



STATE OF VERMONT

To: Governor Peter Shumlin; House Speaker Shap Smith; Senate President Pro Tempore John Campbell

From: Jeb Spaulding, Secretary of Administration; Stephen Klein, Legislative Chief Fiscal Officer

Date: February 6, 2014

Re: Updated cost estimates for Administration's Act 48 proposal as estimated by UMASS/Wakely

The Administration and the Legislature have a long history of working collaboratively to come to consensus agreement on revenue and cost estimates. For example, this is done annually in the revenue forecasting process and for many individual bills to facilitate the work of both bodies when making policy choices. Given this long-standing practice, the Administration and the Legislature have worked to create a consensus revenue estimate that can serve as a guide for discussion as each body considers development of financing plans for Green Mountain Care that would further implement Act 48 of 2011.

The Shumlin Administration contracted with the University of Massachusetts (UMASS) and the actuarial firm Wakely Consulting Group (Wakely) to carry out an initial financing estimate for Green Mountain Care. The financing estimate was delivered to the Legislature in January 2013. Recognizing the ongoing need to update that analysis and the advantages to a consensus approach, the Agency of Administration and the Joint Fiscal Office have reviewed the UMASS/Wakely cost estimate, adjusting and revising where appropriate to come to agreement on an updated consensus estimate.

The attachment to this memorandum indicates the consensus agreement that the current anticipated amount to be financed for Green Mountain Care in 2017 as modeled by the UMASS/Wakely report, which is designed to lower the costs of the current system, is

between \$1.766 billion to \$2.175 billion. A range was used, given the number of issues that require further analysis. Modifications to the initial UMASS/Wakely estimate fall into six categories:

1. Changes in the Federal Medicaid match rate assumptions;
2. Potential establishment of plan reserves;
3. Potential risks to provider taxes and other revenue sources currently supporting the State Medicaid program;
4. Implementation and transition costs;
5. Revenue timing; and
6. Ongoing system investment needs.

Three factors are critical to these estimates:

1. This is an ongoing process that will involve further revisions as new information and updates to revenue and expense estimates occur. If changes substantially impact the financing need, it is hoped that a similar consensus process can be put in place to allow for more effective estimating of public financing needs.
2. An estimated \$89 million will need to be raised above normal trend to support existing Medicaid through FY 2017. While not included in Green Mountain Care total costs, these funds are necessary to reach the initial funding level the UMASS/Wakely report assumed would be in place before the advent of Green Mountain Care.
3. There are a number of policy levers that could impact costs either up or down. For example, as choices are made relative to benefit levels, populations served and provider reimbursements, the plan could cost more or less. Some of these policy levers are listed in the attachment. The UMASS/Wakely financing needs represent a very specific scenario and benefit plan, including a benefit package of 87% actuarial value for the Act 48 Green Mountain Care Plan and provider reimbursements at 105%. Changes to the plan by the Legislature and the Administration are likely to impact the estimated financing needs.

The attached sheet summarizes the staff's consensus modifications to the initial UMASS/Wakely estimates that are being recommended to serve as a set of shared assumptions that may guide future discussions of the Green Mountain Care financing plan and future staff work.