

**2/26/10
REVIEW OF
MEDICAID
EXPENDI-
TURES &
PROJEC-
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EXPENDITURES &
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ANALYSIS

ALASKA MEDICAID TRENDS
FY2010 & FY2011

Prepared for the House Finance Committee

February 2010

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EXECUTIVE SUMMARY

PURPOSE

In January 2010 the House Finance committee requested consulting assistance to review Medicaid expenditures and projections (which are expected to spike by 17% in FY2010) to better understand the cause of the increase and impacts on budgets.

Three questions were asked

- 1) What caused the large increase in Expenditures from FY2009 to FY2010 and why did it happen?
- 2) What is an appropriate level to budget for Medicaid spending in FY2010?
- 3) What is an appropriate level to budget for Medicaid spending in FY2011?

METHODOLOGY

Several different sources of data including Medicaid spending, enrollment, recipients, Food Stamp caseloads, Alaska Population trends, and the Consumer Price indices were used in the analysis. Interviews with State officials supplemented the data.

ANALYSIS

Medicaid spending is based on three main components: PRICE, RECIPIENTS, AND UTILIZATION.

Each of these components has been analyzed for their impact on Medicaid spending. Expenditure trends were developed and spending over time was analyzed. Reviews were completed of the current budget supplemental budget request and FY2010 and FY2011 forecasts by the Department of Health and Social Services were analyzed.

CONCLUSIONS

- Over 11,000 more Children are now enrolled in the Medicaid program than they were one year ago, causing the substantial spike in the budget.
- Recipients (those who use services) grew at a slower pace than enrollees.
- The cause of the increase is primarily tied to Economic conditions (Unemployment rate at 8.8%) and Alaska's population increase.
- Other factors such as price and utilization also contributed to the increase.
- The most recent monthly trends in Medicaid spending show a slowing of expenditures.

RECOMMENDED LEVELS OF SPENDING

Recommended FY2010 Supplemental:	\$36.8 Million GF \$37.7 Million Fed \$74.1 Million TOTAL
Recommended FY2011 Medicaid Budget:	\$ 441.6 Million GF \$ 1,318.2 Million TOTAL

PURPOSE

Medicaid is an entitlement program created in 1965 by the federal government, but administered by the state to provide payment for medical services for low-income citizens. As a joint federal-state program, the federal and state governments share the cost of Medicaid. Federal financial participation rates are set at the federal level and are largely outside of state control.

The Co-Chairman of the House Finance committee requested assistance to review spending in the Medicaid program because spending appears to have “spiked” in FY2010 (see chart one below). For the last five years Medicaid Expenditures have been relatively flat and the large increase that the Department of Health and Social Services requested for FY2010 was unexpected.

While State General Funds are relatively flat from FY2009 to FY2010, much of that is due to ARRA-Economic Stimulus funds that increased the federal share to 61.12 under the FMAP (Federal Medicaid Authorized Percentage) for FY09, FY10 and FY11 and have saved the State of Alaska approximately \$100 million per year. Once the ARRA funds are terminated the State of Alaska FMAP will return to 50% thus requiring an increase in State General Funds.

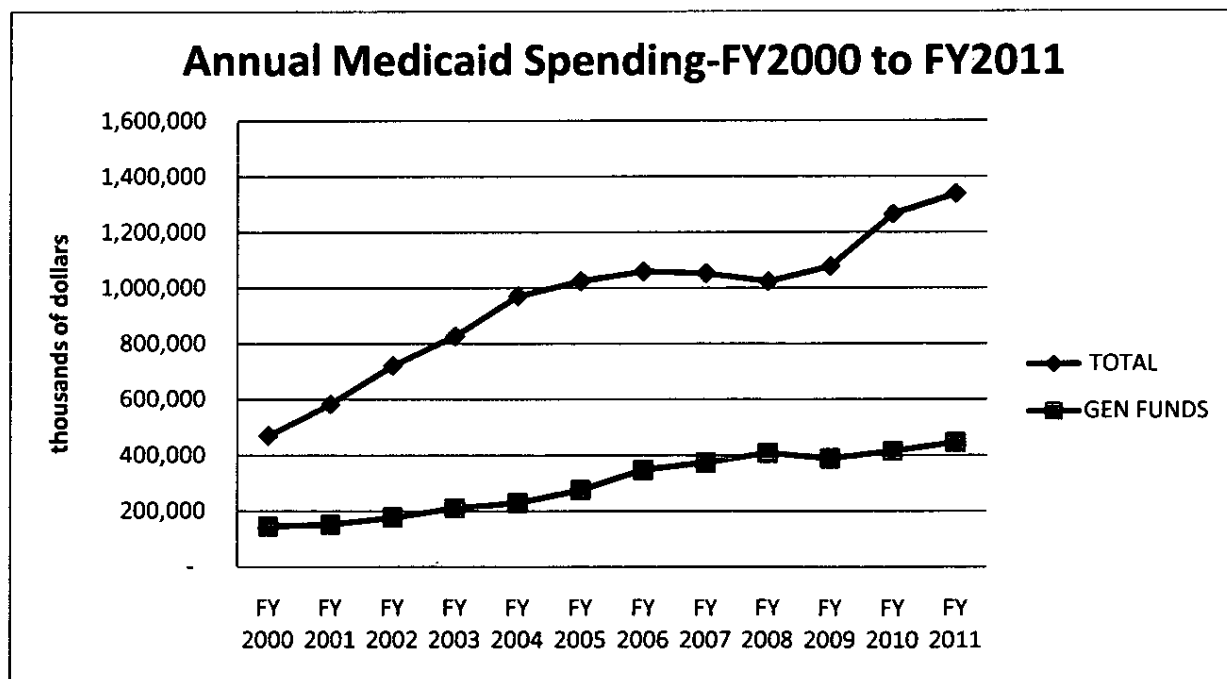


Chart 1

The Department of Health and Social Services has a Medicaid supplemental request of \$88.4 Million (\$43.6 Million GF) which brings the FY 2010 budget up to \$1.256 Billion. The FY2009 Medicaid Final Spending is \$1.0775 Billion making this an increase of 16.6% in one year (see table 1 below)

<u>MEDICAID SPENDING</u>	<u>TOTAL FUNDS</u>	<u>Percent Increase / -Decrease</u>
FY2000	\$ 470.7 Million	
FY2001	\$ 583.9 Million	24.1%
FY2002	\$ 722.1 Million	23.7%
FY2003	\$ 828.1 Million	14.7%
FY2004	\$ 971.5 Million	17.3%
FY2005	\$ 1,024.9 Million	5.5%
FY2006	\$ 1,059.9 Million	3.4%
FY2007	\$ 1,053.4 Million	-.6%
FY2008	\$ 1,023.8 Million	-2.8%
FY2009	\$ 1,077.5 Million	5.2%
FY2010*	\$ 1,264.8 Million	17.4%
FY2011**	\$ 1,338.6 Million	5.8%

*Includes Proposed Supplemental
** Includes Proposed Budget Amendments

Table 1

Please note from FY2000 to FY2004 the Medicaid program grew due to four primary cost drivers: start-up of Denali KidCare, the Personal Care Attendant program, Pharmacy costs, and Residential Psychiatric Treatment Center (RPTC) admissions, but DHSS took action to control those costs in subsequent years.

Based on the recent up-turn in projected costs the House Finance Committee asked three questions:

- 1) What factors contributed to the projected large increase in Medicaid expenditures from FY2009 to FY2010 and what are the causes?
- 2) What is an appropriate level to budget for Medicaid spending in FY2010?
- 3) What is an appropriate level to budget for Medicaid spending in FY2011?

METHODOLOGY

Department of Health and Social Services was extremely cooperative and provided significant amount of data for this review. The following are the data provided:

Medicaid Checkwrite reports from September 2008 through January 2010. Checkwrite reports are weekly reports generated from the Medicaid Management Information System (MMIS), that show expenditures (or checks written) for Medicaid for that week and project forward.

High Forecast is a monthly report prepared by DHSS that uses a statistical model to generate a forecast. The High Forecast assumes the highest level of expenditures.

Low Forecast is a monthly report prepared by DHSS that use a combination of a statistical model, AKSAK data and straight line spending trend to generate a forecast. The Low Forecast is more moderate than the High Forecast, but is not considered a "low" forecast.

Medicaid Enrollment Data, both yearly unduplicated counts (back to the year 2000) and monthly enrollment counts by benefit group (back to July 2008) were provided.

Recipient Data: DHSS provided recipient data by benefit group (Adults, Children, Disabled, and Elderly) by month back to July 2008. Also provided was a break-out of Children by Title XIX (regular Medicaid) and Title XXI (Child Health Insurance Program-CHIP or Denali KidCare).

Public Assistance Data: DHSS provided enrollment information on food stamp caseload back to January 2009.

Department of Labor and Workforce Development Data: Population data and Consumer Price Index were used in the analysis.

Bureau of Vital Statistics Data: Births and Birth rate data were also reviewed and used in the analysis.

Participants in interviews: Bill Streur, Deputy Commissioner DHSS,
Kimberli Poppe-Smart, Director HCS
Alison Elgee, Assistant Commissioner DHSS, Betsy
Jensvold, DHSS Budget Chief
Rebecca Wells, Medicaid Budget Group
Dustin Scown, Medicaid Budget Group
Stacey Kraly, Assistant Attorney General
Ellie Fitzjarrald, Division of Public Assistance
Carolyn Spalding, Division of Public Assistance

ANALYSIS

To answer the three questions, which factors caused the increase in FY2010, and what will spending be for FY 2010 and FY 2011, the analysis looked at the components of growth in the program. There are three key components to growth in the Medicaid program: **Price, Recipients/Enrollment, and Utilization.**

PRICE: Several aspects of price are reviewed to get a handle on how price impacted Medicaid spending over the past year and how it will in the future.

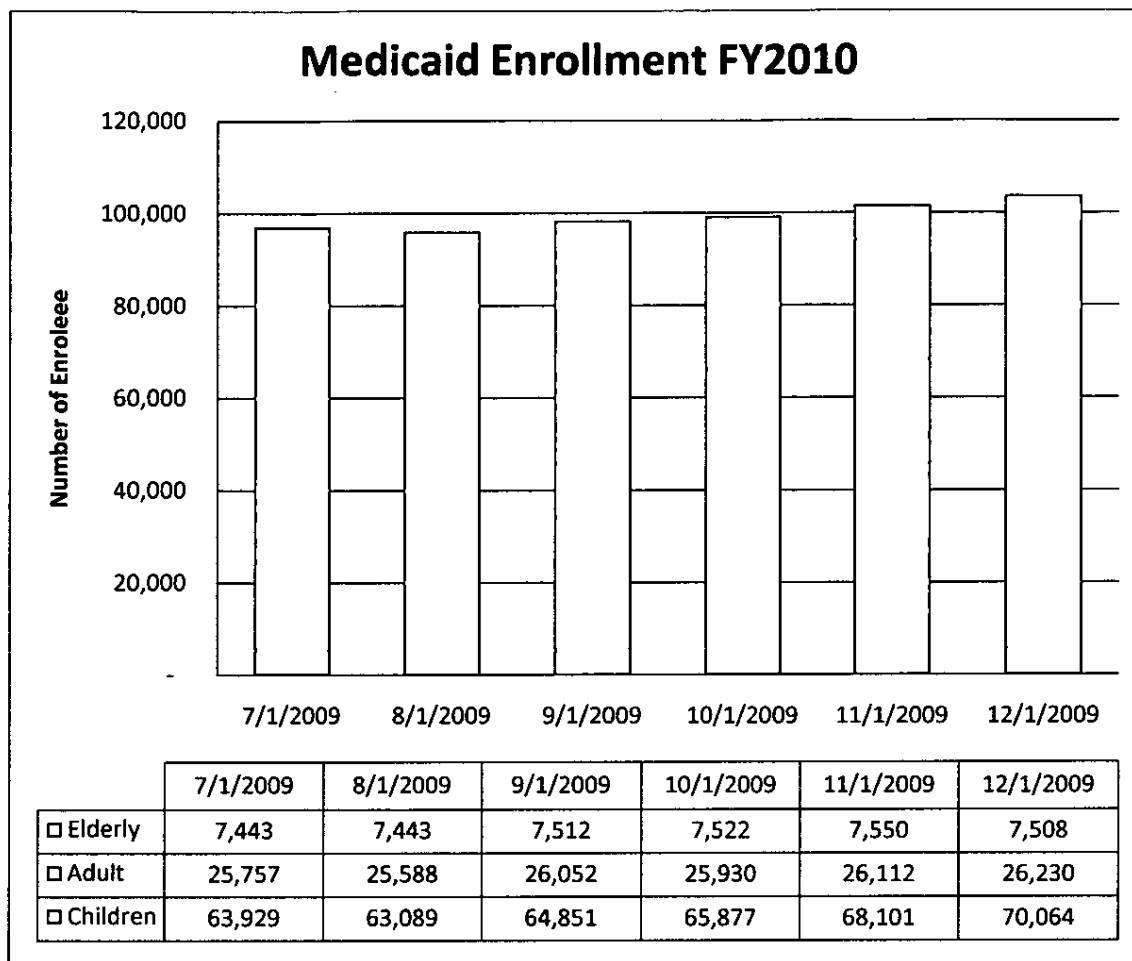


Chart 2-Data from HCS

Elderly & Adults Enrollment: A couple of key points concerning this chart are that both the Elderly and Adult group are growing relatively slowly in FY2010. The Elderly group is growing at a rate of less than 1% and Adults less than 2%.

So, it is clear that most of the growth in Medicaid for FY2010 is in the Children group which has grown almost 9.6% between July 2009 and December 2009.

