

**Commonwealth of Virginia**



**General Assembly**

# **Final Approval: Medicaid Growth Target for the 2020-2022 Biennial Budget**

**October 21, 2019**

# Purpose of Target

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- Establish a benchmark for Medicaid's spending growth for on-going evaluation of why the program was above or below the target.
- Essentially a formal mechanism for the Commonwealth to better understand cost drivers of Medicaid within the context of the overall state budget.

# Base Funding Applicable to Target

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- Target will apply to expenditures included in the Official Medicaid Forecast.
  - Excludes payments to Department of Behavioral Health and Developmental Services facilities.
  - Excludes administrative expenditures of the Department of Medical Assistance Services and the Department of Social Services.
  - Excludes Medicaid Expansion expenditures due to recent implementation, but may be included in future years.

# Two Methods to Develop the Target

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- 1) Use overall recent Medicaid program growth rates to develop the target.
  - Simple but less precise.
  
- 2) Evaluate details of Medicaid spending by category to develop target.
  - Includes more detailed assumptions so more precise.
  - Reflects approved policy actions and required actions in next biennial budget.

# Method I: Using Recent Overall Medicaid Growth Rate

	FY 2017	FY 2018	FY 2019
Total Medicaid Expenditures	6.4%	5.2%	6.2%
State Share Only	5.2%	5.5%	4.8%

	3-Year Average	2-Year Average
Total Medicaid	5.9%	5.7%
State Share	5.2%	5.2%

- Using this method the recommendation is to use most recent data – Two-Year Average of 5.7% for FY 2021 and FY 2022.

## Method 2: Evaluation of Medicaid by Spending Category

Expenditure Category (\$ in Millions)	FY 2017	FY 2018	FY 2019
Managed Care	\$3,331.7	\$4,771.4	\$6,238.3
Fee-For-Service	\$4,764.6	\$3,647.1	\$2,389.0
Medicare Premiums	\$541.6	\$576.7	\$586.8
Indigent Care	\$501.4	\$637.7	\$727.0

### PROCESS

- Each category of spending was analyzed and assumptions made.
- The base forecast amount from November 2018 for FY 2020 was the starting point and estimates from that forecast for FY 2021 were reviewed.
- Funding adjustments were made for 2019 Session actions and DOJ required slots.
- Estimates by category were then totaled and the growth rate calculated.

# Assumptions

## Expenditure Category

**Managed Care** - CCC Plus growth estimated at 7% growth each year to reflect 5% rate growth plus 2% enrollment growth. Medallion 4.0 growth estimated at 5% growth each year to reflect 3% rate growth plus 2% enrollment growth.

**Fee-For-Service** - Assumes 4% growth in acute care and 5% growth in long-term care fee-for service expenditures.

**Medicare Premiums** - Assumes 4% growth in Medicare Part A, B and D premiums.

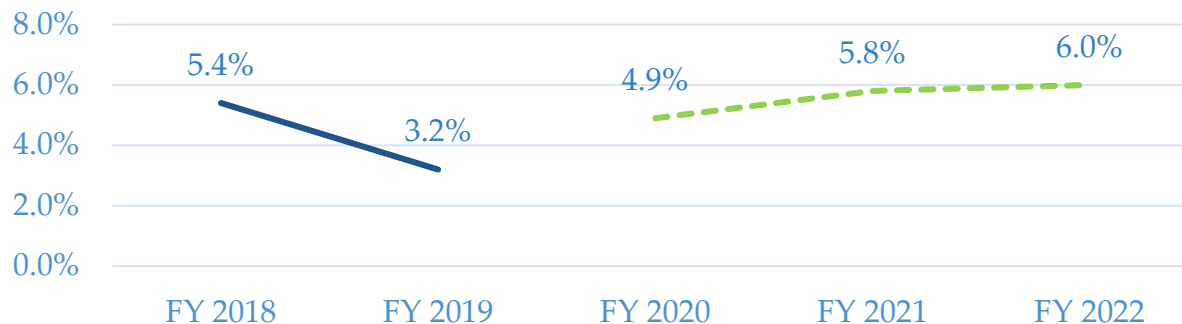
**Indigent Care** - Reflects 2019 forecast for FY 2021 and no growth in FY 2022.

**Other Adjustments** - 2019 Session funding adjustments (\$16.9 million in FY 2020) are added to the total estimate and then increased 5% each year. The costs of required DOJ slots of \$29.1 million in FY 2021 and another \$29.1 million in FY 2022 are included.

# Method 2: Medicaid Target Estimate

- Recommendation based on the assumptions used for the Medicaid Target:

	FY 2021	FY 2022
Medicaid Target for 2020-22 Biennial Budget	5.8%	6.0%*



Note: Excludes Supplemental Rate Assessment Payments

\* Adjusted from September 17 presentation to correct an error in the CCC Plus rate assumption for FY22.



# Uncertainties / Risks in Target

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- **Medicaid Expansion Impact**
  - Actual savings from Medicaid Expansion may have an impact.
- **Shift from Fee-for-Service (FFS) to Managed Care**
  - Remaining expenditures in FFS larger than originally expected.
- **Risk from Future Recession**
  - A recession would create upward pressure, but the lag effect on Medicaid may not have an impact until FY 2022 or later.

# Next Steps

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- Staff will notify all members of the Joint Subcommittee to gain final approval.
- Approved target by the Joint Subcommittee for HHR Oversight will be communicated by letter from the Chairman and Vice-Chairman to the Governor.
- Per the budget language, the Governor would provide notice to the Chairmen of the House Appropriations and Senate Finance Committees if his introduced budget exceeds the target, with explanation as to why.

# Appendix: Budget Language in Item 307, Chapter 854

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V.1. Effective with the development of the 2020-2022 biennium, it is the intent of the General Assembly that there is hereby established **an annual Medicaid state spending target for each fiscal year**. The Joint Subcommittee for Health and Human Resources Oversight shall establish the annual target by September 15 of each year for the following two fiscal years. The target shall take into account the following: a 10-year rolling average of Medicaid expenditures by eligibility category and utilization of services, a 20-year rolling average of general fund revenue growth, and for policy decisions adopted by General Assembly during the previous Session which impact Medicaid spending.

2. In the event of an economic recession, the Joint Subcommittee may take into consideration enrollment and spending trends experienced during previous recessions in establishing the targets.

3. It is the intent of the General Assembly that the **Governor abide by the spending target for Medicaid state spending**, as established by the Joint Subcommittee, in developing the introduced budget each year and shall notify the Chairmen of the House Appropriations and Senate Finance Committees in the event the target cannot be met, along with the reason it cannot be met.