Bottom Line: 1115 Waivers and Budget Neutrality

- Situation
  - New rules govern our 1115 waiver

- Complications
  1. We have to pay attention to the new rules
  2. There is no additional money
  3. We have to manage to the cap

- Recommendations
  - Analyze every Medicaid policy decision against the cap – including investments
    - Each investment pushes us closer to the budget neutrality cap and needs to be examined carefully

State Medicaid Waivers Give States Flexibility and Financial Support in Exchange for Budget Neutrality and/or Savings

- Why does Vermont have a Waiver?
  - Medicaid is traditionally limited to what is approved by CMS in the Medicaid State Plan – mandatory and optional populations and services. Federal financial participation (ffp) is automatically guaranteed.
  - A Waiver can be granted to seek ffp for populations and services that are not authorized under the State Plan (i.e. Investments, Marketplace subsidy, CRT (133-185 federal poverty limit), Global Rx)

- When the GC Waiver was extended at the end of CY 2016, CMS implemented a new Budget Neutrality framework with the goals of:
  - Strengthening fiscal accountability with States
  - Preventing the federal government's exposure to excessive expenditures under an 1115 demonstration

The 1115 Waiver Sets How Budget Neutrality is Calculated

- Longstanding CMS policy requires that Medicaid Section 1115(a) demonstrations be budget neutral to the federal government; meaning that federal Medicaid expenditures for a state cannot be allowed to exceed what would have occurred without the waiver.

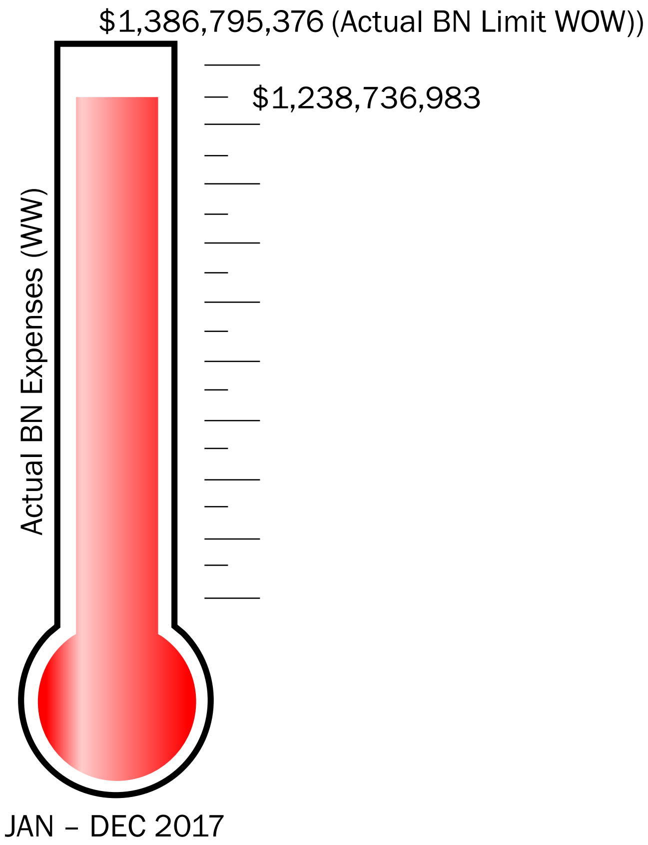
- The “without waiver” budget ceiling is calculated using a CMS and State agreed upon methodology with growth trends that estimate what the cost of Medicaid services would be absent the demonstration.

- For a waiver to be budget neutral, actual Medicaid service expenditures – plus the cost of any expenditure authorities authorized under the demonstration – cannot be greater than the projected “without waiver” expenditures.

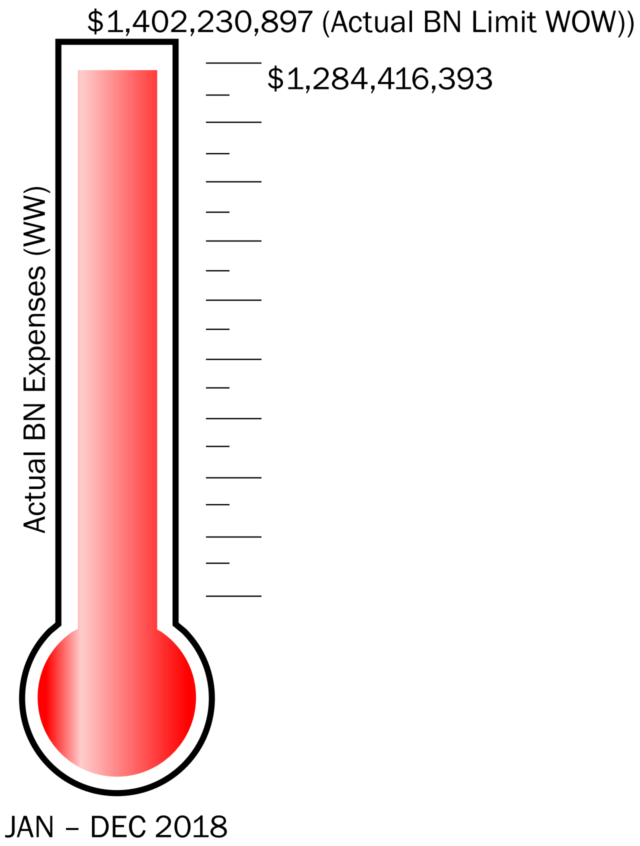
The New Cap is Real and We are Approaching it