Disabled Children Enrollment:

To further investigate which category of the Child population is growing rapidly the department provided a break out Disabled Children; interestingly enrollment for Disabled Children grew at a 5.1% growth rate, much slower than the 9.8% enrollment growth rate for all other Children. Disabled children have more expensive costs than other children in Medicaid so it is important to break them out.

	<u>Medicaid Growth Rate Disabled Children</u>	
FY2007	8.18%	
FY2008	5.81%	
FY2009	4.78%	
FY2010*	5.10%	*preliminary data

The first is Consumer Price Index (CPI). The U.S. Department of Labor; Bureau of Labor Statistics calculates several Consumer Price Indexes related to Medicaid in Alaska. Three that are particularly related are the percent change in CPI-U for the U.S., CPI-Urban for the Municipality of Anchorage (the only CPI index in Alaska) and the U.S. CPI-Medical.

U.S. CPI-U	% change 2008 to 2009: -.4%
U.S. CPI-Medical	% change 2008 to 2009: 3.2%
Anchorage CPI-U	% change 2008 to 2009: 1.2%
Anchorage CPI-Medical	% change (1 st half 2009): 3.0%
CMS Long Range Medical CPI	: 3.3%

In the most recent past medical costs have risen faster than other sectors, so it is not surprising to see that trend continue in 2009. The best indicator of medical price increases for our purposes is the Anchorage CPI-Medical % change first half of 2009: 3.0%. For long-range purposes (FY11) CMS Long Range 3.3% appears best.

The second aspect of price not related to a general medical increases are specific price or rate increases in the services provided in Medicaid. In the current fiscal year 2010 those rate increases are limited to two specific areas: first, a \$2.0 Million increase in dental rates (approximately 6%) and a 15% increase in Physician rates which is expected to cost \$17.0 Million. It is interesting to note that the department requested a FY2010 budget increase for the dental increase, but did not for the Physician rate increase. In the Medicaid program Physicians rates are adjusted annually and are tied to a formula called RBRVS. In 2009 Federal CMS adjusted factors in RBRVS thus causing an unexpected increase.

In FY2011 there are no obvious requests in the DHSS budget for special rate increases for services provided in the Medicaid program.

ENROLLMENT/RECIPIENTS:

Medicaid population is a critical component of calculating final spending. Recipients in the Medicaid program are those individuals that actually receive services; enrollment is a count of the people who have “signed up” for Medicaid. This analysis reviews both indicators.

The chart below (chart 2) displays Monthly Medicaid enrollment growth for three primary groups: Elderly, Adult and Children. Monthly enrollment numbers may be duplicative and are different from the annual unduplicated count numbers. This particular chart displays enrollment from July 2009 to December 2009. Since July 2009 monthly enrollments have grown from 97,129 to 104,020 in December 2009 an overall growth of 7%.

The growth rate for Disabled Children is consistent from FY2008 forward and the FY2010 rate is right in line with historic trends. So the recent spike in Medicaid Children population is not caused by a spike in the number of Disabled Children.

Children Regular Medicaid (Title XIX) and Denali KidCare (Title XXI) Enrollment:
 There is another way to break out Children in the Medicaid program, by Title XIX (Regular Poverty level Medicaid) or Title XXI (State Health Insurance Program or in Alaska Denali KidCare).

Regular Poverty level Medicaid Children- are eligible due to the lower incomes of their family up to 150% of the Federal Poverty Level (FPL). Denali KidCare has a higher income level, from 150% to 175% of the FPL.

The next chart below (chart 3) displays the monthly growth in enrollment since July 2008 through January 2010 of both Regular Medicaid and Denali KidCare children. As the chart below shows the number of children in Medicaid dipped in the fall of 2008 and stayed low during the winter of 2009, until March 2009 when numbers started to grow again.

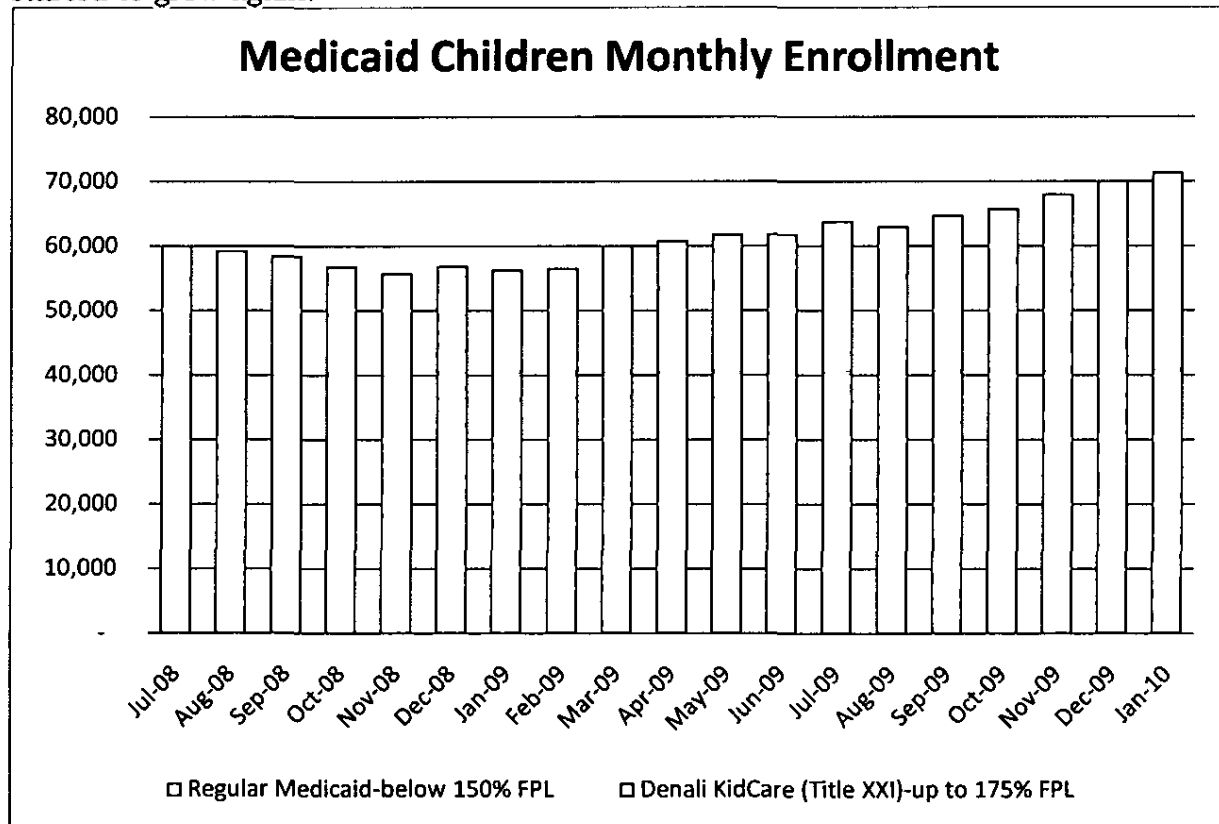


Chart 3-Data from Medicaid Budget group

Comparing January 2010 to July 2008 over 11,000 more Children per month are now enrolled in the Medicaid program. In absolute numbers the largest increase is 9,000 additional Children enrolled in Regular Medicaid.

The fastest growing group on a percentage basis of Medicaid enrollees is in the Denali KidCare Title XXI group which grew from a low point in November 2008 of 7,288 to a high of 9,653 in January of 2010 an increase of 23.4% or 2,365 more children.

An interesting aspect of this chart is that enrollment for BOTH regular Medicaid (Title XIX) Children and Denali KidCare (Title XXI) children are growing at double digit rates for FY 2010. If you compare monthly enrollment data you see the following:

	July 2009 to Jan 2010 <u>Growth Rate</u>	July 2008 to Jan 2010 <u>Growth Rate</u>
Regular Medicaid Children- Title XIX	10.8%	18.1%
Denali KidCare Children - Title XXI	11.8%	23.4%

It is important to note that in SLA 2007 the legislature passed SB27 which reset the Federal Poverty Level (FPL) standard for Denali KidCare to 175%. Prior to that action the Income level was frozen at the 2003 175% FPL which in 2008 equated to 154% of the FPL. DHSS had predicted that half of the 2,533 children who left DKC would return by the end of FY08, however of the 2,365 new DKC children now enrolled in Medicaid 1,800 enrolled after FY2009 during the first half of FY2010.

Medicaid Recipients: While Enrollment is one measure of growth in the number of individuals on Medicaid, Recipient data is a more precise measure because it measures the number of recipients actually using Medicaid services.

The following chart (chart 4) displays the number of Medicaid recipients per month per eligibility group (Children, Adults, Disabled Children, Disabled Adults, and Elderly) from July 2008 to January 2010. While it is true that the number of recipients fell from July 2008 then grew from the low months (October 2008-January 2009) to the highest month of September 2009, generally the pace of growth is much slower and steadier than the monthly enrollment data shows.

Chart 4 shows that other than the Children population group Medicaid recipients have been very flat with no to little growth over the last 18 months.

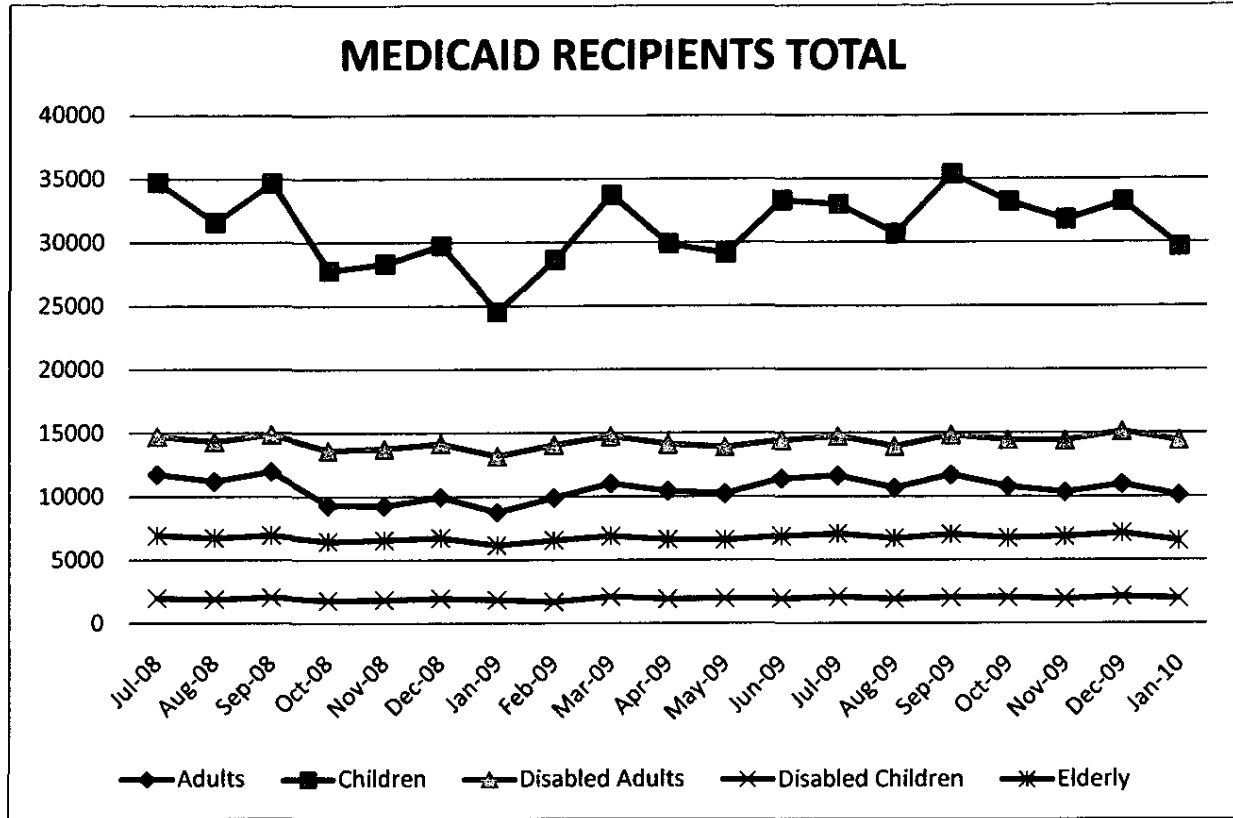


Chart 4-data Medicaid Budget Group

Since recipient data is a bit more volatile month to month the following table 2 compares average monthly recipients in FY2009 to average monthly recipients in FY 2010.

	<u>Adults</u>	<u>Children</u>	<u>Disabled Adults</u>	<u>Disabled Children</u>	<u>Elderly</u>	<u>ALL</u>
Average Monthly Recipients FY09	10433	30515	14163	1929	6673	63713
Average Monthly Recipients FY10 (thru 7 months-Jan. 2010)	10889	32422	14565	2027	6861	66763
Percent Increase Average Monthly Recipients FY10 to FY09	4.4%	6.2%	2.8%	5.1%	2.8%	4.8%

Table 2

Comparing the monthly averages between fiscal years in Table 2 (above)

demonstrates that recipient growth is not double digit for each population group but varies from a low of 2.2% for the Elderly and Disabled Adults to a high of 6.2% for Children.

Table 3 (below) compares growth rates between Monthly Enrollment and Monthly Recipient. All Medicaid Enrollment shows a growth rate of 7.1% while Recipient growth is 4.8%, 50% less. Both Enrollment and Recipient data verify that Children are the fastest growing group. Interestingly the growth rate comparison is the same for Disabled Children.

Compare Growth	Adults	Children	Disabled Adults	Disabled Children	Elderly	ALL
Enrollment Growth	1.6%	9.8%	3.8%	5.1%	0.6%	7.1%
Recipient Growth	4.4%	6.2%	2.8%	5.1%	2.8%	4.8%

Table 3

Recipient Trends: As you can see from the chart below, one use of Recipient data is to demonstrate trends.

