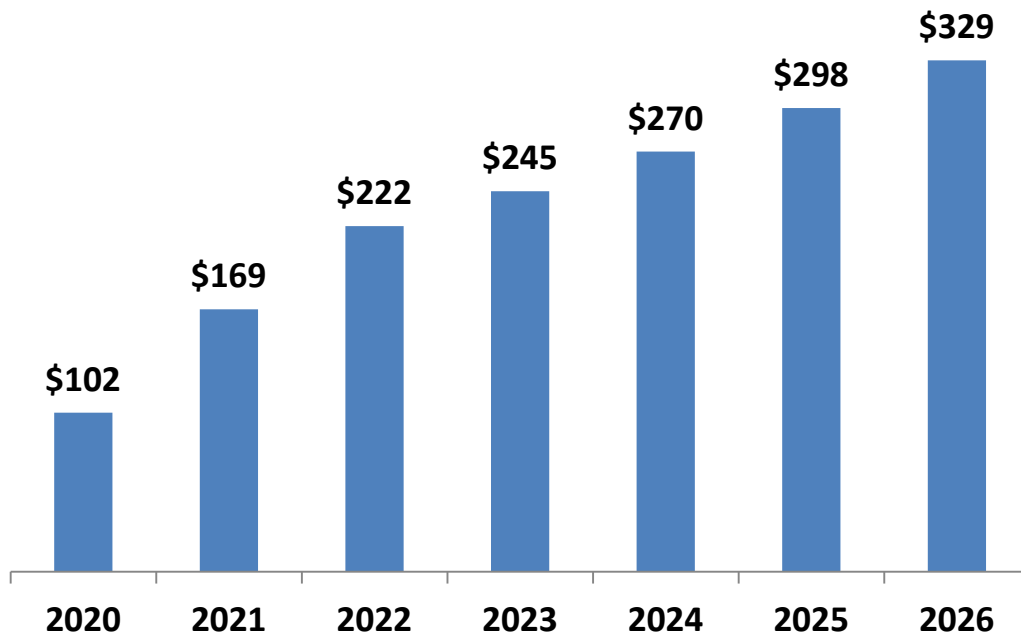
Key Assumptions

Maintaining Current Medicaid Program May Not Be Feasible

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Alaska would have to substantially increase State General Fund spending to maintain current Medicaid program spending under the AHCA

Additional State Funds Required to Maintain Alaska's Current Medicaid Program, FY 2020-2026 (millions)



During FY 2020-2026, Alaska would have to increase its own spending by **over \$1.6 billion**, or about **20%**, to replace lost federal funds from expansion financing changes and the per capita cap

The remainder of this analysis **assumes that Alaska *does not* maintain expansion coverage** except for grandfathered individuals **and cuts overall Medicaid spending to stay under the AHCA aggregate cap**

Source: Manatt Medicaid Financing Model

Note: Additional State funds required to replace federal cuts due to the loss of enhanced expansion funding and the per capita cap (\$1.5 billion) is *not* equal to the federal cut that Alaska would face under these provisions (\$2.6 billion) if it maintains coverage only for grandfathered enrollees. If Alaska eliminates expansion coverage for all but grandfathered enrollees, as modeled in subsequent slides, it will lose enhanced federal match *and* forego regular federal matching funds for these individuals.

Key Assumptions for Alaska Modeling

Unless otherwise noted, estimates assume the following:

- **Baseline (current law) spending per enrollee growth** based on Centers for Medicare & Medicaid Services (CMS) Office of the Actuary national projections
- **Medical CPI growth** at 3.7%, based on Congressional Budget Office (CBO) national projections
- **Alaska's response to policy changes**
 - Maintains expansion only for grandfathered enrollees receiving enhanced federal match, with rate at which individuals churn off the program based on Alaska-specific assumptions (e.g., highly seasonal workforce)
 - In response to per capita cap, reduces provider payments, eliminates benefits, or otherwise takes steps to ensure spending is below aggregate cap
 - Although not modeled here, Alaska, in practice, might also reduce enrollment of additional beneficiaries in response to the per capita cap

Additional notes:

