ILLINOIS DEPARTMENT OF
Healthcare and
Family Services

MENU OF POSSIBLE OPTIONS FOR MEDICAID LIABILITY AND SPENDING REDUCTIONS

February 22, 2012

As requested, HFS prepared the full menu of possible options for liability and spending reductions, for the General Assembly's consideration in crafting the FY 13 HFS Medicaid budget and substantive budget implementation legislation.

Medicaid's structural deficit must be resolved. Any reductions must balance the health and safety of Illinois residents with the need to restore solvency to the Medicaid program.

HOW WE GOT HERE

- *Civic Federation* analyzed that by end of FY12, HFS will have $1.7 billion of bills on hand – or 120-day lag in provider payments.

- This results in a $2.7 billion structural deficit – or about 23% of HFS Medicaid program liability of $11.5 billion.

- Without billions in reductions, HFS will have $4.7 billion of bills on hand by end of next fiscal year!

HOW WE GOT HERE, cont'd.

There are 4 reasons for this structural deficit:

1. Deferral of Medicaid bills to future years for payment

   - Practice dates back at least 20 years of insufficient appropriations to fund Medicaid entitlements which were not or could not be modified
   - Medicaid costs have been simply pushed off – not reduced
   - This was exacerbated last May when the FY12 Medicaid budget was underfunded by nearly $2 billion

HOW WE GOT HERE, cont'd.

2. Federal stimulus enhanced match

- Federal stimulus law (ARRA) produced about $1.2 billion per year of enhanced Medicaid match from 10/1/08 to 6/30/12
- The enhanced support from the federal government made it easier to avoid difficult decisions on reductions during those years
- Federal ARRA receipts disappeared all at once last June 30, with no more opportunity to tap into enhanced match

HOW WE GOT HERE, cont'd.

3. Fee-for-service system

- Illinois Medicaid is inefficient and hinges on a fee-for-service payment structure that rewards providers for quantity of services and results in wasteful spending
- During the last decade, every major state has moved toward managed care to contain costs and coordinate care
- Governor Quinn launched Integrated Care Program, but due to provider resistance, it took 2 years to get off the ground

HOW WE GOT HERE, cont'd.

4. Significant enrollment growth during the national economic downturn

   - Illinois families statewide (and nationwide) qualified for Medicaid when they lost their jobs and access to health insurance
   - Illinois enrollment increased from 2.1 million clients in FY07 to 2.7 million today
   - Nearly 1.7 million of these Illinoisans are children, and that correlates with national research on poverty in families in Illinois

MENU OF POSSIBLE OPTIONS

- Changes in Medicaid eligibility, where not otherwise prohibited by federal law
- Elimination of optional services – or utilization controls to better manage use of services
- Cost-sharing by clients
- New policies/reforms to redesign service delivery
- Rate reductions for all providers
- Medicaid transformation, with longer-term fiscal impacts

SAVINGS ASSUMPTIONS

- HFS' budget shortfall is $2.7 billion gross (including federal match); all liability and spending reductions are also gross.
- All reductions are annualized.
- List includes double-counting; e.g, if all eligibility changes are approved, then a smaller population of clients would be using services, and the corresponding savings numbers would be lower for many items, including cost sharing and utilization controls.
- This menu of possible options does not reflect the administration's proposal; it will require bipartisan cooperation for final decisions.

POSSIBLE OPTIONS FOR ELIGIBILITY CHANGES

- All Kids $21,747,500
  - Could reduce eligibility to 200% Federal Poverty Level (from 300% FPL)
  - Would impact approximately 19,000 children
  - Would forego about $81m federal retroactive claim (at 65% federal match)
- FamilyCare adults $49,884,700
  - Could reduce eligibility to 133% FPL (from 185% FPL)
  - Could eliminate coverage for grandfathered adults 133%-400%
  - Would impact approximately 26,400 clients

ELIGIBILITY, cont'd.

- State-only programs – $188,016,300
  - General Assistance adults – 9,160 clients
  - Undocumented children – 50,700 clients
  - Illinois Cares Rx – 177,000 clients (have Medicare Part D)
  - Kids with insurance (rebate) – 3,250 clients
  - Breast and Cervical Cancer Program uninsured women, in treatment – over 250% Federal Poverty Level – 380 clients
  - Torture victims – 60 clients
  - State Sexual Assault Program – 1,000 clients
  - State Renal Dialysis Program – 270 clients
  - State Hemophilia Program – 250 clients
  - State Non-Citizens Renal Dialysis Program – 700 clients

POSSIBLE OPTIONAL SERVICES

- The state could eliminate “optional services” – or could impose utilization controls to reduce their cost to the state.
- Most of the federal “optional services” were added to the Medicaid program to substitute for higher cost services.

OPTIONAL SERVICES, cont'd.

- Examples where state could eliminate a service or impose utilization controls:
  - Hospice
  - Pediatric palliative care
  - Group psychotherapy for nursing home residents; transportation services to group psychotherapy
  - Adult chiropractic
  - Adult dental
  - Dental grants
  - Adult occupational therapy services
  - Adult physical therapy services
  - Adult podiatric services

OPTIONAL SERVICES, cont'd.

- More examples where state could eliminate a service or impose utilization controls:
  - Adult speech, hearing, language therapy services
  - Adult pharmaceuticals
  - Adult durable medical services/supplies
  - Case management services
  - Transplantation services
  - Rehabilitative services: Medicaid rehab option
  - Ambulatory Surgical Treatment Centers
  - Adult eyeglasses

OPTIONAL SERVICES, cont'd.

- Examples of optional services which could be eliminated or where IL could impose a moratorium on new admissions:
  - Supportive Living Facilities
  - Institutions for Mental Diseases
  - Intermediate Care nursing home clients
  - Other waiver programs in DHS and DOA budgets

POSSIBLE COST-SHARING

- Examples of possible new or increased co-pays
  - Federally Qualified Health Centers/Rural Health Centers
  - Non-emergency care in hospitals
  - Pharmacies - generic drugs
  - Co-pays for private duty nursing
  - Co-pays on waiver programs

OTHER NEW POLICIES/REFORMS

- Examples of other new policies/reforms that will result in savings
  - Care Coordination: Innovations Project
  - Care Coordination: Integrated Care Program, Phases I and II
  - Care Coordination: Dual Eligibles Federal Demonstration
  - Hospitals: readmissions
  - Hospitals: detox services
  - Hospitals: scheduled early term baby deliveries
  - Bariatric (weight-loss) surgery
  - Utilization controls on home health care
  - Reconsideration/roll-back of rates, including automatic increases
  - Increased functional eligibility for nursing homes, supportive living facilities, home and community based waiver programs

POSSIBLE RATE REDUCTION

For all providers:

If rate reduction is 6% = $550 million

If rate reduction is 9% = $825 million

MEDICAID TRANSFORMATION

- In addition to liability and spending reductions, HFS and sister agencies are engaged in Medicaid transformation, with longer-term fiscal impacts:
  - Service redesign to manage utilization of Medicaid services and promote better health outcomes and wellness;
  - Reform of both hospital and nursing home reimbursement systems to reflect updated rates and quality care;
  - Accelerated use of managed care and other integrated delivery systems, with effective care coordination;
  - Restructuring of the nine Medicaid home- and community-based waivers to create a more coherent system of long-term care; and
  - Modernizing the eligibility process to improve program integrity by ensuring that only those Illinois residents who qualify receive services.