Using the Children category Chart 5 shows a trend line if you track monthly recipient data back to July 2008. While Recipient data for Children is somewhat volatile and changes significantly from month to month, this trend line shows the number of Recipients coalescing around 32,000 recipients per month as of January 2010 if we look at the trend over the last 18 months.

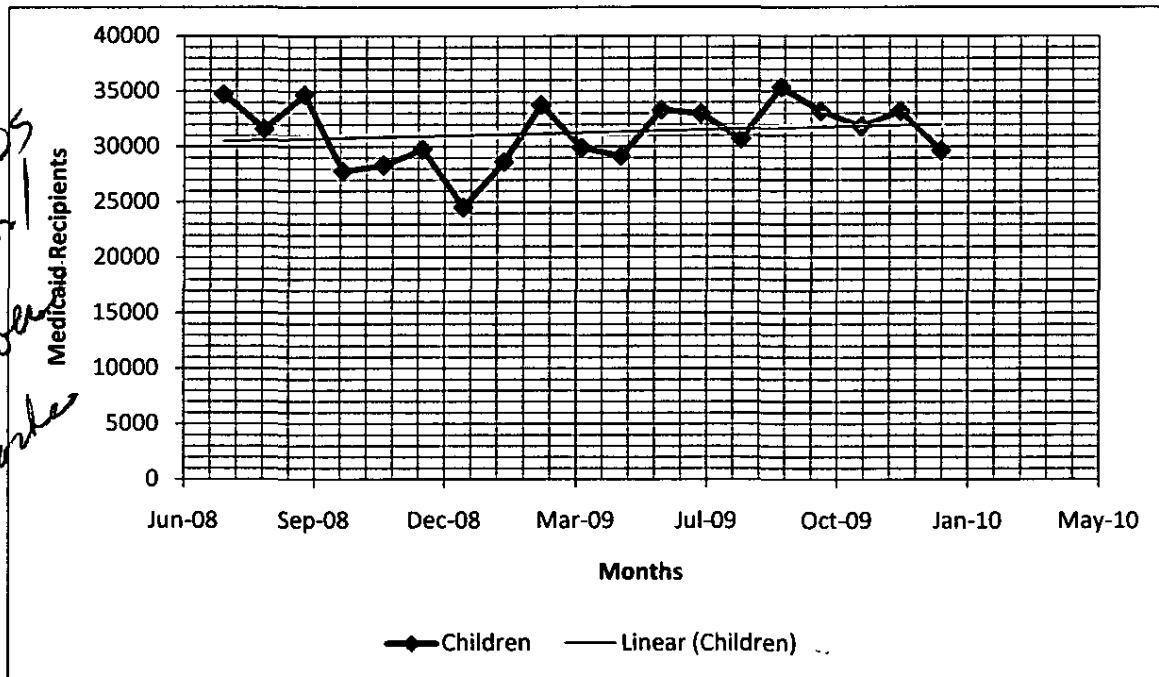


Chart 5-Data from Medicaid Budget Group

Chart 5A (below) displays the recipient data from one year ago. As you can see when the Legislature was preparing the FY2010 budget the recipient data was trending down. The change in circumstances was sudden.

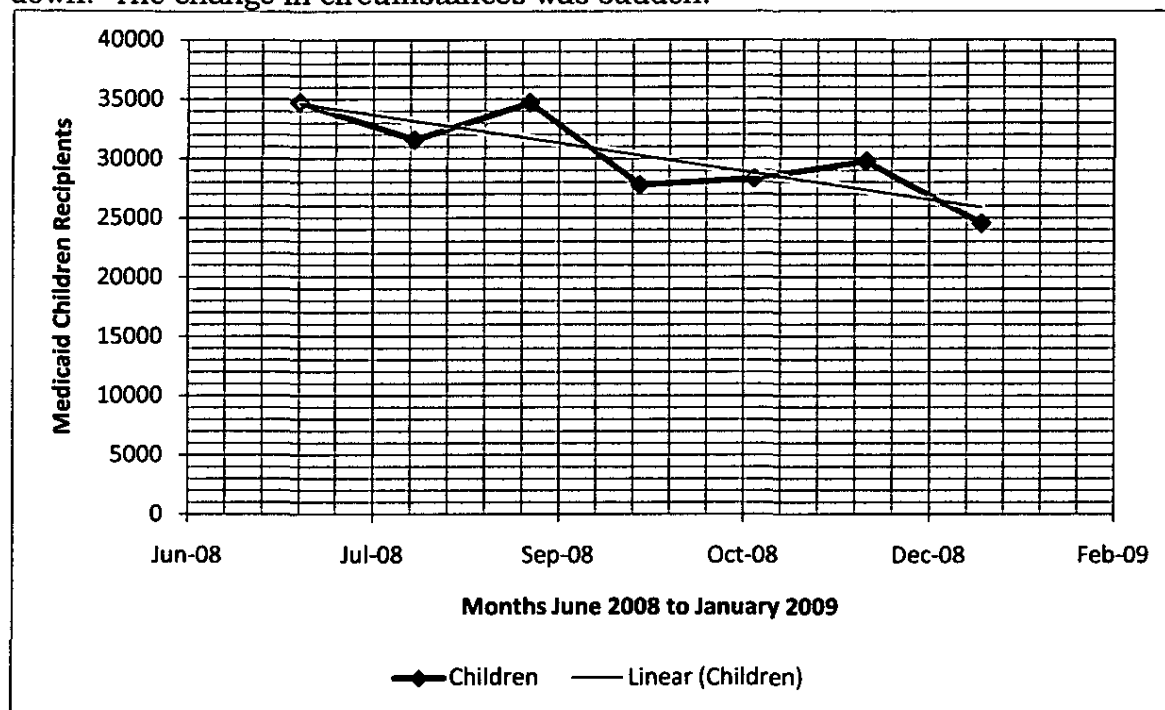


Chart 5A

Food Stamp Cases: One other indicator that has a similar pattern to Medicaid and has been a leading indicator for Medicaid since Welfare Reform is the Food Stamp program. Chart 6 shows Food Stamp growth since January 2009.

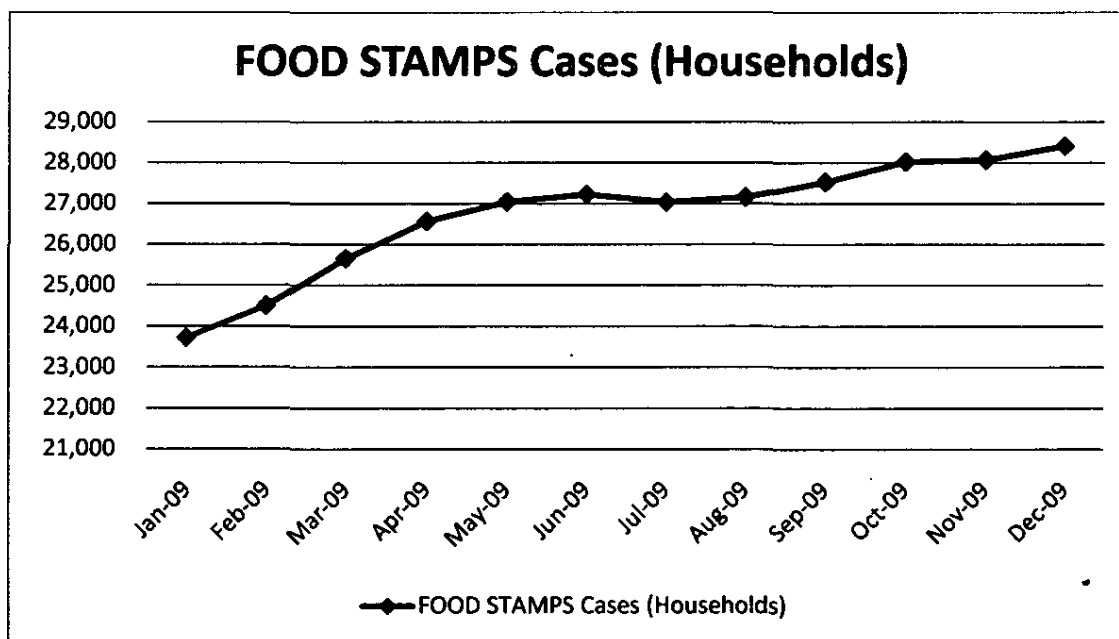


Chart 6-Data from Public Assistance

Similar to Medicaid Enrollment, the Food Stamp program also experienced significant growth in the last half of 2009 (January 2009 to June 2009) where caseloads were up 14.8% in that six month period.

In FY10 since July 2009 Food Stamp caseloads have increased at a more modest 4.4%.

Since the Food Stamp program is a leading indicator for Medicaid it is important to note that caseloads are currently growing at a more modest rate, because Medicaid is likely to follow that trend.

UTILIZATION:

The final component of Medicaid growth is utilization and is much more difficult to measure. One way is to measure the number of Enrollees that utilize services. In FY2009 DHSS measured that 97% of Enrollees participated in services up by 3% from FY2008.

Another way to measure utilization is to isolate it and price by displaying cost per Enrollee. Chart 7 below displays "Cost per Enrollee" for Medicaid from FY2006 to the three FY2010 Forecasts provided by DHSS.

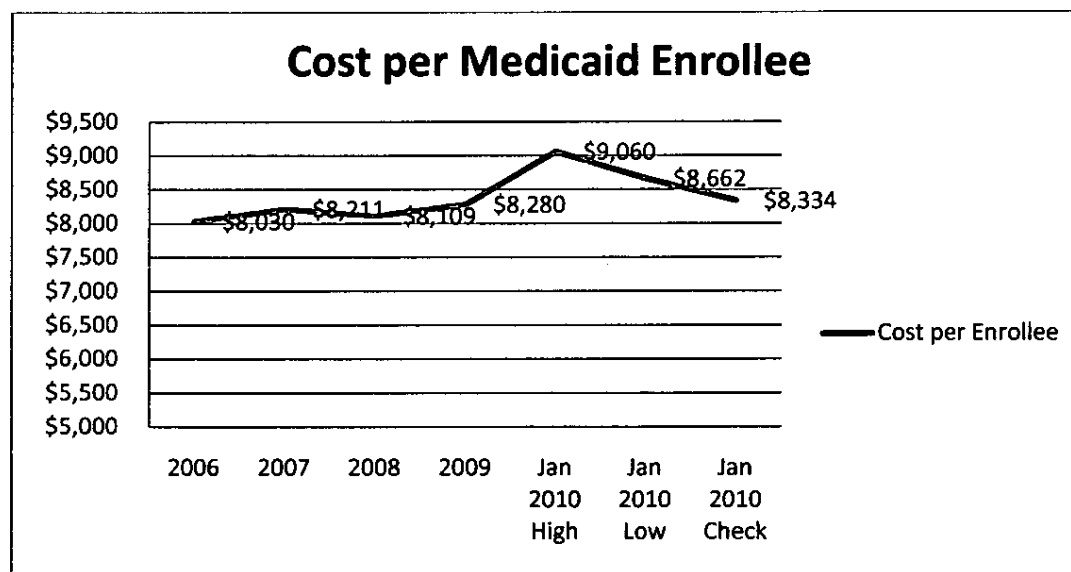


Chart 7

DHSS develops a Monthly High and Low Medicaid Forecast and weekly Checkwrite projection. The current FY10 Supplemental Medicaid budget is similar to the High Forecast.

Chart 7 shows that from FY2006 to FY2009 Cost per Medicaid Enrollee were relatively stable (from \$8030 to \$8280 per enrollee) within 3 percentage points of each other. In the most recent FY2010 Supplemental Budget request (January 2010 High Forecast)

cost per enrollee would sky-rocket up to \$9,000 an increase of 9%. As you can see in Chart 7 the Checkwrite projection is more in-line with the four years of cost per enrollee.

So, one question is it reasonable to think that costs and utilization of services will increase by a total of 9% in one year when for the four years prior the increase has only been a cumulative total of 3%? If not then perhaps the FY10 Medicaid Supplemental Budget is too high.

CONCLUSIONS

Answer to Question One: What factors contributed to the large increase in projected Medicaid Expenditures in FY2010 and what caused it to happen?

Factors contributing to the increase:

- Price: 3.0% Medical CPI;
- Price: \$17 Million unexpected rate increases for Physicians;
- Recipient/Enrollment: Over 11,000 more Children are enrolled in the Medicaid program now than in July 2008. The single largest increase on a percentage basis is in the Denali KidCare program where 2,365 more children are now enrolled.
- Focusing on just enrollment and not considering recipient data could skew any analysis. While enrollment data shows double digit growth for Children enrolled in Medicaid (10.8% for the first half of FY2010 and Denali KidCare Children at 11.8%), Recipient data shows a slower growth rate for FY2010: 6.2%.
- Recipient/Enrollment: Populations other than Children (Adults and Elderly) are growing much slower (1%to 2%) and are more consistent month to month. Overall enrollment increased by 7% in the first half of FY2010, recipients grew at 4.8%.
- Recipient/Enrollment: The Food Stamp program is a leading indicator and while cases grew at 15% for calendar year 2009, caseload growth has slowed to 4.4% for FY2010.
- Utilization: Could contribute as much as 3% to the cost of Medicaid.
- General: During FY2010 there are 53 weeks where Medicaid checks will be written, in FY2009 there were 52 and in FY2011 there are 52.