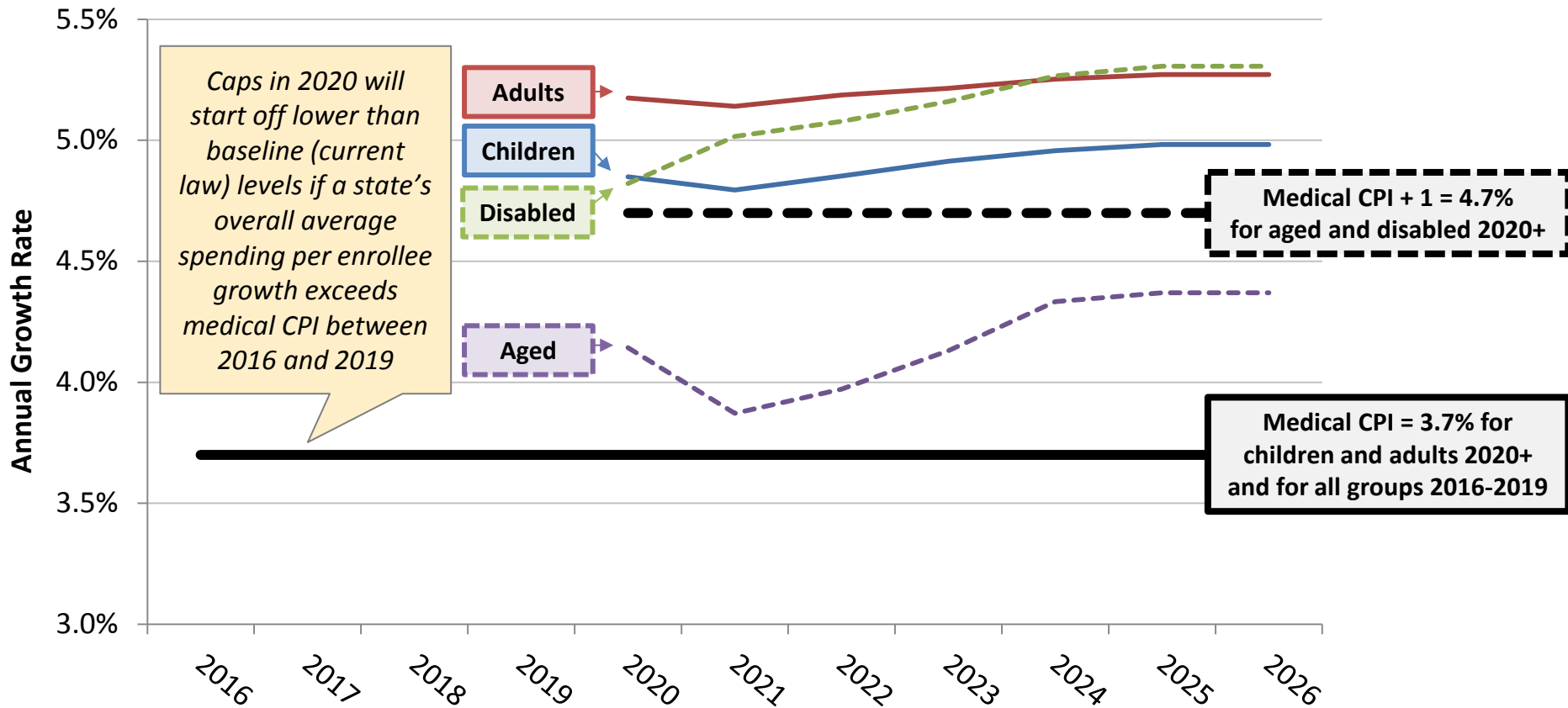
- Alaska is currently evaluating the extent to which individuals who use services through Indian Health Service and Tribal facilities may be excluded from the AHCA's per capita cap; estimates presented here do not account for this exclusion
- Estimates are federal FY values
- Estimates do not include administrative costs

Estimated Impact of Per Capita Cap

Projected Spending Growth Relative to Caps

Per enrollee spending is projected to grow more quickly than the trend rates established in the AHCA for all eligibility groups except aged