- Enrollment (member months) declining (reducing the limit for GC spending)
  - Original CY 2017 enrollment forecast 1,577,559 member months
  - Actual CY 2017 enrollment 1,267,529 member months
- Enrollment mix changed with re-determinations
  - ABD Adults were re-determined as New Adults (quicker eligibility determination process)
  - Existing New Adults were deemed ineligible
  - Cannot accrue budget neutrality savings for New Adults
- **Actual GC expenses are approaching the ceiling – Why?**
  - Increased utilization (DS caseload, Success Beyond Six)
  - Rate increases (DHMC, Brattleboro Retreat, DA wages)
  - New services (i.e., Nasal Endoscopy, Colorectal Cancer Screening, additional Cystic Fibrosis test)

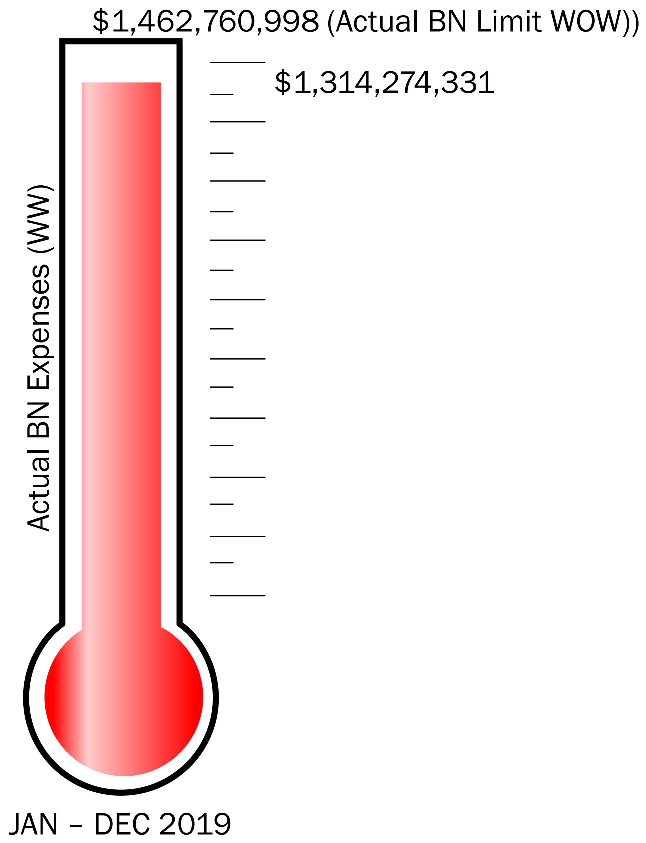
Budget Neutrality



(Difference) Savings:
$148,058,394 or 11%



(Difference) Savings:
$117,814,504 or 8%



(Difference) Savings:
$148,486,667 or 10%

Investments Summary

- Within the Budget Neutrality limit is a sub-limit for Investment spending
- Amounts cannot be rolled over from DY to DY
- Accounts for the following known changes:
  - Brattleboro Retreat rate increase
  - Brattleboro additional bed capacity
  - Delivery System Reform Investments
  - SUD IMD expenses to be claimed as GC Program
- Still negotiating % of Mental Health IMD phasedown in CY2021 (assumes 5% beginning in CY2021)
- *See detailed Investment slide*

	CY2017	CY2018	CY2019	CY2020	CY2021
Annual Investment Limit	$ 142,500,000	$ 148,500,000	$ 138,500,000	$ 136,500,000	$ 136,500,000
Projected Spending	$ 142,332,671	$ 148,463,641	$ 136,120,097	$ 131,673,381	$ 124,288,994
Balance	$ 167,329	$ 36,359	$ 2,379,903	$ 4,826,619	$ 12,211,006

The Problem for Policymakers has Changed from Finding State Match to Managing to the Cap

- The problem to solve has changed:
  - Old 1115 Waiver created plenty of room for spending *if you could find state dollars to get ffp*
  - *New waiver has very little room for spending and leaders need to be mindful of the cap in all decisions*
- We expect this pressure to continue:
  - The next renewal period at the end of CY2021, the GC WOW pmpm rates will be rebased for CY2022-2026
  - The same methodology will apply – MEG pmpm at either the trend rate based on the last 5 demonstration years (2016-2020), or the trend rate based on the President's budget, whichever rate is <u>lower</u> between the two scenarios
  - This could reduce the amount available for Investments, expansion services, and the State's ability to deal with price pressures