Explanations of the **Causes** of the increase:

After reviewing the data and interviews with DHSS officials and others there are several contributing factors to in the increases in Medicaid for FY2010:

- The primary cause is the current downturn in the Economy, the increase in the Unemployment rate is the best demonstration of that downturn. Chart 8 below provided by the Division of Public Assistance demonstrates that the increase in

the Unemployment Rate (aqua line) tracks both Food Stamp and Medicaid programs.

Chart 8 is interesting because it demonstrates that Medicaid enrollment and Food Stamp caseload (red line) show a similar growth pattern. Growth in Food Stamp cases occurs slightly ahead of the growth in Medicaid enrollment.

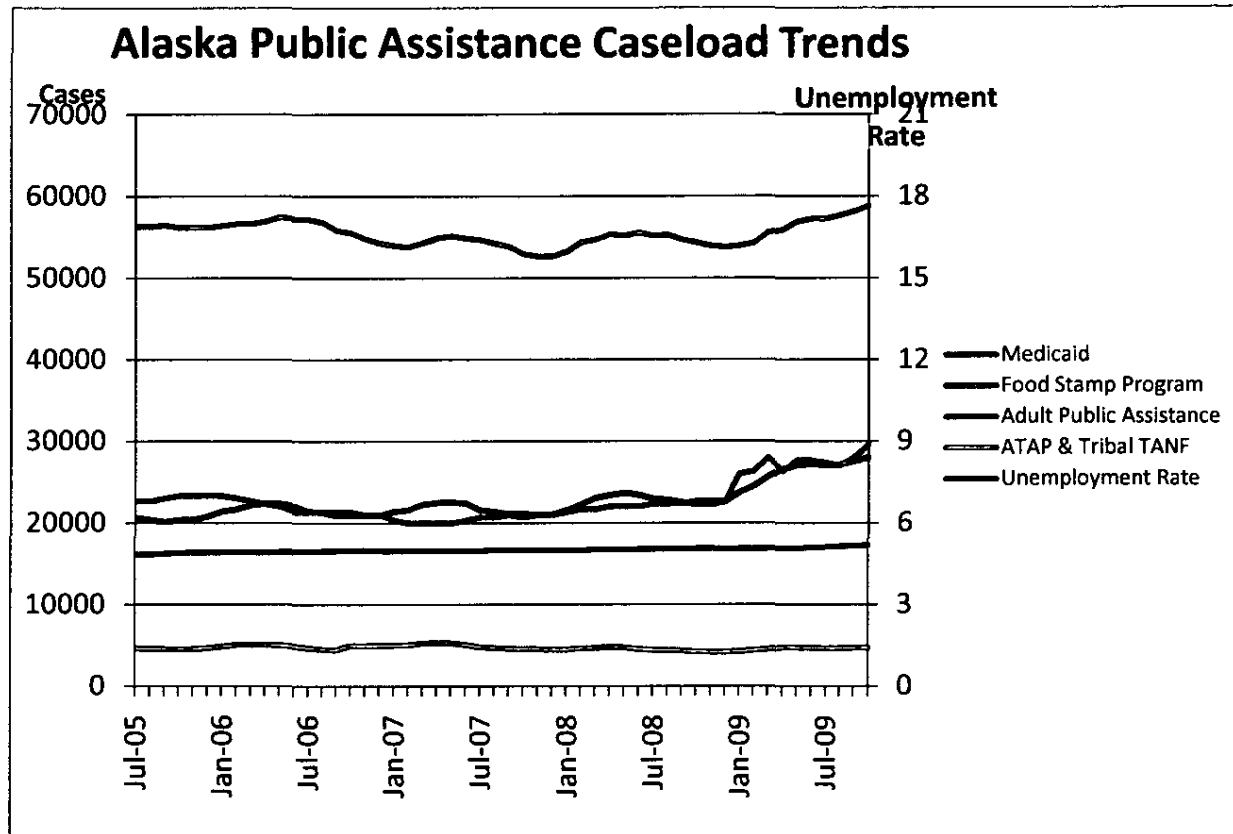


Chart 8-Data by Division of Public Assistance

- From 2006 to 2008 upwards of 8,000 individuals dropped Medicaid coverage. Department officials state that the good economy in Alaska contributed to families having higher income, thus not qualifying for the program. The Medicaid program had limited increases during these three years.
- Over 2,500 who lost coverage were children on the Denali KidCare program because they lost participation due to the statute that froze income levels at the income standard in August 2003 (in 2007 the actual federal poverty level calculated to 154%). SB27 passed in SLA2007 which returned the Denali KidCare federal poverty level to 175%, the department expected about 50% or roughly 1300 Denali KidCare children to return to the program in FY08. However few children returned to the program in FY08, now over 2,300 (almost double the estimate) have shown up in the latter half of FY09 and first half of FY10.

- One additional contributing factor to the increase in the number of Children in FY10 is that the department changed from certifying children for 6 months eligibility to continuous eligibility (eligibility for 12 months). Where Children use to drop off the enrollment rolls every six months, now they do not. However, since this policy was adopted in April 2009 it is too earlier to see how much this policy change impacted enrollment and spending.
- A special impact to the price paid for services is the FY2010 Unbudgeted 15% rate increase for Physicians. This added approximately \$17 million to the budget.
- Alaskan Population increases in 2009 are also a significant contributing factor to the increase in the Medicaid population. According to the Department of Labor Alaska's growth as a whole is primarily through natural increase and the population change of 10,337 between July 1, 2008 and June 30, 2009 is the largest population change since 1992.

In 2008 there were 11,437 births in Alaska, the highest since 1992. Previous studies show that the Medicaid program covers between 40% and 50% of the births in Alaska, so an increase in the number of births is significant for the Medicaid program.

Financial Reform

There have also been several legal challenges to Personal Care Attendant program which changed some of the reforms developed in 2006 to manage the growth in that program. The State has lost in Court or settled three different cases which have restored access and services that were restricted by the 2006 legislative intent. While generally Senior and Disability services are not the cause of the large increases in FY2010, these legal changes mean that costs will not come down and will remain relatively high (9%) in that program.

- It is also likely that in the summer and fall of 2009 utilization was impacted by two health issues that attracted a lot of media attention. The H1N1 flu issue and the attempt at the federal level for health care reform. Attention to both of these issues in the past has increased participation in the Medicaid program.

Answer to Question Two: What is an appropriate level to budget for Medicaid spending in FY 2010?

DHSS has requested an additional \$88.4 million in Supplemental funding for the Medicaid program, which would bring FY 2010 total spending to \$1.256 Billion. This request is similar to their monthly High forecast completed in January 2010.

DHSS completes three different forecasts each month. The High forecast, the Low forecast and a projection in the weekly Checkwrite report. Chart 8 below tracks these forecasts by date submitted. The forecasts converge at the end of the fiscal year in June when they accurately display final spending for Medicaid.

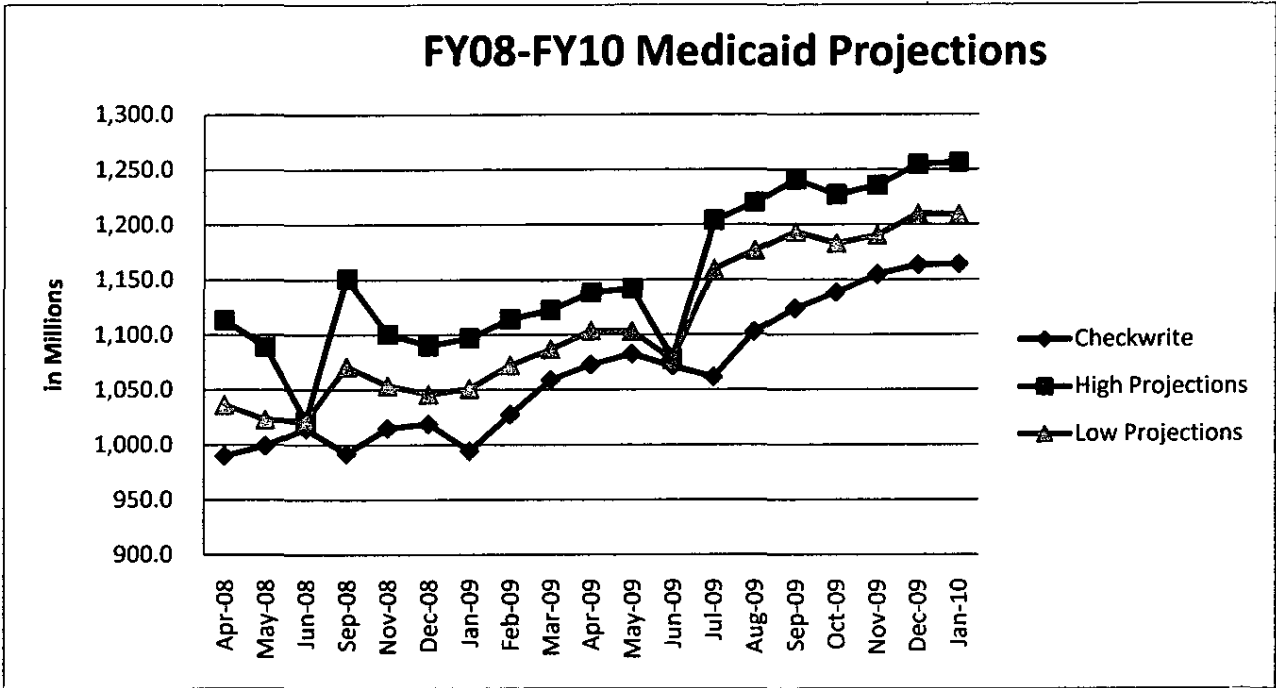


Chart 8

Looking at the last three years, of the three forecasts the Low Forecast is the most accurate. The High Forecast is always higher and the Checkwrite report is always lower than the actual final spending.

The current FY2010 Medicaid Supplemental Request from DHSS is shown in Table 4:

<u>MEDICAID SUPPLEMENTAL</u>	<u>Supp GF</u>	<u>Supp Fed</u>	<u>Supp Total</u>
Behavioral Health Medicaid	4,166.8	4,378.3	8,545.1
Health Care Services Medicaid	33,296.6	37,319.9	70,616.5
Senior & Disability Serv Medicaid	6,152.4	3,056.8	9,209.2
TOTAL	43,615.8	44,755.0	88,370.8

Table 4

An FY 2010 Supplemental Request based on the current Medicaid Low Forecast is shown in Table 5. If a supplemental were approved based on this forecast it would be approximately half of the current request.

<u>MEDICAID LOW FORECAST</u>	<u>Low Gen Fund</u>	<u>Low Federal</u>	<u>Low Total</u>
Behavioral Health Medicaid	1,925.2	975.0	2,900.2
Health Care Services Medicaid	24,690.0	20,047.7	44,737.7
Senior & Disability Serv Medicaid	1,946.0	(1,928.5)	17.5
TOTAL	28,561.2	19,094.2	47,655.4

Table 5

An FY 2010 Supplemental Request based on the current Medicaid Checkwrite projection is shown in Table 6 below. If a supplemental were approved based on this forecast General Funds would be required at about one third of the original request.

<u>MEDICAID Checkwrite PROJECTION</u>	Checkwrite Gen Fund	Checkwrite Fed	Checkwrite Total
Behavioral Health Medicaid	909.3	(1,485.9)	(576.6)
Health Care Services Medicaid	14,487.1	(10,862.1)	3,625.0
Senior & Disability Serv Medicaid	84.9	(6,786.9)	(6,702.0)
	15,481.3	(19,134.9)	(3,653.6)

Table 6

An accurate method for determining the Supplemental Budget for Medicaid is to look at historical spending, trend it forward and then factor Price, Recipients and Utilization into the final calculation.

Chart 9 below tracks historical Medicaid spending from October 2008 to January 2010 with a linear line to track trends in spending.

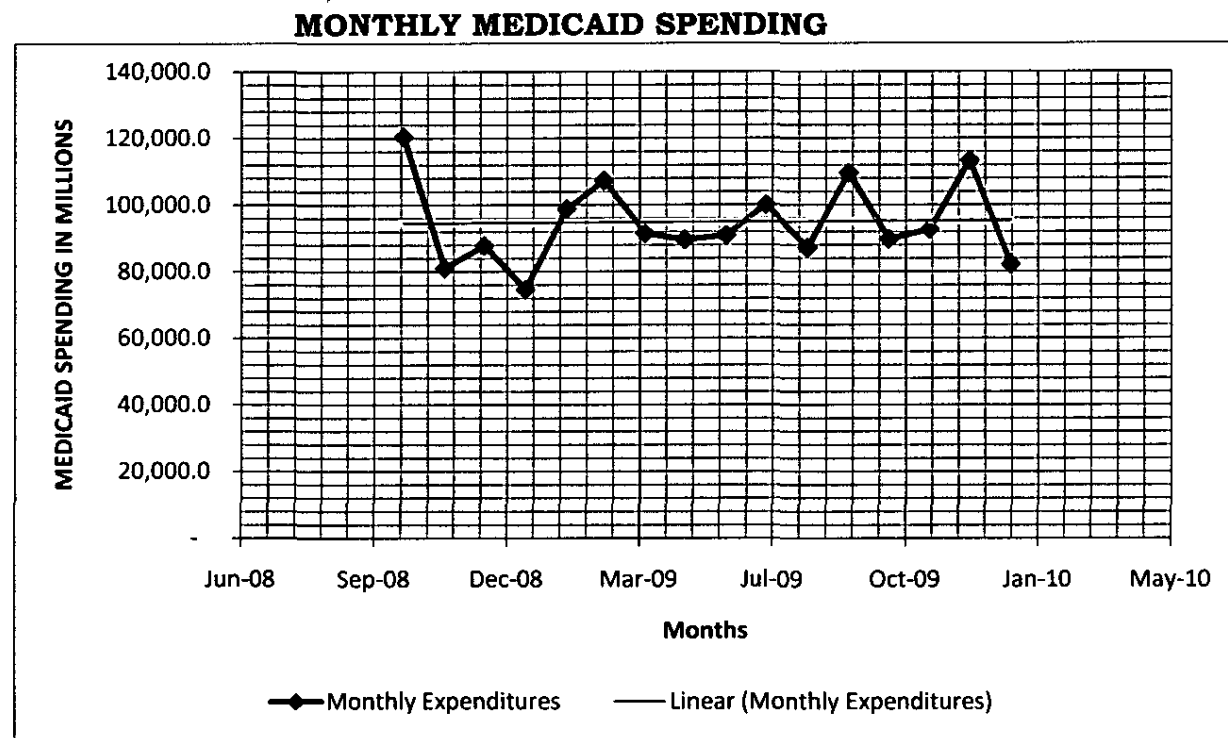


Chart 9

The trend in Chart 9 demonstrates a very slight growth curve in Medicaid spending, the linear trend tracks spending still at less than \$100 Million per month. Monthly spikes in the chart are primarily due to 5 week months versus 4 week months. What Chart 9 does not take into account is that in most years the Medicaid program makes

some lump sum payments in the last half of the fiscal year, these payments would not show up yet in FY2010 spending.