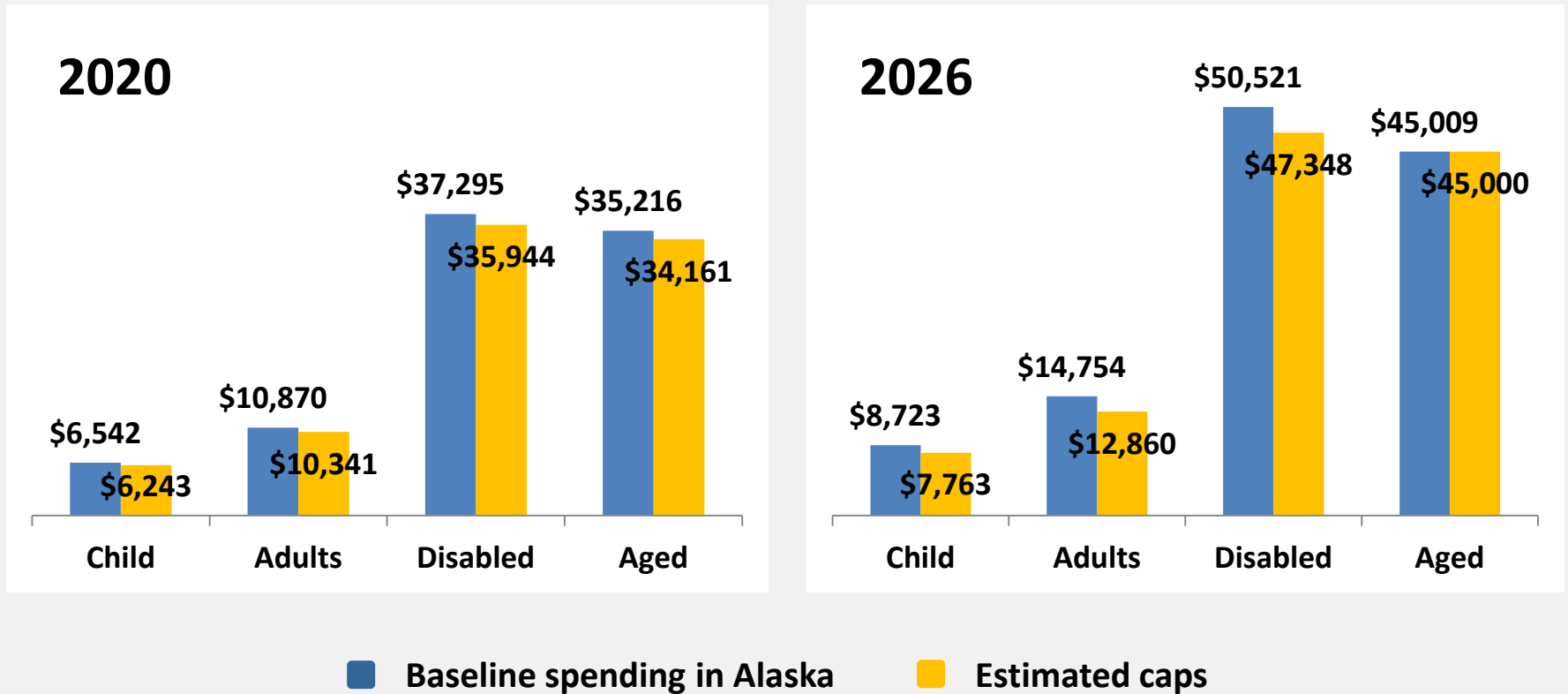
Projected Annual Growth in Spending Per Enrollee, FY 2020-2026



Note: For all groups, the FY 2019 amounts used to calculate FY 2020 caps are adjusted up or down based on FY 2016 average spending per enrollee trended forward by medical CPI.

