Code 630

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Cost Containment Update
Human Services Department

Medicaid FY17 Budget

- HSD released its final provider rate cuts effective July 1. HSD will keep UNM Hospital rate reductions equal with other hospitals, and dental reimbursement cuts were reduced from 3 percent to 2 percent. Other practitioner reimbursements are being delayed until August 1 to allow for further analysis. The final rate reductions save slightly less general fund revenue, from a range of $26 million - $33.5 million to a range of about $24 million to $32.1 million. HSD noted it does not expect a negative impact on access to providers.

- Following the session, despite numerous cost containment assumptions taken into account during budget development, HSD reported a $38.9 million reduction in general fund need for FY17. This reduced the projected shortfall to $24.5 million (from $85 million projected during the session), bringing the FY17 projection in line with what the legislature appropriated.

- For FY17, the federal government will allow a moratorium on a health insurer fee, saving the state about $18 million in general fund. The FY17 projection also includes $32 million in general fund savings anticipated from recently-proposed provider rate reductions.

- Ongoing risks include whether an additional $20 million intergovernmental transfers from UNM-H will materialize as budgeted and potential impacts of new federal requirements such as mental health and substance use disorder parity and access to care standards.

Medicaid Budget Issues for FY18

- While FY17 pressures have eased, significant FY18 pressures continue as prices, enrollment, utilization, and reduced federal support for the expansion population (and possibly the base population) continue. The department estimates $60 million to $80 million in new general fund need for FY18.

- The Medicaid Advisory Subcommittee tasked with finding $20 million in savings with potential changes to benefit packages, eligibility verification and cost sharing had its final meeting. Members strongly disagreed with imposing any premiums, citing evidence that premiums deter people from seeking care and lead to poor health outcomes and higher medical costs.

- The subcommittee also rejected co-pays for non-emergency ER use, arguing these would result in significant negative impacts on behavioral health, tribal, and disabled populations, as well as rural and safety net hospitals.

- The only proposal to win support from the subcommittee was a $4.00 co-pay for preferred formulary prescriptions and an $8.00 co-pay for non-preferred medications, both expected to save less than $3.5 million in total general fund revenue.

HSD Efforts to Date

- HSD relies on managed care for most clients. The cost of managed care is driven by enrollment and per member per month capitation payments (essentially a premium).The capitation payment amount per client is driven by historical and projected health prices (unit cost) for various services, what services are available (benefits), how much people use each service (utilization), and assumptions for administration, profit, taxes, fees and any other non-medical costs for the MCOs. To control spending, HSD has to make changes to any of these drivers, enrollment, prices (to providers and MCOs), utilization, or benefits.

- In December 2015, HSD negotiated MCO capitation rates effective January 2016 for a net reduction of 3.4 percent. Additional changes to be implemented July 1, 2016 should reduce administration costs. This includes changes to care coordination to more effectively target high-needs/high cost members.

- In April HSD proposed final recommendations for rate reductions. The department sought to protect certain providers, such as behavioral health providers and long term care facilities to help reduce the impact on the fragile behavioral health system and other entities that have not experienced significant financial gains from the ACA and Medicaid expansion.

- Due to budget pressures in FY18 and beyond, the state will likely have to continue investigating additional cost containment measures and revenue enhancements. See the full May 2016 Cost Containment memo available on the LFC website for additional information.