So, in FY2010 the conditions are:

- 1) The Low Forecast is the most accurate of the forecasts;
- 2) While Medicaid Enrollments are high for the first half of the fiscal year, recipient data is lower and growing slower;
- 3) Alaska's Unemployment rate is at 8.8%, the economy is still in a downturn;
- 4) Food Stamp caseload growth skyrocketed in the first half of calendar year 2009 and slowed in the last half of calendar year 2009;
- 5) Current monthly spending has spikes but is on a steady growth pattern.
- 6) Medical CPI is at 3.0%.
- 7) Alaska's population is currently growing and the Birth Rate is the highest in 15 years.

FY 2010 Supplemental Alternative:

One reasonable option for the Legislature is to base the DHSS Medicaid Supplemental on the Low Forecast with an additional two percent as a cushion to deal with any unexpected Medicaid payments. As you can see in Table 7 below under this scenario the current Medicaid Supplemental Request would be reduced by \$7.2 Million General Fund and \$7.1 Million Federal (federal funds have been adjusted in this scenario).

<u>MEDICAID LOW+2% FORECAST</u>	Low+2% Gen Fund	Low + 2% Fed	Low +2% Total
Behavioral Health Medicaid	2,954.5	3,102.2	6,056.7
Health Care Services Medicaid	28,842.6	32,303.7	61,146.3
Senior & Disability Serv Medicaid	4,580.3	2,290.2	6,870.5
	36,377.4	37,696.1	74,073.5

Table 7

Answer to Question Three: What is an appropriate level to budget for Medicaid spending in FY 2011?

In FY 2011 the conditions are likely to be:

- 1) Many Economists are predicting that the Economy will be slightly better during the next fiscal year;
- 2) Costs for Medical Services are expected to rise similar to current 3.3%;
- 3) DHSS has not requested additional resources for automatic rate increases in FY 2011;
- 4) Alaska's population will continue to grow and the Birth Rate will remain high;
- 5) There are few policy or legal changes that could impact the FY 2011 budget.

While there are a lot of similarities in the Medicaid program between the different Medicaid allocations, there are also differences. For example, if you look at the recipient data for Behavioral Health Medicaid it is not growing at the same rate those recipients for Health Care Services Medicaid. To calculate an appropriate level of funding for FY2011, it is more accurate to take those differences into account.

Table 8 below displays the assumptions for growth for each individual Medicaid allocation.

FY2011 EXPECTED GROWTH FACTORS			
Medicaid Component	Population Growth %	Price Increase Percentage	Utilization Increase
Behavioral Health Medicaid	4.0%	3.3%	1.0%
Health Care Services Medicaid	6.0%	3.3%	2.0%
Senior & Disability Serv Medicaid	6.0%	3.3%	2.0%
Adult Preventive Dental	3.0%	3.3%	1.0%

Table 8

If the FY 2011 Medicaid Budget is based on the assumptions outlined in Table 8 then the final spending level is shown below in Table 9. If the Updated Medicaid Budget is adopted at this level the overall spending increase between FY2010 (assuming the Low Forecast is accurate and reflects final FY2010 Actuals) and FY2011 is 9%.

FY 2011 CONSULTANT MEDICAID BUDGET		
Medicaid Component	General Fund	Total
Behavioral Health Medicaid	56,612.7	156,840.1
Children's Services Medicaid	5,396.5	13,562.4
Health Care Services Medicaid	228,806.5	752,084.5
Senior & Disability Serv Medicaid	147,887.7	387,500.5
Adult Preventive Dental	2,873.2	8,192.8
TOTAL	441,576.6	1,318,180.3

Table 9

Required Budget Amendments at this level of spending are outlined below in Table 10.

Consultant Budget Amendment				
Medicaid Component	Gen Fund	Federal	Other	TOTAL
Behavioral Health Medicaid	1,638.6	3,253.9	(617.5)	4,275.0
Children's Services Medicaid	0.0	0.0		0.0
Health Care Services Medicaid	30,537.9	38,332.7	1,720.3	70,590.9
Senior & Disability Serv Medicaid	2,900.1	358.3		3,258.4
Adult Preventive Dental	0.0	0.0		0.0
	35,076.6	41,944.9	113.1	78,124.3

Table 10

DHSS Proposed Budget Amendments are outlined below. The primary difference between the two proposals is that DHSS projects that Behavioral Health Medicaid and Senior & Disability Services Medicaid will grow at a higher rate, particularly in FY10.

DHSS GOV Budget Amendment				
Medicaid Component	Gen Fund	Federal	Other	Total
Behavioral Health Medicaid	3,870.9	6,622.3		10,493.2
Children's Services Medicaid				-
Health Care Services Medicaid	30,387.1	35,091.2	3,475.0	65,478.3
Senior & Disability Serv Medicaid	6,133.4	12,658.6		18,792.0
Adult Preventive Dental	-	285.6		285.6
	40,391.4	54,657.7	3,475.0	95,049.1

Table 11

Overall Medicaid increment growth in FY2011 based on the DHSS request is \$76.6 Million GF and \$166.6 Million Total funds above FY2010 Management Plan. The consultant proposal is \$72.5 Million GF and \$149.0 Million Total Funds above FY2010 Management Plan. The primary difference is that the Consultant proposal is based on a projection that spending will be less in FY 2010, particularly for Behavioral Health Medicaid and Senior and Disability Services Medicaid.

Another way to look at the difference in projections as shown in Chart 10 and Table 12 is that DHSS is projecting steeper growth in FY2010 spending, while the consultant is not. The two projections are \$20 million apart for FY2011.

FY2011 Medicaid Budget: DHSS & Consultant Comparison

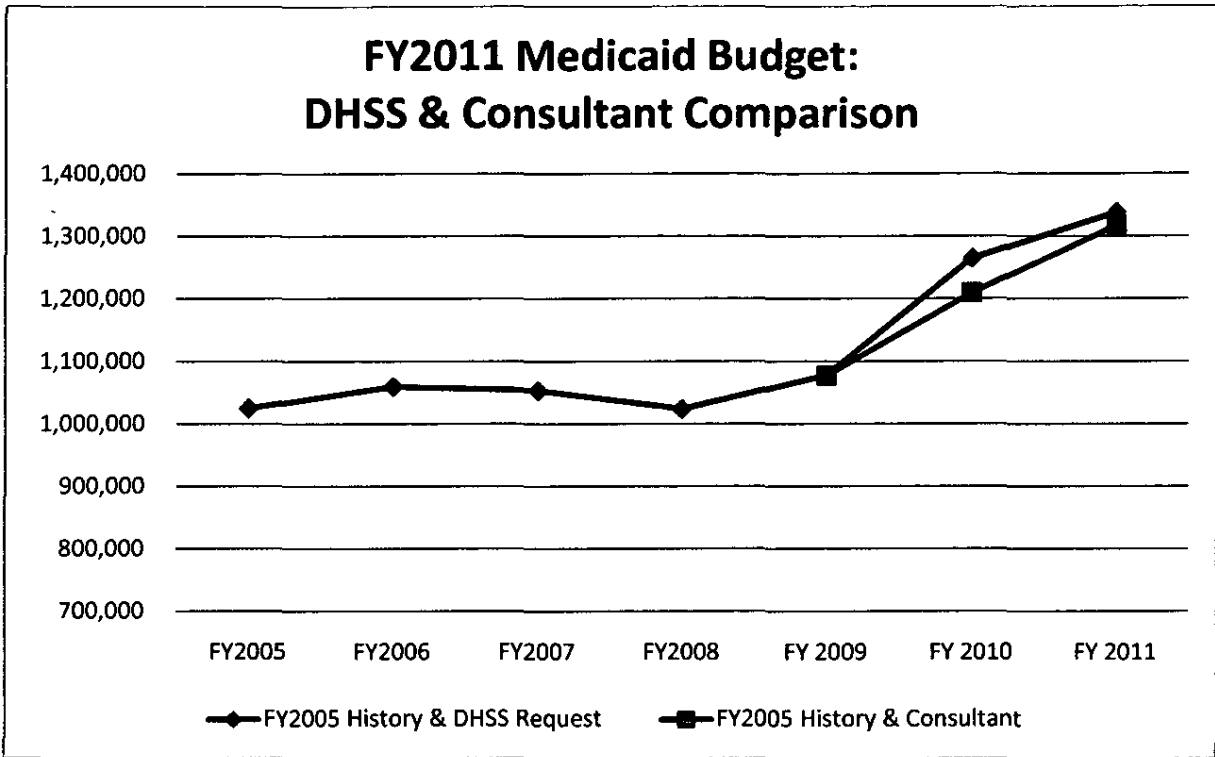


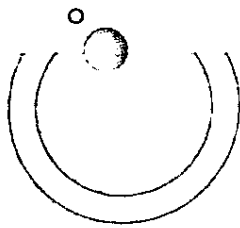
Chart 10

Table 12 shows that DHSS expects spending to increase by 17% in FY2010 and then fall to 6%; the consultant proposal is based on 12% growth in FY2010 and 9% growth in FY2011.

MEDICAID EXPENDITURES	FY2005 History & DHSS Request	FY2005 History & Consultant	Rate of Growth DHSS Request	Rate of Growth Consultant
FY2005	1,024,918			
FY2006	1,059,877			
FY2007	1,053,376			
FY2008	1,023,788			
FY 2009	1,077,483	1,077,483		
FY 2010	1,264,802	1,209,293	17%	12%
FY 2011	1,338,580	1,318,180	6%	9%

Table 12

ANALYSIS
ALASKA MEDICAID TRENDS
FY2010 & FY2011



Prepared for the House Finance Committee
February 2010

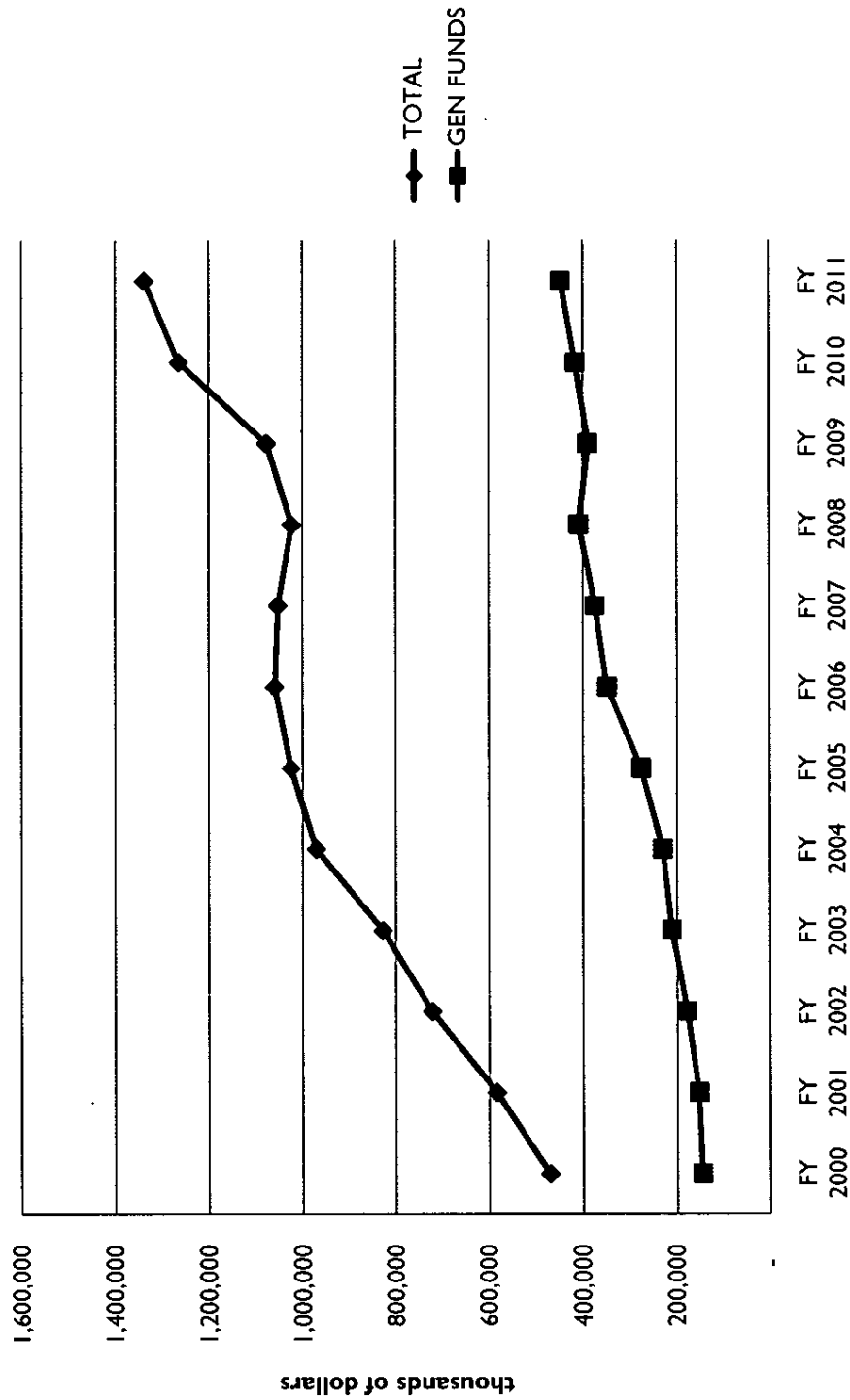
PURPOSE OF REVIEW

- Purpose of this analysis is to review the Medicaid program, determine what is contributing to the skyrocketing FY2010 Budget and assist the Finance committee in determining an appropriate level of spending for FY2010 and FY20100.
- DHSS has submitted an FY2010 Supplemental that totals \$88.4 Million (\$43.6 Million GF).
- DHSS has submitted an FY2011 Budget Amendment of \$95 Million(\$40.3 Million GF) in addition to original increment of \$71.6 Million (\$36.2 Million GF); Incremental increase now requested in FY2011 is \$166.6 Million (\$76.6 Million GF).