Medicaid Spending in Alaska Projected to Exceed Caps

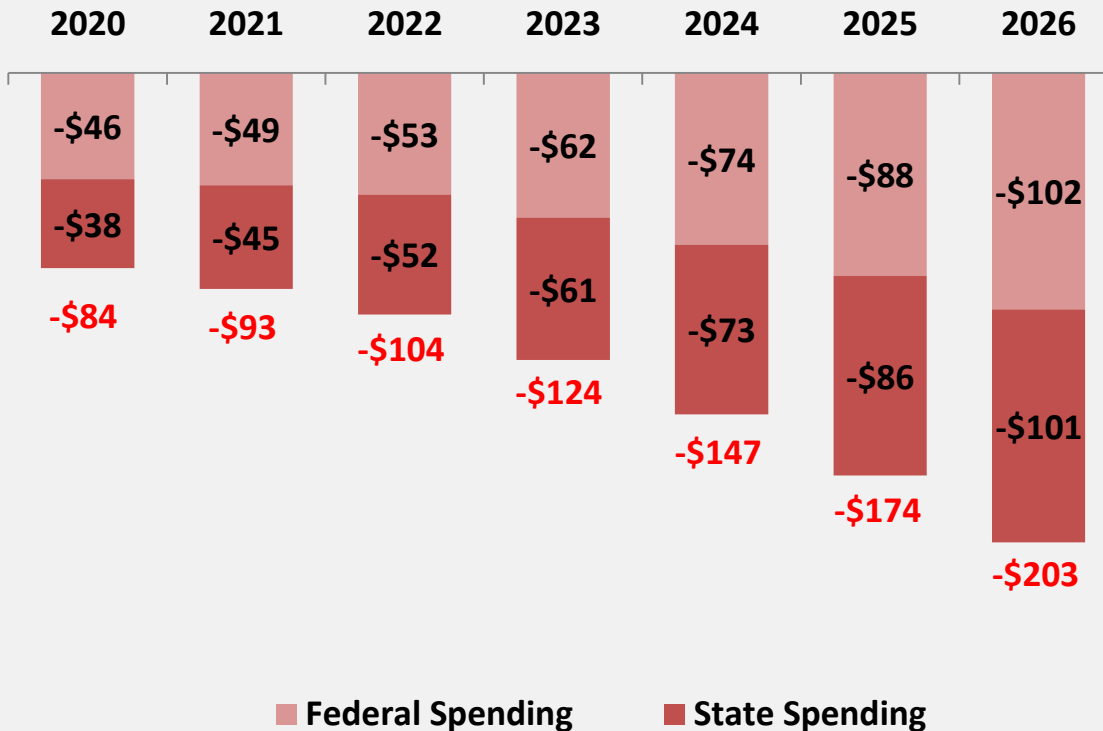
Alaska Baseline Spending Per Enrollee and Estimated Caps, FYs 2020 and 2026



Estimated Impact of Per Capita Cap

The per capita cap alone (i.e., without factoring in reduced funding for expansion) is estimated to result in total cuts of more than \$900 million by FY 2026

Impact of Per Capita Cap, FY 2020-2026 (millions)

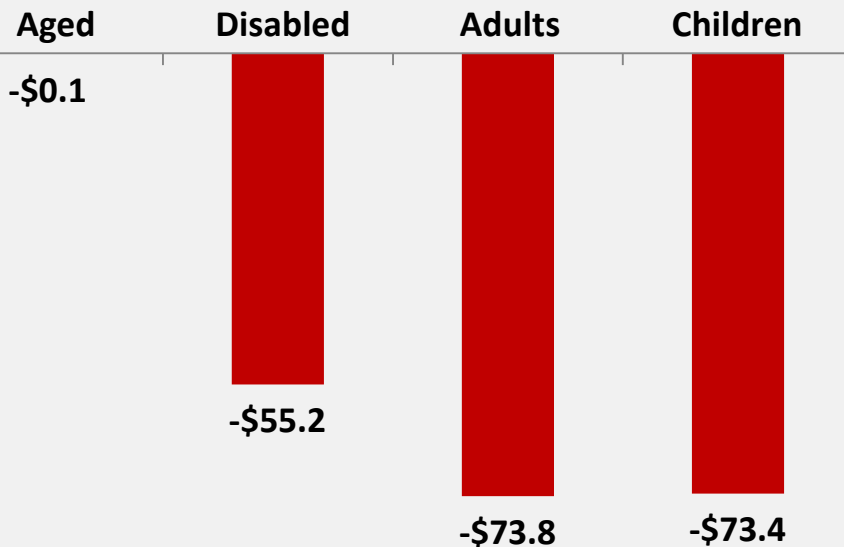


- During FY 2020-2026, total spending (federal and State) on Medicaid in Alaska is estimated to decrease by **\$929 million** as a result of the per capita cap
- Federal spending is expected to drop by **\$473 million**

Contribution to Impact of Per Capita Cap Varies by Group, but Resulting Cuts Could Be Applied to Any Group

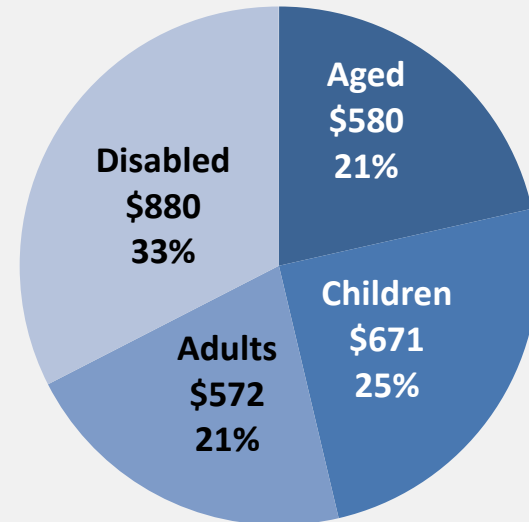
- Estimated FY 2026 spending of \$2.7 billion would leave Alaska \$203 million over its projected cap
- State would need to cut spending by \$203 million in FY 2026, or face a clawback the following year

