

Current Issues in Government Health Programs

Medicare and Medicaid

Presented by
Thomas D. Snook, FSA, MAAA
Principal & Consulting Actuary

Actuaries Club of the Southwest
June 28, 2012



Agenda

- Refresher – Medicare and Medicaid
- Budget, budget, budget
- PPACA
- Medicare Advantage
- Medicare Part D
- Medicaid and Medicaid Managed Care

2 June 28, 2012



Caveats

This presentation is intended solely for educational purposes and presents information of a general nature. It is not intended to guide or determine any specific individual situation and persons should consult qualified professionals before taking specific actions. Neither the speaker, the speaker's employer, nor the ACSW shall have any responsibility or liability to any person or entity with respect to damages alleged to have been caused directly or indirectly by the content of this presentation.

The views expressed in this presentation are those of the presenter, and not those of Milliman or the ACSW. Nothing in this presentation is intended to represent a professional opinion or be an interpretation of actuarial standards of practice.

3 June 28, 2012



Refresher - Medicare

- Health insurance for elderly and disabled
- Covers 47.5 million people; 2010 cost \$516bn
- Federal program
 - Funding through two separate trusts
 - Administered by Center for Medicare and Medicaid Services (CMS)
- Components
 - Part A – Hospital inpatient
 - Part B – Physician and outpatient
 - Part C – Medicare Advantage
 - Part D – Prescription drugs

4 June 28, 2012



Refresher - Medicaid

- Health insurance for the poor
- Covers 63 million people; 2010 cost \$389bn
 - Texas: 4.5 million people; \$27.2bn
 - Arizona: 1.7 million people; \$9.4bn
- Joint federal/state program
 - Funding: State with federal matching dollars
 - Administration: State with federal oversight (CMS)
- Managed care programs ("waiver programs") exist to varying degrees state-by-state

5 June 28, 2012



Budget, budget, budget

- #1 driving concern in both Medicare and Medicaid is growing costs
- Medicare
 - Long term solvency of trust funds
 - Expense of Medicare Advantage program
- Medicaid – double whammy from the recession
 - More people eligible
 - Less state tax revenues
- Both are addressed in PPACA

6 June 28, 2012



Patient Protection and Affordable Care Act

- "Obamacare"
- Goal: significantly reduced number of uninsured
- Overhauls private health insurance market (small group and individual)
- Substantial financial revisions to Medicare Advantage
- Substantial expansion of Medicaid program

7 June 28, 2012



Medicare Advantage

- MA plans paid by the government to provide Medicare coverage or better
 - 1982-1997: "Medicare risk contract" -- 95% of Fee-For-Service costs
 - 1997-2003: "Medicare+Choice" – complicated formula; net impact was payment reduction; enrollment declined
 - 2004-now: "Medicare Advantage" – complicated formula generally puts payments above FFS level
- Payment Reform – New concepts
 - Payments based on FFS costs
 - Bonus payments / STAR ratings
 - Revised rebates
 - Minimum loss ratios (85% in 2014)

8 June 28, 2012



Medicare Advantage – Payments based on FFS

- Counties stratified based on FFS costs
- Divided into quartiles:
 - Highest cost quartile → 95% of FFS costs
 - Second-highest cost quartile → 100% of FFS costs
 - Third-highest cost quartile → 107.5% of FFS costs
 - Fourth-highest cost quartile → 115% of FFS costs
- Transition period of 2, 4, or 6 years depending on impact
- FFS cost is a CMS projection based on current law
 - Has included the impact of physician fee cuts

9 June 28, 2012



Medicare Advantage – Bonus Payments

- Depends on a plan's STAR rating
- 1 to 5 STAR rating – measure of quality of healthcare outcomes
- 2015+: Plans with a rating 4 or higher get a 5% payment bonus
- As of 2011, only 24% of MA enrollees were in a plan with a rating of 4 or higher
- 5 STAR plans have continuous open enrollment
- Double bonus: criteria specific to a county
 - MA penetration > 25%
 - FFS costs < National average FFS costs
 - Legacy urban floor payment rate

10 June 28, 2012



Medicare Advantage - Rebates

- "Rebate" in MA refers to sharing of savings in MA plan; currently, 25% goes to CMS, 75% to the MA plan to provide additional benefits
- New rules vary that percentage by STAR rating:
 - 4.5+ STARs: 70%/30% (in 2014)
 - 3.5 to <4.5 STARs: 65%/35%
 - <3.5 STARs: 50%/50%

11 June 28, 2012



Prescription Drug Plans (Part D)

- Medicare Part D is 100% contracted to private carriers
- Standard benefit design is odd – coverage gap aka "donut hole"
- PPACA slowly transitions coverage in the donut hole with the gap totally eliminated by 2020
 - 2010: \$250 rebate to member who reaches gap
 - 2011: 50% brand name discount (funded by drug manufacturers)
 - 2011: begin phase in of coverage of generics in the gap

12 June 28, 2012



Medicaid

- States are having significant budget crises, and Medicaid is a big part of that
- Recession: number of unemployed up, number receiving government aid up, and hence number eligible for Medicaid is up
- Recession: State revenues down, sales tax down, income tax down
- On top of that, PPACA greatly expanding Medicaid enrollment in 2014

13 June 28, 2012



PPACA and Medicaid

- Current Medicaid eligibility rules are complex; mostly tied to government aid programs
 - TANF
 - SSI
- PPACA changes Medicaid eligibility:
 - No programmatic tie-in
 - everyone with income at or below 138% of Federal Poverty Level is automatically eligible
- National impact: add 15.9 million lives to Medicaid
- Funding for expanded coverage will come largely from Federal matching dollars

14 June 28, 2012



How states are managing the Medicaid crisis

- Reduced provider payments
 - Low payments made even lower
 - Lawsuits in California and elsewhere
- Restrictions in eligibility
 - Mostly, parents of eligible children
- Increased use of managed care programs
- Any detailed discussion of Medicaid changes is necessarily state-specific

15 June 28, 2012



Medicaid Managed Care

- Two forms:
 - Risk contract – state pays a private plan a capitation payment to cover population
 - Primary Care Case Management (PCCM) – state pays a fee to a plan to manage care; little/no risk transfer
- Nationally, about 50% of Medicaid enrollees are in some sort of managed care plan
- All states but Alaska, New Hampshire, Wyoming have some form of managed care

16 June 28, 2012



Medicaid Managed Care – Arizona

- Arizona Health Care Cost Containment System (AHCCCS)
- 100% managed care since 1982
- Statewide, all counties, almost all populations
- All risk contract; no PCCM
- Includes both acute care and long term care services
- Competitive bid model – private plans bid against each other to contract with the state

17 June 28, 2012



Medicaid Managed Care - Texas

- STAR program:
 - TANF recipients
 - Dallas, Houston, Ft. Worth, San Antonio, Austin, El Paso, Lubbock, SE Texas areas
 - Choice of HMO or PCCM
- STAR+PLUS program:
 - SSI recipients
 - Excludes institutionalized patients (e.g., nursing home)
 - San Antonio, Houston, Austin, and Corpus Christi areas
 - 2011 expansion into Dallas and Ft Worth
 - 2012 expansion into Lubbock, El Paso, Rio Grande Valley

18 June 28, 2012



PPACA Medicaid Expansion in Texas

- Texas has very low Medicaid eligibility for adults today
- PPACA will have very significant impact on Medicaid enrollment (more than in most other states)
- Expected to see ~1.8 million new Medicaid enrollees by 2019 (source: Kaiser Commission/Urban Institute)

19 June 28, 2012



QUESTIONS?

20 June 28, 2012