WHAT IS MEDICAID?

- Medicaid is an entitlement program created in 1965 by the federal government, but administered by the state to provide payment for medical services for low-income citizens. As a joint federal-state program, the federal and state governments share the cost of Medicaid.
- The federal matching rate for Medicaid, commonly known as FMAP (Federal Medicaid Authorized Percentage) is based on a national formula. Alaska's FMAP would have fallen to 50% in FY2011, but the Economic Stimulus bill (ARRA) increased the federal rate to 61.12%.

Annual Medicaid Spending-FY2000 to FY2011



13

<u>MEDICAID SPENDING</u>	<u>TOTAL FUNDS</u>	<u>Percent Increase/-Decrease</u>
FY2000	\$ 470.7 Million	
FY2001	\$ 583.9 Million	24.1%
FY2002	\$ 722.1 Million	23.7%
FY2003	\$ 828.1 Million	14.7%
FY2004	\$ 971.5 Million	17.3%
FY2005	\$ 1,024.9 Million	5.5%
FY2006	\$ 1,059.9 Million	3.4%
FY2007	\$ 1,053.4 Million	-0.6%
FY2008	\$ 1,023.8 Million	-2.8%
FY2009	\$ 1,077.5 Million	5.2%
FY2010*	\$ 1,264.8 Million	17.4%
FY2011**	\$ 1,338.6 Million	5.8%

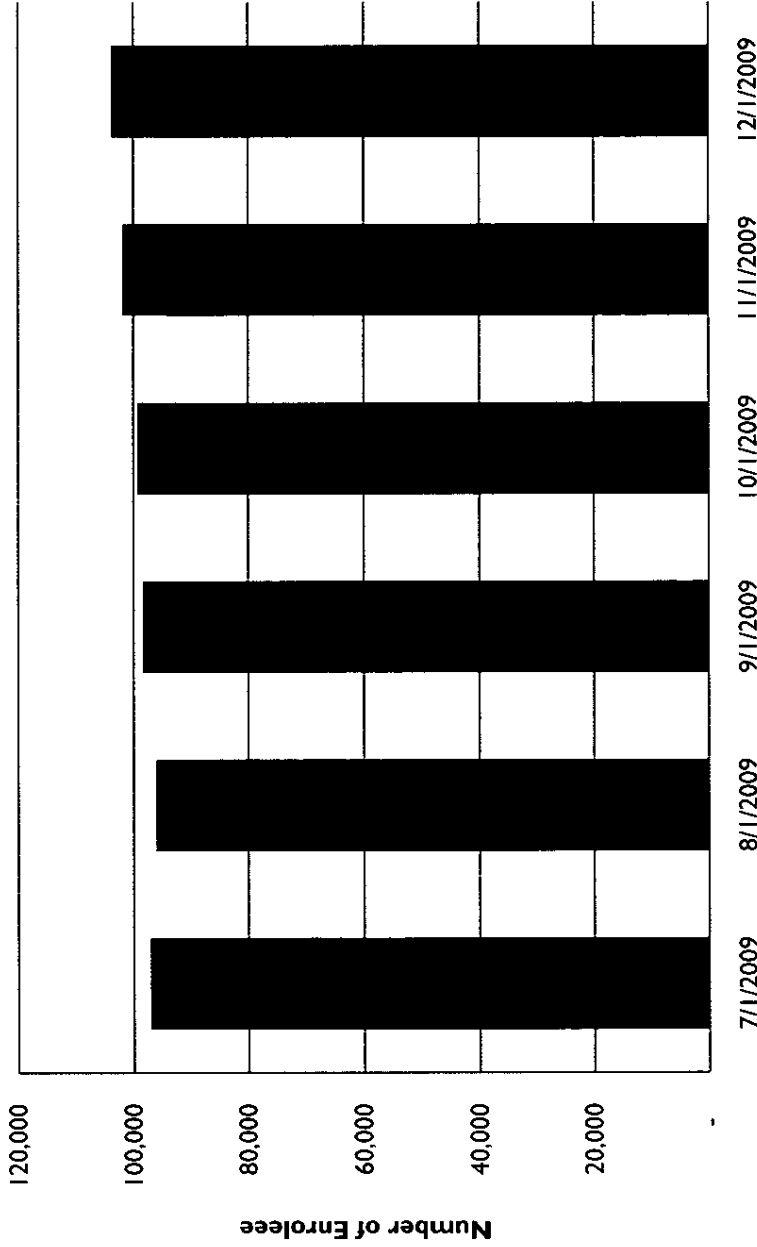
*Includes Proposed Supplemental

** Includes Proposed Budget Amendments

FACTORS IN MEDICAID GROWTH

- There are three key components to growth in the Medicaid program: **Price, Population (as measured by Enrollment & Recipients), and Utilization.**
- **Price** changes are measured by looking at the change to Consumer Price Index (CPI). The change in the Anchorage CPI-U for 2009 is 1.2%; in the Anchorage CPI-Medical is 3.0%; and Federal Center for Medicare & Medicaid Services (CMS) long-range change in CPI-Medical is 3.3%.
- Usually Physician rate increases are within the normal CPI increase, however in March 2009 they increased by 15%. The FY2010 budget did not contain an increment to pay for this approximate \$17 million increase.

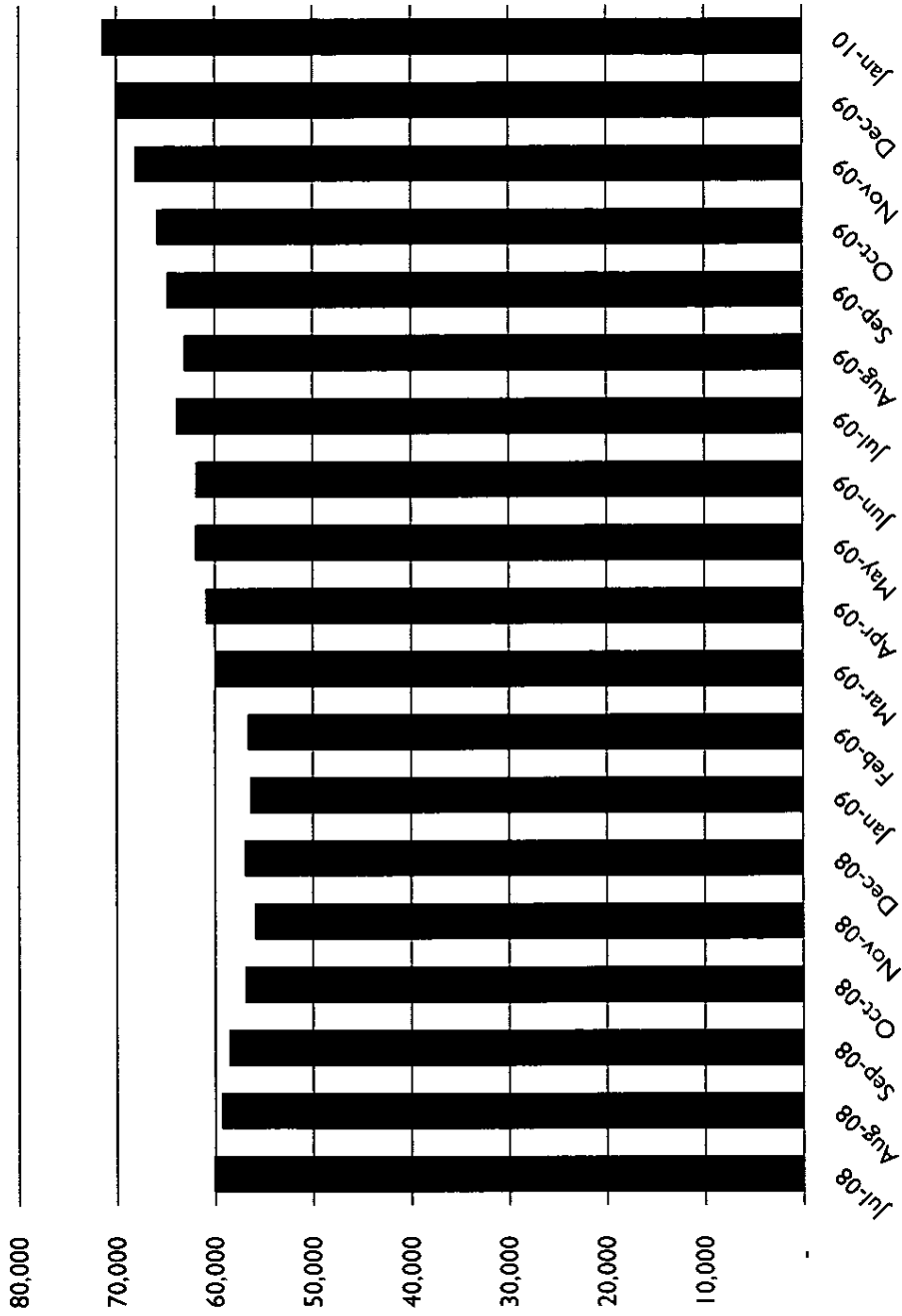
Medicaid Enrollment FY2010



	7/1/2009	8/1/2009	9/1/2009	10/1/2009	11/1/2009	12/1/2009
■ Elderly	7,443	7,443	7,512	7,522	7,550	7,508
■ Adult	25,757	25,588	26,052	25,930	26,112	26,230
■ Children	63,929	63,089	64,851	65,877	68,101	70,064

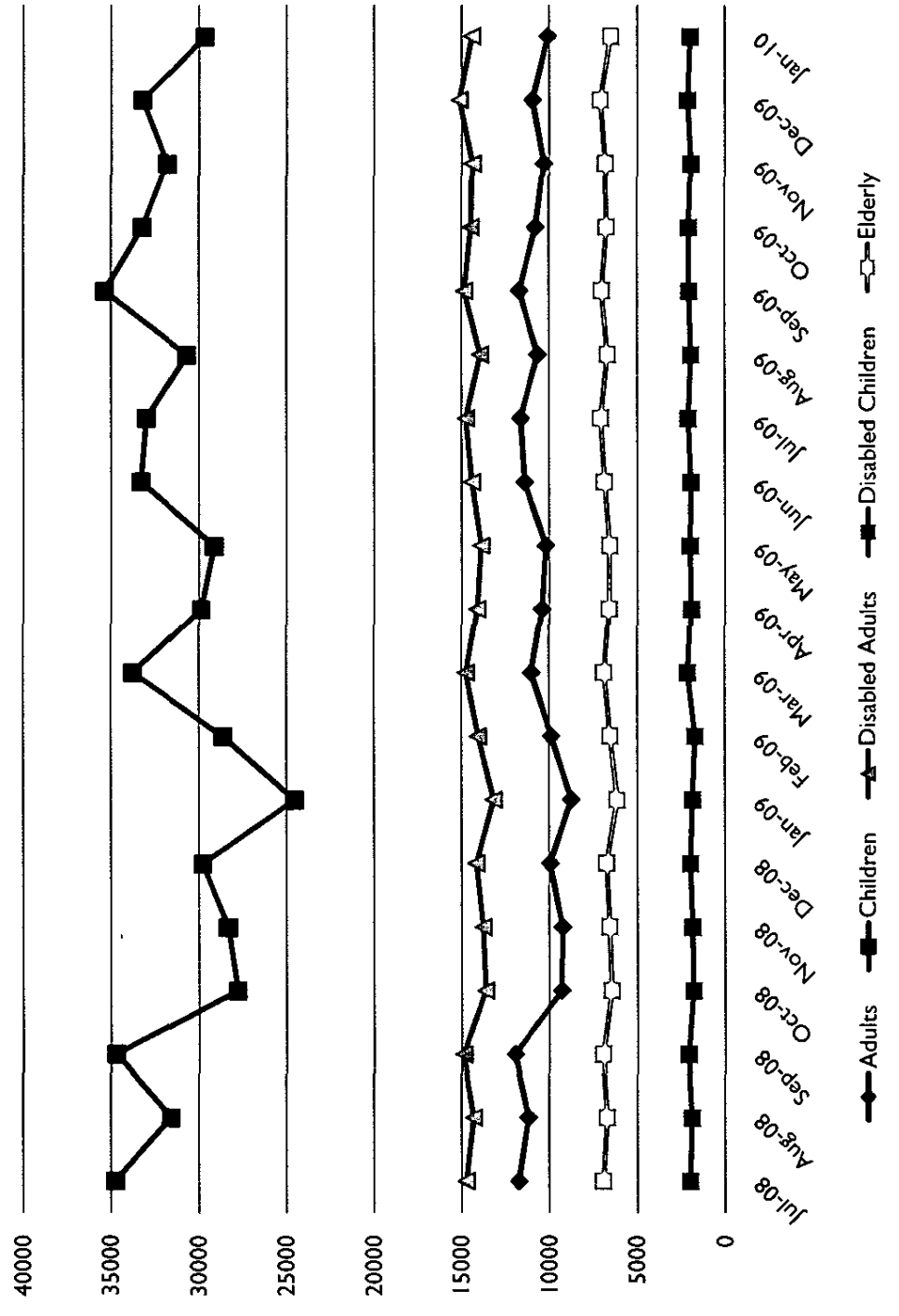
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Medicaid Children Monthly Enrollment