Estimated Contribution to Impact of the Cap, FY 2026 (millions)



Total: \$203 million

Estimated Spending Prior to Per Capita Cap Cuts, FY 2026 (millions)



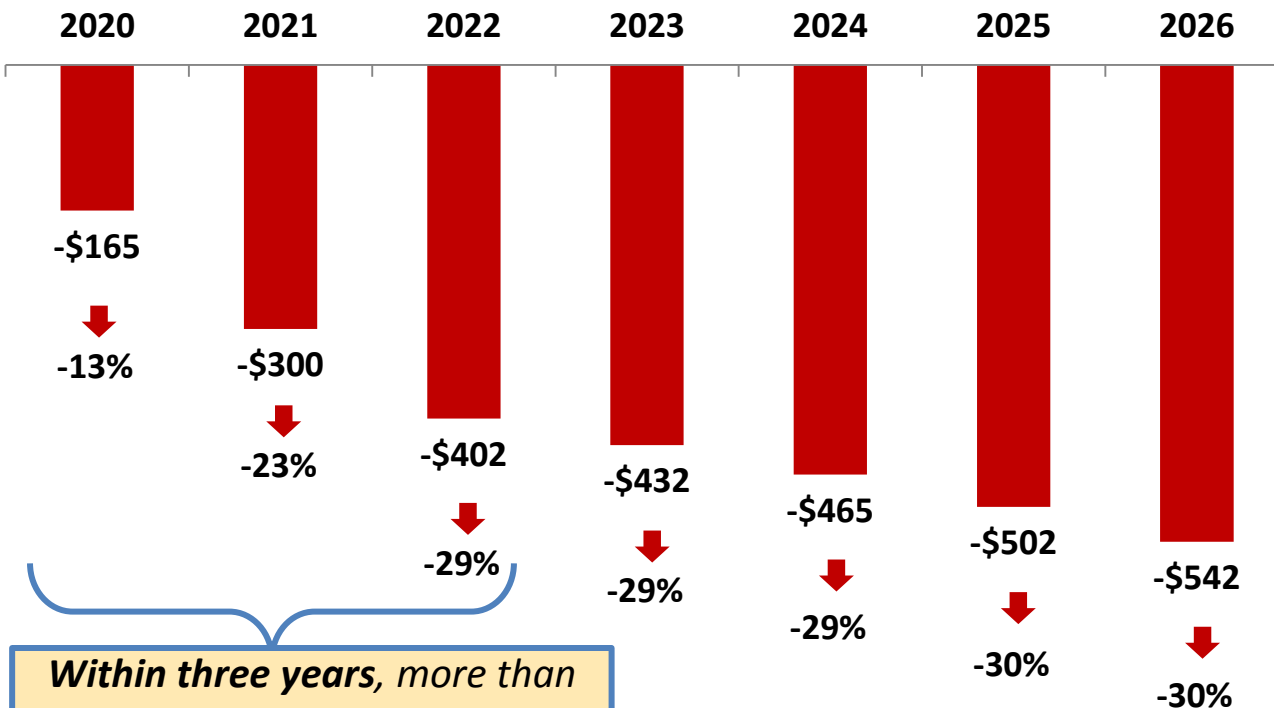
Total: \$2.7 billion

Estimated Impact of All AHCA Medicaid Cuts

Impact on Alaska's Federal Medicaid Funding

The per capita cap and elimination of enhanced funding for expansion would result in substantial federal funding reductions for Alaska

Estimated Cuts to Federal Medicaid Funding, FY 2020-2026
(millions and share of baseline)