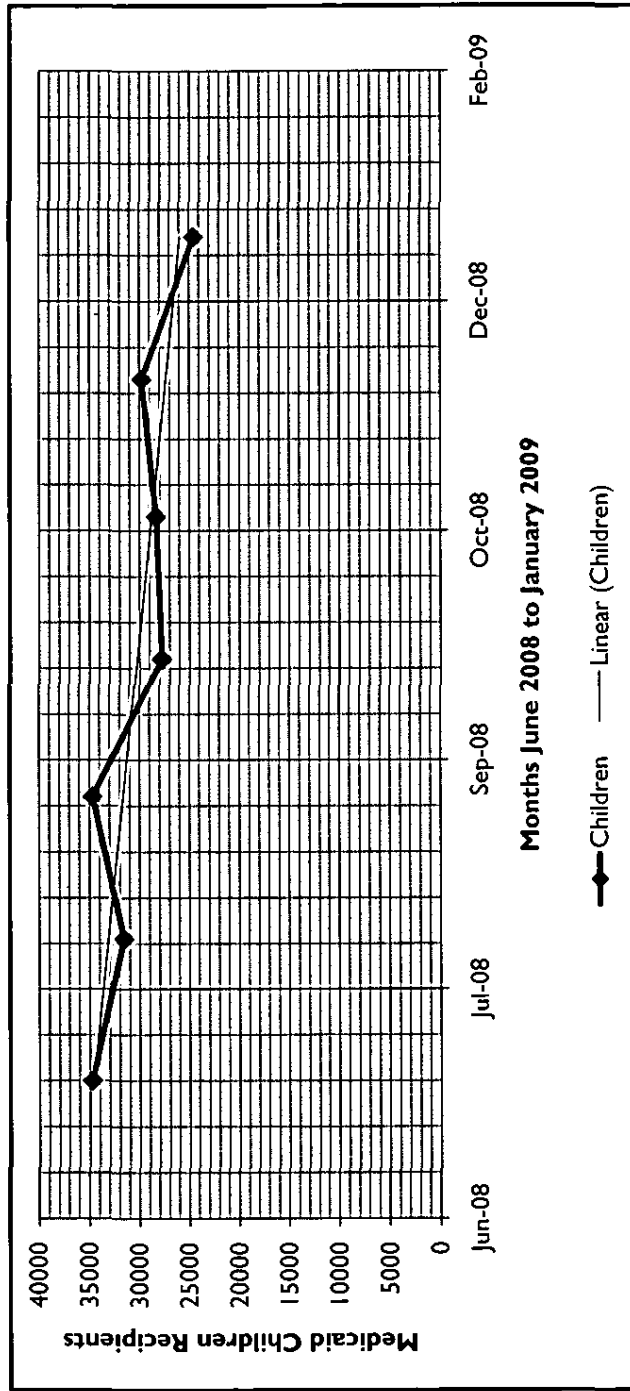
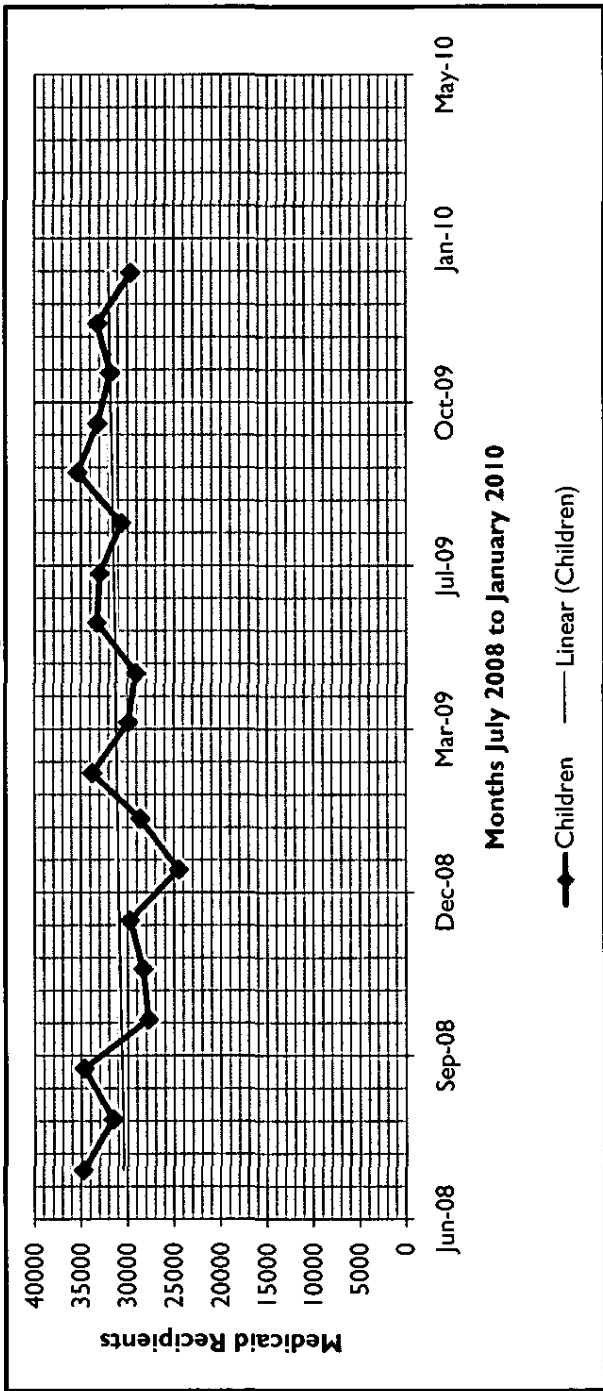


■ Regular Medicaid-below 150% FPL ■ Denali KidCare (Title XXI)-up to 175% FPL

MEDICAID RECIPIENTS TOTAL

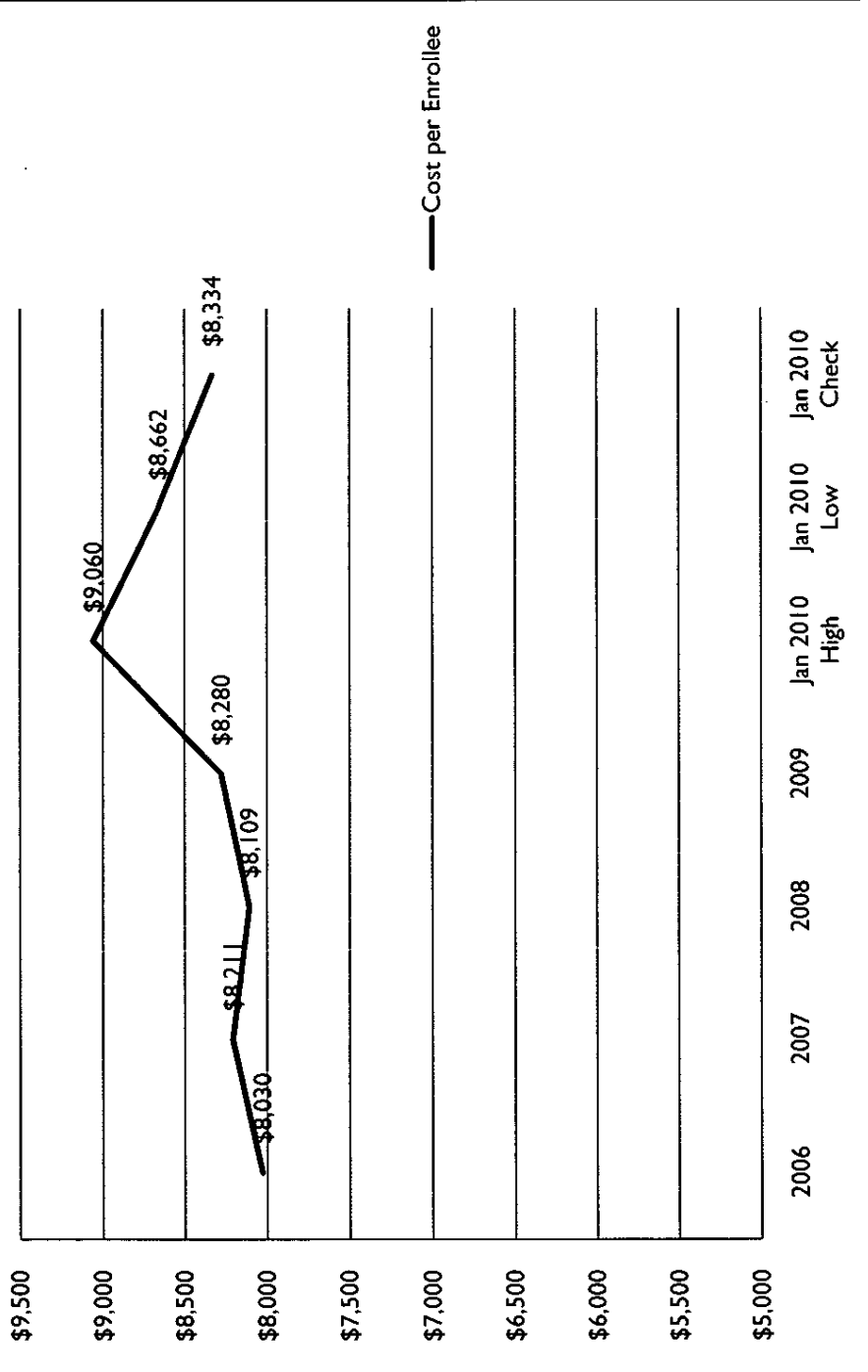


Medicaid Children Monthly Recipients



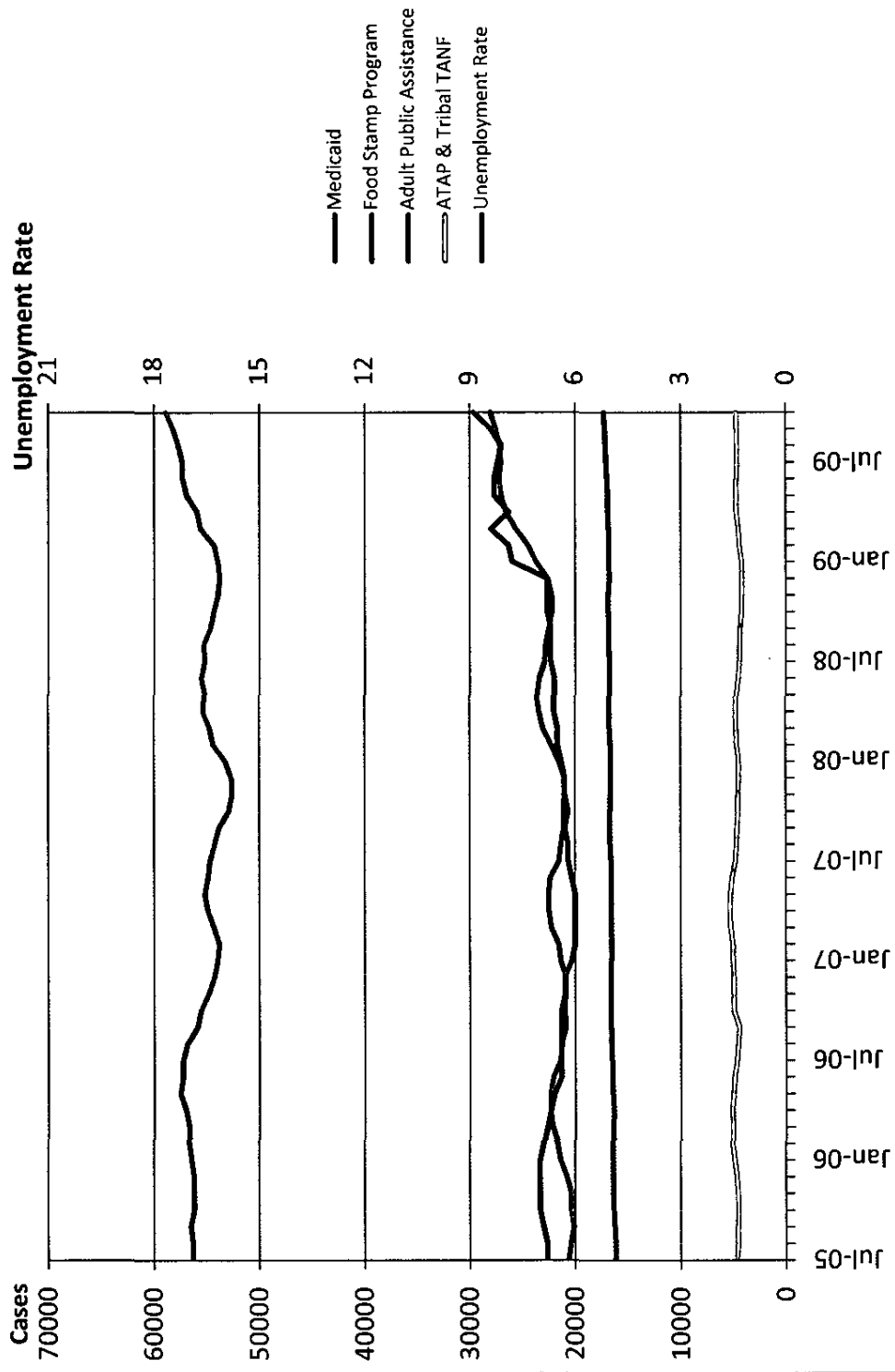
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Cost per Medicaid Enrollee