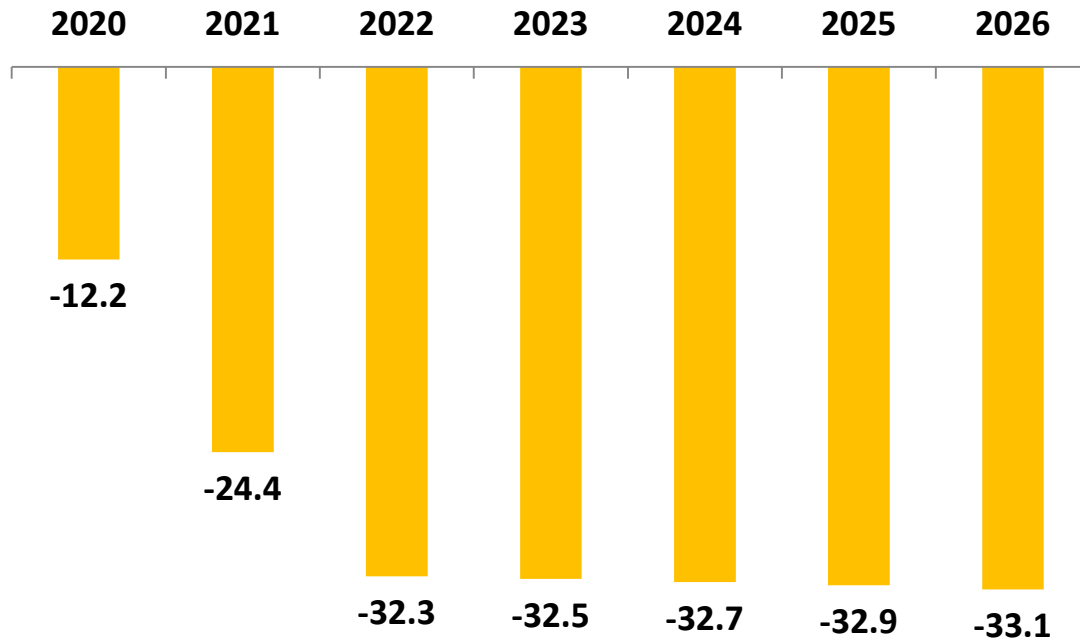
\$2.8 billion (26.6%) reduction in federal funding for Alaska's Medicaid program during FY 2020-2026

Within three years, more than one fourth of federal funding for Medicaid relative to baseline would be eliminated

Source: Manatt Medicaid Financing Model
Note: Reflects CBO assumptions about the rate at which expansion adults enrolled on December 31, 2019 would churn off of the program.
Note: Additional State funds required to maintain expansion (\$2 billion) is not equal to total federal cut (\$4.8 billion), because the State would continue draw down its regular match rate for remaining expansion enrollees

Alaska Medicaid Enrollment Will Drop Substantially

Drop in Expansion Adult Enrollment,
FY 2020-2026 (thousands)



- By 2022, **95%** of expansion enrollees will have lost coverage due to Alaska’s highly seasonal workforce

Enrollment changes could be more significant than estimated here – and extend beyond expansion adults – if Alaska responds to the per capita cap by scaling back coverage

Within three years, 95% of “grandfathered” enrollees will have lost coverage

Uncertainty and Risk Under Per Capita Cap

Estimates of the impact of a per capita cap are highly sensitive to key assumptions, including:

- Baseline spending growth
- Projections of medical CPI

Alaska's financial exposure may be even greater if reality differs from key assumptions and projections

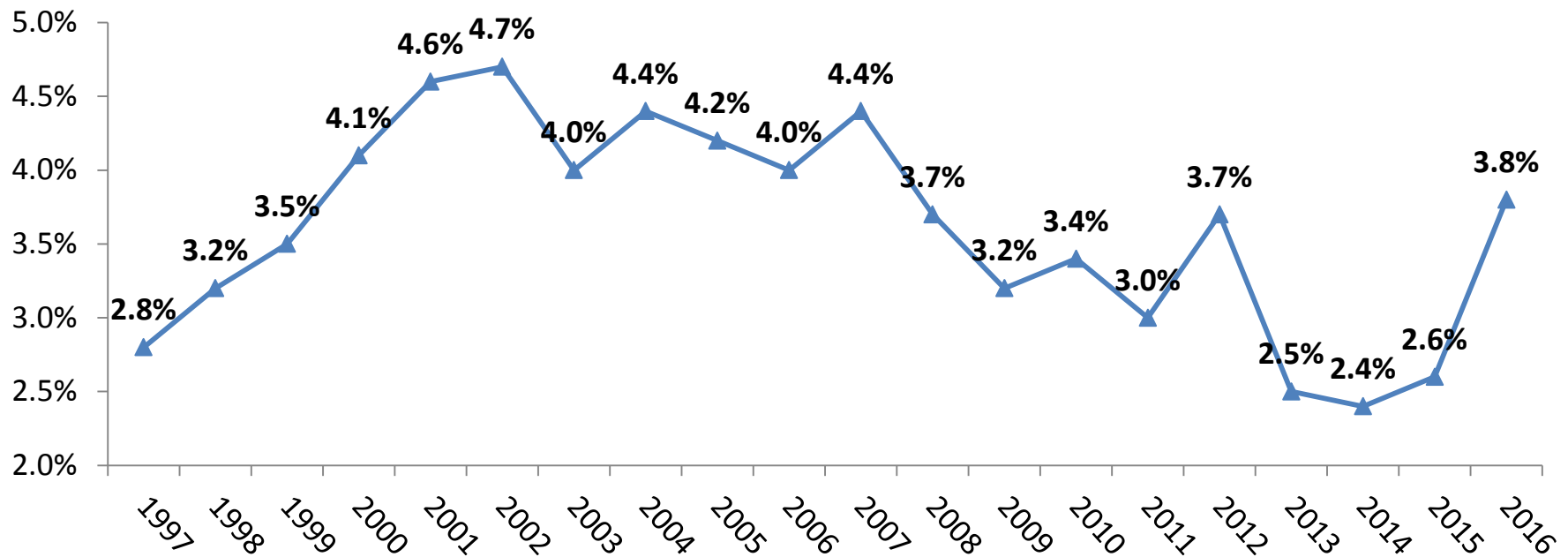
- Unanticipated spending pressures:
 - Continued worsening of substance use epidemic or other public health crisis
 - Breakthrough treatments or medications
 - Increase in pre-term births that drives up per capita cost of serving children
- Trend rate diverges from expectations:
 - Higher or lower medical CPI than projected
 - Further legislative changes to the trend rate

Actual Medical CPI Will Determine Impact on Alaska

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- Medical CPI has ranged from 2.4% to 4.7% since 1997
- Alaska is even more at risk if medical CPI is low or dips unexpectedly
- If medical CPI is high in a given year, it eases impact of the cap, but the extra “room” cannot be carried over to future years

Annual Growth in Medical CPI, 1997-2016



Key Implications

The Stakes for Alaska: Recap

- Medicaid covers one in four people in Alaska—more than 185,000 individuals, nearly half of whom are children
- Under the House-passed AHCA, Alaska is expected to lose \$2.8 billion in federal Medicaid funds between federal FY* 2020 and 2026 due to elimination of enhanced match for expansion and the per capita cap, reflecting 27% of Alaska’s current law federal Medicaid funding
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- The magnitude of the federal cuts are such that they may well affect Alaska’s ability to finance other State priorities such as education and infrastructure

Appendix

Growth in Medicaid Spending Per Full Benefit Enrollee, FY 2000-2011

Children		
Rank	State	Average Annual
1	NM	11.6%
2	VT	10.2%
3	RI	9.4%
4	VA	8.9%
5	TX	8.4%
...		
22	AK	5.8%
...		
U.S. Avg.		5.3%
...		
47	OR	1.8%
48	CO	1.7%
49	UT	1.6%
50	HI	1.1%
51	ME	0.4%

Adults		
Rank	State	Average Annual
1	NM	14.4%
2	AR	12.1%
3	VT	12.0%
4	MO	11.7%
5	PA	10.9%
...		
36	AK	5.7%
...		
U.S. Avg.		5.6%
...		
47	NY	2.9%
48	IL	2.5%
49	ME	1.8%
50	TN	1.5%
51	IA	0.3%

Disabled		
Rank	State	Average Annual
1	HI	15.5%
2	AZ	8.1%
3	MS	6.9%
4	TN	6.8%
5	CA	6.6%
...		
14	AK	5.4%
...		
U.S. Avg.		4.5%
...		
47	ME	2.1%
48	RI	2.0%
49	IL	1.5%
50	KS	1.4%
51	NH	0.5%

Aged		
Rank	State	Average Annual
1	TN	13.3%
2	MS	10.8%
3	AK	8.3%
4	AR	8.3%
5	FL	7.3%
...		
U.S. Avg.		3.7%
...		
47	MI	-0.3%
48	NE	-0.5%
49	IL	-0.7%
50	WA	-1.4%
N/A	NM	N/A