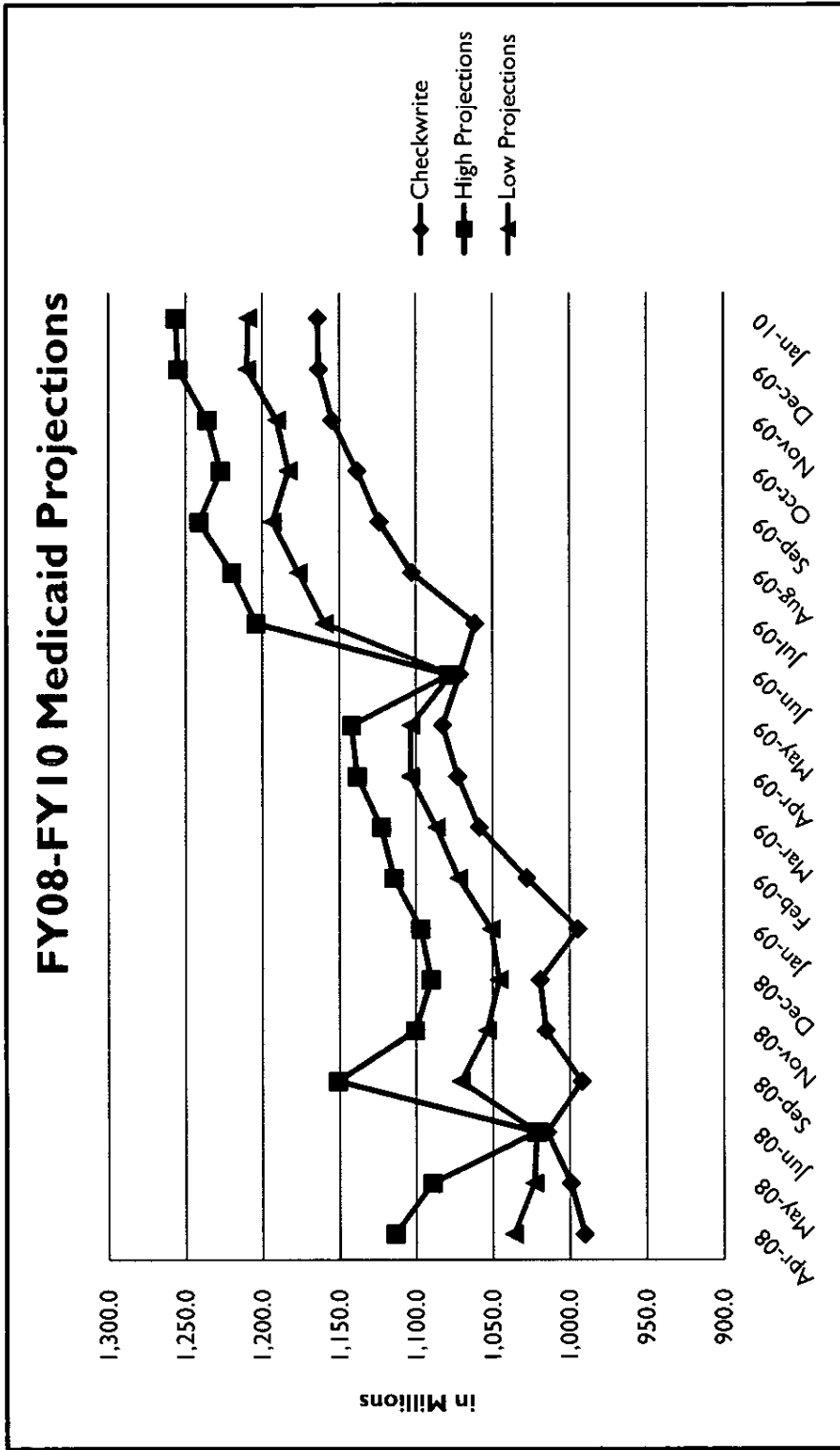


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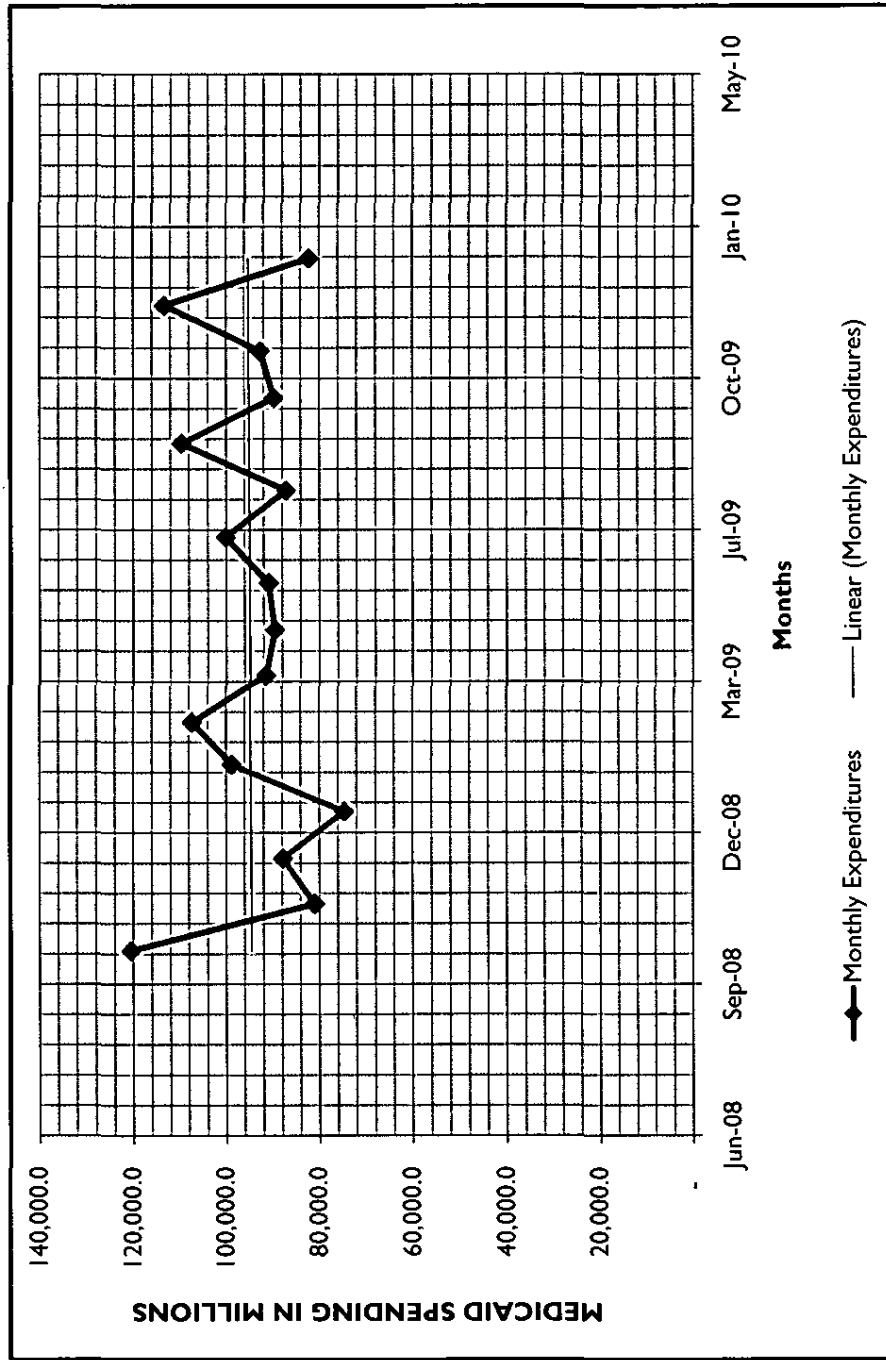
Alaska Public Assistance Caseload Trends



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FY2010 Monthly Medicaid Spending



FY2010 Medicaid Supplemental Alternatives

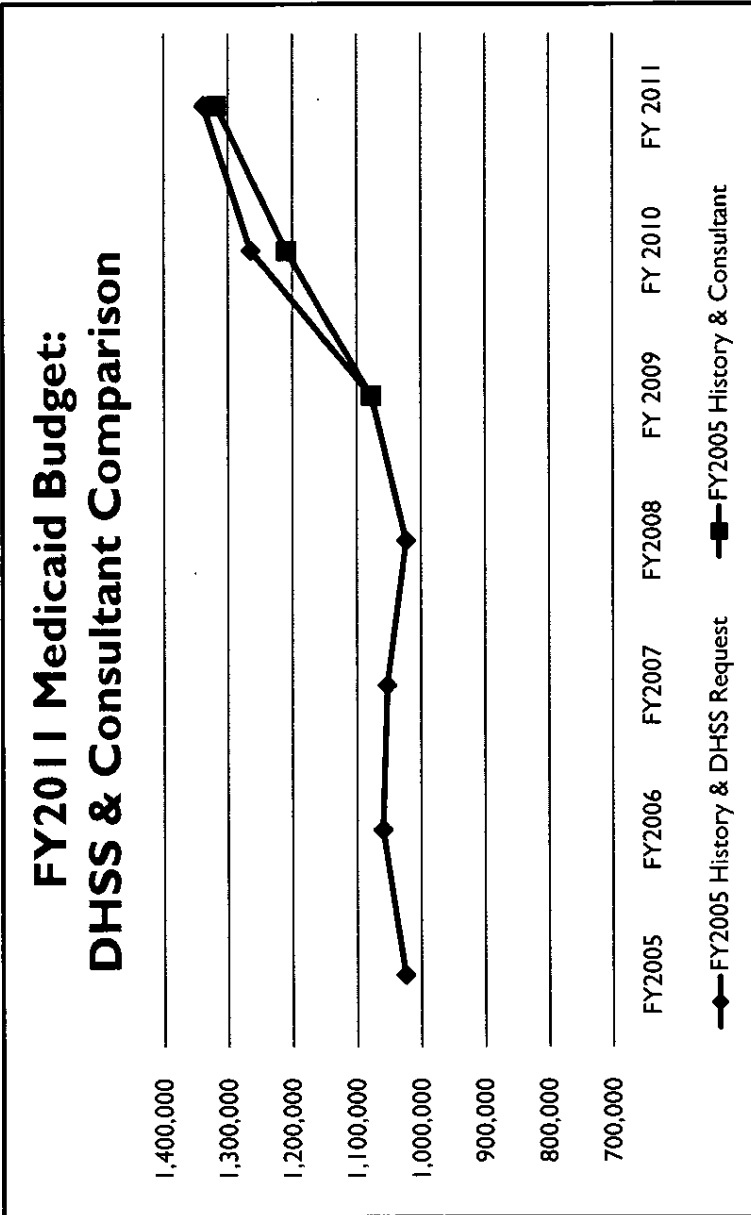
DHSS MEDICAID Supplemental Request	Supp GF	Supp Fed	Supp Total
Behavioral Health Medicaid	4,166.8	4,378.3	8,545.1
Health Care Services Medicaid	33,296.6	37,319.9	70,616.5
Senior & Disability Serv Medicaid	6,152.4	3,056.8	9,209.2
TOTAL	43,615.8	44,755.0	88,370.8

MEDICAID LOW+2% FORECAST	Low+2% Gen Fund	Low + 2% Fed	Low +2% Total
Behavioral Health Medicaid	2,954.5	3,102.2	6,056.7
Health Care Services Medicaid	28,842.6	32,303.7	61,146.3
Senior & Disability Serv Medicaid	4,580.3	2,290.2	6,870.5
	36,377.4	37,696.1	74,073.5

FY2011 Medicaid Budget Amendments

DHSS GOV Budget Amendment Medicaid Component	Gen Fund	Federal	Other	Total
Behavioral Health Medicaid	3,870.9	6,622.3		10,493.2
Children's Services Medicaid				
Health Care Services Medicaid	30,387.1	35,091.2	3,475.0	65,478.3
Senior & Disability Serv Medicaid	6,133.4	12,658.6		18,792.0
Adult Preventive Dental	-	285.6		285.6
	40,391.4	54,657.7	3,475.0	95,049.1

Consultant Budget Amendment Medicaid Component	Gen Fund	Federal	Other	TOTAL
Behavioral Health Medicaid	1,638.6	3,253.9	(617.5)	4,275.0
Children's Services Medicaid	0.0	0.0		0.0
Health Care Services Medicaid	30,537.9	38,332.7	1,720.3	70,590.9
Senior & Disability Serv Medicaid	2,900.1	358.3		3,258.4
Adult Preventive Dental	0.0	0.0		0.0
	35,076.6	41,944.9	113.1	78,124.3



MEDICAID EXPENDITURES YEAR	FY2005 To FY2011 DHSS	FY2009 Consultant	FY2009 to FY2011 Consultant	Rate of Growth DHSS	Rate of Growth Consultant
FY2005	1,024.9				
FY2006	1,059.9				
FY2007	1,053.4				
FY2008	1,023.8				
FY2009	1,077.5	1,077.5			
FY2010	1,264.8	1,209.3		17%	12%
FY2011	1,338.6	1,318.2		6%	9%